

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. In the further opinion of Bond Counsel, interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Bonds. See “TAX MATTERS” herein.



\$170,350,000
CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY
REVENUE BONDS (STANFORD UNIVERSITY)
SERIES U-7

Dated: Date of Delivery

Due: June 1, as shown below

The \$170,350,000 California Educational Facilities Authority Revenue Bonds (Stanford University) Series U-7 (the “Bonds”) will be issued in book-entry form in denominations of \$5,000 or any integral multiple thereof. Interest on the Bonds is payable semiannually on each June 1 and December 1, commencing December 1, 2016. The Bonds will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). DTC will act as securities depository of the Bonds. Principal of and interest on the Bonds will be payable directly to DTC, as the registered owner of the Bonds, by The Bank of New York Mellon Trust Company, N.A., as trustee (the “Trustee”). For so long as DTC or its nominee, Cede & Co., is the registered owner of the Bonds, all notices will be mailed only to Cede & Co. See Appendix C – “BOOK-ENTRY SYSTEM” herein.

The Bonds are subject to redemption prior to maturity, as described herein. See “THE BONDS – Redemption.”

The Bonds are being issued by the California Educational Facilities Authority (the “Authority”) for the benefit of The Board of Trustees of the Leland Stanford Junior University (the “University”) pursuant to an Indenture, dated as of May 1, 2010, as supplemented from time to time, including by the Fifth Supplemental Indenture, dated as of June 1, 2016 (as supplemented, the “Indenture”), by and between the Authority and the Trustee. The Bonds are limited obligations of the Authority payable only out of Revenues as defined in the Indenture and other amounts held in the funds established by the Indenture. The Revenues consist primarily of loan payments to be made under a Loan Agreement (as defined herein) by

STANFORD UNIVERSITY

The University plans to use the proceeds of the Bonds to finance or refinance certain capital projects of the University. See “PLAN OF FINANCE” and “SOURCES AND USES OF FUNDS” herein.

The obligation of the University to make loan payments under the Loan Agreement is an unsecured general obligation of the University. The University has other unsecured general obligations outstanding. Moreover, the University is not restricted by the Loan Agreement from incurring additional indebtedness. Such additional indebtedness, if issued, may be either secured or unsecured and may be entitled to payment prior to the loan payments due under the Loan Agreement. See “SECURITY FOR THE BONDS” herein.

THE BONDS SHALL NOT BE DEEMED TO CONSTITUTE A DEBT OR LIABILITY OF THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF OTHER THAN THE AUTHORITY OR A PLEDGE OF THE FAITH AND CREDIT OF THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF, BUT SHALL BE PAYABLE SOLELY FROM THE FUNDS THEREFOR PROVIDED. NEITHER THE STATE OF CALIFORNIA NOR THE AUTHORITY SHALL BE OBLIGATED TO PAY THE PRINCIPAL OF THE BONDS OR THE PREMIUM, IF ANY, OR THE INTEREST THEREON EXCEPT FROM THE FUNDS PROVIDED UNDER THE LOAN AGREEMENT AND THE OTHER ASSETS PLEDGED UNDER THE INDENTURE, AND NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR THE PREMIUM, IF ANY, OR THE INTEREST ON THE BONDS. THE ISSUANCE OF THE BONDS SHALL NOT DIRECTLY OR INDIRECTLY OR CONTINGENTLY OBLIGATE THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF TO LEVY OR TO PLEDGE ANY FORM OF TAXATION WHATEVER THEREFOR OR TO MAKE ANY APPROPRIATION FOR THEIR PAYMENT. THE AUTHORITY HAS NO TAXING POWER.

This cover page contains certain information for quick reference only. It is not a summary of this issue. Capitalized terms used on this cover page not otherwise defined will have the meanings set forth herein.

MATURITY SCHEDULE

\$170,350,000 5.00% Term Series U-7 Bond due June 1, 2046 Yield 2.71% CUSIP†: 130179GV0

The Bonds are offered by the Underwriters when, as and if issued by the Authority and accepted by the Underwriters subject to the approval of legality by Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority, and subject to certain other conditions. Certain legal matters will be passed upon for the Authority by the Attorney General of the State of California, for the Underwriters by Hawkins Delafield & Wood LLP, and for the University by its General Counsel and Ropes & Gray LLP. It is expected that the Bonds will be available for delivery through the facilities of DTC in New York, New York on or about June 22, 2016.

HONORABLE JOHN CHIANG
Treasurer of the State of California
As Agent for Sale

Goldman, Sachs & Co.

Barclays

BofA Merrill Lynch

Dated: June 8, 2016

† CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard and Poor's Financial Services LLC on behalf of the American Bankers Association. The CUSIP number is provided for convenience of reference only. None of the Authority, the University or the Underwriters take any responsibility for the accuracy of such number.

This Official Statement does not constitute an offer to sell the Bonds in any jurisdiction in which or to any person to whom it is unlawful to make such an offer. No dealer, salesperson or other person has been authorized by the Authority, the University or the Underwriters to give any information or to make any representations, other than those contained herein, in connection with the offering of the Bonds and, if given or made, such information or representations must not be relied upon.

The information relating to the Authority set forth herein under the captions “THE AUTHORITY” and “REGULATORY MATTERS AND LITIGATION – The Authority” has been furnished by the Authority. The Authority does not warrant the accuracy of the statements contained herein relating to the University, nor does it directly or indirectly guarantee, endorse or warrant (1) the creditworthiness or credit standing of the University, (2) the sufficiency of the security for the Bonds or (3) the value or investment quality of the Bonds. The Authority makes no representations or warranties whatsoever with respect to any information contained herein except for the information under the captions “THE AUTHORITY” and “REGULATORY MATTERS AND LITIGATION – The Authority.”

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

Estimates and opinions are included and should not be interpreted as statements of fact. Summaries of documents do not purport to be complete statements of their provisions. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority or the University since the date hereof. See “CERTAIN INVESTMENT CONSIDERATIONS” herein.

In connection with this offering, the Underwriters may over allot or effect transactions that stabilize or maintain the market price of the Bonds at levels above those which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

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\$170,350,000
CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY
REVENUE BONDS (STANFORD UNIVERSITY)
SERIES U-7

INTRODUCTION

This Introduction does not purport to be complete, and reference is made to the remainder of this Official Statement, the Appendices and the documents referred to herein for more complete statements with respect to the matters summarized. Capitalized terms not otherwise defined will have the meanings set forth in Appendix B – “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Definitions.”

General

This Official Statement, including the cover page and Appendices hereto (this “Official Statement”), provides certain information in connection with the offering of \$170,350,000 aggregate principal amount of California Educational Facilities Authority Revenue Bonds (Stanford University) Series U-7 (the “Bonds”).

The Bonds will be issued pursuant to the provisions of the California Educational Facilities Authority Act, constituting Chapter 2 (commencing with Section 94100) of Part 59 of Division 10 of Title 3 of the Education Code of the State of California, as amended (the “Act”), and the Indenture (defined below).

The Bonds will be issued pursuant to and secured by an Indenture, dated as of May 1, 2010, as supplemented from time to time, including by a Fifth Supplemental Indenture, dated as of June 1, 2016 (as supplemented, the “Indenture”), between the California Educational Facilities Authority (the “Authority”) and The Bank of New York Mellon Trust Company, N.A., as trustee (the “Trustee”). The Authority will lend the proceeds of the Bonds to The Board of Trustees of the Leland Stanford Junior University (the “University”) pursuant to a Loan Agreement, dated as of May 1, 2010, as supplemented from time to time, including by a Fifth Supplemental Loan Agreement, dated as of June 1, 2016 (as supplemented, the “Loan Agreement”), between the Authority and the University.

Purpose of the Bonds

The Authority approved the issuance of the Bonds to finance and/or refinance certain capital projects of the University pursuant to Resolution No. 273, adopted on March 17, 2010, as amended by the First Amendment to Resolution No. 273, adopted on April 25, 2013, the Second Amendment to Resolution No. 273, adopted on April 24, 2014, and the Third Amendment to and Reinstatement of Resolution No. 273, adopted on May 26, 2016 (as amended, the “Series U Resolution”).

The Authority will lend the proceeds of the Bonds to the University pursuant to the Loan Agreement in order to finance or refinance certain capital projects of the University. See “PLAN OF FINANCE” and “SOURCES AND USES OF FUNDS” herein.

The University

Founded in 1885, The Leland Stanford Junior University is one of a select group of universities that has achieved eminence in both undergraduate and graduate education and in a broad range of academic disciplines. It is internationally recognized for the quality of its teaching and research, its distinguished faculty and its outstanding student body.

For additional information concerning the University, see Appendix A – “STANFORD UNIVERSITY (INCLUDING FINANCIAL STATEMENTS AND DISCUSSION OF FINANCIAL RESULTS)” attached hereto.

The Bonds

The Bonds are to be dated as of the date of their initial issuance and delivery. The Bonds are issuable in fully registered, book-entry form, and have interest and payment terms as set forth in the Indenture and as described herein. See “THE BONDS.”

The Bonds, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company (“DTC”). DTC will act as securities depository of the Bonds. Individual purchases of the Bonds will be made in book-entry form only. Principal of and interest on the Bonds will be payable by the Trustee directly to DTC, as the registered owner of the Bonds. Upon receipt of payments of principal and interest, DTC is to remit such principal and interest to the DTC Participants for subsequent disbursement to the Beneficial Owners (as defined in Appendix C) of the Bonds. Purchasers will not receive certificates representing the Bonds purchased by them. See Appendix C – “BOOK-ENTRY SYSTEM.”

Security for the Bonds

The Bonds are payable from loan payments to be paid by the University to the Trustee pursuant to the Loan Agreement. The obligation of the University to make loan payments under the Loan Agreement is an unsecured general obligation of the University. The University has other unsecured general obligations outstanding. The Loan Agreement contains certain covenants for the protection of the Holders of the Bonds and the Authority. See Appendix B – “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Loan Agreement.” The Bonds are not secured by a reserve fund, or a lien on, or security interests in, any funds, revenues or other assets of the University, except to the extent pledged pursuant to the Indenture as described below. The affiliates of the University described in Appendix A hereto are not obligated with respect to the payment of debt service on the Bonds and their assets and revenues are not pledged and are not expected to be available to the University or the Bondholders for such purpose.

The Indenture provides that all Revenues and any other amounts (including proceeds of the sale of Bonds) held in any fund or account held by the Trustee and established pursuant to the Indenture (other than the Rebate Fund and the Purchase Fund) are to be held in trust and are exclusively and irrevocably pledged for the security and payment of the principal of and interest on the Bonds. See “SECURITY FOR THE BONDS” herein.

For additional information concerning the provisions of the Indenture and the Loan Agreement, see Appendix B – “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS.”

Continuing Disclosure

The University will undertake in a Continuing Disclosure Agreement, for the benefit of the Holders of the Bonds, to provide to the Trustee certain annual information and notices required to be provided by Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended. See “CONTINUING DISCLOSURE” and Appendix D – “FORM OF CONTINUING DISCLOSURE AGREEMENT.”

Miscellaneous

Included in this Official Statement and the Appendices hereto are descriptions of the University, the Bonds, the Indenture and the Loan Agreement. All references herein to the Indenture, the Loan Agreement and other documents relating to the Bonds are qualified in their entirety by reference to such documents, and the description herein of the Bonds is qualified in its entirety by reference to the terms thereof and the information regarding the Bonds included in the Indenture. All descriptions are further qualified in their entirety by reference to laws relating to or affecting the enforcement of creditors' rights. The agreements of the Authority with the Holders of the Bonds are fully set forth in the Indenture, and neither any advertisement of the Bonds nor this Official Statement is to be construed as constituting an agreement with the Holders of the Bonds. Insofar as any statements are made in this Official Statement involving matters of opinion, regardless of whether expressly so stated, they are intended merely as such and not as representations of fact. The information and expressions of opinion herein speak only as of their date and are subject to change without notice. Neither delivery of this Official Statement nor any sale made hereunder nor any future use of this Official Statement shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority or the University.

Additional information regarding this Official Statement and copies of the documents referred to herein may be obtained by contacting the Office of the Treasurer, Stanford University, 3145 Porter Drive, Palo Alto, California 94304-8440, or on-line at <http://bondholder-information.stanford.edu/home.html>. The information on the University's website is not a part of this Official Statement.

THE AUTHORITY

General

The California Educational Facilities Authority is a public instrumentality of the State of California created pursuant to the provisions of the Act. The Authority is authorized to issue the Bonds under the Act, to make the loan contemplated by the Loan Agreement and to secure the Bonds by a pledge of the Revenues received by the Authority pursuant to the Loan Agreement and certain other sources of payment as provided in the Indenture, including amounts held in the funds or accounts established pursuant to the Indenture (excluding the Rebate Fund).

Organization and Membership

The membership of the Authority consists of the Treasurer, the Controller and the Director of Finance of the State of California and two members appointed by the Governor of the State of California. Of the two appointed members, one must be affiliated with a public institution of higher education as a governing board member or in an administrative capacity and the other must be affiliated with a private institution of higher education as a governing board member or in an administrative capacity.

Outstanding Indebtedness of the Authority

The Act does not limit the amount of indebtedness the Authority may have outstanding from time to time. As of March 31, 2016, the Authority had outstanding \$4,663,039,105 aggregate principal amount of bonds and notes (excluding certain bonds and notes which have been defeased) issued on behalf of various California independent colleges and universities.

PLAN OF FINANCE

The Authority will lend the proceeds of the Bonds to the University to finance or refinance certain capital projects of the University approved pursuant to the Series U Resolution (the “Series U Project”).

The Indenture provides that additional series of bonds may be issued after satisfying certain conditions under the Indenture. See Appendix B – “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS.” After the issuance of the Bonds, \$132,795,000 in bonds will remain authorized and unissued under the Series U Resolution.

In May 2016, the University extended the term of a \$250 million revolving credit facility with Wells Fargo Bank, National Association to May 31, 2019. The University is also in the process of obtaining a three-year term, \$250 million revolving credit facility with Bank of America, N.A. Borrowings under each revolving credit facility will be general unsecured obligations of the University and will be available for working capital and other general corporate purposes.

SOURCES AND USES OF FUNDS

Estimated sources and uses of funds related to the Bonds are shown below:

SOURCES	
Principal amount of the Bonds	\$170,350,000
Plus Original Issue Premium	79,650,550
University Contribution	<u>1,067,364</u>
Total Sources	<u>\$251,067,914</u>
USES	
Series U Project Construction Fund	\$250,000,550
Costs of Issuance ⁽¹⁾	<u>1,067,364</u>
Total Uses	<u>\$251,067,914</u>

⁽¹⁾ Costs of issuance will be paid primarily out of the University’s contribution and includes fees of the Authority, the Rating Agencies, the Trustee, Bond Counsel, Counsel to the University and the Underwriters’ compensation, as well as certain other costs incurred in connection with the issuance and delivery of the Bonds.

THE BONDS

General

The Bonds will be issued in book-entry form in denominations of \$5,000 or any integral multiple thereof. The Bonds are being issued in the aggregate principal amount and will mature on the date set forth on the cover page hereof. The Bonds are to be dated as of the date of their initial issuance and delivery and will bear interest from such date at the rates set forth on the cover page hereof. Interest on the Bonds will be payable on June 1 and December 1 of each year, commencing December 1, 2016, and will be calculated based on a 360-day year of twelve (12) 30-day months.

The Bonds will be issued only in book-entry form and, when issued, will be registered in the name of Cede & Co. or such other name as may be requested by an authorized representative of DTC as

nominee of DTC. DTC will act as securities depository for the Bonds. See Appendix C – “BOOK-ENTRY SYSTEM.” Except as described in Appendix C – “BOOK-ENTRY SYSTEM,” Beneficial Owners of the Bonds will not receive, or have the right to receive, physical delivery of certificates representing their ownership interests in the Bonds. For so long as any purchaser is the Beneficial Owner of a Bond, such purchaser must maintain an account with a broker or dealer who is or acts through a Direct Participant (as defined in Appendix C) to receive payment of the principal and interest on such Bond.

Interest payable on any Interest Payment Date will be payable to the registered owner of the Bonds as of the Record Date for such payment. So long as the Bonds are held in the book-entry system, the principal and interest on the Bonds will be paid through the facilities of DTC (or a successor securities depository). Otherwise, the principal of and premium, if any on the Bonds is payable in lawful money of the United States of America upon surrender thereof at the principal corporate trust office of the Trustee, and interest on the Bonds is payable by check mailed on each Interest Payment Date to the Holders of the Bonds at the close of business on the Record Date in respect of such Interest Payment Date at the registered addresses of Holders as appears on the registration books of the Trustee. In the case of any Holder of the Bonds in an aggregate principal amount in excess of \$1,000,000 as shown on the registration books of the Trustee who, prior to the Record Date next preceding any Interest Payment Date, has provided the Trustee with wire transfer instructions, interest payable on such Bonds will be paid in accordance with the wire transfer instructions provided by the Holder of such Bond and at the Holder’s risk and expense.

Pursuant to the Indenture, the Trustee will require the Bondholder requesting a transfer or exchange of any Bond to pay any tax or other governmental charge required to be paid with respect to such transfer or exchange, and the Trustee also may require the Bondholder requesting a transfer or exchange of any Bond to pay a reasonable sum to cover expenses incurred by the Trustee or the Authority in connection with such transfer or exchange.

Redemption and Redemption Price

Make-Whole Redemption. The Bonds are subject to optional redemption prior to their stated maturity, as a whole or in part on any date, by the Authority at the direction of the University, from any moneys received by the Trustee from the University pursuant to the Loan Agreement and deposited in the Optional Redemption Account, at a Redemption Price equal to the greater of:

- one hundred percent (100%) of the Amortized Value (as described below) of such Bonds to be redeemed, plus accrued and unpaid interest to the date of redemption; or
- an amount equal to the sum of the present values of the remaining unpaid payments of principal and interest to be paid on such Bonds to be redeemed from and including the date of redemption to the stated maturity date of such Bonds, discounted to the date of redemption on a semiannual basis at a discount rate equal to the Applicable Tax-Exempt Municipal Bond Rate (as described below) for such Bonds minus twenty-five basis points (0.25%).

The “Applicable Tax-Exempt Municipal Bond Rate” for such Bonds will be the “Comparable AAA General Obligations” yield curve rate for the stated maturity date of such Bonds as published by Municipal Market Data five (5) business days prior to the date of redemption. If no such yield curve rate is established for the applicable year, the “Comparable AAA General Obligations” yield curve rate for the two published maturities most closely corresponding to the applicable year will be determined, and the “Applicable Tax-Exempt Municipal Bond Rate” will be interpolated or extrapolated from those yield curve rates on a straight-line basis.

In calculating the Applicable Tax-Exempt Municipal Bond Rate, should Municipal Market Data no longer publish the “Comparable AAA General Obligations” yield curve rate, then the Applicable Tax-Exempt Municipal Bond Rate will equal the Consensus Scale yield curve rate for the applicable year. The Consensus Scale yield curve rate published by Municipal Market Advisors for the applicable year.

In the further event that Municipal Market Advisors no longer publishes the Consensus Scale, the Applicable Tax-Exempt Municipal Bond Rate for the Bonds will be determined by Goldman, Sachs & Co. or a successor determined by the University, as the quotation agent, based upon the rate per annum equal to the semiannual equivalent yield to maturity of those tax-exempt general obligation bonds rated in the highest rating category by Moody’s Investors Service and Standard & Poor’s Rating Services with a maturity date equal to the stated maturity date of such Bonds to be redeemed having characteristics (other than the ratings) most comparable to those of such Bonds in the judgment of the quotation agent. The quotation agent’s determination of the Applicable Tax-Exempt Municipal Bond Rate is final and binding in the absence of manifest error.

The “Amortized Value” will equal the principal amount of the Bonds to be redeemed multiplied by the price of such Bonds expressed as a percentage, calculated based on the industry standard method of calculating bond prices, with a delivery date equal to the date of redemption, a maturity date equal to the stated maturity date of such Bonds and a yield equal to such Bonds’ original reoffering yield as set forth on the cover of this Official Statement.

The Redemption Price of the Bonds described above will be determined by an independent accounting firm, investment banking firm or financial advisor (which accounting firm or financial advisor shall be retained by the University at the expense of the University) to calculate such redemption price. The Trustee, the Authority and the University may conclusively rely on such accounting firm’s, investment banking firm’s or financial advisor’s determination of such Redemption Price and will bear no liability for such reliance.

No Mandatory Sinking Fund Redemption. The Bonds are not subject to mandatory redemption prior to their stated maturities.

Selection of Bonds for Redemption. Whenever provision is made in the Indenture for the redemption of less than all of the Bonds, the Trustee will select the Bonds to be redeemed, from all Bonds subject to redemption or such given portion thereof not previously called for redemption, in such order as will be specified in a Request of the University or, if there is no such Request, in the order of maturity, and by lot within a maturity. The Trustee will promptly notify the Authority in writing of the numbers of the Bonds so selected for redemption.

Notice of Redemption. Not less than five (5) days (or such shorter time as may be agreed to by the University and the Trustee) prior to the date that notice of redemption is due to be given by the Trustee in accordance with the following sentence, the University shall provide written notice to the Trustee and the Authority regarding its intent to prepay all or any part of Base Loan Payments pursuant to the Loan Agreement. After receipt of such notice of prepayment pursuant to the Loan Agreement, notice of redemption will be given by the Trustee for and on behalf of the Authority, by Mail, not less than twenty (20) days nor more than sixty (60) days prior to the date fixed for redemption, to: (1) the Authority, (2) the Holder of each Bond affected at the address shown on the registration books of the Trustee on the date such notice is mailed, (3) the Depository, (4) the Municipal Securities Rulemaking Board, and (5) in the case of optional redemption, each Rating Agency then rating the Bonds.

Each notice of redemption will state the date of such notice, the Bonds to be redeemed, the date of issue of the Bonds, the date fixed for redemption, the principal amount of the Bonds to be redeemed, the place or places of redemption (including the name and appropriate address or addresses of the

Trustee), the source of funds for any optional redemption and, as further described in the following paragraph, if such funds are not then held by the Trustee, that such redemption will be cancelled if the funds are not held by the Trustee on the date fixed for redemption, the CUSIP number of the Bonds, the principal amount, the distinctive certificate numbers of the Bonds or portions thereof to be redeemed, the interest rate on the Bonds to be redeemed and will also state that the interest on the Bonds designated for redemption will cease to accrue from and after such date fixed for redemption and that on said date there will become due and payable on each of said Bonds the principal amount thereof to be redeemed, interest accrued thereon to the date fixed for redemption and the redemption price thereof and will require that such Bonds be then surrendered at the address or addresses of the Trustee specified in the redemption notice.

Failure by the Trustee to give notice pursuant to the Indenture to any one or more of the securities information services or depositories designated by the University or the insufficiency of any such notice will not affect the sufficiency of the proceedings for redemption. Failure by the Trustee to mail notice of redemption pursuant to the Indenture to any one or more of the respective Holders of any Bonds designated for redemption will not affect the sufficiency of the proceedings for redemption with respect to the Holders to whom such notice was mailed.

Notice of redemption of Bonds will be given by the Trustee, at the expense of the University, for and on behalf of the Authority.

With respect to any notice of optional redemption of Bonds, such notice may state that such redemption will be conditional upon the receipt by the Trustee on or prior to the date fixed for such redemption of moneys sufficient to pay the principal of, premium, if any, and interest on such Bonds to be redeemed and that, if such moneys will not have been so received, said notice will be of no force and effect and the Trustee will not be required to redeem such Bonds. In the event that such notice of redemption contains such a condition and such moneys are not so received, the redemption will not be made, and the Trustee will within a reasonable time thereafter give notice, in the manner in which the notice of redemption was given, that such moneys were not so received.

Any notice given pursuant to the Indenture may be rescinded by written notice given to the Trustee by the University no later than five (5) Business Days prior to the date fixed for redemption. The Trustee will give notice of such rescission as soon thereafter as practicable in the same manner, and to the same persons, as notice of such redemption was given pursuant to the Indenture.

So long as the book-entry system is in effect, the Trustee will send each notice of redemption to Cede & Co., as nominee of DTC, and not to the Beneficial Owners. So long as DTC or its nominee is the sole registered owner of the Bonds under the book-entry system, any failure on the part of DTC or a Direct Participant or Indirect Participant to notify the Beneficial Owner so affected will not affect the validity of the redemption.

Partial Redemption of Bonds. Upon surrender of any Bond redeemed in part only, the Trustee will provide a replacement Bond in a principal amount equal to the portion of such Bond not redeemed, and deliver it to the registered owner thereof. The Bond so surrendered will be cancelled by the Trustee as provided in the Indenture. The Authority and the Trustee will be fully released and discharged from all liability to the extent of payment of the redemption price for such partial redemption.

Effect of Redemption. Notice of redemption having been duly given as aforesaid, and moneys for payment of the redemption price (including accrued interest to the date fixed for redemption) being held by the Trustee, Bonds so called for redemption will, on the date fixed for redemption designated in such notice, become due and payable at the redemption price specified in such notice, interest on the Bonds so called for redemption will cease to accrue, said Bonds will cease to be entitled to any lien,

benefit or security under the Indenture, and the Holders of said Bonds will have no rights in respect thereof except to receive payment of the redemption price thereof. If such moneys are invested, they will be invested only in United States Government Obligations having a maturity of thirty (30) days or less.

All Bonds redeemed pursuant to the provisions of the Indenture will be cancelled upon surrender thereof and delivered to or upon the Order of the Authority.

Mandatory Purchase in Lieu of Redemption. Each Holder, by purchase and acceptance of any Bond, irrevocably grants to the University the option to purchase such Bond at any time such Bond is subject to optional redemption as provided in the Indenture, at a purchase price equal to one hundred percent (100%) of the then applicable redemption price of such Bond. In order to exercise such option, the University will deliver to the Trustee and the Authority a Favorable Opinion of Bond Counsel to the effect that such purchase will not, in and of itself, cause the interest on the Bonds to be included in gross income, and the University will direct the Trustee to provide notice of mandatory purchase, such notice to be provided, as and to the extent applicable, in accordance with the provisions set forth in the Indenture. On the date fixed for purchase of any Bond pursuant to the Indenture, the University will pay the purchase price of such Bond to the Trustee in immediately available funds and the Trustee will pay the same to the Holders of Bonds being purchased against delivery thereof. Following such purchase, the Trustee will register such Bonds in accordance with the written instructions of the University. No purchase of any Bond pursuant to the Indenture will operate to extinguish the indebtedness evidenced by such Bond. No Holder may elect to retain a Bond subject to mandatory purchase pursuant to the Indenture. The University may exercise its option to purchase Bonds, in whole or in part, in accordance with the Indenture and may rescind any notice of mandatory purchase delivered pursuant to the Indenture at any time on or prior to the date of mandatory purchase specified in the notice of mandatory purchase delivered pursuant to the Indenture.

SECURITY FOR THE BONDS

The Bonds are payable from loan payments to be paid by the University to the Trustee pursuant to the Loan Agreement. The obligation of the University to make loan payments under the Loan Agreement is an unsecured general obligation of the University. The Loan Agreement contains certain covenants for the protection of the Holders of the Bonds and the Authority. See Appendix B – “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Loan Agreement.” The Bonds are not secured by a reserve fund, or a lien on, or security interests in, any funds, revenues or other assets of the University, except to the extent pledged pursuant to the Indenture as described below. The affiliates of the University described in Appendix A hereto are not obligated with respect to the payment of debt service on the Bonds and their assets and revenues are not pledged and are not expected to be available to the University or the Bondholders for such purpose.

The Indenture provides that all Revenues and any other amounts (including proceeds of the sale of Bonds) held in any fund or account held by the Trustee and established pursuant to the Indenture (other than the Rebate Fund and the Purchase Fund) are to be held in trust and are exclusively and irrevocably pledged for the security and payment of the principal of and interest on the Bonds.

The Loan Agreement does not contain any financial covenants limiting the ability of the University to incur indebtedness or any other similar covenants. Further, the University is not required by the Loan Agreement to produce revenues at any specified level. The Loan Agreement contains certain covenants limiting the ability of the University to encumber or dispose of its Bond-financed property, but it does not contain general financial covenants limiting encumbrance or disposal of University property.

The University has other unsecured general obligations outstanding. See Appendix A – “STANFORD UNIVERSITY (INCLUDING FINANCIAL STATEMENTS AND DISCUSSION OF FINANCIAL RESULTS).” Moreover, the University is not restricted by the Loan Agreement from incurring additional indebtedness. Such additional indebtedness, if issued, may be either secured or unsecured and may be entitled to payment prior to the loan payments due under the Loan Agreement.

For additional information concerning the provisions of the Indenture and the Loan Agreement, see Appendix B – “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS.”

The Bonds shall not be deemed to constitute a debt or liability of the State of California or of any political subdivision thereof other than the Authority or a pledge of the faith and credit of the State of California or of any political subdivision thereof, but shall be payable solely from the funds therefor provided. Neither the State of California nor the Authority shall be obligated to pay the principal of the Bonds or the premium, if any, or the interest thereon except from Revenues and the other assets pledged under the Indenture and neither the faith and credit nor the taxing power of the State of California or of any political subdivision thereof is pledged to the payment of the principal of or the premium, if any, or the interest on the Bonds. The issuance of the Bonds shall not directly or indirectly or contingently obligate the State of California or any political subdivision thereof to levy or to pledge any form of taxation whatever therefor or to make any appropriation for their payment. The Authority has no taxing power.

ENFORCEABILITY OF REMEDIES

The remedies available to the Trustee or the Holders of the Bonds upon an event of default under the Indenture or the Loan Agreement are in many respects dependent upon judicial actions which are often subject to discretion and delay, and such remedies may not be readily available or may be limited. In particular, under the United States Bankruptcy Code, a bankruptcy case may be filed by or against the University or by or against any of their affiliates. In general, the filing of any such petition operates as a stay against enforcement of the terms of the agreements to which the bankrupt entity is a party and, in the bankruptcy process, executory contracts such as the Loan Agreement or the Indenture may be subject to assumption or rejection by the bankrupt party. In the event of any such rejection, the non-rejecting party or its assigns may become an unsecured claimant of the rejecting party. The various legal opinions to be delivered concurrently with the Bonds (including Bond Counsel’s approving opinion) will be qualified, as to the enforceability of the various legal instruments, by limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally and by general principles of equity applied in the exercise of judicial discretion.

CERTAIN INVESTMENT CONSIDERATIONS

The following are certain investment considerations that have been identified by the University and should be carefully considered by prospective purchasers of the Bonds. The following list should not be considered to be exhaustive. Investors should read the Official Statement in its entirety. Inclusion of certain factors below is not intended to signify that there are no other investment considerations or risks attendant to the Bonds. See Appendix A – “STANFORD UNIVERSITY (INCLUDING FINANCIAL STATEMENTS AND DISCUSSION OF FINANCIAL RESULTS)” for additional information about the University.

The University’s stature in the educational community and its consolidated revenues, expenses, assets and liabilities may be affected by events, developments and conditions relating generally to, among other things, the ability of the University to (a) conduct educational and research activities of the types and quality required to maintain its stature, (b) generate sufficient revenues, while controlling expenses,

to fund adequately the cost of these activities, (c) attract faculty, staff and management necessary to conduct these activities, (d) attract a student body of commensurate quality and (e) build and maintain the facilities necessary to conduct these activities.

Success in these areas depends upon the ability of the University and its management to respond to substantial challenges in a rapidly changing environment. For example:

(i) Volatility and dislocations in the global financial markets and other economic factors may reduce the value of the University's investment portfolio, impact investment returns, reduce investment income distributable from the endowment and the expendable funds pool for operations, affect the ability of donors to pledge resources or meet their pledge obligations, increase demand for financial aid, and increase interest costs on the University's debt. See Notes 5, 6, 7, 12 and 14 to the consolidated financial statements of the University for the years ended August 31, 2015 and 2014 (the "University's FY2015 Audited Financial Statements") included in Part II of Appendix A hereto.

(ii) Liquidity constraints may impact the University's ability to fund its commitments for operating expenses, construction, capital calls and possible tenders of variable rate debt.

(iii) The Federal Government may reduce levels of sponsored research funding and reimbursement for administrative overhead and infrastructure.

(iv) Legislation and regulation by governmental authorities may affect the tax-exempt status of, and associated tax benefits accorded to, educational institutions such as the University, or impose constraints or mandates on tuition levels and endowment payout.

(v) Municipalities in which the University operates may constrain additional facility and infrastructure expansion, or impose undue costs.

(vi) Ability to recruit and retain faculty and staff may be impeded by the high regional cost of living and the limited availability of affordable housing within reasonable commuting distance.

The preservation and growth of the University's endowment are affected not only by the factors noted above but by discretionary changes in the annual payout to operations from endowment earnings, transfers of expendable funds and other distributions, all of which are subject to changes in policies and practices made by the Board of Trustees and University management.

In addition to the challenges noted above, a variety of risks, uncertainties and other factors may affect the financial strength and stature of the University. By its nature, the University is an open environment, potentially vulnerable to disruption of operations, injury and damage notwithstanding its security and public safety programs. It is subject to governmental regulations and mandates, investigations and enforcement action and private suits, and may incur substantial costs of compliance, defense, sanctions, penalties and reputational harm for violation of laws applicable to the University in its routine operations. The University is a large landowner and lessor and as such is subject to numerous environmental laws and regulations; it routinely stores, uses and produces hazardous substances in its operations; it houses several thousand students, faculty and others; it maintains confidential personal information and protected health information, including electronically, subject to information security and privacy laws. The University self-insures the first \$1,500,000 of property losses per occurrence resulting from fire and other hazards, including terrorism, and carries limited property insurance for losses exceeding this amount. In addition, the University carries limited insurance for damage to facilities sustained from flooding and minimal insurance for damage to facilities due to seismic events. The University is located in a region that is subject to significant seismic activity. In the event of a significant

seismic event, the University could suffer substantial damage to its facilities and disruption of its operations.

Because the financial results of the University are reported on a consolidated basis with those of its hospital affiliates (the “Hospitals”), these consolidated financial results will be affected by the financial results of the Hospitals. The Hospitals’ financial results, in turn, will be affected not only by the factors set forth above but specifically by demand for the medical services they provide, inadequate third-party payments, limitations on and inadequate governmental reimbursement for medical services and graduate medical education, increasing costs of providing indigent care, escalating costs of personnel and equipment and inpatient capacity constraints which limit the Hospitals’ ability to absorb these increased costs through greater volume. In addition, adverse legislative and regulatory developments and government enforcement actions could negatively impact the Hospitals’ results. Among other things, due in part to the Patient Protection and Affordable Care Act (the “ACA”) enacted in 2010, the United States health care system has experienced significant changes in recent years affecting the delivery of health care services, the financing of health care costs, reimbursement of health care providers and the legal obligations of health insurers, providers, employers and consumers. These changes are ongoing and could have adverse financial impact on the Hospitals. The ACA, or aspects thereof, continues to be challenged in various venues, the outcome of which and impact on the Hospitals are unknown.

For a discussion of certain financial challenges facing the University, see Appendix A – “STANFORD UNIVERSITY (INCLUDING FINANCIAL STATEMENTS AND DISCUSSION OF FINANCIAL RESULTS) – PART I – GENERAL INFORMATION ABOUT STANFORD UNIVERSITY – Capital Improvement Programs,” “– Hospitals,” “– Investments” and “– Liquidity,” and “– PART II, PORTIONS OF THE UNIVERSITY’S FY2015 ANNUAL FINANCIAL REPORT – Management’s Discussion and Analysis – Looking Forward” attached hereto.

The events, developments and conditions described above are, or may be, of a magnitude such that they could have a material adverse effect on the financial results and condition of the University.

REGULATORY MATTERS AND LITIGATION

The Authority

To the knowledge of the officers of the Authority, there is no litigation of any nature now pending (with service of process having been accomplished) or threatened against the Authority, seeking to restrain or enjoin the issuance, sale, execution or delivery of the Bonds, or in any way contesting or affecting the validity of the Bonds, any proceedings of the Authority taken concerning the issuance or sale thereof, the pledge or application of any moneys or security provided for the payment of the Bonds, or the existence or powers of the Authority relating to the issuance of the Bonds.

The University

The University is subject to various suits, audits, investigations and other legal proceedings in the course of its operations. See “Regulatory Matters and Litigation” in Appendix A.

FORWARD-LOOKING STATEMENTS

This Official Statement, which includes all Appendices hereto, contains forward-looking statements that involve risks and uncertainties. Any statements that express, or involve discussions as to expectations, beliefs, plans, objectives, assumptions, future events or performance (often, but not always, through the use of words or phrases such as “will result,” “expects to,” “will continue,” “anticipates,”

“plans,” “intends,” “estimated,” “projects” and “outlook”) are not historical and may be forward-looking. Forward-looking statements are subject to known and unknown risks, uncertainties and other factors, including, but not limited to, the risks described under the heading “CERTAIN INVESTMENT CONSIDERATIONS” which may cause actual results to be materially different from those expressed or implied by such forward-looking statements. Although the University believes that the expectations reflected in the forward-looking statements are reasonable, the University cannot guarantee future results, levels of activity, performance or achievements. Moreover, neither the University nor any other person assumes responsibility for the accuracy or completeness of these statements. Accordingly, investors should not rely on forward-looking statements in this Official Statement. The University undertakes no obligation to publicly update or revise any forward-looking statements in this Official Statement, whether as a result of new information, future events or otherwise.

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP, bond counsel to the Authority (“Bond Counsel”), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the “Code”) and is exempt from State of California personal income taxes. Bond Counsel is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix E hereto.

To the extent the issue price of any maturity of the Bonds is less than the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), the difference constitutes “original issue discount,” the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the Bonds which is excluded from gross income for federal income tax purposes and State of California personal income taxes. For this purpose, the issue price of a particular maturity of the Bonds is the first price at which a substantial amount of such maturity of the Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Bonds accrues daily over the term to maturity of such Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Beneficial Owners of the Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) (“Premium Bonds”) will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of obligations, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner’s basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. The Authority and the University have made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring), or any other matters coming to Bond Counsel's attention after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

In addition, Bond Counsel has relied, among other things, on the opinion of the University's General Counsel regarding the current qualification of the University as an organization described in Section 501(c)(3) of the Code. Such opinion is subject to a number of qualifications and limitations. Bond Counsel has also relied upon representations of the University concerning the University's "unrelated trade or business" activities as defined in Section 513(a) of the Code. Neither Bond Counsel nor the University's General Counsel has given any opinion or assurance concerning Section 513(a) of the Code and neither Bond Counsel nor the University's General Counsel can give or has given any opinion or assurance about the future activities of the University, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the resulting changes in enforcement thereof by the Internal Revenue Service ("IRS"). Failure of the University to be organized and operated in accordance with the IRS's requirements for the maintenance of its status as an organization described in Section 501(c)(3) of the Code, or to operate the facilities financed or refinanced by the Bonds in a manner that is substantially related to the University's charitable purpose under Section 513(a) of the Code, may result in interest payable with respect to the Bonds being included in federal gross income, possibly from the date of the original issuance of the Bonds.

Although Bond Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of amounts treated as interest on, the Bonds may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Bonds to be subject, directly or indirectly, in whole or in part, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owner from realizing the full current benefit of the tax status of such interest. For example, the Obama Administration's budget proposals in recent years have proposed legislation that would limit the exclusion from gross income of interest on the Bonds to some extent for high income individuals. The introduction or enactment of any such legislative proposals or clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding the potential impact of any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel is expected to express no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment

of the Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service (“IRS”) or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the Authority or the University, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The Authority and the University have covenanted, however, to comply with the requirements of the Code.

Bond Counsel’s engagement with respect to the Bonds ends with the issuance of the Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the Authority, the University or the Beneficial Owners regarding the tax-exempt status of the Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the Authority, the University and their appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in, the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the Authority or the University legitimately disagrees, may not be practicable. Any action of the IRS, including, but not limited to, selection of the Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Bonds, and may cause the Authority, the University or the Beneficial Owners to incur significant expense.

APPROVAL OF LEGAL PROCEEDINGS

The validity of the issuance of the Bonds under California law is subject to the approval of Orrick, Herrington & Sutcliffe LLP, acting as Bond Counsel to the Authority. A proposed form of Bond Counsel’s legal opinion is attached hereto as Appendix E. Certain legal matters will be passed upon for the Underwriters by Hawkins Delafield & Wood LLP, for the Authority by the Attorney General of the State of California and for the University by its General Counsel and Ropes & Gray LLP. None of the counsel mentioned above undertakes any responsibility to Holders of the Bonds for the accuracy, completeness or fairness of this Official Statement.

UNDERWRITING

The Treasurer, with the approval of the Authority and the University, has entered into a Bond Purchase Agreement with Goldman, Sachs & Co., as representative of itself, Barclays Capital Inc., and Merrill Lynch, Pierce, Fenner & Smith Incorporated as the underwriters of the Bonds (collectively, the “Underwriters”), pursuant to which and subject to certain conditions, the Underwriters have agreed to purchase the Bonds from the Authority at a price of \$250,000,549.50 (being the principal amount of the Bonds, plus an original issue premium of \$79,650,549.50). The Underwriters’ compensation is \$363,224.13, which will be paid by the University from its own funds on the date of issuance of the Bonds. The Bonds may be offered and sold by the Underwriters to certain dealers and others at prices lower than the public offering prices, and the public offering prices may be changed, from time to time, by the Underwriters.

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include sales and trading, commercial and investment banking, lending, advisory, investment management, investment research, principal investment, hedging, market making, brokerage and other financial and non-financial activities and services. Under certain circumstances, the Underwriters and their affiliates may have certain creditor and/or other rights against the University and its affiliates in connection with such activities.

In the ordinary course of their various business activities, the Underwriters and their respective affiliates, officers, directors and employees may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, credit default swaps and other

financial instruments for their own account and for the accounts of their customers, and such investment and trading activities may involve or relate to assets, securities and/or instruments of the University (directly, as collateral securing other obligations or otherwise) and/or persons and entities with relationships with the University. The Underwriters and their respective affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

Bank of America, N.A. is expected to provide a revolving credit facility to the University (see “PLAN OF FINANCE” above). Bank of America, N.A. is a banking affiliate of Bank of America Merrill Lynch (the marketing name for the global banking and global markets businesses of Bank of America Corporation). Merrill Lynch, Pierce, Fenner & Smith Incorporated, one of the Underwriters of the Bonds, is an investment banking affiliate of Bank of America Merrill Lynch.

CERTAIN RELATIONSHIPS

Gene T. Sykes, a member of the University’s Board of Trustees, is an employee of Goldman, Sachs & Co. or its affiliates. The University believes that the participation of Goldman, Sachs & Co. in this offering is on terms no less favorable than could be obtained from other parties. Also see “UNDERWRITING” herein for a description of certain relationships.

INDEPENDENT ACCOUNTANTS

The financial statements as of August 31, 2015 and 2014 and for each of the two years in the period ended August 31, 2015 included in Part II of Appendix A of this Official Statement have been audited by PricewaterhouseCoopers LLP, independent accountants, as stated in their report appearing herein.

RATINGS

The Bonds have been given an “Aaa” rating by Moody’s, an “AAA” rating by Fitch, and an “AAA” rating by S&P. An explanation of the significance of the ratings given can be obtained from Moody’s at 7 World Trade Center at 250 Greenwich Street, 23rd Floor, New York, New York, 10007, from Fitch at One State Street Plaza, New York, New York, 10004, and from S&P at 55 Water Street, New York, New York 10041. Such ratings reflect only the views of Moody’s, Fitch and S&P, respectively, and there is no assurance that any of the ratings, if received, will continue for any given period of time or that such ratings will not be lowered or withdrawn entirely if, in the judgment of Moody’s, Fitch or S&P, circumstances so warrant. Any such change in, or withdrawal of, the ratings received could have an adverse effect on the market price of the Bonds.

CONTINUING DISCLOSURE

Because the Bonds are limited obligations of the Authority, payable solely from amounts received from the University and other sources described in the Indenture, any financial or operating data concerning the Authority is not material to an evaluation of the offering of the Bonds or to any decision to purchase, hold or sell the Bonds. Accordingly, the Authority has not provided any such information. The University has undertaken all responsibilities for any continuing disclosure to Holders of the Bonds as described below, and the Authority shall have no liability to the Holders of the Bonds or any other person with respect to the Rule.

In order to assist the Underwriters in complying with the Rule, the University has agreed to undertake in a Continuing Disclosure Agreement between the University and the Trustee, for the benefit of Holders of the Bonds, to provide to the Trustee certain annual information and notices of certain listed events required to be provided by the Rule. The proposed form of that undertaking is set forth in Appendix D hereto. The undertaking may be amended or modified without the consent of the Holders of the Bonds under certain circumstances set forth therein.

MISCELLANEOUS

Information relating to DTC and the book-entry system described in Appendix C – “BOOK-ENTRY SYSTEM” is based upon information furnished by DTC and is believed to be reliable, but none of the Authority, the University or the Underwriters makes any representations or warranties whatsoever with respect to such information.

All of the Appendices hereto are incorporated as an integral part of this Official Statement. The Authority makes no representations or warranties whatsoever with respect to the information contained in Appendices A through E.

The Authority furnished only the information contained under the “THE AUTHORITY” and “REGULATORY MATTERS AND LITIGATION – The Authority” and, except for such information, makes no representation as to the adequacy, completeness or accuracy of this Official Statement or the information contained herein.

This Official Statement has been delivered by the Authority and approved by the University. This Official Statement is not to be construed as a contract or agreement among any of the Authority, the University and the purchasers or Holders of the Bonds.

CALIFORNIA EDUCATIONAL FACILITIES
AUTHORITY

June 8, 2016

/s/ Ronald L. Washington
Executive Director

Appendix A has been reviewed and approved by the Treasurer of the University.

THE BOARD OF TRUSTEES OF THE LELAND
STANFORD JUNIOR UNIVERSITY

June 8, 2016

/s/ Karen L. Kearney
Treasurer

APPENDIX A

STANFORD UNIVERSITY (INCLUDING FINANCIAL STATEMENTS AND DISCUSSION OF FINANCIAL RESULTS)

Part I of this Appendix A contains general information with respect to Stanford. Part II consists of portions of the University's Annual Financial Report for the fiscal years ended August 31, 2015 and 2014 (the "University's FY2015 Annual Financial Report"), which includes management's discussion and analysis, selected financial and other data, the independent auditor's report, and the University's consolidated financial statements for the years ended August 31, 2015 and 2014 (the "University's FY2015 Audited Financial Statements"). Financial information presented in Part I of this Appendix A with respect to the University relates solely to the University; financial information regarding the University and its affiliates is stated both separately and on a consolidated basis in the University's FY2015 Audited Financial Statements.

PART I

GENERAL INFORMATION ABOUT STANFORD UNIVERSITY

Founded in 1885, The Leland Stanford Junior University ("Stanford" or the "University") is one of a select group of universities that has achieved eminence in both undergraduate and graduate education and in a broad range of academic disciplines. It is internationally recognized for the quality of its teaching and research, its distinguished faculty and its outstanding student body.

Academic and Research Programs

Stanford is a major research and teaching university offering a wide range of undergraduate, graduate and professional degree programs. The Schools of Earth, Energy & Environmental Sciences, Engineering, and Humanities and Sciences (which includes the core humanities, fine arts, languages and literature, the social sciences, mathematics, and the natural sciences) offer undergraduate and graduate degree programs. The Schools of Business, Education, Law and Medicine offer graduate and professional degree programs. Undergraduate students have access to a wide variety of undergraduate majors and to classes and research opportunities in all seven Schools. Degree programs are offered by departments and through interdepartmental programs involving multiple departments in one or more Schools. The University, its Schools and its academic programs hold appropriate accreditations.

Stanford's research enterprise extends throughout the University. Multidisciplinary research is conducted in the schools, independent laboratories, institutes and research centers which engage faculty and students from across the University. The SLAC National Accelerator Laboratory operates advanced X-ray facilities and conducts research in materials, energy, structural biology and particle physics. Extensive library and archival resources are available through the Stanford University Libraries and Academic Information Resources and the Hoover Institution on War, Revolution and Peace.

Governance and Management

Board of Trustees. Stanford is a trust with corporate powers under the laws of the State of California. The Internal Revenue Service has determined the University to be a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. Under the provisions of the founding grant of Senator Leland Stanford and Jane Lathrop Stanford and related organizational documents of the University (the "Founding Grant"), the Board of Trustees is custodian of the endowment and all the properties of the University. The Board administers the invested funds, and has the ultimate authority

over the annual budget and policies for operation and control of the University. The powers and duties of the Board of Trustees derive from a combination of the Founding Grant, amendments to the Founding Grant, and legislation and court decrees specific to Stanford. In addition, the Board operates under its own bylaws and a series of resolutions on major policy. The Board conducts its business through standing committees, currently consisting of the Committees on Academic Policy, Planning and Management; Alumni and External Affairs; Audit and Compliance; Development; Finance; Land and Buildings; Stanford Medicine; and Trusteeship. The Board consists of a minimum of 25 and a maximum of 38 Trustees, including the President of the University as a Trustee *ex officio* and with vote, up to 29 Trustees nominated and elected by the Board, and up to eight Trustees nominated by University alumni and elected by the Board.

The following table lists the members of the Board of Trustees as of April 1, 2016.

Steven A. Denning (<i>Chair</i>)	
Fred W. Alvarez	Bernard Liautaud
Mary T. Barra	Christy O. MacLear
Robert M. Bass	Susan R. McCaw
Brook H. Byers	Lloyd M. Metz
Bret E. Comolli	Hamid R. Moghadam
RoAnn Costin	Kenneth E. Olivier
James G. Coulter	Ruth M. Porat
Dipanjan Deb	Jeffrey S. Raikes
Angela S. Filo	Mindy B. Rogers
Sakurako D. Fisher	Victoria B. Rogers
Bradley A. Geier	Kavitark Ram Shriram
John A. Gunn	Ronald P. Spogli
Gail B. Harris	Srinija Srinivasan
Christine U. Hazy	Isaac Stein
John L. Hennessy	Thomas F. Steyer
Laurene Powell Jobs	Gene T. Sykes*
Ronald B. Johnson	Vaughn C. Williams
LaTonia G. Karr	

** Managing Director at Goldman, Sachs & Co., which is serving as underwriter in connection with the issuance of the Bonds. The University believes that the participation of Goldman, Sachs & Co. in this offering is on terms no less favorable than could be obtained from other parties.*

Administration. The Founding Grant prescribes that the Board of Trustees appoints the President of the University. The Board of Trustees delegates the responsibility to the President to prescribe the duties of professors and teachers, to set the course of study and the mode and manner of teaching and to exercise all other necessary powers relating to the educational, research, financial and business affairs of the University, including the operation of the physical plant. The President appoints, subject to confirmation by the Board, the Provost and the other Officers of the University. The Stanford Management Company is the operating division of the University responsible for the management of the University's investment assets.

The following table sets forth in summary form certain members of the principal administration of the University as of April 1, 2016.

University Officers

John L. Hennessy*
President

John W. Etchemendy**
Provost

David F. Demarest
Vice President for Public Affairs

Randall S. Livingston
*Vice President for Business Affairs
and Chief Financial Officer*

William J. Madia
*Vice President for SLAC National Accelerator
Laboratory*

Robert C. Reidy
*Vice President for Land, Buildings
and Real Estate*

Martin W. Shell
Vice President for Development

Howard E. Wolf
*Vice President for Alumni Affairs
and President, Stanford Alumni Association*

Elizabeth Zacharias
Vice President for Human Resources

Debra L. Zumwalt
Vice President and General Counsel

Stanford Management Company

Robert F. Wallace
Chief Executive Officer

University Cabinet

Ann M. Arvin
Vice Provost and Dean of Research

Persis Drell
Dean, School of Engineering

Harry J. Elam Jr.
Vice Provost for Undergraduate Education

Thomas Gilligan
*Director, Hoover Institution on War, Revolution
and Peace*

Patricia J. Gumport
Vice Provost for Graduate Education

Chi-Chang Kao
Director, SLAC National Accelerator Laboratory

M. Elizabeth Magill
Dean, School of Law

Pamela A. Matson
*Dean, School of Earth, Energy and Environmental
Sciences*

Lloyd Minor
Dean, School of Medicine

Richard P. Saller
Dean, School of Humanities and Sciences

Garth Saloner***
Dean, Graduate School of Business

Daniel Schwartz
Dean, Graduate School of Education

* Will be succeeded by Marc Tessier-Lavigne on September 1, 2016.

** Provost Etchemendy has announced his intention to step down as Provost upon the appointment of a successor. The University has formed a Provost search committee and is currently in the process of soliciting community input on the search.

*** Will be succeeded by Jonathan Levin on September 1, 2016

Faculty and Staff

For the 2015 fall quarter, the Stanford professoriate had 2,153 members. Of those, 54% hold tenure, and more than 99% hold the highest degrees in their respective fields. The Academic Council comprises the main body of the faculty. Of its 1,650 members, 1,503 are tenure-line faculty, and 147 are non-tenure line faculty such as Senior Fellows and those holding teaching, research, clinical or performance titles. The student-Academic Council ratio (including only matriculated undergraduate and graduate students) is approximately 9.8 to 1.

As of August 31, 2015, the University, including the SLAC National Accelerator Laboratory, employed 13,245 non-academic staff members. Of these employees, 1,217 were represented by the Service Employees International Union, and 26 were police officers represented by the Stanford Deputy Sheriffs' Association. Contracts between the University and those unions expire on August 31, 2019 and July 31, 2020, respectively.

Students

For the 2015 fall quarter, the University enrolled 6,994 undergraduate and 9,196 graduate students. During academic year 2014-2015, 1,671 bachelor degrees and 3,286 advanced degrees were conferred. The following table provides a summary for the last five academic years of undergraduate and graduate applications, admissions and enrollment.

Academic Year	Undergraduate ⁽¹⁾⁽²⁾			Graduate ⁽²⁾		
	<u>Applications</u>	<u>Admissions</u>	<u>Enrollment</u>	<u>Applications</u>	<u>Admissions</u>	<u>Enrollment</u>
2011-12	35,761	2,495	1,754	38,750	4,570	2,628
2012-13	38,144	2,457	1,796	41,855	4,439	2,582
2013-14	40,491	2,241	1,705	41,539	4,479	2,630
2014-15	43,931	2,178	1,707	43,992	4,399	2,625
2015-16	44,520	2,160	1,735	44,437	4,318	2,656

⁽¹⁾ Includes both freshman and transfer students.

⁽²⁾ Fall only.

Tuition, Fees and Financial Aid

Stanford is committed to a policy of “need-blind” admission for eligible U.S. citizens and permanent resident undergraduate students. In general, eligible Stanford undergraduates receive other financial assistance in the form of government and private scholarships and grants, student employment and low-interest student loans.

The following table provides a summary of Stanford's undergraduate tuition, average room and board expenses and average financial aid per undergraduate student for the academic years 2011-12 through 2016-17.

<u>Academic Year</u>	<u>Tuition</u>	<u>Room and Board</u>	<u>Total</u>	<u>Average Financial Aid⁽¹⁾</u>
2011-12	40,050	12,291	52,341	18,519
2012-13	41,250	12,721	53,971	18,477
2013-14	42,690	13,166	55,856	18,444
2014-15	44,184	13,631	57,815	19,000
2015-16	45,729	14,107	59,836	20,400
2016-17	47,331	14,601	61,932	n/a

⁽¹⁾ Stanford-funded scholarship aid awarded on the basis of financial need divided by the average number of undergraduate students enrolled in the fall, winter and spring quarters.

Graduate student financial aid is awarded based on academic merit and the availability of funds and consists of fellowships, stipends, and trainee/assistantships. Stanford participates in the Federal Perkins student loan program, available to undergraduate, graduate and professional students. Stanford also provides a gift funded institutional loan program. Student loan receivables, net of allowances for doubtful accounts, were \$81.5 million and \$81.4 million as of August 31, 2015 and 2014, respectively.

The Stanford Campus and Other Real Property

Stanford's campus consists of approximately 8,200 acres of land, owned by the University near Palo Alto, California, much of which was given to the University under the Founding Grant on the condition that the lands subject to the grant may not be sold. The campus includes land located in six different cities and counties. In addition to the lands utilized for educational, research, athletics, patient care and related purposes, a portion of Stanford lands are leaseholds related to commercial, residential, agriculture and other developments that provide rental income as part of the University's investment portfolio. Much of the University's other land remains undeveloped and is used primarily for agricultural purposes.

Stanford also owns real property elsewhere. Some of this property has been acquired for expansion or relocation of academic programs and administrative functions, including approximately 35 acres in Redwood City, California. The University also owns facilities for use in study programs in Pacific Grove, California, the District of Columbia and Berlin, Germany.

Capital Improvement Programs

The University makes a significant investment in its facilities for teaching, research and related activities. The University's Capital Budget and three-year Capital Plan are based on a projection of major capital projects that the University will pursue in support of the academic mission. The fiscal year 2016 Capital Budget approved by the Board of Trustees is \$774 million and represents the anticipated capital expenditures in the first year of the rolling three-year Capital Plan. The Three-Year Capital Plan 2015/16 – 2017/18 includes projects with estimated total costs of \$2.9 billion. Estimated funding sources for projects under the current Capital Plan consist of \$571.2 million of gifts, \$883.6 million of reserves and other funds, \$154.6 million of resources expected to be identified in the course of annual capital planning,

and \$1,288.8 million of debt. Additional debt will be required to bridge timing differences between project expenditures and the receipt of gifts. The Capital Budget and the Capital Plan are both subject to change based on funding availability, budget affordability and university priorities.

In 2000, the Santa Clara County Board of Supervisors approved a General Use Permit (the “2000 GUP”) and the Stanford University Community Plan (the “Community Plan”), updating and extending the General Use Permit approved in 1989. These documents govern the use and development of University lands within the County. Any change to either document is subject to the approval of the Santa Clara County Board of Supervisors. The 2000 GUP permits Stanford to develop approximately 2,000,000 square feet of new academic facilities and approximately 3,000 new housing units for students, faculty and staff. In March 2016, Santa Clara County approved Stanford’s request for an additional housing allocation of 1,450 housing units, of the Escondido Village Graduate Student Residences project. The 2000 GUP contains a number of significant restrictions and conditions upon which such developments are contingent. Through August 31, 2015, projects using approximately 1,400,000 gross square feet of the GUP allotment had been completed or were under construction and approximately 2,020 housing units were added.

Hospitals

The University is the sole member of Stanford Health Care (“SHC”) and Lucile Salter Packard Children’s Hospital at Stanford (“LPCH”) (collectively, the “Hospitals”). SHC and LPCH are each separate not-for-profit public benefit corporations operating the adult and pediatric hospitals and clinics, respectively, which together with the University’s School of Medicine and its clinical faculty, comprise and are known in the marketplace as Stanford Medicine. Each Hospital corporation has its own management with responsibility for its own financial reporting (see Stanford University’s FY2015 Annual Financial Report included as Part II of this Appendix A under the caption “Management Responsibility for Financial Statements”). Management of each Hospital reports to the chief executive officer of that Hospital, and the chief executive officer reports to the board of directors appointed for that Hospital. Management of the Hospitals does not report to management of the University. Each Hospital has its own separate liabilities, including bond debt obligations. The University and the Hospitals are not obligated to pay the debt of each other, and the University and the Hospitals receive separate bond ratings from the rating agencies.

The Hospitals have undertaken major capital projects to rebuild and expand their principal facilities in Palo Alto, California. Construction is currently scheduled to be completed in 2017 and 2018. The estimated cost is approximately \$2.0 billion for SHC, as noted in Part II of this Appendix A. The cost of LPCH’s project, originally estimated to be approximately \$1.2 billion, as noted in Part II of this Appendix A, is expected to be exceeded because of cost increases related to changes in technology, change orders, and revisions to original budgeted amounts, among other factors. SHC and LPCH have sufficient funds to complete the projects including operating surpluses, gifts, proceeds from bond issues in 2012, 2015 and 2016 and may in the future include lines of credit. (See also “Certain Investment Considerations” in the forepart of this Offering Statement.)

Regulatory Matters and Litigation

The University is subject to various suits, audits, investigations and other legal proceedings in the course of its operations. The University’s ultimate liability, if any, for these legal proceedings is not determinable at present. However, no proceedings are pending or threatened that, in management’s opinion, would be likely to have a material adverse effect on the University’s financial position, except for the claims described in the following paragraph.

Environmental Matters. On January 29, 2013, two environmental advocacy groups filed a complaint in the United States District Court for the Northern District of California alleging violations of the Endangered Species Act (the “ESA”). A second amended complaint, the operative complaint, was filed on May 20, 2013 and it alleges that the University operates and maintains the Searsville Dam and Reservoir located on its campus and diverts water in the San Francisquito Creek watershed in a manner that violates the ESA by “taking” (which in the ESA means killing or injuring, or creating the likelihood of killing or injuring) three protected species—the Central California Coast (“CCC”) steelhead, San Francisco garter snake and California red-legged frog—without proper authorization. Litigation on this allegation is currently stayed.

On March 14, 2014, two environmental advocacy groups (the same groups that filed the above complaint) filed a new action in the United States District Court for the Northern District of California against the University. This new complaint alleges violations of both the ESA and the Clean Water Act (the “CWA”). Specifically, it alleges that the University is taking CCC steelhead in violation of the ESA by operating and maintaining certain installations located on the campus and in the San Francisquito watershed without proper authorization. Litigation on this allegation is currently stayed. The complaint also alleges that the University is violating the CWA by discharging sediment and other pollutants into a creek and by placing and maintaining fill materials in a creek without proper authorization. All of the CWA claims have been dismissed.

Both complaints seek declaratory and injunctive relief, as well as attorneys’ fees and costs. No determination of materiality has been made regarding either complaint because of the preliminary state of the actions. The University believes that it has not violated the Endangered Species Act or the Clean Water Act and intends to vigorously defend against all of these claims.

Title IX. The University is among over 100 colleges and universities currently under investigation or monitoring by the Office for Civil Rights, Department of Education (“OCR”), relating to Title IX concerns. Beginning in 2015, OCR has notified the University on more than five occasions that it had received complaints from complainant students or responding students alleging that the University had not promptly and equitably resolved allegations of sexual assault made by or against them. As is its practice when a university is under review, OCR looks not only at the cases that are the subject of the complaints, but all reports of sexual harassment and sexual violence for the past three academic years. The University is cooperating in the wide-ranging review. OCR has made no Title IX claims against the University to date; however, it is reasonably possible that one or more such claims will be made in the future. The ultimate cost of such claims to the University is not estimable at this time, although the University believes it is unlikely that it will be material to the University on a consolidated financial basis. The University intends to vigorously defend any such claims that might be brought by OCR.

One responding student who was disciplined by the University after a sexual assault claim and who filed a claim with OCR has now also filed two related actions against the University. The first is a writ filed in state court alleging that he did not receive due process during the University’s disciplinary proceedings and seeking to compel the University to reverse the disciplinary findings against him. The second is a complaint filed in federal court alleging gender discrimination by the University and seeking money damages. The University believes it is reasonably possible that similar claims will be made by some or all of the complainant students and respondent students who have previously filed complaints with the OCR or who may file complaints in the future. The University intends to vigorously defend against all such claims, including the pending claims of the responding student, and believes that the ultimate cost of all such claims will not be material to the University on a consolidated financial basis.

Investments

At August 31, 2015, the University held investments with a fair value of approximately \$28.8 billion. The following table summarizes the fair value of the University's investments for each of the past five fiscal years. The table below should be read in conjunction with the University's FY2015 Audited Financial Statements and prior years' financial statements.

**STANFORD UNIVERSITY
INVESTMENTS
Years Ended August 31
(in thousands of dollars)**

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Total Investments	\$28,766,240	\$27,828,590	\$24,703,407	\$22,246,700	\$21,189,487
Less: Permanently Restricted Investments	<u>6,281,590</u>	<u>6,037,754</u>	<u>5,681,957</u>	<u>5,440,119</u>	<u>5,143,249</u>
Unrestricted and Temporarily Restricted Investments	<u>\$22,484,650</u>	<u>\$21,790,836</u>	<u>\$19,021,450</u>	<u>\$16,806,581</u>	<u>\$16,046,238</u>

Liquidity

Management monitors the University's cash, cash equivalents and investments to maintain adequate liquidity to cover its outstanding commitments. The University has significant contractual commitments outstanding to limited partnership and other investment vehicles and major construction projects (see discussion under the caption "Capital Improvement Programs" above and in Note 5, "Investments," and Note 20, "Commitments and Contingencies," to the University's FY2015 Audited Financial Statements included in Part II of this Appendix A).

The University entered into a \$250 million unsecured revolving credit facility in 2015 to support short-term funding needs. Management intends to complement the University's debt portfolio with an additional \$250 million unsecured revolving credit facility to support interim financing needs (see discussion under "PLAN OF FINANCE" in the forepart of this Official Statement).

PART II

PORTIONS OF THE UNIVERSITY'S FY2015 ANNUAL FINANCIAL REPORT

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MANAGEMENT'S DISCUSSION AND ANALYSIS

CONSOLIDATED FINANCIAL HIGHLIGHTS

Stanford's FY15 consolidated financial results reflect the combined financial position and results of the University and the Hospitals, including their respective entities. Operating revenues exceeded expenses by \$700 million, compared to \$535 million in FY14. Net assets increased \$1.7 billion to end the year at \$35.5 billion. These results reflect solid investment performance, strong health care services revenues, and generous donor support.

Solid investment performance. Consolidated investment returns in FY15 were \$2.0 billion, equal to 6.6% of beginning of year investment balances. Although lower than FY14 results, Stanford's investment returns were augmented by income producing endowed lands which yielded strong returns. Total consolidated investments at August 31, 2015 were \$31.4 billion, up \$936 million over the prior year.

Strong health care services revenues.

Health care services represented approximately 52% of consolidated revenues in FY15. Over the last 5 years, health care services have been the fastest growing component of the consolidated operating results. The partnership among Stanford's School of Medicine (SOM), Stanford Health Care (SHC) and Lucile Salter Packard Children's Hospital at Stanford (LPCH) (collectively known as Stanford Medicine) remains strong and synergistic. The SOM is a research intensive medical school that provides education, patient care, and interdisciplinary research. Stanford Medicine continues to focus on the rapid translation of faculty research into clinical care and has experienced an increase in volume from clinical programs. The Hospitals provide the settings where these clinical innovations are delivered to patients. Stanford Medicine continues to build a network of care, investing in new facilities and service expansions including the Stanford Cancer Center South Bay and ValleyCare Health System in FY15. See further discussion in the *Stanford Health Care* section.

Generous donor support. The University's Office of Development reported gifts benefiting the University, SHC and LPCH of \$1.6 billion from a record number of donors for the sixth year in a row—nearly 83,000 alumni, parents, friends, and other supporters. This amount includes \$201 million in support of SHC and LPCH, and \$626 million of works of art and special collections. These results are a testament to the direction and vision of the University and an endorsement of Stanford's mission.

The works of art and special collections include the Anderson Collection at Stanford University, an assembly of post-World War II art donated by Harry W. and Mary Margaret Anderson and their daughter Mary Patricia Anderson Pence. This donation is not recorded on Stanford's financial statements; under Stanford's policy, works of art and other special collections which are preserved and protected for educational, research and public exhibition purposes are not capitalized.

The sections below provide additional details about the University's and Hospitals' financial position, financial results and operations.

UNIVERSITY

FY15 net assets increased 4% to \$30.4 billion compared to \$29.2 billion in the prior year. The University’s endowment ended the year at an all-time high of \$22.2 billion, exceeding last year’s \$21.4 billion.

OPERATING RESULTS

The *Statements of Activities* include results from both operating and non-operating activities of the University. Operating activities include the revenues earned and expenses incurred in the current year to support the University’s core activities of teaching and research and other University priorities, including patient care.

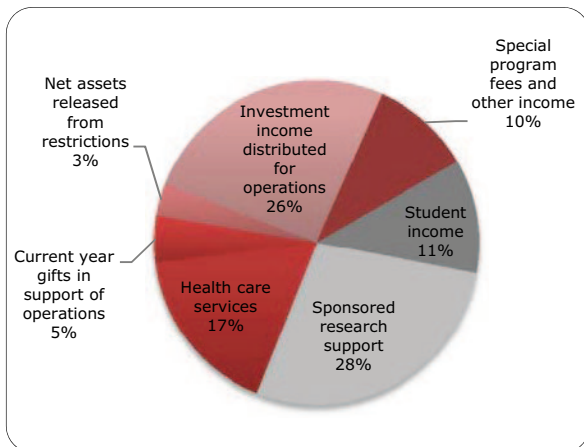
The University ended the year with a surplus from operations of \$313 million compared to \$214 million in FY14. FY15 operating revenues increased 10%; operating expenses increased 8%.

Non-operating activities are discussed in the *Financial Position* section of this analysis.

OPERATING REVENUES

FY15 operating revenues of \$5.0 billion were derived from diverse sources, as shown in Figure 1.

**FIGURE 1
OPERATING REVENUES**

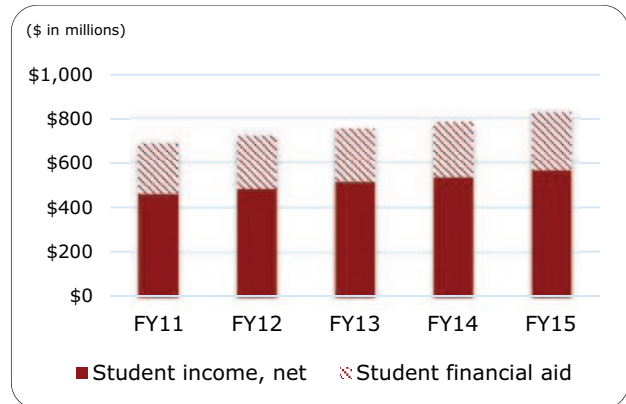


Student Income

Total student income, which represents 11% of University operating revenues, increased 6% to \$564 million in FY15. Total student income includes tuition

and fees from undergraduate and graduate programs and room and board; this amount is partially offset by financial aid consisting of assistance in the form of scholarship and fellowship grants that cover a portion of tuition, living and other costs. Revenues from student tuition and fees before the deduction for student financial aid increased nearly 5% in FY15 primarily as a result of undergraduate and graduate tuition increases ranging from 3.5% to 3.9% as well as a slightly higher undergraduate and graduate enrollment. Revenues from room and board increased 9% in FY15 due to an increase in room and board rates of 3.5%, an increase in room capacity as a result of opening the new Kennedy Graduate Residences for 436 students, and a higher number of graduate students in Stanford’s off-campus housing program. Stanford continues to actively increase its capacity to house more graduate students on campus.

**FIGURE 2
STUDENT INCOME AND FINANCIAL AID**



Student financial aid (See Figure 2) increased \$11.8 million or 5% in FY15 to \$261 million, in line with the increase in student tuition revenue and the slight increase in student enrollment. Consistent with Stanford’s commitment to keeping a Stanford education affordable, Stanford has expanded its financial aid program for the 2015-16 year by increasing the income threshold at which parents are not expected to contribute toward educational costs at Stanford.

Stanford is committed to a policy of “need-blind” admission for eligible U.S. citizens and permanent resident undergraduate students. In FY15,

approximately 50% of undergraduates were awarded need-based scholarships and grants from Stanford. In general, eligible Stanford undergraduates receive additional financial assistance in the form of other scholarships and grants, student employment and low-interest student loans.

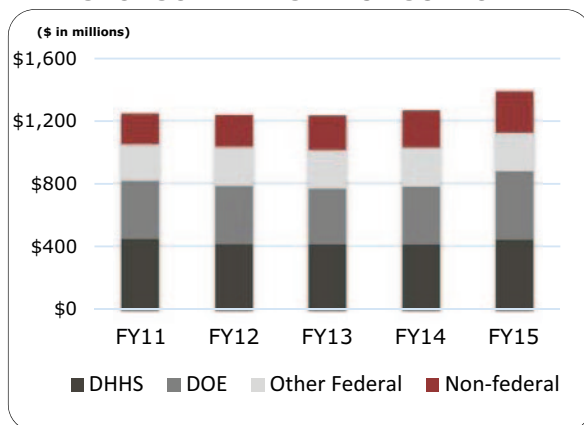
Graduate student financial aid, which includes fellowships, stipends, and trainee/assistantships, is awarded based on academic merit and the availability of aid. In the financial statements, fellowships are included in financial aid, stipends in other operating expenses, and trainee/assistantships in salaries and benefits. Over 85% of graduate students receive financial support, including University, federal and privately funded fellowships, and teaching and research assistantships.

Stanford participates in the Federal Perkins student loan program, available to undergraduate, graduate and professional students. Stanford also provides a gift funded institutional loan program. Student loan receivables, net of allowances for doubtful accounts, were \$81 million as of August 31, 2015 and 2014.

Sponsored Research Support

Sponsored research support represents 28% of the University’s operating revenues, the highest source of operating revenue for the University. FY15 sponsored research support increased to \$1.4 billion, nearly 10% over FY14.

**FIGURE 3
SPONSORED RESEARCH SUPPORT**



Approximately 81% of the University’s sponsored research support (including support for the SLAC National Accelerator Laboratory—“SLAC”) is received directly or indirectly from the federal government (See

THE UNIVERSITY’S ENDOWMENT

The University’s endowment is a collection of gift funds and reserves which are set aside and invested to support the University’s teaching and research missions. At August 31, 2015, the endowment totaled \$22.2 billion (See Figure 4) and represented approximately 73% of the University’s net assets. The endowment, which includes endowed lands, is comprised of pure endowment funds, term endowment funds and funds functioning as endowment.

Gifts and pledge payments, investment returns, and other invested funds added \$1.8 billion to the endowment in FY15.

Annual payout to operations from the endowment--\$1.1 billion in FY15--continues to be a significant source of operating revenue for the University, covering approximately 23% of expenses in FY15.

The University’s endowment provides funding annually for a wide variety of important purposes. As shown in Figure 5, a significant portion of the endowment payout (approximately 80%) is restricted as to purpose.

Approximately 28% funds instruction and research activities, 22% goes to student aid, 20% covers faculty salaries and support, 23% is unrestricted and the remainder is split between library support and other purposes.

**FIGURE 4
UNIVERSITY ENDOWMENT**

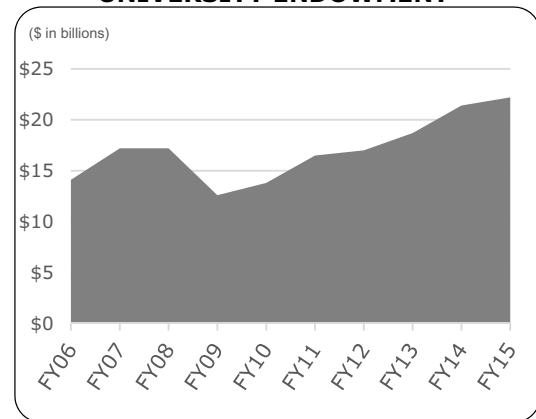


Figure 3). The largest federal sponsor, the Department of Health and Human Services (DHHS), provided revenue of \$447 million in FY15 compared to \$412 million in the prior year, primarily through the National Institutes of Health. Most of these funds support research within the University's SOM.

In FY15, sponsored research support for SLAC was \$430 million, up 17% from FY14, with most of the increase related to construction of new facilities. The U.S. Department of Energy (DOE) provided substantially all of this support, consisting of funding for ongoing research operations and construction of new facilities or instruments. In FY15, SLAC received approximately \$140 million for several construction projects, with approximately half of that for the Linac Coherent Light Source (LCLS) II project which is expected to be completed in 2021. LCLS II is an extension/upgrade of LCLS, the revolutionary X-ray free-electron laser which became operational in October 2009. Other SLAC projects include the construction of the new Scientific User Support Building which opened in October 2015, the Research Support Building modernization which was completed in April 2015, and the Large Synoptic Survey Telescope camera.

In addition to payment for the direct costs of performing research, the University receives an amount from sponsors for facilities and administrative costs, known as indirect costs. For FY15, the federal and non-federal indirect cost recovery increased by 7%, in line with the increase in direct costs, to \$243 million.

Health Care Services

FY15 health care services revenue represented 17% of University operating revenues, increasing \$143 million to \$841 million. This increase reflects higher patient volume as well as the new inter-entity agreement between the SOM and SHC.

SOM faculty serve as physicians for the Hospitals. Clinical services are billed and collected by the Hospitals, and a portion is remitted to the University as payment for these physician services. In addition, the Hospitals pay the University for other essential services such as medical direction, telecommunication, legal and internal audit services. Health care services revenues of \$810 million represent the net value of services provided between the University and the

Hospitals; these amounts are eliminated in consolidation.

Current Year Gifts in Support of Operations and Net Assets Released from Restrictions

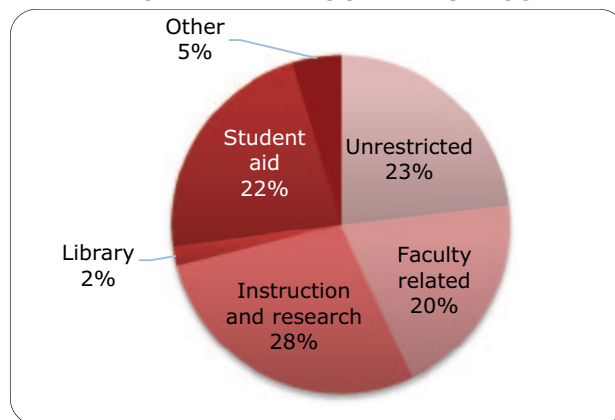
Current year gifts in support of operations increased 10% to \$234 million in FY15. Net assets released from restrictions, which consisted primarily of pledge payments, increased 16% to \$158 million.

Total Investment Income Distributed for Operations

The University distributes investment income for use in operations according to policies approved by the Board of Trustees. Total investment income distributed for operations represented 26% of University revenue in FY15, the second highest source of operating revenue for the University.

Endowment income distributed for operations increased 7% to \$1.1 billion in FY15. This includes payout from the University's Merged Pool (MP) based on a Board-approved formula, and income received from real estate and other investments not included in the MP. The endowment payout as a percentage of the beginning endowment value was 4.9% for FY15 and 5.3% for FY14.

**FIGURE 5
ENDOWMENT PAYOUT BY PURPOSE**



Expendable funds pools and other investment income distributed for operations was \$218 million in FY15, compared to \$181 million in FY14. This category primarily includes the payout to operations from the Expendable Funds Pool (EFP) and the Endowment Income Funds Pool (EIFP), the principal investment vehicles for the University's expendable funds.

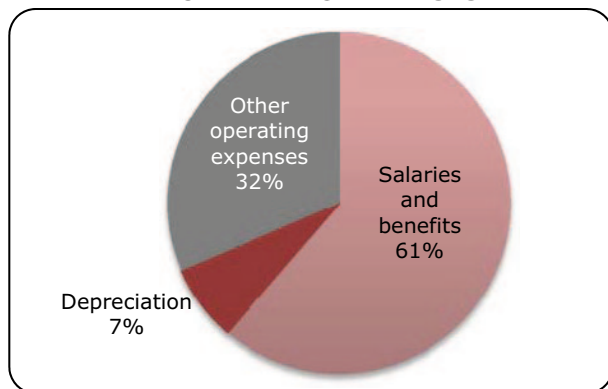
The EFP policy provides a variable payout to certain funds that support operations based on the prior year's investment returns. Positive returns in both FY14 and FY13 resulted in the payouts to these funds over the past two years. See *Note 6* to the FY15 Consolidated Financial Statements.

The EIFP holds previously distributed but unspent endowment payouts. These amounts are invested in highly liquid instruments in order to preserve the principal balance. Earnings on these investments are distributed to the fund holders. See *Note 6* to the FY15 Consolidated Financial Statements.

OPERATING EXPENSES

Total expenses increased \$354 million, or 8%, to \$4.6 billion in FY15. As shown in Figure 6, salaries and benefits comprised 61% of the University's total expenses; depreciation expense was 7% and other operating expenses represented 32%.

**FIGURE 6
OPERATING EXPENSES**



Salaries and benefits increased 7% in FY15 to \$2.8 billion. The increase resulted from a combination of salary programs designed to maintain Stanford's competitive position, higher benefit costs, and increases in headcount to support new programs and sponsored research activities, particularly within the SOM.

Depreciation expense increased by 8% to \$335 million in FY15 from \$311 million in FY14. The increase in this category resulted from buildings recently placed in service as described in the *Capital Projects* section below.

Other operating expenses increased by \$141 million or 11% to \$1.5 billion in FY15, driven by higher expenses

of \$53 million in SLAC primarily due to subcontracting out a portion of the major construction projects to other institutions, higher expenses in the SOM driven by increased sponsored research activities and new programs, and additional expenses incurred to support new and existing housing developments.

FINANCIAL POSITION

The University's *Statements of Financial Position* reflect strong donor support, solid investment returns and positive operating results. Total University assets increased \$986 million in FY15 to end the year at \$36.2 billion. Total University liabilities decreased slightly from \$6.0 billion to \$5.8 billion.

Cash and Assets Limited as to Use

The University regularly monitors liquidity required to meet its operating needs and other contractual commitments. At the same time, the University strives to optimize the long-term total return while maintaining an appropriate level of risk of its available funds. At August 31, 2015, the University's cash and cash equivalents was \$708 million, an increase of \$78 million compared to the prior year. Assets limited as to use decreased by \$140 million as funds were used to pay for construction costs during FY15. In addition to cash and cash equivalents, there was \$1.3 billion in cash and cash equivalents in the University's investments. See *Note 5* to the FY15 Consolidated Financial Statements.

FIGURE 7
INVESTMENTS BY ASSET CLASS

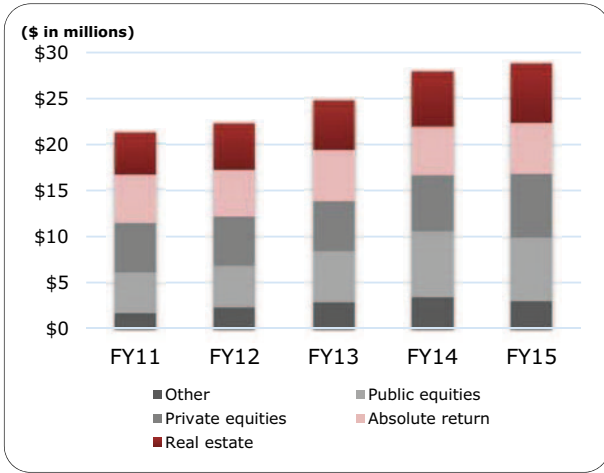
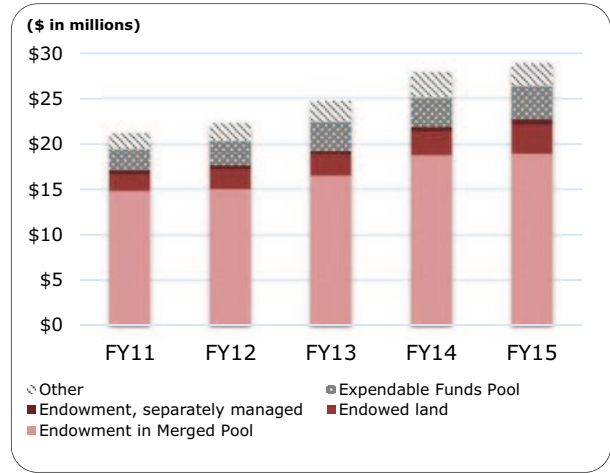


FIGURE 9
INVESTMENTS BY FUND TYPE

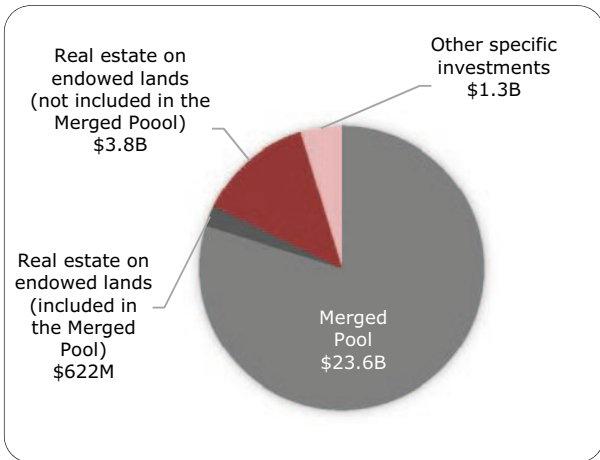


Investments

University investments at August 31, 2015 were \$28.8 billion. Investments by asset class are shown in Figure 7; investments by fund type are shown in Figure 9.

There are three primary categories of investments as shown in Figure 8: the Merged Pool (MP), real estate investments on endowed lands, and other specific investments.

FIGURE 8
INVESTMENTS BY CATEGORY



\$23.6 billion of the investments is held in the MP at August 31, 2015. The majority of the University’s endowment assets are managed through the MP, 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 annual

payouts to support the University’s operations and preserve purchasing power for future generations of Stanford faculty and students. The MP is managed by the Stanford Management Company (SMC), a division of the University with oversight by a Board of Directors appointed by the University Board of Trustees.

A certain portion of Stanford’s endowed lands, including the Stanford Research Park, are designated for the production of income by the Board. As of August 31, 2015, most of Stanford’s \$4.5 billion of real estate investments (including \$662 million in the MP as discussed above) are located on these lands. In FY15, these properties generated \$107 million in income, net of expenses and appreciated \$671 million in value. These lands have been developed for various uses, including research, medical and commercial offices, hotels, retail properties and a regional mall. The University further diversifies this portfolio by employing a variety of structures, including ground leases, direct leases and participation arrangements. In recent years, the value of these properties has benefited from strong dynamics in the regional market including rising investor demand for real estate; high office, hotel and apartment occupancy rates; increased office rents; and strong retail sales. Decreases in the capitalization and discount rates have also contributed to the positive results.

The remaining \$1.3 billion of investments are specifically invested for a variety of purposes, in accordance with donor wishes.

Capital Projects

The University continues to invest heavily in its physical facilities to support key academic initiatives, housing and infrastructure. During FY15, the University invested \$568 million in capital projects, bringing gross plant facilities before accumulated depreciation to \$8.7 billion. Plant facilities, net of accumulated depreciation, increased \$237 million to \$4.8 billion.

During FY15, the Stanford Energy System Innovations (SESI) project became operational. SESI is a state-of-the-art energy system that relies on renewable energy by capturing heat generated by cooling processes and reusing it. SESI is expected to enable the University to cut its greenhouse gas emissions by approximately 68 percent and reduce water usage another 15 percent beyond the levels achieved since 2000.

SESI demonstrates Stanford's commitment to and investment in environmental sustainability and is a major University initiative to reduce energy and water use, apply stringent environmental standards to all new buildings, encourage sustainable living, conserve natural resources and decrease waste.

As part of Stanford's commitment to integrate the arts into a Stanford education, a new arts district continues to take shape. Anchored by the Cantor Arts Center, the Memorial Auditorium, the Stanford Art Gallery, the Frost Amphitheater, and the Bing Concert Hall, the newest additions include the Anderson Collection at Stanford (which opened to the public in September 2014) and the McMurtry Art and Art History Building (which opened to the public in September 2015).

The Anderson Collection at Stanford houses the prized collection of renowned 20th century American art recently donated to the University. The McMurtry Art and Art History Building is an interdisciplinary hub for the arts at Stanford that will promote collaboration among students and faculty.

Debt

The University's debt policy governs the amount and type of debt Stanford may incur and is designed to preserve debt capacity, financial flexibility and access to capital markets at competitive rates. A combination of fixed and variable rate debt, of varying maturities, is used to fund academic facilities, residential housing and dining facilities, real estate investment projects,

faculty and staff mortgage loans and other infrastructure projects.

During FY15, the University issued \$250 million in taxable debt to finance various facilities and infrastructure, including additional portions of the SESI project, to refinance commercial paper notes, and to achieve long-term savings in interest costs. The debt was issued at a rate of 3.46% and matures in 2047. The University paid down \$250 million of its Series 2009A taxable debt due in 2016. In addition, the University entered into a \$250 million unsecured revolving credit facility, drawing down \$41 million at August 31, 2015.

Total debt decreased \$179 million to \$3.1 billion as of August 31, 2015. During FY15, Standard and Poor's, Moody's and Fitch affirmed the University's debt ratings in the highest rating categories for short and long-term debt.

Unrestricted Net Assets

In total, unrestricted net assets of the University increased \$1.0 billion to \$16.5 billion, with \$313 million resulting from operating activities. The most significant component of non-operating changes in unrestricted net assets in FY15 was the \$645 million increase in realized and unrealized investment gains.

Temporarily Restricted Net Assets

Temporarily restricted net assets decreased slightly by \$100 million to \$7.7 billion in FY15. The net assets released to operations of \$158 million, the decrease in realized and unrealized investment gains of \$90 million, and transfers relating to capital assets placed in service and other gifts released from their restrictions of \$97 million were partially offset by new temporarily restricted gifts and pledges of \$251 million.

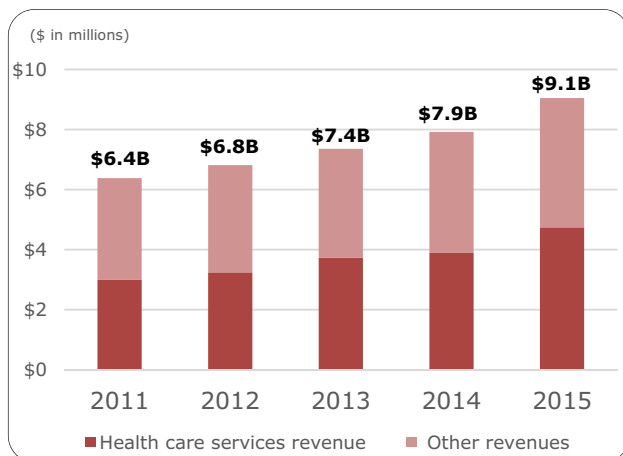
Permanently Restricted Net Assets

Permanently restricted net assets increased \$273 million to \$6.2 billion during FY15, driven primarily by \$208 million in new permanently restricted gifts and pledges.

HOSPITALS

The financial results and financial position of Stanford Health Care (SHC) and Lucile Salter Packard Children’s Hospital at Stanford (LPCH) and their respective entities, are combined in the FY15 Consolidated Financial Statements under the “Hospitals” column. The University is the sole member of each of the Hospitals. The University’s School of Medicine (SOM) and its clinical faculty, together with SHC and LPCH, comprise and are known in the marketplace as Stanford Medicine.

FIGURE 10
HEALTH CARE SERVICES REVENUE
AS A COMPONENT OF
CONSOLIDATED OPERATING REVENUES



In FY11, the Hospitals received local government approval to rebuild and expand their principal facilities. Construction is now well underway and the facilities are expected to be completed in 2017. These improvements will assure that the Hospitals have adequate inpatient capacity in modern, technologically-advanced and patient-centered facilities, and meet state-mandated earthquake safety standards. The total estimated cost, inclusive of contingencies, is approximately \$2.0 billion for SHC and \$1.2 billion for LPCH.

To improve and expand their services, the Hospitals have established community-based ambulatory clinic organizations—SHC’s University HealthCare Alliance (UHA) and LPCH’s Packard Children’s Health Alliance (PCHA)—that support Stanford Medicine’s mission to deliver quality care to the community and conduct research and education. Working collaboratively with the Hospitals and the SOM faculty, these organizations

have acquired multi-specialty practices in outlying communities to form a network of coordinated care throughout the Bay Area.

The Hospitals continue to participate in the California Hospital Quality Assurance Fee (QAF) Program and the Hospital Fee Program. These programs are designed to provide supplemental payments to certain hospitals and support the State’s effort to maintain health care coverage for children.

The following discussion summarizes the individual financial results of SHC and LPCH as shown in the FY15 Consolidated Financial Statements.

STANFORD HEALTH CARE

SHC experienced solid financial results in FY15. SHC’s FY15 financial results benefited from strong operating performance, positive investment returns and successful fundraising.

In May 2015, SHC became the sole member of ValleyCare Health System (VCHS), comprised of two hospitals in Alameda County, California pursuant to an affiliation agreement.

Below are additional details about SHC’s consolidated operations and financial results as derived from its separate consolidated financial statements.

Net assets increased \$373 million, or 14%, to end the year at \$3.1 billion. Operating revenues exceeded operating expenses by \$282 million, or 8%, compared to \$278 million in FY14. Operating EBIDA, or cash flow margin, was \$432 million, or 12%. The strong margin was attributed to excellent operating performance and improved throughput, as well as SHC’s partnership with the University’s SOM on clinical faculty recruitments.

SHC’s community benefits, including services to patients under Medi-Cal and other publicly sponsored programs that reimburse at amounts less than the cost of services, were \$206 million, a 26% increase from the prior year.

OPERATING RESULTS

SHC’s *Statements of Operations and Changes in Net Assets* include results from both operating and non-operating changes in the net assets of SHC. Operating activities include the revenues earned and expenses

incurred in the current year to support SHC's vision of healing humanity through science and compassion, one patient at a time. FY15 operating revenues increased 19% compared to an increase in operating expenses of 21% during the same period. Expenses grew more than revenues mainly due to the new inter-entity agreement with the SOM needed to recruit and retain the best physicians to provide high quality patient care and support SHC's continued growth. Additional expenses were also incurred to prepare the organization in opening new facilities such as the Stanford Cancer Center South Bay, SHC's first off-campus outpatient clinic for the diagnosis and treatment of cancer to serve patients, primary care clinics, and the affiliation with VCHS. In addition, SHC has increased its marketing of two new plans: Stanford Health Care Advantage, a Medicare health plan offered to Santa Clara County residents, and increased membership in Stanford Health Care Alliance, a benefit plan that allows Stanford University and Stanford Medicine faculty and employees access to the Stanford network of care.

Other changes in net assets are discussed in the *Financial Position* section of this analysis.

OPERATING REVENUES

FY15 operating revenues were \$3.6 billion, showing a 19% increase over FY14.

Net Patient Service Revenue

FY15 net patient service revenue less doubtful accounts (including capitation/premium revenue) increased \$557 million, or 19%, from FY14 to \$3.5 billion and represented 97% of operating revenues.

Inpatient and outpatient revenues, which represented 47% and 53% of net patient revenues (including capitation/premium revenue), respectively, grew significantly due to strong volume growth in multiple areas, such as operating rooms, emergency department, pharmacy, catheterization angiography, imaging and other ambulatory care services associated with newly opened facilities.

Net patient service revenue also include revenues from payments from the QAF and Hospital Fee programs. Revenues from these programs contributed \$104 million and \$10 million to the FY15 and FY14 net patient service revenue, respectively.

Net Assets Released from Restrictions

Net assets released from restrictions for use in operations increased to \$16 million in FY15 from \$5 million in FY14 due to an \$8 million increase in spending in restricted programs that enables SHC to stay at the forefront of health care delivery.

OPERATING EXPENSES

Total expenses increased \$569 million, or 21%, to \$3.3 billion in FY15, primarily due to headcount, physician services, the consolidation of VCHS, and QAF and Hospital Fee program related expenses. Salaries and benefits comprised 43% of SHC's total expenses; purchased services were 28%; supplies were 15%; depreciation expense was 3%; and all other operating expenses represented 11%.

Salaries and benefits increased 16% in FY15 to \$1.4 billion (inclusive of UHA and network growth). The increase resulted from expanded headcount to support current growth in patient volumes and for future expansion (see *Capital Projects* section), and partial insourcing of IT services. The remaining increase was due to annual salary increases designed to maintain SHC's position in the competitive market for healthcare professionals and higher benefit costs.

The majority of the increase in other categories of expenses are discussed in the *Operating Results* section of this analysis.

FINANCIAL POSITION

SHC's *Balance Sheets* reflect strong operating results and positive investment returns. Total SHC assets increased \$770 million in FY15 to end the year at \$5.5 billion. Total SHC liabilities increased slightly from \$2.1 billion to \$2.5 billion.

Unrestricted Cash and Investments

Unrestricted cash and investments remained unchanged at \$2.0 billion at the end of FY15.

Capital Projects

SHC continues to invest in facilities and systems required to remain at the forefront of medicine and to be the provider of choice for complex and network care in the communities it serves. During FY15, SHC invested \$448 million in capital projects, bringing property and equipment, net of accumulated depreciation, to \$1.9 billion, a \$517 million increase.

The majority of the FY15 spending was for the New Stanford Hospital (to meet State mandated earthquake safety standards, and provide modern, technologically-advanced hospital facilities), Stanford Cancer Center South Bay, Central Steam Plant (providing heat to the hospital buildings for hot water generation, medical instrument sterilization, and other hospital needs), and Stanford Neuroscience Health Center (a five-story, 92,000 square-foot facility on the Hoover Medical Campus which will provide comprehensive outpatient neurology, imaging, and neurosurgery services to the community).

Debt

Total debt, including the current portion, was \$1.5 billion as of August 31, 2015. During FY15, SHC issued new debt, to support the New Stanford Hospital, totaling \$181 million. During FY15, Fitch and Moody's affirmed SHC's debt ratings while Standard and Poor's upgraded SHC's outlook from AA- stable to AA- positive.

A combination of fixed and variable rate debt, of varying maturities, is used to fund SHC's mission. Tax-exempt bonds with fixed interest rates account for 72% of the total, while the remaining 28% have variable rates. The swap liability increased in FY15 by \$59 million to \$215 million mainly due to the decline in interest rates.

Unrestricted Net Assets

Unrestricted net assets grew \$330 million to \$2.5 billion. Most of this increase came from SHC's operating surplus of \$282 million, an increase of \$70 million on investments (majority from the University managed pools) and contribution income of \$97 million related to SHC's affiliation with VCHS, offset by a decrease of \$59 million on swap valuations and net transfers to the University of \$66 million, of which the majority was for academic grants.

Temporarily Restricted Net Assets

Temporarily restricted net assets increased by \$43 million to \$562 million, in large part due to fundraising commitments for the New Stanford Hospital.

Permanently Restricted Net Assets

Permanently restricted net assets remained at \$8 million. The principal value of these assets must be invested in perpetuity to generate endowment income to be used only for the purposes designated by donors.

LUCILE SALTER PACKARD CHILDREN'S HOSPITAL AT STANFORD

LPCH produced strong financial results in FY15, reflecting solid operating results, investment performance and strong donor support.

LPCH, together with PCHA, the Packard Medical Group and the SOM Pediatric and Obstetrics Faculty Practice Organization, comprise and are known in the marketplace as Stanford Children's Health. The comments below are derived from LPCH's separate consolidated financial statements which include only the operations of LPCH and PCHA.

Net assets at August 31, 2015 were \$2.0 billion, reflecting an increase of \$149 million over FY14. Income from operations was \$106 million in FY15, as compared to \$43 million in FY14. This translates to an 8% operating margin and a 13% EBIDA, or cash flow margin, in FY15.

These results include services to patients covered by the Medi-Cal program and other publicly sponsored programs that reimburse at amounts less than the cost of services. The value of the uncompensated care was \$222 million in FY15 compared with \$203 million in FY14.

OPERATING RESULTS

Operating revenues in FY15 were \$1.4 billion, which represents a 22% increase over FY14. Operating revenues included \$1.3 billion of net patient service revenue less doubtful accounts, which increased \$245 million, or 23%, from FY14. This increase is mainly due to higher census and acuity of patients, and favorable payer mix. The census growth is a direct result of growth in many of our service lines, including heart, transplant, brain and behavior, cancer, orthopedics and obstetrics. LPCH has also realized growth in its physician network, including the number of SOM Pediatric and Obstetrics Faculty Practice Organization and Packard Medical Group physicians, and growth in number of the families they serve. As a result, clinic visits grew by 23% in FY15. Additional care was also provided through continued development of LPCH's joint venture arrangements and outreach programs.

Net patient service revenues also include revenues from payments from the QAF and Hospital Fee programs. Revenues from these programs contributed

\$80 million and \$15 million to the FY15 and FY14 net patient service revenue, respectively.

Operating expenses increased by 17% in FY15, mostly driven by higher patient-related costs, given the higher volumes and acuity of our patients, such as nursing labor costs and payments to the SOM for physician services provided.

Also contributing to the increase were additional expenses related to the QAF and Hospital Fee programs of \$43 million and \$5 million for FY15 and FY14, respectively.

FINANCIAL POSITION

In FY15, LPCH assets increased \$210 million to \$2.9 billion, total LPCH liabilities increased \$60 million to \$831 million, and total net assets increased \$149 million to \$2.0 billion.

Unrestricted Cash and Investments

As a result of the strong margins and additional net payments from the QAF and Hospital Fee programs, unrestricted cash and investments have increased to \$814 million in FY15.

Capital Projects

LPCH's *Balance Sheets* reflect significant investments in the facilities and systems required to continue to provide the highest quality children's hospital services to the community it serves. The majority of the FY15 spending was for LPCH's hospital expansion project. Construction in progress for this project increased \$208 million in FY15.

LPCH also continued construction on buildings purchased for ambulatory care use in FY14 in Sunnyvale and Los Gatos, California and funded its portion of certain projects at the School of Medicine and SHC through equity transfers.

In FY15, LPCH continued to invest in the enterprise-wide information system that provides electronic medical records and end-to-end revenue capture, billing and collection, implemented in FY14.

Unrestricted Net Assets

Unrestricted net assets grew \$89 million to \$1.4 billion. The increase resulted from operating surplus and investment gains from the MP, offset by transfers to related entities, mostly for capital projects.

Temporarily Restricted Net Assets

Temporarily restricted net assets increased by \$59 million to \$458 million, in large part due to fundraising commitments for the hospital expansion project.

Permanently Restricted Net Assets

Permanently restricted net assets increased \$1 million to \$204 million. The principal value of these assets must be invested in perpetuity to generate endowment income to be used only for the purposes designated by donors.

LOOKING FORWARD

Stanford's financial position remains strong. The FY15 results show that Stanford continues to have the commitment and generous support of its donors and community. With the recent completion of a number of significant buildings and the SESI project, the University has an excellent physical infrastructure and is well positioned to conserve natural resources and reduce energy use well into the 21st century. The new Stanford Health Care hospital and Stanford Children's Health hospital expansion, are well underway, and once complete will increase capacity and modernize services.

The challenges that Stanford faces are not new. Investment market volatility, demand for more financial aid, pressure on Federal sponsored research funding, high Bay Area housing costs and changes to health care have been present for a number of years. These issues are at the forefront of our planning efforts and we continue to address them proactively.

In June, President John L. Hennessy announced plans to step down as Stanford University's 10th President and return to teaching and research at the end of FY16. Under Hennessy's leadership, interdisciplinary research and education programs have flourished with a focus on addressing important global challenges, the undergraduate curriculum was enhanced to emphasize strategic thinking and intellectual agility, and the arts on campus have been rejuvenated with new facilities, collections and programs. The academic growth of the campus has been supported by its physical infrastructure, including environmental sustainability. Since 2000, the Science and Engineering Quad, the Knight Management Center (Graduate School of Business), the School of Medicine, and the arts district have transformed the campus to accommodate new ways of learning and working.

Hennessy leaves a legacy that, combined with Stanford's strength and resources, including the support of its students, alumni and friends, faculty and

staff, will support future leaders and generations in achieving Stanford's mission and the ability to address its challenges with confidence in the years to come.



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



M. Suzanne Calandra
Senior Associate Vice President for Finance
Stanford University



Daniel J. Morissette
Chief Financial Officer
Stanford Health Care



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

SELECTED FINANCIAL AND OTHER DATA

Fiscal Years Ended August 31

	2015	2014	2013	2012	2011
(dollars in millions)					
CONSOLIDATED STATEMENT OF ACTIVITIES HIGHLIGHTS:					
Total operating revenues	\$ 9,051	\$ 7,924	\$ 7,359	\$ 6,814	\$ 6,289
Student income (A)	564	534	511	481	458
Sponsored research support	1,387	1,266	1,233	1,234	1,247
Health care services	4,744	3,942	3,734	3,245	2,902
Total operating expenses	8,351	7,389	6,794	6,298	5,774
Change in net assets from operating activities	700	535	565	516	515
Other changes in net assets	1,034	3,582	2,441	1,043	3,194
Net change in total net assets	\$ 1,734	\$ 4,117	\$ 3,006	\$ 1,559	\$ 3,709
CONSOLIDATED STATEMENT OF FINANCIAL POSITION HIGHLIGHTS:					
University					
Investments at fair value	\$ 28,766	\$ 27,829	\$ 24,703	\$ 22,247	\$ 21,189
Plant facilities, net of accumulated depreciation	4,796	4,559	4,208	3,826	3,674
Notes and bonds payable	3,085	3,265	3,098	2,709	2,727
Total assets	36,214	35,227	31,540	28,981	27,698
Total liabilities	5,780	6,006	5,817	5,476	5,143
Total net assets	30,434	29,221	25,723	23,505	22,555
Hospitals					
Investments at fair value	2,633	2,635	2,271	1,899	1,796
Plant facilities, net of accumulated depreciation	3,002	2,273	1,787	1,494	1,333
Notes and bonds payable	2,039	1,874	1,684	1,700	983
Total assets	8,296	7,319	6,448	5,803	4,283
Total liabilities	3,196	2,741	2,489	2,633	1,722
Total net assets	5,100	4,578	3,959	3,170	2,561
OTHER FINANCIAL DATA AND METRICS:					
University endowment at year end	\$ 22,223	\$ 21,446	\$ 18,689	\$ 17,036	\$ 16,503
University endowment payout in support of operations	1,058	985	921	871	785
As a % of beginning of year University endowment	4.9%	5.3%	5.4%	5.3%	5.7%
As a % of University total expenses	22.8%	24.8%	24.5%	24.8%	23.8%
Total gifts as reported by the Office of Development (B)	1,625	976	1,010	1,077	733
STUDENTS:					
ENROLLMENT: (C)					
Undergraduate	6,994	7,018	6,980	6,999	6,927
Graduate	9,196	9,118	8,980	8,958	8,883
DEGREES CONFERRED:					
Bachelor degrees	1,671	1,651	1,661	1,715	1,670
Advanced degrees	3,286	3,292	3,365	3,305	3,199
FACULTY:					
Total Professoriate (C)	2,153	2,118	2,043	1,995	1,934
ANNUAL UNDERGRADUATE TUITION RATE (IN DOLLARS)	\$ 44,184	\$ 42,690	\$ 41,250	\$ 40,050	\$ 38,700

(A) Financial aid is reported as a reduction of student income in the Statements of Activities.

(B) Includes University, SHC and LPCH gifts. The FY15 amount includes \$626 million in works of art and special collections. In FY15, the University received a significant collection of artwork which is included with other donations reported by the Office of Development. As explained in Note 1, the University does not capitalize works of art and special collections.

(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 and Lucile Salter Packard Children's Hospital at Stanford (collectively, the "Hospitals"); however, each of the Hospitals has its own separate management with responsibility for its own financial reporting.

Management of the University and the Hospitals is responsible for the integrity and reliability of their respective portions of these financial statements. The University oversees the process of consolidating the Hospitals' 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 and the Hospitals 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 and Hospitals' independent auditor, PricewaterhouseCoopers LLP. Their report expresses an informed judgment 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 obtaining an understanding of systems, procedures and internal control, and performing tests and other 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 the Hospitals, through their respective Audit and Compliance Committees, comprised of trustees and directors not employed by the University or the Hospitals, 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 and Compliance Committees. Both meet with the respective Audit and Compliance Committees at least annually, with and without each other, and without the presence of management representatives.



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Independent Auditor's Report

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 ("Stanford University" or the "University") and its subsidiaries, which comprise the consolidated statements of financial position as of August 31, 2015 and 2014, 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.

Auditor's 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 the University'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 the University'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 at August 31, 2015 and 2014, and their changes in net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink, appearing to read "PricewaterhouseCoopers LLP", is written over a faint, larger version of the same signature.

December 9, 2015

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

At August 31, 2015 and 2014 (in thousands of dollars)

	2015			2014
	UNIVERSITY	HOSPITALS	CONSOLIDATED	CONSOLIDATED
ASSETS				
Cash and cash equivalents	\$ 708,204	\$ 811,578	\$ 1,519,782	\$ 1,272,026
Assets limited as to use	160,351	670,201	830,552	1,051,632
Accounts receivable, net	225,440	908,036	1,133,476	1,153,509
Receivables (payables) from SHC and LPCH, net	89,045	(89,045)	-	-
Prepaid expenses and other assets	77,303	199,117	276,420	219,229
Pledges receivable, net	760,519	161,000	921,519	965,827
Student loans receivable, net	81,492	-	81,492	81,441
Faculty and staff mortgages and other loans receivable, net	549,724	-	549,724	507,187
Investments at fair value, including securities pledged or on loan of \$106,264 and \$155,758 for 2015 and 2014, respectively	28,766,240	2,632,936	31,399,176	30,463,564
Plant facilities, net of accumulated depreciation	4,795,564	3,001,742	7,797,306	6,832,312
Works of art and special collections	-	-	-	-
TOTAL ASSETS	\$ 36,213,882	\$ 8,295,565	\$ 44,509,447	\$ 42,546,727
LIABILITIES AND NET ASSETS				
LIABILITIES:				
Accounts payable and accrued expenses	\$ 719,979	\$ 1,018,652	\$ 1,738,631	\$ 1,395,067
Accrued pension and postretirement benefit cost	685,836	138,353	824,189	683,575
Pending trades of securities	14,431	-	14,431	232,893
Liabilities under security lending agreements	132,425	-	132,425	191,011
Deferred rental and other income	652,850	-	652,850	616,575
Income beneficiary share of split interest agreements	435,426	-	435,426	436,166
Notes and bonds payable	3,085,378	2,039,165	5,124,543	5,138,509
U.S. government refundable loan funds	54,081	-	54,081	53,999
TOTAL LIABILITIES	5,780,406	3,196,170	8,976,576	8,747,795
NET ASSETS:				
Unrestricted	16,507,624	3,869,962	20,377,586	18,918,702
Temporarily restricted	7,744,051	1,017,334	8,761,385	8,759,912
Permanently restricted	6,181,801	212,099	6,393,900	6,120,318
TOTAL NET ASSETS	30,433,476	5,099,395	35,532,871	33,798,932
TOTAL LIABILITIES AND NET ASSETS	\$ 36,213,882	\$ 8,295,565	\$ 44,509,447	\$ 42,546,727

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

CONSOLIDATED STATEMENTS OF ACTIVITIES

For the years ended August 31, 2015 and 2014 (in thousands of dollars)

	2015			2014
	UNIVERSITY	HOSPITALS	CONSOLIDATED	CONSOLIDATED
UNRESTRICTED NET ASSETS				
OPERATING REVENUES:				
Student income:				
Undergraduate programs	\$ 330,851	\$ -	\$ 330,851	\$ 317,401
Graduate programs	329,047	-	329,047	313,824
Room and board	164,304	-	164,304	151,313
Student financial aid	(260,616)	-	(260,616)	(248,848)
TOTAL STUDENT INCOME	563,586	-	563,586	533,690
Sponsored research support:				
Direct costs - University	713,831	-	713,831	669,670
Direct costs - SLAC National Accelerator Laboratory	430,365	-	430,365	369,317
Indirect costs	242,572	-	242,572	227,160
TOTAL SPONSORED RESEARCH SUPPORT	1,386,768	-	1,386,768	1,266,147
Health care services:				
Patient care, net	-	4,713,332	4,713,332	3,914,973
Physicians' services and support - SHC and LPCH, net	810,474	(810,474)	-	-
Physicians' services and support - other facilities, net	30,487	-	30,487	27,482
TOTAL HEALTH CARE SERVICES	840,961	3,902,858	4,743,819	3,942,455
CURRENT YEAR GIFTS IN SUPPORT OF OPERATIONS	233,572	7,603	241,175	212,519
Net assets released from restrictions:				
Payments received on pledges	120,653	2,557	123,210	100,186
Prior year gifts released from donor restrictions	37,518	13,571	51,089	46,211
TOTAL NET ASSETS RELEASED FROM RESTRICTIONS	158,171	16,128	174,299	146,397
Investment income distributed for operations:				
Endowment	1,058,025	14,685	1,072,710	999,766
Expendable funds pools and other investment income	218,438	599	219,037	181,630
TOTAL INVESTMENT INCOME DISTRIBUTED FOR OPERATIONS	1,276,463	15,284	1,291,747	1,181,396
SPECIAL PROGRAM FEES AND OTHER INCOME	498,804	151,078	649,882	641,542
TOTAL OPERATING REVENUES	4,958,325	4,092,951	9,051,276	7,924,146
OPERATING EXPENSES:				
Salaries and benefits	2,848,708	1,946,880	4,795,588	4,349,112
Depreciation	334,592	168,043	502,635	459,143
Other operating expenses	1,462,398	1,590,271	3,052,669	2,581,022
TOTAL OPERATING EXPENSES	4,645,698	3,705,194	8,350,892	7,389,277
CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES	\$ 312,627	\$ 387,757	\$ 700,384	\$ 534,869

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

CONSOLIDATED STATEMENTS OF ACTIVITIES, Continued

For the years ended August 31, 2015 and 2014 (in thousands of dollars)

	2015			2014
	UNIVERSITY	HOSPITALS	CONSOLIDATED	CONSOLIDATED
UNRESTRICTED NET ASSETS (continued)				
CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES	\$ 312,627	\$ 387,757	\$ 700,384	\$ 534,869
NON-OPERATING ACTIVITIES:				
Increase in reinvested gains	644,855	100,867	745,722	1,849,679
Donor advised funds, net	66,734	-	66,734	29,314
Current year gifts not included in operations	1,655	-	1,655	17,673
Equity and fund transfers from Hospitals, net	89,963	(89,963)	-	-
Capital and other gifts released from restrictions	96,693	4,287	100,980	168,006
Pension and other postemployment benefit related changes other than net periodic benefit expense	(85,091)	(20,139)	(105,230)	17,677
Transfer to permanently restricted net assets, net	(49,998)	-	(49,998)	(41,232)
Transfer to temporarily restricted net assets, net	(26,223)	-	(26,223)	(41,028)
Swap interest and change in value of swap agreements	(8,587)	(59,392)	(67,979)	(49,604)
Contribution income from ValleyCare Health System affiliation	-	96,758	96,758	-
Other	(2,693)	(1,226)	(3,919)	4,211
NET CHANGE IN UNRESTRICTED NET ASSETS	1,039,935	418,949	1,458,884	2,489,565
TEMPORARILY RESTRICTED NET ASSETS				
Gifts and pledges, net	250,808	123,143	373,951	461,054
Increase (decrease) in reinvested gains	(89,655)	18,753	(70,902)	1,127,965
Change in value of split interest agreements, net	2,449	(254)	2,195	18,682
Net assets released to operations	(158,171)	(39,015)	(197,186)	(162,361)
Capital and other gifts released to unrestricted net assets	(96,693)	(4,287)	(100,980)	(168,006)
Gift transfers to Hospitals, net	(4,073)	4,073	-	-
Transfer from unrestricted net assets, net	26,223	-	26,223	41,028
Transfer from (to) permanently restricted net assets, net	(27,999)	-	(27,999)	25,483
Other	(3,002)	(827)	(3,829)	(3,155)
NET CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	(100,113)	101,586	1,473	1,340,690
PERMANENTLY RESTRICTED NET ASSETS				
Gifts and pledges, net	208,206	852	209,058	154,832
Increase in reinvested gains	1,760	-	1,760	64,256
Change in value of split interest agreements, net	(15,446)	(310)	(15,756)	52,214
Transfer from unrestricted net assets, net	49,998	-	49,998	41,232
Transfer from (to) temporarily restricted net assets, net	27,999	-	27,999	(25,483)
Other	-	523	523	-
NET CHANGE IN PERMANENTLY RESTRICTED NET ASSETS	272,517	1,065	273,582	287,051
NET CHANGE IN TOTAL NET ASSETS	1,212,339	521,600	1,733,939	4,117,306
Total net assets, beginning of year	29,221,137	4,577,795	33,798,932	29,681,626
TOTAL NET ASSETS, END OF YEAR	\$ 30,433,476	\$ 5,099,395	\$ 35,532,871	\$ 33,798,932

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended August 31, 2015 and 2014 (in thousands of dollars)

	2015			2014
	UNIVERSITY	HOSPITALS	CONSOLIDATED	CONSOLIDATED
CASH FLOW FROM OPERATING ACTIVITIES				
Change in net assets	\$ 1,212,339	\$ 521,600	\$ 1,733,939	\$ 4,117,306
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:				
Depreciation	334,592	168,043	502,635	459,143
Amortization, loss on disposal of fixed assets and other adjustments	9,950	(2,631)	7,319	3,735
Provision for doubtful accounts for health care services	-	142,075	142,075	153,504
Net gains on investments and security agreements	(1,613,337)	(77,855)	(1,691,192)	(3,931,761)
Changes in fair value of interest rate swaps	5,127	59,392	64,519	8,616
Changes in split interest agreements	21,529	564	22,093	32,522
Investment expense (income) for restricted purposes	(34,034)	2,206	(31,828)	(55,219)
Gifts restricted for long-term investments	(252,404)	(101,696)	(354,100)	(316,224)
Equity and fund transfers from Hospitals	(85,890)	85,890	-	-
Gifts of securities and properties	(42,330)	-	(42,330)	(11,372)
Contribution income from ValleyCare Health System affiliation	-	(96,820)	(96,820)	-
Premiums received from bond issuance	-	5,627	5,627	105,741
Changes in operating assets and liabilities:				
Accounts receivable and receivables from SHC and LPCH, net	(26,145)	(312,775)	(338,920)	(209,196)
Pledges receivable	(1,324)	952	(372)	(107,032)
Prepaid expenses and other assets	(9,761)	(28,686)	(38,447)	(19,029)
Accounts payable and accrued expenses	85,525	109,359	194,884	79,445
Accrued pension and postretirement benefit costs	119,600	21,014	140,614	13,990
Deferred rental and other income	36,275	-	36,275	32,508
Other	-	35	35	(3,780)
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	(240,288)	496,294	256,006	352,897
CASH FLOW FROM INVESTING ACTIVITIES				
Land, building and equipment purchases	(583,531)	(698,734)	(1,282,265)	(1,316,844)
Student, faculty and other loans:				
New loans made	(104,509)	-	(104,509)	(118,134)
Principal collected	55,444	-	55,444	56,084
Decrease (increase) in assets limited as to use	140,215	96,056	236,271	(155,445)
Cash acquired from ValleyCare, net of cash paid as consideration	-	(52,539)	(52,539)	-
Purchases of investments	(28,157,549)	(209,064)	(28,366,613)	(25,265,071)
Sales and maturities of investments	28,864,206	286,497	29,150,703	25,522,939
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	214,276	(577,784)	(363,508)	(1,276,471)
CASH FLOW FROM FINANCING ACTIVITIES				
Gifts and reinvested income for restricted purposes	229,727	195,178	424,905	407,483
Equity and fund transfers from Hospitals	99,656	(99,656)	-	-
Proceeds from borrowing	291,200	244,111	535,311	823,127
Bond issuance costs and interest rate swaps	(957)	(1,571)	(2,528)	(3,707)
Repayment of notes and bonds payable	(457,119)	(86,529)	(543,648)	(560,120)
Increase (decrease) in liabilities under security lending agreements	(58,586)	-	(58,586)	106,963
Other	81	(277)	(196)	171
NET CASH PROVIDED BY FINANCING ACTIVITIES	104,002	251,256	355,258	773,917
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	77,990	169,766	247,756	(149,657)
Cash and cash equivalents, beginning of year	630,214	641,812	1,272,026	1,421,683
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 708,204	\$ 811,578	\$ 1,519,782	\$ 1,272,026
SUPPLEMENTAL DATA:				
Interest paid, net of capitalized interest	\$ 120,743	\$ 57,335	\$ 178,078	\$ 169,911
Cash collateral received under security lending agreements	\$ 110,087	\$ -	\$ 110,087	\$ 163,449
Increase (decrease) in payables for plant facilities	\$ (15,493)	\$ 62,255	\$ 46,762	\$ (20,381)

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 these organizations. All significant inter-entity transactions and balances have been eliminated upon consolidation. Certain prior year amounts have been reclassified to conform to the current year's presentation. These reclassifications had no impact on the change in net assets or 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 category 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 University's *Statements of Activities*, but SLAC's assets and liabilities are not included in the University's *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 are California not-for-profit public benefit corporations. 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, these entities comprise Stanford Medicine. They operate two licensed acute care and specialty hospitals on the Stanford campus 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.

On September 23, 2014, SHC entered into an affiliation agreement with ValleyCare Health System (VCHS) which contemplated that SHC would acquire control by becoming the sole corporate member of VCHS. On May 18, 2015, with all conditions of the affiliation agreement satisfied and all regulatory approvals obtained, the acquisition of control of VCHS by SHC was consummated and became effective. Because of the acquisition of control, for financial reporting purposes SHC is treated as having acquired assets of \$233.2 million, including "plant facilities, net of accumulated depreciation" of \$135.6 million, and assumed liabilities of \$64.3 million. The excess of net assets over consideration paid was \$96.8 million and is recorded as contribution income in "non-operating activities" in the *Statements of Activities*.

The "Hospitals" category presented in the consolidated financial statements comprises all the accounts of SHC, LPCH, VCHS, the University HealthCare Alliance and Packard Children's Health Alliance physician medical foundations, and a captive insurance company which SHC and LPCH jointly control. For purposes of presentation of the Hospitals' balance sheets, statements of operations and changes in net assets and statements of cash flows in these consolidated financial statements, conforming reclassifications have been made to the Hospitals' revenues, expenses, investment income and inter-entity receivables and payables consistent with categories in these consolidated financial statements.

TAX STATUS

The University and the Hospitals 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 taxed at corporate income tax rates.

In accordance with the guidance on accounting for uncertainty in income taxes, management regularly evaluates its tax positions and does not believe the University or Hospitals have any uncertain tax positions that require disclosure or adjustment to the consolidated financial statements. The University and Hospitals are subject to routine audits by taxing jurisdictions. The University and Hospitals believe they are no longer subject to income tax examinations for fiscal years prior to August 31, 2011.

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 three categories - unrestricted, temporarily restricted or permanently restricted.

Unrestricted Net Assets

Unrestricted net assets are expendable resources which are not subject to donor-imposed restrictions. Unrestricted net assets include funds designated for operations, net investment in plant facilities, certain investment and endowment gains and funds functioning as endowment. These net assets may be designated by the University or the Hospitals for specific purposes under internal operating and administrative arrangements or be subject to contractual agreements with external parties. Donor-restricted contributions that relate to the University's or the Hospitals' core activities and are received and expended or deemed expended based on the nature of donors' restrictions are classified as unrestricted. All expenses are recorded as a reduction of unrestricted net assets.

The operating activities of the University and the Hospitals include the revenues earned and expenses incurred in the current year to support the University's core activities of teaching and research or the Hospitals' patient care, teaching and research missions. The non-operating activities of the University and Hospitals 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 net periodic benefit expense, contribution income from the VCHS affiliation and certain other non-operating activities.

Transfers from unrestricted net assets to temporarily restricted net assets and permanently restricted net assets 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.

Temporarily Restricted Net Assets

Temporarily restricted net assets include gifts and pledges that are subject to donor-imposed restrictions that expire with the passage of time, payment of pledges or specific actions to be undertaken by the University or the Hospitals, which are then released and reclassified to unrestricted net assets. In addition, appreciation and income on certain donor-restricted endowment funds are classified as temporarily restricted net assets until authorized for spending (see *Notes 12 and 13*). Donor-restricted resources intended for capital projects are initially recorded as temporarily restricted and released from their temporary restrictions and reclassified as unrestricted net assets when the asset is placed in service. Also included in this category is the University's net equity in split interest agreements that are expendable at maturity.

Permanently Restricted Net Assets

Permanently restricted net assets consist primarily of endowment, annuity and split interest agreements which are subject to donor-imposed restrictions requiring that the principal be invested in perpetuity. Permanently restricted net assets may also include funds reclassified from other classes of net assets as a result of donor-imposed stipulations, the University's net equity in split interest agreements that are not expendable at maturity and net assets which by donor stipulation must be made available in perpetuity for specific purposes.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the *Statements of Financial Position* consist of U.S. Treasury bills, certificates of deposit, money market funds and all other short-term investments with original maturities of 90 days or less at the time of purchase. These amounts are carried at cost, which approximates fair value. Cash and cash equivalents that are held for investment purposes are classified as investments (see *Note 5*).

ASSETS LIMITED AS TO USE

Assets limited as to use include accounts of the University that solely reflect proceeds of tax-exempt bonds issued for the benefit of the University and limited by the terms of indentures to use for qualified University capital projects. Assets limited as to use also include trustee-held accounts reflecting proceeds of tax-exempt bonds issued for the benefit of the Hospitals and limited by the terms of indentures to use for qualified Hospital capital projects. Assets limited as to use consist of cash and cash equivalents and short-term investments, 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.

PLEDGES RECEIVABLE

Unconditional promises to give are included in the consolidated financial statements as pledges receivable and are classified as temporarily restricted or permanently restricted, depending upon donor stipulations. Pledges recognized on or after September 1, 2008 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, 2008 were recorded at a discount based on the U.S. Treasury rate. Conditional promises, which depend on the occurrence of a specified future and uncertain event, such as matching gifts from other donors, are recognized when the conditions are substantially met.

INVESTMENTS

Investments are recorded at fair value. Gains and losses (realized and unrealized) on investments are recognized in the *Statements of Activities* (see *Note 5*).

The investment portfolio may be exposed to various risks, including, but not limited to, interest rate, market, sovereign, concentration, counterparty, liquidity and credit risk. Fair value reporting requires management to make estimates and assumptions about the effects of matters that are inherently uncertain. Estimates developed using methods such as discounted cash flow are subjective, requiring significant judgments such as the amount and timing of future cash flows and the selection of appropriate discount rates that reflects market and credit risks. Management of the University and the Hospitals regularly assess these risks through established policies and procedures. Actual results could differ from these estimates and such differences could have a material impact on the consolidated financial statements.

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, 2015 and 2014 are as follows:

	UNIVERSITY	HOSPITALS
Land improvements	10-25 years	5-25 years
Buildings and building improvements	4-50 years	5-40 years
Furniture, fixtures and equipment	3-10 years	3-25 years
Utilities	5-40 years	N/A

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 as discussed above, are recorded at fair value at the date of donation. Undeveloped land, including land acquired under the original endowment from Senator Leland and Mrs. Jane Stanford, is reported at fair value at 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, 2015 and 2014, approximately \$386.0 million and \$321.3 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 *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 *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 the University and the Hospitals have an interest in assets held by the trustee and receive benefits that are shared with other beneficiaries. Split interest agreements where the University and the Hospitals are not the trustee are recorded in the "assets held by other trustees" category of "investments" in the *Statements of Financial Position* as described in Note 5.

The assets held under split interest agreements where the University is the trustee were \$733.8 million and \$773.6 million at August 31, 2015 and 2014, respectively, and were recorded in various categories in "investments"; the discounted present value of any income beneficiary interest is reported as "income beneficiary share of split interest agreements" in the *Statements of Financial Position*. At August 31, 2015, a discount rate of 2% was used, based on the Charitable Federal Midterm Rate. At August 31, 2014 the discount rates used, which range from 1% to 6%, were established in the year the gift was received and were based on tables established by the Internal Revenue Service.

During fiscal years 2015 and 2014, the discounted present value of new gifts subject to split interest agreements where the University is the trustee, net of the income beneficiary share, was \$40.6 million and \$17.9 million, respectively, and was included in "gifts and pledges, net" in the *Statements of Activities*. Actuarial gains or losses are included in "change in value of split interest agreements, net" in the *Statements of Activities*.

Funds subject to donor-imposed restrictions requiring that the principal be invested in perpetuity are classified as "permanently restricted net assets" in the *Statements of Financial Position*; all others are classified as "temporarily restricted net assets" until the expiration of the donor-imposed restrictions, at which point they will be classified as "unrestricted net assets."

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. The Hospitals self-insure at varying levels for health care plans, workers' compensation and, through their captive insurance company, for professional liability losses. Third-party insurance is purchased to cover liabilities above the self-insurance limits. Estimates of retained exposures are 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 *Statements of Activities* in "swap interest and change in value of swap agreements". The settlements (net cash payments less receipts) under the interest rate exchange agreements are recorded in the *Statements of Activities* in "swap interest and change in value of swap agreements" for the University and in "other operating expenses" for SHC.

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

STUDENT INCOME

Financial assistance in the form of scholarship and fellowship grants that cover a portion of tuition, living and other costs is reflected as a reduction of student income.

PATIENT CARE AND OTHER SERVICES

Health Care Services

The Hospitals 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. "Patient care, net" is reported in the *Statements of Activities* at the estimated net realizable amounts from patients, third-party payers, and others for services rendered, including estimated retroactive audit adjustments under reimbursement agreements with third-party payers and bad debts. 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. The Hospitals provision for doubtful accounts of \$142.1 million and \$153.5 million, respectively, for the years ended August 31, 2015 and 2014, is based upon management's assessment of expected net collections considering historical experience and other collection indicators.

The University has entered into various operating agreements with the Hospitals for the professional services of SOM faculty members, and for non-physician services such as telecommunications, facilities, and other services.

Charity Care

The Hospitals 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.

The estimated cost of providing charity care was \$12.5 million and \$17.4 million for the years ended August 31, 2015 and 2014, 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. The Hospitals received \$526 thousand and \$684 thousand during the years ended August 31, 2015 and 2014, respectively, from contributions that were restricted for the care of indigent patients.

The Hospitals 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, 2015 and 2014 were \$829.6 million and \$676.8 million, respectively.

Provider Fee

The State of California enacted legislation in 2009 through 2015 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.

For the years ended August 31, 2015 and 2014, the Hospitals recognized \$183.4 million and \$24.1 million, respectively, in "patient care, net" revenue and recorded \$116.7 million and \$12.9 million, respectively, in "other operating expenses" under these programs.

RECENT ACCOUNTING PRONOUNCEMENTS

In May 2015, the Financial Accounting Standards Board (FASB) issued an update to the Accounting Standards Codification (ASC) which modifies reporting requirements for investments that are eligible to be measured at fair value using the net asset value (or its equivalent). The ASC update removes the requirement to categorize these investments within the fair value hierarchy and make certain disclosures. The new guidance is effective for periods beginning after December 15, 2016. The University and Hospitals do not expect the new guidance to have a material impact on its consolidated financial statements.

In April 2015, the FASB issued an update to the ASC which requires debt issuance costs to be presented in the statement of financial position as a direct deduction from the carrying value of the associated debt liability, consistent with the presentation of a debt discount. The recognition and measurement guidance for debt issuance costs is not affected. The new guidance is effective for periods beginning after December 15, 2015. The University and Hospitals do not expect the new guidance to have a material impact on its consolidated financial statements.

In June 2014, the FASB issued an update to the ASC which changes the accounting for certain repurchase agreements and enhances the required disclosures for repurchase agreements, securities lending and other similar transactions. The new guidance is effective for periods beginning after December 15, 2014. The University and Hospitals are currently evaluating the impact that this guidance will have on its consolidated financial statements.

In May 2014, the FASB issued an update to the ASC to improve consistency of revenue recognition practices across industries for economically similar transactions. The core principle is that an entity recognizes revenue for goods or services to customers in an amount that reflects the consideration it expects to receive in return. The new guidance is effective for periods beginning after December 15, 2017. The University and Hospitals are currently evaluating the impact that this guidance will have on its consolidated financial statements.

2. Accounts Receivable

Accounts receivable, net of bad debt allowances, at August 31, 2015 and 2014, in thousands of dollars, are as follows:

	2015			2014
	UNIVERSITY	HOSPITALS	CONSOLIDATED	CONSOLIDATED
U.S. government sponsors	\$ 89,809	\$ -	\$ 89,809	\$ 82,388
Non-federal sponsors and programs	43,245	46,033	89,278	42,615
Pending trades of securities	33,451	-	33,451	272,243
Accrued interest on investments	9,378	-	9,378	13,059
Student	6,592	-	6,592	6,055
Patient and third-party payers:				
Blue Cross	-	181,623	181,623	152,945
Blue Sheild	-	131,716	131,716	88,107
Medicare	-	91,320	91,320	77,525
Other payers	-	583,962	583,962	481,117
Other	44,663	39,514	84,177	76,053
	227,138	1,074,168	1,301,306	1,292,107
Less bad debt allowances	(1,698)	(166,132)	(167,830)	(138,598)
ACCOUNTS RECEIVABLE, NET	\$ 225,440	\$ 908,036	\$ 1,133,476	\$ 1,153,509

3. Pledges Receivable

Pledges are recorded at applicable risk-adjusted discount rates, ranging from 1.1% to 5.7% for the University and Hospitals, commensurate with the duration of the donor's payment plan. At August 31, 2015 and 2014, pledges receivable, net of discounts and allowances, in thousands of dollars, are as follows:

	2015			2014
	UNIVERSITY	HOSPITALS	CONSOLIDATED	CONSOLIDATED
One year or less	\$ 123,719	\$ 27,743	\$ 151,462	\$ 158,879
Between one year and five years	710,950	110,569	821,519	886,069
More than five years	79,667	43,504	123,171	100,663
	914,336	181,816	1,096,152	1,145,611
Less discounts and allowances	(153,817)	(20,816)	(174,633)	(179,784)
PLEDGES RECEIVABLE, NET	\$ 760,519	\$ 161,000	\$ 921,519	\$ 965,827

Conditional pledges for the University, which depend on the occurrence of a specified future and uncertain event, were \$6.7 million and \$14.4 million at August 31, 2015 and 2014, respectively. The Hospitals had conditional pledges of \$24.9 million and \$62.6 million at August 31, 2015 and 2014, respectively. The majority of these conditional pledges are related to construction or time defined milestones related to the Medical Center Renewal Project (see *Note 20*). Lucile Packard Foundation for Children's Health is the primary community fundraising agent for LPCH and the pediatric faculty and programs at the University's SOM.

4. Loans Receivable

The University's loans receivable consist primarily of student loans receivable and faculty and staff mortgages. Management regularly assesses the adequacy of the allowance for credit losses of its loans by performing ongoing evaluations, including such factors as 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, 2015 and 2014, in thousands of dollars, are as follows:

	2015	2014
Institutional loans	\$ 24,286	\$ 22,687
Federally-sponsored loans	57,853	59,465
	82,139	82,152
Less allowance for student loan losses	(647)	(711)
STUDENT LOANS RECEIVABLE, NET	\$ 81,492	\$ 81,441

Institutional loans are funded by donor funds restricted for student loan purposes and University funds made available to meet demonstrated need in excess of all other sources of student loan borrowings.

Federally-sponsored loans are funded primarily by advances to the University primarily under the Federal Perkins Loan Program (the "Program"). Loans to students under the Program are subject to mandatory interest rates and significant restrictions, and loans issued under the Program 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 *Statements of Financial Position* as "U.S. government refundable loan funds".

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. Notes receivable amounting to \$547.2 million and \$504.6 million at August 31, 2015 and 2014, respectively, from University faculty and staff are included in "faculty and staff mortgages and other loans receivable, net" in the *Statements of Financial Position*. These loans and mortgages are collateralized by deeds of trust on properties concentrated in the region surrounding the University. Management has determined that no allowance is necessary.

5. Investments

Investments held by the University and the Hospitals are measured and recorded at fair value. The valuation methodology, investment categories, fair value hierarchy, certain investment activities and related commitments for fiscal years 2015 and 2014 are discussed below.

Investments held by the University and the Hospitals at August 31, 2015 and 2014, in thousands of dollars, are as follows:

	2015			2014
	UNIVERSITY	HOSPITALS	CONSOLIDATED	CONSOLIDATED
Cash and cash equivalents	\$ 1,300,474	\$ 59,560	\$ 1,360,034	\$ 1,755,025
Collateral held for securities loaned	110,087	-	110,087	163,449
Public equities	6,971,378	-	6,971,378	7,142,084
Derivatives	58,992	-	58,992	14,922
Fixed income	1,350,768	229,401	1,580,169	1,664,022
Real estate	6,439,576	-	6,439,576	5,926,195
Natural resources	2,018,832	-	2,018,832	2,010,161
Private equities	6,833,087	-	6,833,087	6,057,505
Absolute return	5,529,102	-	5,529,102	5,304,605
Assets held by other trustees	192,811	16,079	208,890	202,130
Other	273,674	15,355	289,029	223,466
	31,078,781	320,395	31,399,176	30,463,564
Hospital funds invested in the University's Merged Pool	(2,312,541)	2,312,541	-	-
INVESTMENTS AT FAIR VALUE	\$ 28,766,240	\$ 2,632,936	\$ 31,399,176	\$ 30,463,564

VALUATION METHODOLOGY

To the extent available, the University's investments are recorded at fair value based on quoted prices in active markets on a trade-date basis. The University'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 limited partnership investments in private equity, real estate, natural resources and hedge funds, the value is primarily based on the Net Asset Value (NAV) of the underlying investments. The NAV is reported by the external investment managers, including general partners, in accordance with their policies as described in their respective financial statements and offering memoranda. The most recent NAV reported is adjusted for capital calls, distributions and significant known valuation changes, if any, of its related portfolio through August 31, 2015 and 2014, 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 the University's 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 the external investment managers as well as review of performance. In conjunction with these procedures, estimated fair value is determined by consideration of a wide range of factors, such as market conditions, redemption terms and restrictions, and risks inherent in the inputs of the external investment managers' valuation.

For alternative investments which are direct investments, the University 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, the University may review the investment's underlying portfolio as well as engage external appraisers, depending on the nature of the investment.

INVESTMENT CATEGORIES

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

Cash and cash equivalents categorized as investments include money market funds and restricted cash. Money market funds are valued based on reported unit values. Restricted cash includes collateral provided to or received from counterparties related to 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 cost, which approximates fair value (see *Note 9*).

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 calculated by the respective external investment managers as described under *Valuation Methodology* above.

Derivatives are used by the University to manage its exposure to certain risks relating to ongoing business and investment operations. Derivatives such as forward currency contracts, options, interest rate swaps, total return swaps and credit default swaps (CDS) are valued using models based on market verifiable inputs, or by using independent broker quotes.

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 and other real estate interests held through limited partnerships. The fair value of real estate directly owned by the University, including the Stanford Shopping Center and the Stanford Research Park, is based primarily on discounted cash flows, using estimates from the asset manager or external investment managers, corroborated by appraisals and market data, if available. The fair value of real estate held through limited partnerships is based on NAV as reported by the external investment managers and is adjusted as described under *Valuation Methodology* above.

Natural resources are mostly held in commodity and energy related investments, which are valued on the basis of a combination of models, including appraisals, discounted cash flows and commodity price factors. The fair value of these types of alternative investments is based on NAV as reported by the external investment managers and is adjusted as described under *Valuation Methodology* above.

Private equities are investments primarily in venture capital and leveraged buyout strategies. Distributions from these investments are received through liquidation of the underlying assets. The fair value of these types of alternative investments is based on the NAV reported by the external investment managers and is adjusted as described under *Valuation Methodology* above.

Absolute return investments are typically commingled funds that employ multiple strategies to produce positive returns, regardless of the direction of the financial markets. The fair value of these types of alternative investments is valued based on NAV as reported by the external investment managers and is adjusted as described under *Valuation Methodology* above.

Assets held by other trustees generally represent the University's and the Hospitals' residual interest in split interest agreements where the University or the Hospitals are not the trustee. The residual (or beneficial) 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 and convertible notes. The fair value of these types of direct investments is valued as described under *Valuation Methodology* above.

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.

Exchange-traded derivatives such as options, futures contracts and warrants using observable inputs such as the last reportable sale price or the most recent bid price are typically classified as Level 1 (see *Note 7*).

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, CDS, 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 in the circumstance and may require significant management judgment. These investments primarily consist of the University's alternative investments and are classified as Level 3 as the inputs are not observable. Certain alternative investments may be reclassified to Level 2 when the University has the ability to redeem them at NAV in the near term without significant restrictions on redemption.

The following tables summarize the University's and the Hospitals' investments and other assets within the fair value hierarchy and asset categories at August 31, 2015 and 2014, in thousands of dollars:

	AS OF			
	AUGUST 31, 2015	LEVEL 1	LEVEL 2	LEVEL 3
UNIVERSITY*				
Cash and cash equivalents	\$ 1,300,474	\$ 1,205,693	\$ 94,781	\$ -
Collateral held for securities loaned	110,087	-	110,087	-
Public equities	6,971,378	2,901,037	1,029,781	3,040,560
Derivatives	58,992	66,601	(7,609)	-
Fixed income	1,350,768	1,309,559	41,209	-
Real estate	6,439,576	103,194	53,550	6,282,832
Natural resources	2,018,832	237,536	-	1,781,296
Private equities	6,833,087	10,655	53	6,822,379
Absolute return	5,529,102	-	2,159,946	3,369,156
Assets held by other trustees	192,811	-	-	192,811
Other	273,674	814	-	272,860
TOTAL	31,078,781	5,835,089	3,481,798	21,761,894
HOSPITALS				
Cash and cash equivalents	59,560	54,094	5,466	-
Fixed income	229,401	69,313	160,088	-
Assets held by other trustees	16,079	-	-	16,079
Other	15,355	-	-	15,355
TOTAL	320,395	123,407	165,554	31,434
CONSOLIDATED TOTAL	\$ 31,399,176	\$ 5,958,496	\$ 3,647,352	\$ 21,793,328

* Amounts include the Hospitals' cross investment in the University's investment pools of \$2.3 billion.

	AS OF			
	AUGUST 31, 2014	LEVEL 1	LEVEL 2	LEVEL 3
UNIVERSITY*				
Cash and cash equivalents	\$ 1,693,240	\$ 1,646,141	\$ 47,099	\$ -
Collateral held for securities loaned	163,449	-	163,449	-
Public equities	7,118,193	3,009,485	1,160,289	2,948,419
Derivatives	14,922	(45)	14,967	-
Fixed income	1,436,008	837,535	594,513	3,960
Real estate	5,926,195	144,450	49,554	5,732,191
Natural resources	2,010,161	157,691	-	1,852,470
Private equities	6,057,505	17,569	-	6,039,936
Absolute return	5,304,605	-	2,242,156	3,062,449
Assets held by other trustees	185,102	-	-	185,102
Other	217,640	493	-	217,147
TOTAL	30,127,020	5,813,319	4,272,027	20,041,674
HOSPITALS				
Cash and cash equivalents	61,785	56,826	4,959	-
Public equities	23,891	23,891	-	-
Fixed income	228,014	68,830	159,184	-
Assets held by other trustees	17,028	-	-	17,028
Other	5,826	-	-	5,826
TOTAL	336,544	149,547	164,143	22,854
CONSOLIDATED TOTAL	\$ 30,463,564	\$ 5,962,866	\$ 4,436,170	\$ 20,064,528

* Amounts include the Hospitals' cross investment in the University's investment pools of \$2.3 billion.

The University manages the majority of the Hospitals' investments, including the Hospitals' \$2.3 billion investment in the Merged Pool (MP) at both August 31, 2015 and 2014.

SUMMARY OF LEVEL 3 INVESTMENT ACTIVITIES AND TRANSFERS

The following tables present the activities for Level 3 investments for the years ended August 31, 2015 and 2014, in thousands of dollars:

FAIR VALUE MEASUREMENTS USING SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)	BEGINNING BALANCE AS OF SEPTEMBER 1, 2014	SALES AND PURCHASES	SALES AND MATURITIES	NET REALIZED AND UNREALIZED GAINS (LOSSES)	TRANSFERS IN**	TRANSFERS OUT**	ENDING BALANCE AS OF AUGUST 31, 2015
UNIVERSITY*							
Public equities	\$ 2,948,419	\$ 865,991	\$ (96,702)	\$ 82,591	\$ 71,410	\$ (831,149)	\$ 3,040,560
Fixed income	3,960	-	(3,955)	(5)	-	-	-
Real estate	5,732,191	392,473	(791,343)	948,736	775	-	6,282,832
Natural resources	1,852,470	478,964	(180,389)	(356,685)	-	(13,064)	1,781,296
Private equities	6,039,936	656,279	(1,400,842)	981,359	619,808	(74,161)	6,822,379
Absolute return	3,062,449	597,272	(597,254)	(14,719)	599,124	(277,716)	3,369,156
Assets held by other trustees	185,102	-	-	7,709	-	-	192,811
Other	217,147	62,552	(33,784)	24,545	2,400	-	272,860
TOTAL	20,041,674	3,053,531	(3,104,269)	1,673,531	1,293,517	(1,196,090)	21,761,894
HOSPITALS							
Assets held by other trustees	17,028	-	-	(949)	-	-	16,079
Other	5,826	9,529	-	-	-	-	15,355
TOTAL	22,854	9,529	-	(949)	-	-	31,434
CONSOLIDATED TOTAL	\$ 20,064,528	\$ 3,063,060	\$ (3,104,269)	\$ 1,672,582	\$ 1,293,517	\$ (1,196,090)	\$ 21,793,328

* Amounts include the Hospitals' cross investment in the University's investment pools.

**Transfers in (out) are primarily due to reclassification of investments between asset classes. Transfers include \$72.7 million from Level 3 to Level 1 due to a corporate action.

FAIR VALUE MEASUREMENTS USING SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)	BEGINNING BALANCE AS OF SEPTEMBER 1, 2013	SALES AND PURCHASES	SALES AND MATURITIES	NET REALIZED AND UNREALIZED GAINS	TRANSFERS IN	TRANSFERS OUT	ENDING BALANCE AS OF AUGUST 31, 2014
UNIVERSITY*							
Public equities	\$ 1,832,888	\$ 596,883	\$ (125,266)	\$ 417,400	\$ 354,641	\$ (128,127)	\$ 2,948,419
Fixed income	-	3,990	-	(30)	-	-	3,960
Real estate	5,270,326	383,085	(622,261)	743,756	-	(42,715)	5,732,191
Natural resources	1,547,169	453,478	(435,136)	286,959	-	-	1,852,470
Private equities	5,357,460	599,357	(1,164,518)	1,247,637	-	-	6,039,936
Absolute return	3,176,213	241,530	(595,390)	253,090	-	(12,994)	3,062,449
Assets held by other trustees	172,605	-	-	12,497	-	-	185,102
Other	278,690	204,457	(278,335)	18,112	-	(5,777)	217,147
TOTAL	17,635,351	2,482,780	(3,220,906)	2,979,421	354,641	(189,613)	20,041,674
HOSPITALS							
Assets held by other trustees	14,858	-	-	2,170	-	-	17,028
Other	-	5,826	-	-	-	-	5,826
TOTAL	14,858	5,826	-	2,170	-	-	22,854
CONSOLIDATED TOTAL	\$ 17,650,209	\$ 2,488,606	\$ (3,220,906)	\$ 2,981,591	\$ 354,641	\$ (189,613)	\$ 20,064,528

* Amounts include the Hospitals' cross investment in the University's investment pools.

Net realized and unrealized gains (losses) in the tables above are included in the *Statements of Activities* primarily as "increase in reinvested gains" by level of restriction. For the years ended August 31, 2015 and 2014, the change in unrealized gains (losses) for Level 3 investments still held at August 31, 2015 and 2014 was \$1.7 billion and \$2.7 billion, respectively.

Transfers in (out) include investments which have been reclassified to Level 2 as the University has the ability to redeem these at NAV in the near term. Transfers in (out) also include situations where observable inputs have changed, such as when Level 3 investments make distributions from an underlying asset with a fair value based on quoted market prices. All transfer amounts are based on the fair value at the beginning of the fiscal year. There were no transfers between Level 1 and Level 2 during the years ended August 31, 2015 and 2014.

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, 2015 and 2014.

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. The input range and weighted average values may vary at each balance sheet date.

INVESTMENT CATEGORIES	FAIR VALUE ¹	VALUATION TECHNIQUE	SIGNIFICANT UNOBSERVABLE INPUTS	RANGE		IMPACT TO VALUATION FROM AN INCREASE IN INPUT ²
				MIN.	MAX	
2015						
Real estate	\$ 4,065,049	Discounted cash flow	Discount rate	5.3%	11.0%	Decrease
			Capitalization rate	5.3%	7.5%	Decrease
Natural resources	84,671	Market comparables	Weights ascribed to market comparables	20.0%	50.0%	N/A
Other	272,860	Market comparables	Recent transactions	N/A	N/A	N/A
TOTAL AMOUNT WITH SIGNIFICANT UNOBSERVABLE INPUTS		\$ 4,422,580				
2014						
Real estate	\$ 3,484,984	Discounted cash flow	Discount rate	4.0%	11.0%	Decrease
			Capitalization rate	5.0%	9.0%	Decrease
Natural resources	127,077	Market comparables	Weights ascribed to market comparables	20.0%	50.0%	N/A
Other	217,147	Market comparables	Recent transactions	N/A	N/A	N/A
TOTAL AMOUNT WITH SIGNIFICANT UNOBSERVABLE INPUTS		\$ 3,829,208				

¹ Level 3 investment assets of \$17.4 billion and \$16.2 billion at August 31, 2015 and 2014, respectively, were excluded from the above quantitative disclosure as their fair value was primarily based on the NAV reported by external investment managers as described in the Valuation Methodology section above.

² Unless otherwise noted, this column represents the directional change in the fair value of the Level 3 investments that would result 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 could 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 for all related alternative investments at August 31, 2015, in thousands of dollars:

ASSET CLASS	FAIR VALUE	UNFUNDED COMMITMENT	REMAINING LIFE (YEARS)	REDEMPTION TERMS AND RESTRICTIONS
Public equities	\$ 4,067,133	\$ 42,543	0 to 5	Generally, lock-up provisions ranging from 0 to 5 years. After initial lock up expires, redemptions are available on a rolling basis and require 3 to 180 days prior notification.
Real estate	1,875,082	858,708	0 to 13	Not eligible for redemption
Natural resources	1,781,296	1,181,132	0 to 15	Not eligible for redemption
Private equities	6,822,375	2,376,515	0 to 16	Not eligible for redemption
Absolute return	5,529,102	954,720	0 to 7	Generally, lock-up provisions ranging from 0 to 6 years. After initial lock up expires, redemptions are available on a rolling basis and require 2 to 180 days prior notification.
TOTAL	\$20,074,988	\$ 5,413,618		

OFFSETS TO INVESTMENT-RELATED ASSETS AND LIABILITIES

Financial instruments with off-balance sheet risk such as derivatives and securities lending agreements are subject to counterparty credit risk. The University seeks to control this risk in various ways, such as entering into transactions with quality counterparties, establishing and monitoring credit limits, and requiring collateral in certain situations.

For certain derivatives, a master netting arrangement allows the counterparty to net applicable collateral held on behalf of the University against applicable liabilities or payment obligations of the University to the counterparty. These arrangements also allow the counterparty to net any of its applicable liabilities or payment obligations to the University against any collateral previously provided.

For financial statement purposes, the University nets investment-related derivative assets and liabilities on the *Statements of Financial Position*. For disclosure purposes, the University does not offset assets and liabilities relating to the financial and derivative instruments that are subject to an enforceable master netting arrangement or similar agreement, or that meet the right of offset criteria in the accounting guidance. The potential effect of offset and related arrangements associated with these financial and derivative instruments as of August 31, 2015 and 2014, in thousands of dollars, is presented in the following table:

	AS PRESENTED IN CONSOLIDATED STATEMENTS OF FINANCIAL POSITION			GROSS AMOUNTS NOT OFFSET IN CONSOLIDATED STATEMENTS OF FINANCIAL POSITION		
	GROSS AMOUNTS OF ASSETS AND LIABILITIES	GROSS AMOUNTS OFFSET	NET AMOUNTS OF ASSETS AND LIABILITIES	FINANCIAL INSTRUMENTS ³	CASH COLLATERAL RECEIVED ³	NET AMOUNT
2015						
Assets:						
Derivatives ¹	\$ 70,000	\$ (11,008)	\$ 58,992	\$ -	\$ 20,008	\$ 38,984
TOTAL	70,000	(11,008)	58,992	-	20,008	38,984
Liabilities:						
Derivatives ¹	11,008	(11,008)	-	-	-	-
Securities lending ²	110,087	-	110,087	110,087	-	-
TOTAL	121,095	(11,008)	110,087	110,087	-	-
2014						
Assets:						
Derivatives ¹	46,522	(31,600)	14,922	-	14,922	-
TOTAL	46,522	(31,600)	14,922	-	14,922	-
Liabilities:						
Derivatives ¹	31,600	(31,600)	-	-	-	-
Securities lending ²	163,449	-	163,449	163,449	-	-
TOTAL	\$ 195,049	\$ (31,600)	\$ 163,449	\$ 163,449	\$ -	\$ -

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

² Refer to Note 9 for details.

³ These amounts are limited to the derivative asset balance and accordingly, do not include any excess collateral received.

INVESTMENT RETURNS

Total investment returns for the years ended August 31, 2015 and 2014, in thousands of dollars, are as follows:

	2015		2014	
	UNIVERSITY	HOSPITALS	CONSOLIDATED	CONSOLIDATED
Investment income	\$ 228,617	\$ 20,887	\$ 249,504	\$ 330,107
Net realized and unrealized gains	1,633,778	113,453	1,747,231	4,003,267
TOTAL INVESTMENT RETURNS	\$ 1,862,395	\$ 134,340	\$ 1,996,735	\$ 4,333,374
Reconciliation to <i>Statements of Activities</i> :				
Total investment income distributed for operations	\$ 1,276,463	\$ 15,284	\$ 1,291,747	\$ 1,181,396
Increase in reinvested gains - unrestricted	644,855	100,867	745,722	1,849,679
Increase (decrease) in reinvested gains - temporarily restricted	(89,655)	18,753	(70,902)	1,127,965
Change in value of split interest agreements, net - temporarily restricted	2,449	(254)	2,195	18,682
Increase in reinvested gains - permanently restricted	1,760	-	1,760	64,256
Change in value of split interest agreements, net - permanently restricted	(15,446)	(310)	(15,756)	52,214
Adjusted for:				
Returns on split interest agreements paid to beneficiaries - temporarily restricted	14,321	-	14,321	12,323
Returns on split interest agreements paid to beneficiaries - permanently restricted	27,648	-	27,648	26,859
TOTAL INVESTMENT RETURNS	\$ 1,862,395	\$ 134,340	\$ 1,996,735	\$ 4,333,374

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 10*).

FUTURE MINIMUM RENTAL INCOME

As part of its investment portfolio, the University 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-cancelable leases in effect with tenants at August 31, 2015, in thousands of dollars, is as follows:

YEAR ENDING AUGUST 31	FUTURE MINIMUM RENTAL INCOME
2016	\$ 118,317
2017	114,108
2018	104,987
2019	105,071
2020	101,104
Thereafter	2,008,202
TOTAL	\$ 2,551,789

6. Investment Pools

The University's investments are held in various investment pools or in specific investments to comply with donor requirements as indicated in the following table, at August 31, 2015 and 2014, in thousands of dollars:

	2015	2014
UNIVERSITY		
Merged Pool	\$ 25,931,986	\$ 25,330,910
Expendable Funds Pool	3,666,479	3,259,707
Endowment Income Funds Pool	314,216	360,867
Other investment pools	100,649	99,710
Specific investments	5,046,147	4,696,400
	<u>35,059,477</u>	<u>33,747,594</u>
Less:		
Amounts included in "cash and cash equivalents" in the <i>Statements of Financial Position</i>	(387,712)	(460,888)
Funds cross-invested in investment pools	(3,587,517)	(3,154,731)
Hospital funds invested in the University's investment pools	(2,318,008)	(2,303,385)
TOTAL UNIVERSITY INVESTMENTS	<u>28,766,240</u>	<u>27,828,590</u>

The MP is the primary investment pool in which endowment (see *Note 12*) and other long-term funds are invested. The MP is invested with the objective of optimizing long-term total return while maintaining an appropriate level of risk for the University. It is a unitized investment pool in which the fund holders purchase investments and withdraw funds based on a monthly share value.

The Expendable Funds Pool (EFP) and Endowment Income Funds Pool (EIFP) are the principal investment vehicles for the University's expendable funds. A substantial portion of the EFP is cross-invested in the MP; the remainder is included in "cash and cash equivalents" in the *Statements of Financial Position*. The EIFP holds income previously distributed to holders of permanently restricted endowment funds that has not yet been expended. The EIFP is invested in highly liquid instruments and is included in the *Statements of Financial Position* as "cash and cash equivalents".

The Board has established a policy for the distribution of the investment returns of the EFP. The difference between the actual return of this investment pool and the approved payout is deposited in, or withdrawn from, funds functioning as endowment (FFE) (see *Note 12*). For the years ended August 31, 2015 and 2014, the results of the EFP, in thousands of dollars, are as follows:

	2015	2014
Total investment return of the EFP	\$ 159,143	\$ 494,121
Less distributions to fund holders and operations	(143,087)	(126,473)
AMOUNTS ADDED TO FFE	<u>\$ 16,056</u>	<u>\$ 367,648</u>

7. Derivatives

The University, directly or through external investment managers on the University'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 the University's 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, the University 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, 2015 and 2014, and gains and losses for the years ended August 31, 2015 and 2014, in thousands of dollars:

	AS OF AUGUST 31, 2015			YEAR ENDED AUGUST 31, 2015
	NOTIONAL AMOUNT ¹	GROSS DERIVATIVE ASSETS ²	GROSS DERIVATIVE LIABILITIES ²	REALIZED AND UNREALIZED GAINS (LOSSES) ³
Interest-rate contracts	\$ 944,114	\$ 69,816	\$ -	\$ (67,001)
Foreign exchange contracts	35,812	184	362	82,656
Equity contracts	144,552	-	10,646	(12,432)
Credit contracts	-	-	-	563
TOTAL	\$ 1,124,478	\$ 70,000	\$ 11,008	\$ 3,786

	AS OF AUGUST 31, 2014			YEAR ENDED AUGUST 31, 2014
	NOTIONAL AMOUNT ¹	GROSS DERIVATIVE ASSETS ²	GROSS DERIVATIVE LIABILITIES ²	REALIZED AND UNREALIZED GAINS (LOSSES) ³
Interest-rate contracts	\$ 3,623,678	\$ 31,942	\$ 21,618	\$ (12,255)
Foreign exchange contracts	705,701	6,697	1,957	17,440
Equity contracts	1,605,379	6,409	7,836	(17,138)
Credit contracts	77,345	1,474	189	199
TOTAL	\$ 6,012,103	\$ 46,522	\$ 31,600	\$ (11,754)

¹ The notional amount is representative of the volume and activity of the respective derivative type during the years ended August 31, 2015 and 2014.

² Gross derivative assets less gross derivative liabilities of \$59.0 million and \$14.9 million as of August 31, 2015 and 2014, respectively, are presented as "derivatives" on the investment table in Note 5.

³ Gains (losses) on derivatives are included in the Statements of Activities as "increase in reinvested gains" in "non-operating activities".

Credit Default Swaps

Credit contracts in the previous table consist of both the purchases and sales of CDS. CDS are contracts under which counterparties are provided protection against the risk of default on a set of debt obligations issued by specific companies (or group of companies combined in an index). The buyer of the CDS will make payment to the seller and in return receive payment if the underlying instrument goes into default or is triggered by some other credit event. The University's CDS transactions include both single name entities as well as index CDS. Under the index CDS, the credit events that would trigger settlement of the CDS and require the University to remit payment are generally bankruptcy and failure to pay.

At August 31, 2015, there were no outstanding sold CDS positions. The table below summarizes certain information regarding the sale of CDS at August 31, 2014, in thousands of dollars:

CREDIT RATINGS OF THE REFERENCE OBLIGATION ²	MAXIMUM POTENTIAL PAYOUT (NOTIONAL AMOUNT ¹) / YEARS TO MATURITY			FAIR VALUE ASSET/ (LIABILITY)
	LESS THAN 3	OVER 3	TOTAL	
2014				
Single name credit default swaps:				
A- to AA+	\$ 6,900	\$ 26,200	\$ 33,100	\$ 431
BBB- to BBB+	575	30,474	31,049	599
Total single name credit default swaps	7,475	56,674	64,149	1,030
Index credit default swaps ³	-	4,900	4,900	(14)
TOTAL CREDIT DEFAULT SWAPS SOLD	\$ 7,475	\$ 61,574	\$ 69,049	\$ 1,016

¹ The notional amount is representative of the volume and activity of the respective derivative type during the year ended August 31, 2014.

² The credit rating is according to Standard & Poor's and represents the current performance risk of the swap.

³ Index credit default swaps are linked to a basket of credit derivatives that include entities that have a Standard & Poor's rating of BBB- or higher.

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, 2015, 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 10*). 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 \$16.7 million and \$11.0 million at August 31, 2015 and 2014, respectively, and is included in the *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, 2015 and 2014 (see *Note 10*).

At August 31, 2015, SHC had interest rate exchange agreements expiring through November 2051 (see *Note 11*). 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 \$1.7 million and no cash collateral required to be posted with counterparties at August 31, 2015 and 2014, respectively. In February 2014, SHC terminated certain interest rate exchange agreements and recognized a loss of \$71 thousand in "non-operating activities" in the *Statements of Activities* for the year ended August 31, 2014.

The following table presents amounts for debt-related derivatives including the notional amount, the fair values at August 31, 2015 and 2014, and gains and losses for the years ended August 31, 2015 and 2014, in thousands of dollars:

	AS OF AUGUST 31, 2015		YEAR ENDED AUGUST 31, 2015	AS OF AUGUST 31, 2014		YEAR ENDED AUGUST 31, 2014
	NOTIONAL AMOUNT ¹	GROSS DERIVATIVE LIABILITIES ²	UNREALIZED LOSSES ³	NOTIONAL AMOUNT ¹	GROSS DERIVATIVE LIABILITIES ²	UNREALIZED LOSSES ³
Debt-related interest- rate contracts:						
University	\$ 97,000	\$ 35,584	\$ (5,127)	\$ 97,000	\$ 30,457	\$ (8,617)
Hospitals	576,925	215,376	(59,392)	577,200	155,984	(37,532)
TOTAL	\$ 673,925	\$ 250,960	\$ (64,519)	\$ 674,200	\$ 186,441	\$ (46,149)

¹The notional amount is representative of the volume and activity of the respective derivative type during the years ended August 31, 2015 and 2014.

²Fair value is measured using Level 2 inputs as defined in Note 5. Amounts are included in the *Statements of Financial Position* in "accounts payable and accrued expenses" and discussed more fully in Notes 10 and 11.

³Losses 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, 2015 and 2014, in thousands of dollars, are as follows:

	2015			2014
	UNIVERSITY	HOSPITALS	CONSOLIDATED	CONSOLIDATED
Land and improvements	\$ 513,352	\$ 158,439	\$ 671,791	\$ 622,596
Buildings and building improvements	5,336,952	1,647,748	6,984,700	6,578,469
Furniture, fixtures and equipment	1,617,442	1,162,022	2,779,464	2,627,909
Utilities	830,370	-	830,370	483,272
Construction in progress	381,745	1,583,003	1,964,748	1,559,812
	8,679,861	4,551,212	13,231,073	11,872,058
Less accumulated depreciation	(3,884,297)	(1,549,470)	(5,433,767)	(5,039,746)
PLANT FACILITIES, NET OF ACCUMULATED DEPRECIATION	\$ 4,795,564	\$ 3,001,742	\$ 7,797,306	\$ 6,832,312

At August 31, 2015, \$1.6 billion and \$884.6 million of fully depreciated plant facilities were still in use by the University and the Hospitals, respectively, and were included in plant facilities and accumulated depreciation.

9. Liabilities Under Security Lending Agreements

The University receives short-term U.S. government obligations or cash and cash equivalents as collateral deposits for certain securities loaned temporarily to brokers. It is the University's policy to require receipt of collateral on securities lending contracts equal to a minimum of 102% of the fair market value of the security loaned. In addition, the University is party to certain forward sale and purchase agreements. At August 31, 2015 and 2014, these amounts, in thousands of dollars, are as follows:

	2015	2014
Collateral deposits for certain securities loaned temporarily to brokers ^{1,2}	\$ 110,087	\$ 163,449
Forward sale and purchase agreements ¹	22,338	27,562
LIABILITIES UNDER SECURITY LENDING AGREEMENTS	\$ 132,425	\$ 191,011

¹ The corresponding investments are included as "investments" in the Statements of Financial Position (see Note 5).

² The estimated fair value of securities loaned to brokers at August 31, 2015 and 2014 was \$106.3 million and \$155.8 million, respectively.

10. University Notes and Bonds Payable

Notes and bonds payable for the University at August 31, 2015 and 2014, in thousands of dollars, are as follows:

	YEAR OF MATURITY	INTEREST RATE * 2015/2014	OUTSTANDING PRINCIPAL	
			2015	2014
Tax-exempt:				
CEFA Fixed Rate Revenue Bonds:				
Series S	2040	5.00%	\$ 30,210	\$ 30,210
Series T	2023-2039	5.00%	188,900	188,900
Series U	2021-2045	5.00% - 5.25%	996,855	996,855
CEFA Variable Rate Revenue Bonds and Notes:				
Series L	2016-2023	0.01%/0.03%	69,988	83,818
Series S	2040-2051	0.09%-0.20%/0.10%-0.13%	141,200	141,200
Commercial Paper	2015	0.00%/0.06%	-	50,994
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 2009A	2019	3.63% - 4.75%	400,000	650,000
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	-
Other	2016	Various	66,284	67,364
Variable Rate Notes:				
Commercial Paper	2015	0.00%/0.15%	-	140,715
Revolving Credit Facility	2018	0.42%	41,200	-
University notes and bonds payable			2,827,987	2,993,406
Unamortized original issue premiums/discounts, net			257,391	271,230
TOTAL			\$ 3,085,378	\$ 3,264,636

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

At August 31, 2015 and 2014, the fair value of these debt instruments was approximately \$3.3 billion and \$3.5 billion, respectively. All bonds held at August 31, 2015 and 2014 are classified as Level 2 in the fair value hierarchy (see Note 5).

The University borrows at tax-exempt rates through the California Educational Facilities Authority (CEFA). 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. The University's long-term ratings of AAA/Aaa/AAA were affirmed in April 2015 by Standard & Poor's, Moody's Investors Service and Fitch Ratings, respectively.

In July 2015, the University redeemed \$250.0 million of the taxable Series 2009A bonds due in 2016. In May 2014, the taxable Series 2009A (first tranche) in the amount of \$350.0 million matured and was repaid.

In May 2015, the University entered into a \$250.0 million unsecured revolving credit facility. Drawdowns from the revolving credit facility bear interest at a floating rate equal to the applicable LIBOR rate plus a specified margin. At August 31, 2015, \$41.2 million was outstanding.

In April 2015, the University issued taxable fixed rate Series 2015 bonds in the amount of \$250.0 million. The bonds bear interest at a rate of 3.46% and mature on May 1, 2047. Proceeds can be used for general corporate purposes, including financing and refinancing capital projects.

In October 2014, CEFA Series L (first and second tranches) in the amounts of \$5.1 million and \$8.8 million, respectively, matured and were repaid.

In May 2014, CEFA Series U-5 bonds were issued in the amount of \$124.1 million plus an original issue premium of \$26.3 million. The bonds bear interest at a rate of 5.00% and mature on May 1, 2021. Proceeds were used to (1) refinance commercial paper notes which were previously used to refinance CEFA Series T-4 bonds which matured in March 2014; (2) finance facilities and infrastructure; and (3) pay bond issuance costs.

In May 2014, CEFA Series U-6 bonds were issued in the amount of \$279.0 million plus an original issue premium of \$71.0 million. The bonds bear interest at a rate of 5.00% and mature on May 1, 2045. Proceeds were used to (1) refinance commercial paper notes; and (2) finance facilities and infrastructure.

In May 2014, the University issued taxable fixed rate Series 2014 bonds in the amount of \$150.0 million plus an original issue discount of \$27 thousand. The bonds bear interest at a rate of 4.249% and mature on May 1, 2054. Proceeds were used to (1) refinance commercial paper notes; and (2) finance facilities and infrastructure.

In December 2010, the University entered into a \$50.0 million line of credit to issue irrevocable standby letters of credit to support various collateral posting obligations. At August 31, 2015, irrevocable standby letters of credit of \$40.7 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) \$25.5 million to serve as security for workers' compensation deductible insurance arrangements; and (3) \$0.2 million for other purposes. No amounts have been drawn on these letters of credit at August 31, 2015.

Stanford holds controlling interests in several investment entities which were consolidated in the financial statements in fiscal years 2015 and 2014. At August 31, 2015 and 2014, other taxable debt included \$65.8 million and \$66.8 million, respectively, of debt where Stanford is ultimately liable for principal should the investees default.

The University's taxable and tax-exempt commercial paper facilities and related information at August 31, 2015 and 2014, in thousands of dollars, are as follows:

COMMERCIAL PAPER	POTENTIAL BORROWINGS	OUTSTANDING BALANCE AT AUGUST 31	WEIGHTED AVERAGE DAYS TO MATURITY	WEIGHTED AVERAGE EFFECTIVE INTEREST RATE
2015				
Taxable	\$ 500,000	\$ -	N/A	N/A
Tax-exempt	\$ 300,000	\$ -	N/A	N/A
2014				
Taxable	\$ 500,000	\$ 140,715	34.6	0.14%
Tax-exempt	\$ 300,000	\$ 50,994	49.6	0.07%

The University had \$211.2 million of revenue bonds in variable rate mode outstanding at August 31, 2015. CEFA Series L bonds bear interest at a weekly rate and CEFA Series S bonds bear interest at a commercial paper municipal rate and are outstanding 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.

The University's interest expense, which includes amortized bond issuance costs and amortized bond premium or discount, in thousands of dollars, is as follows:

	2015	2014
Interest expense, gross	\$ 111,806	\$ 109,360
Less:		
Interest income earned on unspent proceeds	(245)	(198)
Interest capitalized as a cost of construction	(3,543)	(8,324)
Interest expense on Series 2009A bonds which is classified as an investment expense	(22,350)	(29,602)
Interest expense, net	\$ 85,668	\$ 71,236

The University uses interest rate exchange agreements to manage the interest rate exposure of its debt portfolio. Net payments on interest rate exchange agreements, which are included in "swap interest and change in value of swap agreements" in the *Statements of Activities*, were \$3.5 million for each of the years ended August 31, 2015 and 2014.

At August 31, 2015, scheduled principal payments on notes and bonds, in thousands of dollars, are as follows:

YEAR ENDING AUGUST 31	PRINCIPAL PAYMENTS
2016 Variable debt subject to remarketing	\$ 211,188
2016 Other	65,804
2017	-
2018	41,200
2019	400,000
2020	-
Thereafter	2,109,795
TOTAL	\$ 2,827,987

11. Hospitals Notes and Bonds Payable

Notes, bonds and capital lease obligations for the Hospitals at August 31, 2015 and 2014, in thousands of dollars, are as follows:

	YEAR OF MATURITY	INTEREST RATE* 2015/2014	OUTSTANDING PRINCIPAL	
			2015	2014
SHC:				
CHFFA Fixed Rate Revenue Bonds:				
2008 Series A-1	2040	2.25%-5.15%	\$ 68,510	\$ 68,785
2008 Series A-2	2040	1.00%-5.25%	101,350	101,750
2008 Series A-3	2040	1.00%-5.50%	81,940	82,240
2010 Series A	2031	4.00%-5.75%	130,220	135,305
2010 Series B	2036	4.50%-5.75%	146,710	146,710
2012 Series A	2051	5.00%	340,000	340,000
2012 Series B	2023	2.00%-5.00%	52,880	58,520
2015 Series A	2054	4.25%-5.00%	100,000	-
CHFFA Variable Rate Revenue Bonds:				
2008 Series B	2045	0.07%/0.08%	168,200	168,200
2012 Series C	2051	0.15%/0.13%	60,000	60,000
2012 Series D	2051	0.53%/0.71%	100,000	100,000
2015 Series B	2054	0.68%	75,000	-
Other	2016-2024	Various	5,567	-
LPCH:				
CHFFA Fixed Rate Revenue Bonds:				
2008 Series A	2027-2033	1.45%	30,340	30,340
2008 Series B	2027-2033	1.45%	30,340	30,340
2008 Series C	2016-2023	1.45%	29,610	32,770
2012 Series A	2044-2051	5.00%	200,000	200,000
2012 Series B	2016-2027	4.00%	44,600	46,815
2014 Series A	2025-2043	5.00%	100,000	100,000
CHFFA Variable Rate Revenue Bonds:				
2014 Series B	2034-2043	0.53%/0.51%	100,000	100,000
Hospitals notes, bonds and capital lease obligations			1,965,267	1,801,775
Unamortized original issue premiums/discounts, net			73,898	72,098
TOTAL			\$ 2,039,165	\$ 1,873,873

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

At August 31, 2015 and 2014, the fair value of these debt instruments was approximately \$2.1 billion and \$2.0 billion, respectively. All bonds held at August 31, 2015 and 2014 are classified as Level 2 in the fair value hierarchy (see Note 5).

The Hospitals borrow at tax-exempt rates through the California Health Facilities Financing Authority (CHFFA). CHFFA debt is a general obligation of the Hospitals. Payments of principal and interest on the Hospitals' bonds are collateralized by a pledge of the revenues of the respective hospitals. Although CHFFA is the issuer, the Hospitals are responsible for the repayment of the tax-exempt debt. 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.

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, the Hospitals may cause the redemption of the bonds, in whole or in part, prior to the stated maturities.

SHC

In June 2015, CHFFA, for the benefit of SHC, issued two series of revenue bonds in the aggregate principal amount of \$175.0 million (the "2015 Bonds"). The 2015 Bonds were comprised of \$100.0 million of 2015 Series A bonds, and \$75.0 million of Series B bonds. Proceeds of the 2015 Series A and B bonds will be used to finance a portion of the Renewal Project (see *Note 20*).

At August 31, 2015, SHC had \$403.2 million 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.

The 2012 Series C bonds are in a windows weekly floating index mode and cannot be tendered for 180 days after a 30 day notice and remarketing period. The 2012 Series D and 2015 Series B bonds are also in a floating index mode with monthly interest rate resets. The 2012 Series D and 2015 Series B bonds are not subject to remarketing or tender until May 13, 2020 and June 28, 2024, respectively.

In the event SHC receives notice of any optional tender of the 2008 Series B-1 bonds or the 2012 Series C 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 will have a current 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.

At August 31, 2015, SHC had irrevocable standby letters of credit in the aggregate amount of \$27.4 million posted with certain beneficiaries in the following amounts and for the following respective purposes: (i) \$17.3 million to serve as security for the workers' compensation self-insurance arrangement and (ii) \$10.1 million to serve as security deposits for certain construction projects being undertaken by SHC including the Renewal Project (see *Note 20*). No amounts have been drawn on these letters of credit at August 31, 2015 and 2014.

LPCH

In May 2014, CHFFA, on behalf of LPCH, issued 2014 Series A bonds and 2014 Series B bonds in the aggregate principal amount of \$200.0 million. Proceeds of the 2014 bonds will be used to finance a portion of the Renewal Project and to pay a portion of bond issuance costs. The 2014 Series A bonds were issued as fixed rate bonds with interest rates ranging from 4-5% over the life of the bonds. The 2014 Series B bonds were issued in a floating index mode with monthly interest rate resets. The 2014 Series B bonds are not subject to remarketing or tender until May 8, 2024.

At August 31, 2015, LPCH had irrevocable standby letters of credit in the aggregate amount of \$12.7 million posted with certain beneficiaries in the following amounts and for the following respective purposes: (i) \$6.0 million to serve as security for the workers' compensation self-insurance arrangement and (ii) \$6.7 million to serve as security deposits for certain construction projects being undertaken by LPCH including the Renewal Project (see *Note 20*). No amounts have been drawn on these letters of credit at August 31, 2015 and 2014.

INTEREST

The Hospitals' interest expense, which includes settlements under the interest rate exchange agreements, amortized bond issuance costs and amortized bond premium or discount, in thousands of dollars, is as follows:

	2015	2014
Interest expense, gross, excluding settlements under the interest rate exchange agreements	\$ 65,101	\$ 60,623
Settlements under the interest rate exchange agreements	14,087	16,982
Less:		
Interest capitalized as a cost of construction	(24,342)	(21,648)
Interest expense, net	\$ 54,846	\$ 55,957

PRINCIPAL PAYMENTS

At August 31, 2015, scheduled principal payments on notes, bonds and capital lease obligations, in thousands of dollars, are as follows:

YEAR ENDING AUGUST 31	PRINCIPAL PAYMENTS
2016 Variable debt subject to remarketing	\$ 228,200
2016 Other	19,607
2017	19,551
2018	19,910
2019	21,267
2020	21,420
Thereafter	1,635,312
TOTAL	\$ 1,965,267

12. University Endowment

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 permanently restricted, temporarily restricted or unrestricted net assets. 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 temporarily restricted net assets. 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 unrestricted net assets.

The University classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment and (b) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are authorized for expenditure. In the absence of donor stipulations or law to the contrary, net unrealized losses on permanently restricted endowment funds first reduce related appreciation on temporarily restricted net assets and then on unrestricted net assets, as needed, until the fair value of the fund equals or exceeds historic value. The aggregate amount by which fair value was below historic value was \$5.4 million and \$4.9 million at August 31, 2015 and 2014, respectively.

Endowment funds by net asset classification at August 31, 2015 and 2014, in thousands of dollars, are as follows:

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
2015				
Donor-restricted endowment funds	\$ (5,394)	\$ 6,466,064	\$ 5,720,633	\$ 12,181,303
Funds functioning as endowment	10,041,654	-	-	10,041,654
TOTAL ENDOWMENT FUNDS	\$ 10,036,260	\$ 6,466,064	\$ 5,720,633	\$ 22,222,957
2014				
Donor-restricted endowment funds	\$ (4,882)	\$ 6,574,426	\$ 5,465,939	\$ 12,035,483
Funds functioning as endowment	9,410,523	-	-	9,410,523
TOTAL ENDOWMENT FUNDS	\$ 9,405,641	\$ 6,574,426	\$ 5,465,939	\$ 21,446,006

Most of the University'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 for the University. 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.

Approximately 14% of the 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 is striving 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 sources of payout are earned income on endowment assets (interest, dividends, rents and royalties), realized capital gains and FFE, as needed and as available.

Changes in the University's endowment, excluding pledges, for the years ended August 31, 2015 and 2014, in thousands of dollars, are as follows:

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
2015				
Endowment, beginning of year	\$ 9,405,641	\$ 6,574,426	\$ 5,465,939	\$ 21,446,006
Investment returns:				
Earned income	197,943	-	-	197,943
Unrealized and realized gains (losses)	1,454,383	(100,618)	(334)	1,353,431
Total investment returns	1,652,326	(100,618)	(334)	1,551,374
Amounts distributed for operations	(1,058,025)	-	-	(1,058,025)
Gifts, transfers and other changes in endowment:				
Current year gifts and pledge payments	1,712	1,937	148,683	152,332
Transfers of prior year gifts	-	160	59,742	59,902
EFP funds invested in the endowment	16,056	-	-	16,056
Other funds invested in (withdrawn from) the endowment, net	18,550	(9,841)	46,603	55,312
Total gifts, transfers and other changes in endowment	36,318	(7,744)	255,028	283,602
Total net increase (decrease) in endowment	630,619	(108,362)	254,694	776,951
ENDOWMENT, END OF YEAR	\$ 10,036,260	\$ 6,466,064	\$ 5,720,633	\$ 22,222,957
2014				
Endowment, beginning of year	\$ 7,985,849	\$ 5,528,171	\$ 5,174,848	\$ 18,688,868
Investment returns:				
Earned income	228,278	-	-	228,278
Unrealized and realized gains	1,758,273	1,037,250	58,934	2,854,457
Total investment returns	1,986,551	1,037,250	58,934	3,082,735
Amounts distributed for operations	(985,215)	-	-	(985,215)
Gifts, transfers and other changes in endowment:				
Current year gifts and pledge payments	17,673	8,025	163,700	189,398
Transfers of prior year gifts	5,557	-	24,724	30,281
EFP funds invested in the endowment	367,648	-	-	367,648
Other funds invested in the endowment, net	27,578	980	43,733	72,291
Total gifts, transfers and other changes in endowment	418,456	9,005	232,157	659,618
Total net increase in endowment	1,419,792	1,046,255	291,091	2,757,138
ENDOWMENT, END OF YEAR	\$ 9,405,641	\$ 6,574,426	\$ 5,465,939	\$ 21,446,006

13. Hospitals Endowments

The endowments of SHC and LPCH are intended to generate investment income to support their current operating and strategic initiatives. The following table summarizes each hospital's share of the Hospitals endowments at August 31, 2015 and 2014, in thousands of dollars:

	2015	2014
LPCH	\$ 307,571	\$ 308,872
SHC	18,360	17,985
TOTAL ENDOWMENT FUNDS	\$ 325,931	\$ 326,857

The Hospitals invest the majority of their endowments in the University's MP. Their endowments are subject to the same investment and spending strategies that the University employs as described in *Note 12*. The Hospitals' Boards of Directors have approved payout policies which provide for annual amounts to be distributed for current use. "Amounts distributed for operations" in the table below represents the Hospitals' current year endowment payout spent for designated purposes during fiscal years 2015 and 2014.

The Hospitals classify as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment and (b) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are authorized for expenditure. In the absence of donor stipulations or law to the contrary, net unrealized losses on permanently restricted endowment funds first reduce related appreciation on temporarily restricted net assets and then on unrestricted net assets, as needed, until the fair value of the fund equals or exceeds historic value. The Hospitals have no funds where fair value was below historic value at August 31, 2015 and 2014.

Changes in Hospitals endowments, for the years ended August 31, 2015 and 2014, in thousands of dollars, are as follows:

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
2015				
Endowments, beginning of year	\$ -	\$ 115,823	\$ 211,034	\$ 326,857
Investment returns:				
Earned income	-	15,640	-	15,640
Unrealized and realized gains	-	(1,888)	(310)	(2,198)
Total investment returns	-	13,752	(310)	13,442
Amounts distributed for operations	-	(14,685)	-	(14,685)
Gifts and pledge payments	-	2	852	854
Other	-	(1,060)	523	(537)
Total net increase in endowments	-	(1,991)	1,065	(926)
ENDOWMENTS, END OF YEAR	\$ -	\$ 113,832	\$ 212,099	\$ 325,931
2014				
Endowments, beginning of year	\$ (12)	\$ 88,612	\$ 208,332	\$ 296,932
Investment returns:				
Earned income	-	14,957	-	14,957
Unrealized and realized gains	12	27,579	1,938	29,529
Total investment returns	12	42,536	1,938	44,486
Amounts distributed for operations	-	(14,551)	-	(14,551)
Gifts and pledge payments	-	-	744	744
Other	-	(774)	20	(754)
Total net increase in endowments	12	27,211	2,702	29,925
ENDOWMENTS, END OF YEAR	\$ -	\$ 115,823	\$ 211,034	\$ 326,857

All of the Hospitals endowments are classified as donor-restricted.

14. Gifts and Pledges

Gifts and pledges reported for financial statement purposes are recorded on the accrual basis. The Office of Development (OOD) reports total gifts based on contributions received in cash or property during the fiscal year. The following summarizes gifts and pledges reported for the years ended August 31, 2015 and 2014, per the *Statements of Activities*, in thousands of dollars:

	2015	2014
UNIVERSITY		
Current year gifts in support of operations	\$ 233,572	\$ 211,841
Donor advised funds, net	66,734	29,314
Current year gifts not included in operations	1,655	17,673
Temporarily restricted gifts and pledges, net	250,808	372,875
Permanently restricted gifts and pledges, net	208,206	154,068
TOTAL	760,975	785,771
HOSPITALS		
Current year gifts in support of operations	7,603	678
Temporarily restricted gifts and pledges, net	123,143	88,179
Permanently restricted gifts and pledges, net	852	764
TOTAL	131,598	89,621
CONSOLIDATED TOTAL PER STATEMENTS OF ACTIVITIES	892,573	875,392

15. Functional Expenses

Expenses for the years ended August 31, 2015 and 2014 are categorized on a functional basis as follows, in thousands of dollars:

	2015			2014
	UNIVERSITY	HOSPITALS	CONSOLIDATED	CONSOLIDATED
Instruction and departmental research	\$ 1,613,005	\$ -	\$ 1,613,005	\$ 1,492,360
Organized research - direct costs	1,159,430	-	1,159,430	1,075,577
Patient services	-	3,317,922	3,317,922	2,753,321
Auxiliary activities	962,599	-	962,599	896,359
Administration and general	393,130	373,212	766,342	676,133
Student services	219,785	-	219,785	188,268
Libraries	154,709	-	154,709	160,182
Development	91,953	14,060	106,013	104,341
SLAC facilities construction	51,087	-	51,087	42,736
TOTAL EXPENSES	\$ 4,645,698	\$ 3,705,194	\$ 8,350,892	\$ 7,389,277

Depreciation, interest, operations and maintenance expenses are allocated to program and supporting activities, except for SLAC facilities construction. Auxiliary activities include housing and dining services, intercollegiate athletics, Stanford Alumni Association, patient care provided by the SOM faculty, and other activities.

16. University Retirement Plans

The University provides retirement benefits through both defined benefit and defined contribution 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* (SCRCP). 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 SCRCP, which are vested immediately to participants, were approximately \$137.5 million and \$129.0 million for the years ended August 31, 2015 and 2014, 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 *Statements of Financial Position* as "accrued pension and postretirement benefit cost". These plans are described more fully 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. The University's policy is to fund pension costs in accordance with the Employee Retirement Income Security Act (ERISA)'s requirements.

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, 2015 and 2014, 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
2015				
Fair value of plan assets, beginning of year	\$ 301,314	\$ -	\$ 203,109	\$ 504,423
Change in plan assets:				
Actual return on plan assets	(6,231)	-	(7,067)	(13,298)
Employer contributions	-	4,782	16,205	20,987
Plan participants' contributions	-	-	11,173	11,173
Benefits and plan expenses paid	(25,114)	(4,782)	(28,442) *	(58,338)
FAIR VALUE OF PLAN ASSETS, END OF YEAR	269,969	-	194,978	464,947
Benefit obligation, beginning of year	316,165	197,596	556,898	1,070,659
Change in projected benefit obligation:				
Service cost	3,003	12,326	20,079	35,408
Interest cost	11,003	6,923	22,471	40,397
Plan amendments	1,565	-	-	1,565
Plan participants' contributions	-	-	11,173	11,173
Actuarial loss (gain)	10,213	(4,582)	44,288	49,919
Benefits and plan expenses paid	(25,114)	(4,782)	(28,442) *	(58,338)
BENEFIT OBLIGATION, END OF YEAR	316,835	207,481	626,467	1,150,783
NET LIABILITY RECOGNIZED IN THE STATEMENTS OF FINANCIAL POSITION	\$ (46,866)	\$ (207,481)	\$ (431,489)	\$ (685,836)
* Net of Medicare subsidy				
2014				
Fair value of plan assets, beginning of year	\$ 276,536	\$ -	\$ 170,537	\$ 447,073
Change in plan assets:				
Actual return on plan assets	49,934	-	29,678	79,612
Employer contributions	-	3,694	18,373	22,067
Plan participants' contributions	-	-	9,146	9,146
Benefits and plan expenses paid	(25,156)	(3,694)	(24,625) *	(53,475)
FAIR VALUE OF PLAN ASSETS, END OF YEAR	301,314	-	203,109	504,423
Benefit obligation, beginning of year	310,424	175,558	504,015	989,997
Change in projected benefit obligation:				
Service cost	3,253	10,827	15,577	29,657
Interest cost	12,798	7,373	23,606	43,777
Plan participants' contributions	-	-	9,146	9,146
Actuarial loss	14,846	7,532	29,179	51,557
Benefits and plan expenses paid	(25,156)	(3,694)	(24,625) *	(53,475)
BENEFIT OBLIGATION, END OF YEAR	316,165	197,596	556,898	1,070,659
NET LIABILITY RECOGNIZED IN THE STATEMENTS OF FINANCIAL POSITION	\$ (14,851)	\$ (197,596)	\$ (353,789)	\$ (566,236)
* Net of Medicare subsidy				

The accumulated benefit obligation for the SRAP was \$314.8 million and \$313.9 million at August 31, 2015 and 2014, respectively.

Net periodic benefit expense and non-operating activities related to the Plans for the years ended August 31, 2015 and 2014, in thousands of dollars, includes the following components:

	SRAP	FRIP	PRBP	TOTAL
2015				
Service cost	\$ 3,003	\$ 12,326	\$ 20,079	\$ 35,408
Interest cost	11,003	6,923	22,471	40,397
Expected return on plan assets	(18,660)	-	(15,233)	(33,893)
Amortization of:				
Prior service cost	277	-	2,545	2,822
Actuarial loss	-	5,570	5,192	10,762
NET PERIODIC BENEFIT EXPENSE (INCOME)	(4,377)	24,819	35,054	55,496
Net actuarial loss (gain)	35,104	(4,582)	66,588	97,110
Prior service cost	1,565	-	-	1,565
Amortization of:				
Prior service cost	(277)	-	(2,545)	(2,822)
Actuarial loss	-	(5,570)	(5,192)	(10,762)
TOTAL AMOUNTS RECOGNIZED IN NON-OPERATING ACTIVITIES	36,392	(10,152)	58,851	85,091
TOTAL AMOUNT RECOGNIZED IN NET PERIODIC BENEFIT EXPENSE AND NON-OPERATING ACTIVITIES	\$ 32,015	\$ 14,667	\$ 93,905	\$ 140,587
2014				
Service cost	\$ 3,253	\$ 10,827	\$ 15,577	\$ 29,657
Interest cost	12,798	7,373	23,606	43,777
Expected return on plan assets	(18,389)	-	(11,938)	(30,327)
Amortization of:				
Prior service cost	540	-	2,545	3,085
Actuarial loss	349	5,679	5,111	11,139
NET PERIODIC BENEFIT EXPENSE (INCOME)	(1,449)	23,879	34,901	57,331
Net actuarial loss (gain)	(16,699)	7,532	11,439	2,272
Amortization of:				
Prior service cost	(540)	-	(2,545)	(3,085)
Actuarial loss	(349)	(5,679)	(5,111)	(11,139)
TOTAL AMOUNTS RECOGNIZED IN NON-OPERATING ACTIVITIES	(17,588)	1,853	3,783	(11,952)
TOTAL AMOUNT RECOGNIZED IN NET PERIODIC BENEFIT EXPENSE AND NON-OPERATING ACTIVITIES	\$ (19,037)	\$ 25,732	\$ 38,684	\$ 45,379

Cumulative amounts recognized in non-operating activities, but not yet recognized in net periodic benefit expense in the *Statements of Activities*, are presented in the following table for the years ended August 31, 2015 and 2014, in thousands of dollars:

	SRAP	FRIP	PRBP	TOTAL
2015				
Prior service cost	\$ 1,602	\$ -	\$ 849	\$ 2,451
Net actuarial loss	56,942	88,538	196,421	341,901
ACCUMULATED PLAN BENEFIT COSTS NOT YET RECOGNIZED IN NET PERIODIC BENEFIT EXPENSE	\$ 58,544	\$ 88,538	\$ 197,270	\$ 344,352
2014				
Prior service cost	\$ 314	\$ -	\$ 3,394	\$ 3,708
Net actuarial loss	21,838	98,690	135,025	255,553
ACCUMULATED PLAN BENEFIT COSTS NOT YET RECOGNIZED IN NET PERIODIC BENEFIT EXPENSE	\$ 22,152	\$ 98,690	\$ 138,419	\$ 259,261

The prior service costs and net actuarial loss expected to be amortized from non-operating activities to net periodic benefit expense in fiscal year 2016, in thousands of dollars, are as follows:

	SRAP	FRIP	PRBP	TOTAL
Prior service cost	\$ 396	\$ -	\$ 849	\$ 1,245
Net actuarial loss	\$ 1,047	\$ 4,747	\$ 8,625	\$ 14,419

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	
	2015	2014	2015	2014	2015	2014
BENEFIT OBLIGATIONS						
Discount rate	4.00%	3.64%	3.93%	3.59%	4.46%	4.10%
Covered payroll growth rate	3.00%	3.00%	4.45%	4.45%	N/A	N/A
NET PERIODIC BENEFIT COST						
Discount rate	3.64%	4.31%	3.59%	4.30%	4.10%	4.77%
Expected returns on plan assets	6.50%	7.00%	N/A	N/A	7.50%	7.00%
Covered payroll growth rate	3.00%	3.50%	4.45%	4.41%	N/A	N/A

In 2014, the Society of Actuaries issued a new mortality table (RP-2014) and a new mortality improvement (projection) scale that recognize increases in life expectancy. In selecting its assumptions for determining the benefit obligations as of August 31, 2015, the University adopted a modified version of the RP-2014 mortality table and a projection scale based on the 2014 Trustees Report of the Social Security Administration (SSA). The use of the new mortality table and projection scale resulted in an increase of approximately \$20.5 million, \$3.9 million, and \$84.0 million to the SRAP, FRIP and PRBP benefit obligations as of August 31, 2015, respectively.

The expected long-term rate of return on asset assumptions for the SRAP and PRBP plans is 6.5% and 7.5%, 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, 2015, a 7.00% annual rate of increase in the per capita cost of covered health care was assumed for calendar year 2015, declining gradually to 4.75% by 2024 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	\$ 9,952	\$ (7,503)
Effect on accumulated PRBP obligation	\$ 117,795	\$ (92,168)

EXPECTED CONTRIBUTIONS

The University expects to contribute \$10.5 million to the FRIP and does not expect to contribute to the SRAP or PRBP during the fiscal year ending August 31, 2016.

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:

YEAR ENDING AUGUST 31	SRAP	FRIP	PRBP	
			EXCLUDING MEDICARE SUBSIDY	EXPECTED MEDICARE PART D SUBSIDY
2016	\$ 27,481	\$ 10,535	\$ 21,306	\$ 3,273
2017	23,947	15,515	23,237	3,605
2018	23,949	17,095	25,291	3,954
2019	23,430	16,272	27,388	4,334
2020	23,641	16,557	29,609	4,741
2021 - 2025	108,944	86,107	183,362	30,750

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, 2015, the University did not have concentrations of risk in any single entity, counterparty, sector, industry or country.

PLAN ASSET ALLOCATIONS

Actual allocations and weighted-average target allocations by asset category at August 31, 2015 are as follows:

ASSET CATEGORY	SRAP		PRBP	
	ACTUAL	TARGET	ACTUAL	TARGET
2015				
Cash and cash equivalents	<1%	0%	0%	0%
Public equities	39%	41%	74%	75%
Fixed income	60%	59%	26%	25%
Private equities	<1%	0%	0%	0%
TOTAL PORTFOLIO	100%	100%	100%	100%

FAIR VALUE OF PLAN ASSETS

Current U.S. GAAP defines a hierarchy of valuation inputs for the determination of the fair value of plan assets as described in *Note 5*. The plan assets measured at fair value at August 31, 2015 and 2014 are as follows, in thousands of dollars:

	AS OF			
	AUGUST 31, 2015	LEVEL 1	LEVEL 2	LEVEL 3
SRAP:				
Cash and cash equivalents	\$ 1,179	\$ 1,179	\$ -	\$ -
Public equities	105,361	105,361	-	-
Fixed income	163,205	159,479	3,726	-
Private equities	224	-	-	224
TOTAL	269,969	266,019	3,726	224
PRBP:				
Public equities	145,070	145,070	-	-
Fixed income	49,908	49,908	-	-
TOTAL	194,978	194,978	-	-
TOTAL FAIR VALUE OF PLAN ASSETS	\$ 464,947	\$ 460,997	\$ 3,726	\$ 224

	AS OF			
	AUGUST 31, 2014	LEVEL 1	LEVEL 2	LEVEL 3
SRAP:				
Cash and cash equivalents	\$ 1,308	\$ 1,308	\$ -	\$ -
Public equities	119,908	119,908	-	-
Fixed income	179,842	176,061	3,781	-
Private equities	256	-	-	256
TOTAL	301,314	297,277	3,781	256
PRBP:				
Public equities	152,150	152,150	-	-
Fixed income	50,959	50,959	-	-
TOTAL	203,109	203,109	-	-
TOTAL FAIR VALUE OF PLAN ASSETS	\$ 504,423	\$ 500,386	\$ 3,781	\$ 256

17. Hospitals Retirement Plans

The Hospitals 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. The Hospitals' contributions under the plan, which are vested immediately to participants, were approximately \$90.7 million and \$81.3 million for the years ended August 31, 2015 and 2014, respectively.

DEFINED BENEFIT PLANS

The Hospitals provide retirement and postretirement medical benefits through the *Staff Pension Plan* and the Postretirement Benefit Plans, respectively (the "Plans"). The obligations for the Plans, net of plan assets, are recorded in the *Statements of Financial Position* as "accrued pension and postretirement benefit cost". These plans are described more fully below.

Staff Pension Plan

Certain employees of the Hospitals are covered by the *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 plans are based on actuarially determined amounts sufficient to meet the benefits to be paid to plan participants.

Postretirement Medical Benefit Plan

The Hospitals provide health care benefits for certain retired employees through its *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' 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:

	STAFF PENSION PLAN	PRMB	TOTAL
2015			
Fair value of plan assets, beginning of year	\$ 220,428	\$ -	\$ 220,428
Change in plan assets:			
Actual return on plan assets	(4,835)	-	(4,835)
Employer contributions	300	4,914	5,214
Plan participants' contributions	-	1,038	1,038
Benefits and plan expenses paid	(12,340)	(5,952) *	(18,292)
FAIR VALUE OF PLAN ASSETS, END OF YEAR	203,553	-	203,553
Benefit obligation, beginning of year	253,151	84,616	337,767
Change in projected benefit obligation:			
Service cost	2,006	2,068	4,074
Interest cost	9,455	2,995	12,450
Plan participants' contributions	-	1,038	1,038
Actuarial loss (gain)	4,883	(14)	4,869
Benefits and plan expenses paid	(12,340)	(5,952) *	(18,292)
BENEFIT OBLIGATION, END OF YEAR	257,155	84,751	341,906
NET LIABILITY RECOGNIZED IN THE STATEMENTS OF FINANCIAL POSITION	\$ (53,602)	\$ (84,751)	\$ (138,353)
* Net of Medicare subsidy			
2014			
Fair value of plan assets, beginning of year	\$ 187,527	\$ -	\$ 187,527
Change in plan assets:			
Actual return on plan assets	37,820	-	37,820
Employer contributions	6,020	4,703	10,723
Plan participants' contributions	-	1,237	1,237
Benefits and plan expenses paid	(10,939)	(5,940) *	(16,879)
FAIR VALUE OF PLAN ASSETS, END OF YEAR	220,428	-	220,428
Benefit obligation, beginning of year	231,342	82,846	314,188
Change in projected benefit obligation:			
Service cost	2,324	1,839	4,163
Interest cost	10,330	3,507	13,837
Plan participants' contributions	-	1,237	1,237
Actuarial loss	20,094	1,127	21,221
Benefits and plan expenses paid	(10,939)	(5,940) *	(16,879)
BENEFIT OBLIGATION, END OF YEAR	253,151	84,616	337,767
NET LIABILITY RECOGNIZED IN THE STATEMENTS OF FINANCIAL POSITION	\$ (32,723)	\$ (84,616)	\$ (117,339)
* Net of Medicare subsidy			

The accumulated benefit obligation for the Pension Plan was \$255.0 million and \$250.7 million at August 31, 2015 and 2014, respectively.

Net periodic benefit expense and non-operating activities related to the Plans for the years ended August 31, 2015 and 2014, in thousands of dollars, includes the following components:

	STAFF PENSION PLAN	PRMB	TOTAL
2015			
Service cost	\$ 2,006	\$ 2,068	\$ 4,074
Interest cost	9,455	2,995	12,450
Expected return on plan assets	(13,543)	-	(13,543)
Amortization of:			
Prior service cost	-	815	815
Actuarial loss (gain)	2,631	(338)	2,293
NET PERIODIC BENEFIT EXPENSE	549	5,540	6,089
Net actuarial loss (gain)	23,261	(14)	23,247
Amortization of:			
Prior service cost	-	(815)	(815)
Actuarial gain (loss)	(2,631)	338	(2,293)
TOTAL AMOUNTS RECOGNIZED IN NON-OPERATING ACTIVITIES	20,630	(491)	20,139
TOTAL AMOUNT RECOGNIZED IN NET PERIODIC BENEFIT EXPENSE AND NON- OPERATING ACTIVITIES	\$ 21,179	\$ 5,049	\$ 26,228
2014			
Service cost	\$ 2,324	\$ 1,839	\$ 4,163
Interest cost	10,330	3,507	13,837
Expected return on plan assets	(13,471)	-	(13,471)
Amortization of:			
Prior service cost	-	815	815
Actuarial loss (gain)	2,245	(463)	1,782
NET PERIODIC BENEFIT EXPENSE	1,428	5,698	7,126
Net actuarial loss (gain)	(4,255)	1,127	(3,128)
Amortization of:			
Prior service cost	-	(815)	(815)
Actuarial gain (loss)	(2,245)	463	(1,782)
TOTAL AMOUNTS RECOGNIZED IN NON-OPERATING ACTIVITIES	(6,500)	775	(5,725)
TOTAL AMOUNT RECOGNIZED IN NET PERIODIC BENEFIT EXPENSE AND NON- OPERATING ACTIVITIES	\$ (5,072)	\$ 6,473	\$ 1,401

Cumulative amounts recognized in non-operating activities, but not yet recognized in net periodic benefit expense in the *Statements of Activities*, are presented in the following table for the years ended August 31, 2015 and 2014, in thousands of dollars:

	STAFF PENSION PLAN	PRMB	TOTAL
2015			
Prior service cost	\$ -	\$ 2,586	\$ 2,586
Net actuarial loss (gain)	87,447	(4,730)	82,717
ACCUMULATED PLAN BENEFIT COSTS NOT YET RECOGNIZED IN NET PERIODIC BENEFIT EXPENSE			
	\$ 87,447	\$ (2,144)	\$ 85,303
2014			
Prior service cost	\$ -	\$ 3,401	\$ 3,401
Net actuarial loss (gain)	66,817	(5,054)	61,763
ACCUMULATED PLAN BENEFIT COSTS NOT YET RECOGNIZED IN NET PERIODIC BENEFIT EXPENSE			
	\$ 66,817	\$ (1,653)	\$ 65,164

The prior service cost and net actuarial loss expected to be amortized from non-operating activities to net periodic benefit expense in fiscal year 2016, in thousands of dollars, are as follows:

	STAFF PENSION PLAN	PRMB	TOTAL
Prior service cost	\$ -	\$ 773	\$ 773
Net actuarial loss (gain)	\$ 2,432	\$ (313)	\$ 2,119

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	
	2015	2014	2015	2014
BENEFIT OBLIGATIONS				
Discount rate	4.03% - 4.20%	3.66% - 3.84%	4.01%	3.65%
Covered payroll growth rate	3.00%	3.00%	N/A	N/A
NET PERIODIC BENEFIT COST				
Discount rate	3.66% - 3.84%	4.37% - 4.59%	3.65%	4.37%
Expected return on plan assets	6.25% - 7.00%	6.25% - 7.50%	N/A	N/A
Covered payroll growth rate	3.00%	3.00%	N/A	N/A

In 2014, the Society of Actuaries issued a new mortality table (RP-2014) and a new mortality improvement (projection) scale that recognize increases in life expectancy. In selecting its assumptions for determining the benefit obligations as of August 31, 2015, the Hospitals adopted a modified version of the RP-2014 mortality table and a projection scale based on the 2014 Trustees Report of the Social Security Administration (SSA). The use of the new mortality table and projection scale resulted in an increase of approximately \$19.0 million and \$7.4 million to the Pension Plan and PRMB benefit obligations, as of August 31, 2015, respectively.

The expected long-term rate of return on asset assumptions for the Pension Plan is 6.25% - 7.00%. 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, 2015, a 7.00% annual rate of increase in the per capita cost of covered health care was assumed for calendar year 2015, declining gradually to 4.75% by 2024 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	\$ 133	\$ (123)
Effect on accumulated PRMB obligation	\$ 2,144	\$ (2,004)

EXPECTED CONTRIBUTIONS

The Hospitals expect to contribute \$101 thousand to the Pension Plan and \$4.4 million to the PRMB during the fiscal year ending August 31, 2016.

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:

YEAR ENDING AUGUST 31	STAFF PENSION PLAN	PRMB	
		EXCLUDING MEDICARE SUBSIDY	EXPECTED MEDICARE PART D SUBSIDY
2016	\$ 13,816	\$ 5,408	\$ 287
2017	14,343	5,640	279
2018	14,851	5,950	275
2019	15,316	6,289	270
2020	15,755	6,621	263
2021 - 2025	82,388	35,641	1,165

INVESTMENT STRATEGY

The Hospitals' investment strategy for the Pension Plan is to maximize the total rate of return (income and appreciation) within the limits of prudent risk taking and Section 404 of the 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

The Hospitals 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, 2015, the Hospitals did not have concentrations of risk in any single entity, counterparty, sector, industry or country.

PLAN ASSET ALLOCATIONS

Actual allocations and weighted-average target allocations by asset category for the Pension Plan at August 31, 2015 are as follows:

ASSET CATEGORY	ACTUAL	TARGET
2015		
Cash and cash equivalents	1%	0%
Public equities	48%	50%
Fixed income	51%	50%
TOTAL PORTFOLIO	100%	100%

FAIR VALUE OF PLAN ASSETS

Current U.S. GAAP defines a hierarchy of valuation inputs for the determination of the fair value of plan assets as described in *Note 5*. The Pension Plan assets measured at fair value at August 31, 2015 and 2014, are all categorized as Level 1 investments and are as follows, in thousands of dollars:

	2015	2014
Cash and cash equivalents	\$ 1,328	\$ 962
Public equities	97,457	107,628
Fixed income	104,768	111,838
TOTAL FAIR VALUE OF PENSION PLAN ASSETS	\$ 203,553	\$ 220,428

18. Operating Leases

The University and the Hospitals lease certain equipment and facilities under operating leases expiring at various dates. Total rental expense under these leases for the years ended August 31, 2015 and 2014 was \$51.1 million and \$45.3 million, respectively, for the University and \$91.9 million and \$80.5 million, respectively, for the Hospitals.

Net minimum future operating lease payments for periods subsequent to August 31, 2015, in thousands of dollars, are as follows:

YEAR ENDING AUGUST 31	MINIMUM LEASE PAYMENTS	
	UNIVERSITY	HOSPITALS
2016	\$ 46,779	\$ 86,690
2017	35,961	82,309
2018	34,900	79,059
2019	25,825	72,932
2020	17,692	57,995
Thereafter	91,880	157,767
TOTAL	\$ 253,037	\$ 536,752

19. Related Party Transactions

Members of the University's and Hospitals' Boards and senior management may, from time to time, be associated, either directly or indirectly, with companies doing business with the University or Hospitals. For senior management, each entity requires annual disclosure of significant financial interests in, or employment or consulting relationships with, entities doing business with its relevant entity. These annual disclosures cover both senior management and their immediate family members. When such relationships exist, measures are taken to manage appropriately the actual or perceived conflict in the best interests of the relevant entity. No such associations are considered to be significant.

The University and each of the hospitals have separate written conflict of interest policies that require, among other things, 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.

20. Commitments and Contingencies

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

SPONSORED RESEARCH

The University conducts substantial research for the federal government pursuant to contracts and grants from federal agencies and departments. The University records reimbursements of direct and indirect costs (facilities and administrative costs) from grants and contracts as operating revenues. 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. Costs recovered by the University in support of sponsored research are subject to audit and adjustment. Fringe benefit costs for the fiscal years ended August 31, 2007 to 2015 are still subject to audit. The University does not anticipate that any adjustments will be material to the consolidated financial statements.

HEALTH CARE

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. Differences between final settlements and amounts accrued in previous years are reported as adjustments to "patient care, net" revenue in the year the examination is substantially completed. Medicare cost reports have been audited by the Medicare fiscal intermediary through August 31, 2006 for SHC and August 31, 2013 for LPCH.

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

INFORMATION SECURITY AND PRIVACY

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

LABOR AGREEMENTS

Approximately 8% of the University's, 32% of SHC's and 42% of LPCH's employees are covered under union contract arrangements and are, therefore, subject to labor stoppages when contracts expire. There are currently no expired contracts under these union contract arrangements. The University's agreements with the Stanford Deputy Sheriffs' Association and the Service Employees International Union (SEIU) will expire in 2020 and 2019, respectively. The Hospitals' agreements with SEIU and the Committee for Recognition of Nursing Achievement (CRONA) will expire in 2017 and 2016, respectively.

GUARANTEES AND INDEMNIFICATIONS

The University and the Hospitals enter 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, 2015.

LITIGATION

The University and the Hospitals 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.

MEDICAL CENTER RENEWAL PROJECT

In July 2011, the University and Hospitals obtained local approval for a Renewal Project to rebuild SHC and expand LPCH to assure adequate capacity and provide modern, technologically-advanced hospital facilities. The Renewal Project also includes replacement of outdated laboratory facilities at the Stanford SOM and remodeling of Hoover Pavilion.

California's Hospital Seismic Safety Act requires licensed acute care functions to be conducted only in facilities that meet specified seismic safety standards which have varying deadlines. The Renewal Project as approved is also designed to meet these standards and deadlines.

SHC's and LPCH's share of the estimated total cost of the Renewal Project is \$2 billion and \$1.2 billion, respectively. The source of funding for the Renewal Project includes operating surpluses, gifts, government grants, and bond proceeds. Through August 2015, the Hospitals have recorded \$1.4 billion in construction in progress, inclusive of \$81.1 million in capitalized interest, related to this project. Based on current estimated schedules, management currently projects that the Renewal Project construction will be complete in 2017.

CONTRACTUAL COMMITMENTS

At August 31, 2015, the University had contractual obligations of approximately \$334.4 million in connection with major construction projects. Remaining expenditures on construction in progress are estimated to be \$747.9 million, which will be financed with certain unexpended plant funds, gifts and debt. Commitments on contracts for the construction and remodeling of Hospital facilities were approximately \$1.0 billion at August 31, 2015.

An agreement with a solar farm developer and operator was executed in 2015 to purchase the output from its proposed solar photovoltaic facility, which is expected to be placed into service by January 1, 2017. The University's total payment under the agreement over 25 years, undiscounted, is \$198.6 million.

In addition, as described in *Note 5*, the University is obligated under certain alternative investment agreements to advance additional funding up to specified levels over a period of years.

21. Subsequent Events

The University and the Hospitals have evaluated subsequent events for the period from August 31, 2015 through December 9, 2015, the date the consolidated financial statements were issued.

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APPENDIX B

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

The following is a summary of certain provisions of the Indenture and the Loan Agreement that are not described elsewhere in this Official Statement. The Bonds are issued and secured pursuant to the Indenture and the Loan Agreement. References to the Indenture, the Loan Agreement, or a fund or account refer to the related document, fund or account with respect to the Bonds, as described in this Official Statement. Unless otherwise specified to the contrary in this Appendix B, all definitions and provisions summarized refer to the Indenture and the Loan Agreement. These summaries do not purport to be comprehensive and reference should be made to the Indenture and the Loan Agreement for a full and complete statement of their provisions.

DEFINITIONS OF CERTAIN TERMS

Unless the context otherwise requires, the terms defined in this summary shall, for all purposes of this summary, have the meanings herein specified, to be equally applicable to both singular and plural forms of any of the terms herein defined. Unless otherwise defined in this summary, all terms used herein or elsewhere in the Official Statement shall have the meanings assigned to such terms in the Indenture or the Act, as applicable.

“Act” means the California Educational Facilities Authority Act, constituting Chapter 2 (commencing with Section 94100) of Part 59 of Division 10 of Title 3 of the Education Code of the State, as now in effect and as it may from time to time hereafter be amended or supplemented.

“Act of Bankruptcy” of the Authority or the Borrower means any of the following with respect to such party:

- (1) the commencement by such party of a voluntary case under the federal bankruptcy laws, as now in effect or hereafter amended, or any other applicable federal or state bankruptcy, insolvency or similar laws;
- (2) the filing of a petition with a court having jurisdiction over such party to commence an involuntary case against such party under the federal bankruptcy laws, as now in effect or hereafter amended, or any other applicable federal or state bankruptcy, insolvency or similar laws, which shall not have been stayed or dismissed within 60 days;
- (3) such party shall admit in writing its inability to pay its debts generally as they become due;
- (4) a receiver, trustee or liquidator of such party shall be appointed in any proceeding brought against such party;
- (5) the making of a general assignment by such party for the benefit of its creditors; or
- (6) the entry by such party into an agreement of composition with its creditors.

“Additional Payments” means the payments to be made by the Borrower to the Trustee or the Authority in accordance with the Loan Agreement.

“Administrative Fees and Expenses” means any application, commitment, financing or similar fee charged, or reimbursement for administrative or other expenses incurred, by the Authority or the Trustee.

“Authority” means the California Educational Facilities Authority, a public instrumentality of the State established by the Act.

“Authorized Representative” means with respect to the Borrower its Chief Financial Officer, its Senior Associate Vice President for Finance, its Treasurer, or such other person as may be designated to sign for the Borrower by a Certificate of the Borrower signed by its Chief Financial Officer, its Senior Associate Vice President for Finance, or its Treasurer and filed with the Trustee.

“Base Loan Payments” means the payments required to be made by the Borrower to the Trustee for the account of the Authority in accordance with the Loan Agreement for the payment of the principal (whether at maturity or upon prior redemption) of and interest to the date fixed for redemption or maturity and premium, if any, on the Bonds.

“Bonds” means the California Educational Facilities Authority Revenue Bonds (Stanford University), issued in one or more Series, authorized by, and at any time Outstanding pursuant to, the Indenture.

“Borrower” means The Board of Trustees of the Leland Stanford Junior University, a body having corporate powers under the Constitution and laws of the State, and its successors or assigns or any co-obligor permitted pursuant to the Loan Agreement.

“Business Day” means any day other than a Saturday or a Sunday or a day on which banking institutions located in the city in which the Principal Corporate Trust Office of the Trustee is located are authorized or obligated by law or executive order to be closed.

“Certificate,” “Statement,” “Request,” “Order” or “Requisition” of the Authority or the Borrower mean, respectively, a written certificate, statement, request, order or requisition signed in the name of the Authority by its Chairman or a deputy thereto or its Executive Director or by any other person who is specifically authorized by a resolution of the Authority to execute such a document on its behalf, or in the name of the Borrower by an Authorized Representative of the Borrower. Any such instrument and supporting opinions or representations, if any, may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined shall be read and construed as a single instrument. If and to the extent required by the Indenture, each such instrument shall include the statements provided for in the Indenture.

“Code” means the Internal Revenue Code of 1986, as amended, or any successor code or law and any regulations in effect or promulgated thereunder.

“Continuing Disclosure Agreement” means each Continuing Disclosure Agreement, dated the date of issuance and delivery of the Bonds, between the Borrower and the Trustee, as originally executed and as it may be amended in accordance with its terms.

“Depository” means any securities depository that is a clearing agency under federal law operating and maintaining, with its participants or otherwise, a book entry-system to record ownership of book-entry interests in Bonds, and to effect transfers of book-entry interests in Bonds in book-entry form, and includes, and means initially, The Depository Trust Company, New York, New York.

“Favorable Opinion of Bond Counsel” means an Opinion of Counsel by a nationally recognized bond counsel firm experienced in matters relating to the exclusion from gross income for federal income tax purposes of interest payable on obligations of state and political subdivisions.

“Fifth Supplemental Indenture” means the Fifth Supplemental Indenture, dated as of June 1, 2016, between the Authority and the Trustee.

“Fifth Supplemental Loan Agreement” means the Fifth Supplemental Loan Agreement, dated as of June 1, 2016, between the Authority and the Borrower.

“First Supplemental Indenture” means the First Supplemental Indenture, dated as of April 1, 2012, between the Authority and the Trustee.

“First Supplemental Loan Agreement” means the First Supplemental Loan Agreement, dated as of April 1, 2012, between the Authority and the Borrower.

“Fitch” means Fitch, Inc., doing business as Fitch Ratings, a corporation organized and existing under the laws of the State of Delaware, its successors and their assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a nationally recognized statistical rating organization, “Fitch” shall be deemed to refer to any other nationally recognized statistical rating organization designated by the Authority following receipt of a Request of the Borrower.

“Fourth Supplemental Indenture” means the Fourth Supplemental Indenture, dated as of May 1, 2014, between the Authority and the Trustee.

“Fourth Supplemental Loan Agreement” means the Fourth Supplemental Loan Agreement, dated as of May 1, 2014, between the Authority and the Borrower.

“Holder” or *“Bondholder”* whenever used in the Indenture with respect to a Bond, means the person in whose name such Bond is registered.

“Indenture” means the Indenture, as originally executed or as it may from time to time be supplemented, modified or amended by any Supplemental Indenture entered into pursuant to the provisions thereof and providing for the issuance of an additional Series of Bonds, including but not limited to the First Supplemental Indenture, providing for the issuance of the Bonds.

“Investment Securities” means any of the following obligations as and to the extent that such obligations are at the time legal investments under the Act for moneys held under the Indenture and then proposed to be invested (the Trustee is entitled to rely upon any investment direction from the Borrower as a certification that such investment constitutes an Investment Security):

(1) direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury, and CATS and TIGRS) or obligations the principal of and interest on which are unconditionally guaranteed by the United States of America;

(2) bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself): (a) U.S. Export-Import Bank (“Eximbank”), (b) Farmers Home Administration (“FmHA”), (c) Federal Financing Bank, (d) Federal Housing Administration Debentures (“FHA”), (e) General Services Administration, (f) Government National Mortgage Association (“GNMA” or “Ginnie Mae”),

(g) U.S. Maritime Administration, and (h) U.S. Department of Housing and Urban Development (“HUD”);

(3) bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies (stripped securities are only permitted if they have been stripped by the agency itself): (a) Federal Home Loan Bank System, (b) Federal Home Loan Mortgage Corporation (“FHLMC” or “Freddie Mac”), (c) Federal National Mortgage Association (“FNMA” or “Fannie Mae”), (d) Student Loan Marketing Association (“SLMA” or “Sallie Mae”), (e) Resolution Funding Corp. (“REFCORP”) obligations, and (f) Farm Credit System;

(4) money market mutual funds have a rating in the highest investment category granted thereby from S&P or Moody’s, including, without limitation any mutual fund for which the Trustee or an affiliate of the Trustee serves as investment manager, administrator, shareholder servicing agent, and/or custodian or subcustodian, notwithstanding that (i) the Trustee or an affiliate of the Trustee receives fees from funds for services rendered, (ii) the Trustee collects fees for services rendered pursuant to the Indenture, which fees are separate from the fees received from such funds, and (iii) services performed for such funds and pursuant to the Indenture may at times duplicate those provided to such funds by the Trustee or an affiliate of the Trustee;

(5) certificates of deposit secured at all times by collateral described in (1) and/or (2) above. Such certificates must be issued by commercial banks, savings and loan associations or mutual savings banks. The collateral must be held by a third party and the Trustee on behalf of the Bondholders must have a perfected first security interest in collateral;

(6) certificates of deposit, savings accounts, deposit accounts or money market deposits which are fully insured by FDIC, including BIF and SAIF;

(7) investment agreements, including GIC’s, Forward Purchase Agreements and Reserve Fund Put Agreements;

(8) commercial paper rated, at the time of purchase, “Prime – 1” by Moody’s and “A-1” or better by S&P;

(9) bonds or notes issued by any state or municipality which are rated by Moody’s and S&P in one of the two highest rating categories assigned by such agencies;

(10) federal funds or bankers acceptances with a maximum term of one year of any bank which has an unsecured, uninsured and unguaranteed obligation rating of “Prime-1” or “A3” or better by Moody’s and “A-1” or “A” or better by S&P;

(11) repurchase agreements (“repos”), which must meet the following criteria:

(a) repos must be between the Trustee and a dealer bank or securities firm that is: (i) a primary dealer on the Federal Reserve reporting dealer list which is rated “A” or better by S&P and Moody’s, or (ii) a bank rated “A” or above by S&P and Moody’s;

(b) the written repo contract must include the following: (i) securities which are acceptable for transfer are direct U.S. governments, or federal agencies backed by the full faith and credit of the U.S. government (and FNMA & FHLMC), (ii) the term of the repo may be up to 30 days, (iii) the collateral must be delivered to the Trustee (if the Trustee is supplying the collateral) or its agent before/simultaneous with payment (perfection by possession of certificated securities), (iv) the securities

must be valued weekly, marked-to-market at current market price plus accrued interest. The value of collateral must be equal to 104% of the amount of cash transferred by the Trustee to the dealer bank or security firm under the repo plus accrued interest. If the value of securities held as collateral slips below 104% of the value of the cash transferred by the Trustee, then additional cash and/or acceptable securities must be transferred. If, however, the securities used as collateral are BNMA or FHLMC, then the value of collateral must equal 105%; and

(12) any other investment approved in writing by the Authority.

“Loan Agreement” means that certain loan agreement, between the Authority and the Borrower, as supplemented by the First Supplemental Loan Agreement, and as it may from time to time be further supplemented, modified or amended in accordance with the terms thereof and of the Indenture.

“Loan Default Event” means any of the events of default specified in the provisions of the Loan Agreement summarized below under “LOAN AGREEMENT – Events of Default; Remedies on Default.”

“Moody’s” means Moody’s Investors Service, a corporation organized and existing under the laws of the State of Delaware, its successors and their assigns, or, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a nationally recognized statistical rating organization, any other nationally recognized statistical rating organization designated by the Borrower by notice to the Authority and the Trustee.

“MSRB” means the Municipal Securities Rulemaking Board.

“Notice by Mail” or “notice” of any action or condition “by Mail” means a written notice meeting the requirements of the Indenture mailed by first-class mail to the Holders of specified registered Bonds, at the addresses shown on the registration books maintained pursuant to the Indenture.

“Opinion of Counsel” means a written opinion of counsel (who may be counsel for the Authority) selected by the Authority and reasonably acceptable to the Borrower. If and to the extent required by the provisions of the Indenture, each Opinion of Counsel shall include the statements provided for in the Indenture.

“Outstanding” when used as of any particular time (subject to the provisions of the Indenture) with reference to Bonds, means all Bonds theretofore, or thereupon being, authenticated and delivered by the Trustee under the Indenture except (1) Bonds theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation; (2) on or after any Purchase Date for Variable Rate Bonds pursuant to the Indenture, all Variable Rate Bonds (or portions of Variable Rate Bonds) which have been purchased on such date, but which have not been delivered to the tender agent, provided that funds sufficient for such purchase are on deposit with the tender agent in accordance with the provisions of the Indenture; (3) Bonds with respect to which all liability of the Authority shall have been discharged in accordance with the Indenture; and (4) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Trustee pursuant to the Indenture.

“Person” means an individual, corporation, firm, association, partnership, trust, or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof.

“Principal Payment Date” means any date on which principal on the Bonds of any Series is due and payable, whether by reason of maturity or of redemption from mandatory sinking account payments, if any, established in connection with such Series of Bonds.

“*Rating Agency*” means Moody’s, S&P or Fitch.

“*Record Date*” means, with respect to any Interest Payment Date for the Bonds, the fifteenth day of the calendar month preceding such Interest Payment Date, whether or not such day is a Business Day.

“*Redemption Price*” means, with respect to any Bond (or portion thereof), the principal amount of such Bond (or portion) plus the applicable premium, if any, payable upon the date fixed for redemption thereof pursuant to the provisions of such Bond and the Indenture.

“*Revenues*” means all payments received by the Authority or the Trustee from the Borrower pursuant or with respect to the Loan Agreement (except Additional Payments paid by the Borrower pursuant to the Loan Agreement, any amounts paid by the Borrower pursuant to the Loan Agreement and amounts received for or on deposit in the Rebate Fund), including, without limiting the generality of the foregoing, Base Loan Payments (including both timely and delinquent payments), Borrower Liquidity Payments (as that term is defined in the Indenture), prepayments and all income derived from the investment of any money in any fund or account held by the Trustee and established pursuant to the Indenture.

“*S&P*” means Standard & Poor’s, a division of The McGraw-Hill Companies, Inc., a corporation organized and existing under the laws of the State of New York, its successors and their assigns, or, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a nationally recognized statistical rating organization, any other nationally recognized statistical rating organization designated by the Borrower by notice to the Authority and the Trustee.

“*Second Supplemental Indenture*” means the Second Supplemental Indenture, dated as of May 1, 2013, between the Authority and the Trustee.

“*Second Supplemental Loan Agreement*” means the Second Supplemental Loan Agreement, dated as of May 1, 2013, between the Authority and the Borrower.

“*Series U-7 Bonds*” means the California Educational Facilities Authority Revenue Bonds (Stanford University) Series U-7, authorized by, and at any time Outstanding pursuant to the Indenture, supplemented by the First Supplemental Indenture, the Second Supplemental Indenture, the Third Supplemental Indenture, the Fourth Supplemental Indenture, and the Fifth Supplemental Indenture.

“*Tax Agreement*” means that certain tax agreement entered into between the Authority and the Borrower at the time of issuance and delivery of the Bonds, as the same may be amended or supplemented in accordance with its terms.

“*Third Supplemental Indenture*” means the Third Supplemental Indenture, dated as of May 1, 2014, between the Authority and the Trustee.

“*Third Supplemental Loan Agreement*” means the Third Supplemental Loan Agreement, dated as of May 1, 2014, between the Authority and the Borrower.

“*Variable Rate Bonds*” means Bonds that bear interest at a variable rate or rates.

INDENTURE

The Indenture sets forth the terms of the Bonds, the nature and extent of the security, various rights of the Bondholders, rights, duties and immunities of the Trustee and the rights and obligations of the Authority. Certain provisions of the Indenture are summarized in this Official Statement under the captions "THE BONDS" and "SECURITY FOR THE BONDS." Other provisions are summarized below. This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the Indenture.

Terms of the Bonds

The Bonds shall be dated as of their date of delivery and shall bear interest from the Interest Payment Date to which interest has been paid as of the date on which such Bonds are authenticated or, if they are authenticated on or before the Record Date for the first Interest Payment Date, from their date of delivery; provided, however, that if, at the time of authentication of any Bonds of a Series, interest is in default on Outstanding Bonds of such Series, such Bond shall bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment on the Outstanding Bonds of such Series. Interest on the Bonds shall be calculated on the basis of a 360-day year and twelve 30-day months and shall be payable in arrears on each Interest Payment Date, upon maturity or upon prior redemption.

The Trustee shall not be required to transfer or exchange (i) any Bond during the 15 days next preceding the date on which notice of redemption of Bonds of such Series is given, or (ii) any Bond called for redemption.

Pledge and Assignment of Revenues

The Authority transfers in trust, grants a security interest in and assigns to the Trustee, for the benefit of the Holders from time to time of the Bonds, all of the Revenues and other assets pledged under the Indenture, including proceeds of the sale of the Bonds, held in any fund or account established under the Indenture and held by the Trustee (except for the Rebate Fund and the Purchase Fund); all of the right, title and interest of the Authority in the Loan Agreement (except for (i) the right to receive and to enforce its rights with respect to any Administrative Fees and Expenses or Additional Payments to the extent payable to the Authority, (ii) any rights of the Authority or its officers, directors, agents or employees with respect to reimbursement or indemnification or any express rights to give consents or approvals or to receive notices, and (iii) any rights of the Authority to inspection). The Trustee shall be entitled to, and shall, subject to the provisions of the Indenture, collect and receive all of the Revenues and any Revenues collected or received by the Authority shall be deemed to be held and to have been collected or received, by the Authority as the agent of the Trustee and shall forthwith be paid by the Authority to the Trustee. The Trustee also shall be entitled to, and shall, take all steps, actions and proceedings reasonably necessary in its judgment to enforce all of the rights of the Authority and all of the obligations of the Borrower under the Loan Agreement.

Establishment of Funds and Accounts

The Indenture creates a Stanford University Series U Project Construction Fund, a Stanford University TECP Repayment Fund, a Stanford University Taxable CP Repayment Fund, a Bond Fund (and an Interest Account and a Principal Account therein), a Redemption Fund (and an Optional Redemption Account therein) and a Rebate Fund, all of which are to be held by the Trustee.

Stanford University Series U Project Construction Fund. The moneys, if any, in the Stanford University Series U Project Construction Fund shall be transferred by the Trustee to the Borrower pursuant to the Indenture and applied by the Borrower in accordance with the Loan Agreement to pay Costs of Issuance and costs, if any, of the Series U Project.

Stanford University TECP Repayment Fund. The moneys, if any, in the Stanford University CP Repayment Fund shall be transferred by the Trustee to the Borrower pursuant to the Indenture and applied by the Borrower in accordance with the Loan Agreement to repay tax-exempt commercial paper notes.

Stanford University Taxable CP Repayment Fund. The moneys, if any, in the Stanford University CP Repayment Fund shall be transferred by the Trustee to the Borrower pursuant to the Indenture and applied by the Borrower in accordance with the Loan Agreement to repay taxable commercial paper notes.

Bond Fund. The moneys in the Bond Fund shall be used, withdrawn and disbursed by the Trustee pursuant to the Indenture.

Interest Account. Moneys in the Interest Account shall be held, disbursed, allocated and applied by the Trustee only as provided in the Indenture. The Trustee shall deposit the following Revenues in the Interest Account when and as such Revenues are received: (1) the interest component of all Base Loan Payments, including the interest component of all cash prepayments of Base Loan Payments made pursuant to the Loan Agreement; (2) all interest, profits and other income received from the investment of moneys in the Interest Account; and (3) any other Revenues not required to be deposited in any other fund or account established pursuant to the Indenture.

All amounts in the Interest Account shall be used and withdrawn by the Trustee solely for the purpose of paying the interest on the Bonds as the same becomes due and payable (including accrued interest with respect to any Bonds purchased or redeemed prior to maturity pursuant to the Indenture).

Principal Account. The Trustee shall deposit the following Revenues in the Principal Account when and as such Revenues are received: (1) the principal component of all Base Loan Payments, but excluding the principal component of all cash prepayments of Base Loan Payments made pursuant to the Loan Agreement, which shall be deposited in the Redemption Fund; and (2) all interest, profits and other income received from the investment of moneys in the Principal Account.

Redemption Fund. The Trustee shall deposit the following Revenues in the Optional Redemption Account when and as such Revenues are received: (1) except as provided in the following paragraph, the principal component of all cash prepayments of Base Loan Payments made pursuant to the Loan Agreement; and (2) all interest, profits and other income received from the investment of moneys in the Optional Redemption Account.

All amounts deposited in the Optional Redemption Account shall be used and withdrawn by the Trustee solely for the purpose of redeeming Bonds, in the manner and upon the terms and conditions specified in the Indenture, at the next succeeding date of redemption for which notice has not been given and at the Redemption Prices then applicable to redemptions from the Optional Redemption Account; provided, however that, at any time prior to giving of such notice of redemption, the Trustee shall, upon direction of the Borrower, apply such amounts to the purchase of Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as the Borrower may direct, except that the purchase price (exclusive of accrued interest) may not exceed the Redemption Price then applicable to the Bonds (or, if the Bonds are not then subject to redemption, the par value of such Bonds); and provided further that, in the case of

the Optional Redemption Account, in lieu of redemption at such next succeeding date of redemption, or in combination therewith, amounts in such account may be transferred to the Bond Fund and credited against Base Loan Payments in order of their due date as set forth in a Request of the Borrower. All Bonds purchased or redeemed from the Redemption Fund shall be allocated first to the next succeeding Mandatory Sinking Account Payment, then as a credit against such future Mandatory Sinking Account Payments as the Borrower may specify.

Rebate Fund. Subject to the transfer provisions provided in the Indenture, all money at any time deposited in the Rebate Fund shall be held by the Trustee in trust, to the extent required to satisfy the Rebate Amount (as defined in the Tax Agreement), for payment to the federal government of the United States of America. Neither the Authority, the Borrower nor the Holder of any Bonds shall have any rights in or claim to such money. All amounts deposited into or on deposit in the Rebate Fund shall be governed by the Indenture and by the Tax Agreement (which is incorporated in the Loan Agreement by reference). The Trustee shall be deemed conclusively to have complied with such provisions if it follows the directions of the Borrower including supplying all necessary information as directed by the Borrower, and shall have no liability or responsibility to enforce compliance by the Borrower or the Authority with the terms of the Tax Agreement.

Issuance of Additional Series of Bonds

The Authority may issue additional Series of Bonds under the Indenture at any time at the request of the Borrower. Each such additional Series of Bonds shall be executed by the Authority for issuance and delivery to the Trustee and thereupon shall be authenticated by the Trustee and delivered to the Authority upon its order, but only upon receipt by the Trustee of the following:

(1) An original executed copy of the Supplemental Indenture authorizing such Series of Bonds, which Supplemental Indenture shall specify (a) the purpose for which such Series of Bonds is being issued, provided, that such Series of Bonds shall be approved solely for financing or refinancing the Series U Project; (b) the authorized principal amount and denominations of such Series of Bonds; (c) whether such Bonds shall bear interest at a fixed rate or shall be Variable Rate Bonds and the interest rate mode, including, but not limited to, an interest rate determined pursuant to an auction procedure; and, if such Bonds are to be Variable Rate Bonds, the terms of the initial and subsequent interest periods for such Series; (d) whether the interest on such Bonds shall be federally taxable or tax-exempt; (e) the Series designation of such Bonds, the date or dates, the Interest Payment Dates, the Principal Payment Dates and the maturity date or dates of such Bonds; (f) the manner of dating and numbering such Bonds; (g) the place or places of payment of the principal or redemption, tender or purchase price, and the manner of payment of interest on, such Bonds; (h) any redemption, tender or purchase provisions for such Bonds; (i) the amount and due date of each mandatory sinking account payment, if any, for such Bonds; (j) the amounts to be deposited in the funds and accounts created and established by the Indenture and the Supplemental Indenture authorizing such Bonds; (k) the form of such Bond and whether it is a replacement Bond or a newly issued, additional Bond; and (l) any other provisions deemed advisable by the Authority or the Borrower that are not in conflict with the provisions of the Indenture;

(2) An original executed copy of the Supplemental Loan Agreement with respect to such Series of Bonds;

(3) An original executed copy of the bond purchase contract, or supplement thereto, with respect to such Series of Bonds;

(4) An official statement, or supplement thereto, with respect to such Series of Bonds;

(5) A Written Request of the Authority to the Trustee (i) requesting that the Trustee authenticate such Bonds, (ii) stating that the Authority is not in default in the performance of any of the covenants, conditions, agreements or provisions contained in the Indenture and (iii) stating that the resolution of the Authority authorizing the issuance of such Bonds was duly adopted and is in full force and effect as of the date of issuance of such Bonds;

(6) A Certificate, Request and Consent of the Borrower with respect to such Bonds;

(7) A continuing disclosure agreement, or supplement thereto, for such Bonds, if required by law;

(8) A tax certificate, or supplement thereto, relating to such Bonds;

(9) Agreements with any liquidity provider or any agents for remarketing or conducting auctions with respect to Variable Rate Bonds;

(10) An opinion of counsel to the Authority with respect to such Bonds in substantially the form delivered by counsel to the Authority in connection with the issuance of the Bonds under the Indenture;

(11) An opinion of Bond Counsel with respect to such Bonds in substantially the form delivered by Bond Counsel in connection with the issuance of the Bonds under the Indenture (allowing for such changes to such opinion as are necessary or appropriate to reflect the tax treatment of such Bonds);

(12) An opinion of Borrower's counsel with respect to such Bonds in substantially the form delivered by Borrower's counsel in connection with the issuance of the Bonds under the Indenture;

(13) An opinion of counsel to the purchaser of such Bonds with respect to such Bonds in substantially the form delivered by counsel to the purchaser of the Bonds in connection with the issuance of the Bonds under the Indenture.

Proceeds of each Series of Bonds shall be applied as specified in the Supplemental Indenture establishing the terms and provisions of such Series of Bonds.

Redemption

The Bonds are subject to redemption prior to maturity, as described in the front part of this Official Statement under the heading "THE BONDS – Redemption."

Events of Default; Remedies on Default

The following events are Events of Default under the Indenture: (a) default in the due and punctual payment of the principal or Redemption Price of any Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by declaration of acceleration, by proceedings for redemption, or otherwise; (b) default in the due and punctual payment of any installment of interest on any Bond when and as such interest installment shall become due and payable; (c) failure to pay the purchase price of any Variable Rate Bond required to be purchased pursuant to the Indenture when due and payable if a liquidity facility is not in effect; (d) default by the Authority in the observance of any of the other covenants, agreements or conditions on its part contained in the Indenture or in the Bonds, if such default shall have continued for a period of 30 days after written notice thereof, specifying such

default and requiring the same to be remedied, shall have been given to the Authority and the Borrower by the Trustee, or to the Authority, the Borrower and the Trustee by the Holders of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding or (e) a Loan Default Event. Upon actual knowledge of the existence of any Event of Default, the Trustee shall notify the Borrower, the Authority, and each notice party designated pursuant to the Indenture in writing as soon as practicable; provided, however, that the Trustee need not provide notice of any Loan Default Event if the Borrower has expressly acknowledged the existence of such Loan Default Event in a writing delivered to the Trustee, the Borrower, the Authority and each notice party designated pursuant to the Indenture. Whenever any Event of Default shall have occurred and be continuing, the Trustee may take the following remedial steps:

(a) In each and every such case during the continuance of such an Event of Default, unless the principal of all the Bonds has already become due and payable, the Trustee, by notice in writing to the Authority, may, and, upon the written request of the Holders of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding, shall, declare the principal of all the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same will become and will be immediately due and payable, anything in the Indenture or in the Bonds contained to the contrary notwithstanding;

(b) In the case of any Event of Default described in (d) of the first paragraph of this section, the Trustee may take whatever action at law or in equity is necessary or desirable to enforce the performance, observance or compliance by the Authority with any covenant, condition or agreement by the Authority under the Indenture; and

(c) In the case of an Event of Default described in (e) of the first paragraph of this section, the Trustee may take whatever action the Authority would be entitled to take, and shall take whatever action the Authority would be required to take, pursuant to the Loan Agreement in order to remedy the Loan Default Event.

The Trustee shall give notice of any declaration described in subsection (a) above to each Rating Agency then rating the Bonds; provided that failure to give any such Notice shall not affect the sufficiency of the proceedings for such declaration. Any such declaration, however, is subject to the condition that if, at any time after such declaration and before any judgment or decree for the payment of the moneys due shall have been obtained or entered, the Authority or the Borrower shall deposit with the Trustee a sum sufficient to pay all the principal or redemption price of and installments of interest on the Bonds payment of which is overdue, with interest on such overdue principal at the rate borne by the respective Bonds, and the reasonable charges and expenses of the Trustee, and any and all other defaults known to the Trustee (other than in the payment of principal of and interest on the Bonds due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor, then, and in every such case, the Trustee shall, on behalf of the Holders of all of the Bonds, annul such declaration and its consequences and waive such default; but no such annulment shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon.

If one or more Events of Default shall happen and be continuing, the Trustee in its discretion may, and upon the written request of the Holders of a majority in aggregate principal amount of the Bonds then Outstanding, and upon being indemnified to its reasonable satisfaction therefor, shall proceed to protect or enforce its rights or the rights of the Holders of Bonds under the Act or under the Loan Agreement or the Indenture by a suit in equity or action at law, either for the specific performance of any covenant or agreement contained in the Indenture, or in aid of the execution of any power therein granted, or by mandamus or other appropriate proceeding for the enforcement of any other legal or equitable

remedy as the Trustee shall deem most effectual in support of any of its rights or duties under the Indenture.

Limitation on Bondholder's Right to Sue

No Holder of any Bond shall have the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under the Indenture, the Loan Agreement, the Act or any other applicable law with respect to such Bond; provided, however, the Holders of at least a majority in aggregate principal amount of the Bonds then Outstanding may institute such a suit, action or proceeding at law or in equity, for the protection or enforcement of a right or remedy under the Indenture, the Loan Agreement, the Act or any other applicable law with respect to the Bonds, if (1) such Holder or said Holders shall have given to the Trustee written notice of the occurrence of an Event of Default; (2) such Holder or said Holders shall have made written request upon the Trustee to exercise the powers granted in the Indenture or to institute such suit, action or proceeding in its own name; (3) such Holder or said Holders shall have tendered to the Trustee indemnity satisfactory to it against the costs, expenses and liabilities to be incurred in compliance with such request; and (4) the Trustee shall have refused or omitted to comply with such request for a period of 60 days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee.

Amendment of Indenture and Loan Agreement

The Indenture and the rights and obligations of the Authority and of the Holders of the Bonds and of the Trustee may be modified or amended from time to time and at anytime by an indenture or indentures supplemental to the Indenture, which the Authority and the Trustee may enter into when the written consent of the Holders of a majority in aggregate principal amount of the Bonds then Outstanding shall have been filed with the Trustee. No such modification or amendment shall (1) extend the fixed maturity of any Bond, or reduce the amount of principal thereof, or extend the time of payment, or reduce the rate of interest thereon, or extend the time of payment of interest thereon, or reduce any premium payable upon the redemption thereof (except as permitted with respect to Variable Rate Bonds in the Indenture), without the consent of the Holder of each Bond so affected, or (2) reduce the percentage of Bonds the consent of the Holders of which is required to effect any such modification or amendment, or permit the creation of any lien on the Revenues and other assets pledged under the Indenture prior to or on a parity with the lien created by the Indenture, or deprive the Holders of the Bonds of the lien created by the Indenture on such Revenues and other assets (except as expressly provided in the Indenture), without the consent of the Holders of all Bonds then Outstanding.

The Indenture may also be modified or amended but without the necessity of obtaining the consent of any Bondholders, for one or more of the following purposes: (1) to add to the covenants and agreements of the Authority contained in the Indenture other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power reserved to or conferred upon the Authority, provided, that no such covenant, agreement, pledge, assignment or surrender shall, as evidenced by a Certificate of the Borrower or an Opinion of Counsel described in the Indenture, materially adversely affect the interests of the Holders of the Bonds; (2) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in the Indenture, or in regard to matters or questions arising under the Indenture, as the Authority or the Trustee may deem necessary or desirable and not inconsistent with the Indenture, and which shall not, as evidenced by a Certificate of the Borrower or the Opinion of Counsel described in the Indenture, materially adversely affect the interests of the Holders of the Bonds; (3) to modify, amend or supplement the Indenture in such manner as to permit the qualification thereof under the Trust Indenture Act of 1939, as amended; as amended, or any similar

federal statute after in effect, if required by such act or statute, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute, and which shall not, as evidenced by a Certificate of the Borrower or the Opinion of Counsel described in the Indenture, materially adversely affect the interests of the Holders of the Bonds (4) to provide any additional procedures, covenants or agreements to maintain the exclusion from gross income for federal income tax purposes of interest on the Bonds; (5) to facilitate (i) the transfer of Bonds from one Depository to another in the succession of Depositories, or (ii) the withdrawal from a Depository of Bonds held in a Book-Entry System and the issuance of replacement Bonds in fully registered form to Persons other than a Depository; (6) to authorize different authorized denominations of the Bonds and to make correlative amendments and modifications to the Bond Indenture regarding exchangeability of Bonds of different authorized denominations, redemptions of portions of Bonds of particular authorized denominations and similar amendments and modifications of a technical nature; (7) to make any amendments appropriate or necessary to provide for any liquidity facility or any insurance policy, letter of credit, guaranty, surety bond, line of credit, revolving credit agreement, standby bond purchase agreement or other agreement or security device delivered to the Trustee and providing for (i) payment of the principal, interest and redemption premium on the Bonds or a portion thereof, (ii) payment of the purchase price of Variable Bonds or (iii) both (i) and (ii), including without limitation modification of the maximum liquidity facility rate with respect to Variable Rate Bonds; (8) to make any changes required by a Rating Agency in order to obtain or maintain a rating for the Bonds; (9) to provide for the issuance of an additional Series of Bonds pursuant to the Indenture, including any amendments appropriate or necessary to the provisions of the Indenture to provide for issuance of Variable Rate Bonds or an additional Series of Bonds the interest on which is subject to federal income taxation; provided, that no such amendment shall, as evidenced by a Certificate of the Borrower or an Opinion of Counsel described in the Indenture, materially adversely affect the interests of the Holders of the Bonds; or (10) to modify, alter, amend or supplement the Indenture in any other respect which is not, as evidenced by a Certificate of the Borrower or an Opinion of Counsel described in the Indenture, materially adverse to the Bondholders.

Except as provided in the Indenture, the Authority shall not supplement, amend, modify or terminate any of the terms of the Loan Agreement, or consent to any such amendment, modification or termination, without the prior written consent of the Trustee. The Trustee shall give such written consent if but only if (1) it has received a Certificate of the Borrower to the effect that such amendment, modification or termination will not materially and adversely affect the interests of the Holders of the Bonds (which Certificate of the Borrower may be based on certifications, opinions or representations of other parties in accordance with the provisions of the Indenture); provided that, if an Event of Default has occurred and is continuing, the Trustee rather than the Borrower shall make a determination that such amendment or modification will not materially and adversely affect the interests of the Holders of the Bonds (provided that, in making such determination, the Trustee may conclusively rely on written representations of financial consultants or advisors or the opinion or advice of counsel), or in lieu of making such determination, the Trustee may obtain the consent of the Holders holding a majority in aggregate principal amount of the Bonds, or (2) the Holders of a majority in aggregate principal amount of the Bonds then Outstanding consent in writing to such amendment, modification or termination, provided that no such amendment, modification or termination shall reduce the amount of Base Loan Payments to be made to the Authority or the Trustee by the Borrower pursuant to the Loan Agreement, or extend the time for making such payments, without the written consent of all of the Holders of the Bonds then Outstanding.

The Loan Agreement may also be supplemented, modified or amended from time to time and at any time by the Authority without the necessity of obtaining the consent of any Bondholders, only to the extent permitted by law and only for any one or more of the following purposes: (1) to add to the covenants and agreements of the Authority or the Borrower contained in the Loan Agreement other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Bonds

(or any portion thereof), or to surrender any right or power therein reserved to or conferred upon the Authority or the Borrower, provided, that, as evidenced by a Certificate of the Borrower, no such covenant, agreement, pledge, assignment or surrender shall materially adversely affect the interests of the Holders of the Bonds; (2) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in the Loan Agreement, or in regard to matters or questions arising under the Loan Agreement, as the Authority may deem necessary or desirable and not inconsistent with the Loan Agreement or the Indenture, and, as evidenced by a Certificate of the Borrower, which shall not materially adversely affect the interests of the Holders of the Bonds; (3) in connection with the issuance of an additional Series of Bonds pursuant to the Indenture; or (4) to maintain the exclusion from gross income for federal income tax purposes of interest payable with respect to the Bonds, as evidenced by a Favorable Opinion of Bond Counsel delivered to the Trustee.

Defeasance

The Bonds may be paid by the Authority or the Trustee on behalf of the Authority in any of the following ways: (a) by paying or causing to be paid the principal or Redemption Price of and interest on all Bonds Outstanding, as and when the same become due and payable; (b) by depositing with the Trustee in trust, at or before maturity, moneys or securities in the necessary amount (as provided in the Indenture) to pay when due or redeem all Bonds then Outstanding; or (c) by delivering to the Trustee, for cancellation by it, all Bonds then Outstanding. If the Authority shall also pay or cause to be paid all other sums payable under the Indenture by the Authority and the Borrower shall have paid all Administrative Fees and Expenses payable to the Authority pursuant to the Loan Agreement, then and in that case at the election of the Authority and notwithstanding that any Bonds shall not have been surrendered for payment, the Indenture and the pledge of Revenues and other assets made under the Indenture and all covenants, agreements and other obligations of the Authority under the Indenture shall cease, terminate, become void and be completely discharged and satisfied.

LOAN AGREEMENT

The Loan Agreement provides the terms of the loan of proceeds of the Bonds to the Borrower and the repayment of and security for such loan provided by the Borrower. Certain of the provisions of the Loan Agreement are summarized below. This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the Loan Agreement.

Payment of the Bonds and Certain Other Expenses

Pursuant to the Loan Agreement, the Borrower agrees that it will pay to the Trustee all sums necessary for the payment of the debt service on the Outstanding Bonds (“Base Loan Payments”). The Borrower shall make such Base Loan Payments (i) on each Interest Payment Date the full amount of the interest becoming due and payable on such Interest Payment Date on all Outstanding Bonds; and (ii) on each Principal Payment Date the aggregate amount of principal becoming due and payable on the Outstanding Bonds of each Series, plus the aggregate amount of mandatory sinking account payments, if any, required to be paid into the sinking accounts in connection with such Series of Bonds, in each case on such Principal Payment Date. The Trustee is required under the Indenture to notify the Authority and the Borrower immediately if it has not received payment by the due date. The Borrower shall also make additional payments for expenses of the Trustee and the Authority, such additional payments to be billed to the Borrower by the Authority or the Trustee from time to time.

Any amounts held in the Interest Account within the Bond Fund for the payment of interest on the Bonds (including any investment income credited to the Interest Account pursuant to the Indenture) shall be credited against the Base Loan Payments of interest then required to be met by the Borrower to

the extent such amounts are in excess of the amount required for the payment of interest accrued to the date fixed for redemption or maturity, where the Bonds have not been presented for payment. Any amounts held in the Principal Account within the Bond Fund for the payment of principal on the Bonds (including any investment income credited to the Principal Account pursuant to the Indenture) shall be credited against the Base Loan Payments of principal then required to be met by the Borrower to the extent such amounts are in excess of the amount required for the payment of any Bonds on the date fixed for redemption or maturity, where the Bonds have not been presented for payment.

The Loan Agreement also provides that if on any Interest Payment Date or Principal Payment Date, the balance in the Interest Account or Principal Account within the Bond Fund is insufficient or unavailable to make required payments of principal of (whether at maturity, by redemption or by acceleration as provided in the Indenture), premium, if any, and interest due on the Bonds on such date, the Borrower shall forthwith pay any such deficiency to the Trustee for deposit in the appropriate account within the Bond Fund. The Borrower acknowledges that the Trustee shall give notice: (1) to the Borrower in accordance with the Indenture at least five (5) Business Days before each Interest Payment Date of the amount, if any, credited or to be credited to the Interest Account by such next Interest Payment Date and the amount of the Base Loan Payment then due from the Borrower; and (2) to the Borrower and the Authority in accordance with the Indenture if the Borrower fails to make any required payment by the due date, such notice to be given by telephone, telecopy or electronic means followed by written notice.

Certain Covenants of the Borrower

The Borrower covenants in the Loan Agreement that, so long as any Bonds remain Outstanding:

(a) it will maintain its existence as a body duly exercising corporate powers and privileges under the Constitution and laws of the State of California and will not dissolve, sell or otherwise dispose of all or substantially all of its assets or consolidate with or merge into another entity or permit one or more other entities to consolidate with or merge into it, except under certain circumstances described in the Loan Agreement.

(b) it will maintain or cause to be maintained insurance of such type, against such risks and in such amounts, with insurance companies or by means of self-insurance, as are customarily carried by organizations of a nature similar to that of the Borrower, which insurance shall include property damage, fire and extended coverage, public liability and property damage liability insurance in amounts estimated to indemnify the reasonably anticipated damage, loss or liability;

(c) it will furnish to the Authority and the Trustee within 180 days after the end of each of its fiscal years certain financial information as of the end of such year; and,

(d) it will not take any action or fail to take any action, if such action or failure to take such action would result in the interest on the Bonds not being excluded from gross income for federal income tax purposes under Section 103 of the Code.

Prepayment

The Borrower shall have the right, so long as all amounts which have become due under the Loan Agreement have been paid, at any time or from time to time to prepay all or any part of the Base Loan Payments and the Authority agrees that the Bond Trustee shall accept such prepayments when the same are tendered. Prepayments may be made by payments of cash, deposit of Investment Securities or surrender of Bonds, as contemplated by the Loan Agreement. All such prepayments (and the additional

payment of any amount necessary to pay the applicable premium, if any, payable upon the redemption of Bonds) shall be deposited upon receipt in the Redemption Fund and, at the request of, and as determined by, the Borrower, credited against the Base Loan Payments in the order of their due date or used for the redemption or purchase of Outstanding Bonds in the manner and subject to the terms and conditions set forth in the Indenture.

Amendment

The Loan Agreement may not be effectively amended, changed, modified, altered or terminated without the concurring written consent of the Trustee, which consent shall be given in accordance with the provisions of the Indenture. See “INDENTURE – Amendment of Indenture and Loan Agreement.”

Events of Default; Remedies on Default

Events of default under the Loan Agreement include:

(a) failure by the Borrower to make any of the payments required by the Loan Agreement by their due date:

(b) failure by the Borrower to observe or perform any covenant, condition or agreement contained in the Loan Agreement other than paragraph (a) above, on its part to be observed or performed, for a period of 45 days after written notice thereof has been given to the Borrower by the Authority or the Trustee; provided, however, if the failure stated in the notice is correctable but cannot be corrected within 45 days, the Authority will not unreasonably withhold its consent to an extension of such time if corrective action is instituted by the Borrower within the applicable period and diligently pursued until the default is corrected;

(c) the representations or warranties of the Borrower made in the Loan Agreement or in any other document, certificate or writing furnished by the Borrower to the Authority in connection with the application for or the negotiation of the Loan Agreement or the issuance of the Bonds being false or incorrect in any material respect; and

(d) an Act of Bankruptcy of the Borrower.

The Authority or the Trustee, in the case of any event of default, may take any one or more of the following remedial steps:

(a) declare immediately due and payable all Base Loan Payments due under the Loan Agreement for the remainder of its term; or

(b) take whatever action at law or in equity may appear necessary or desirable to collect the payments then due and thereafter to become due under the Loan Agreement or to enforce the performance and observance of any obligation, condition or covenant of the Borrower under the Loan Agreement.

APPENDIX C

BOOK-ENTRY SYSTEM

The information in this Appendix C concerning The Depository Trust Company (“DTC”), New York, New York, and DTC’s book entry system has been obtained from DTC and the Authority, the University, the Underwriters and the Trustee takes no responsibility for the completeness or accuracy thereof. The Authority, the University, the Underwriters and the Trustee cannot, and do not, give any assurances that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest or principal with respect to the Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current “Rules” applicable to DTC are on file with the Securities and Exchange Commission and the current “Procedures” of DTC to be followed in dealing with DTC Participants are on file with DTC.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered security certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com; nothing contained in such website is incorporated into this Official Statement.

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on

behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as defaults and proposed amendments to the Bond documents. For example, Beneficial Owners of the Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the issuer as soon as possible after the Record Date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the Record Date (identified in a listing attached to the Omnibus Proxy).

Payments of principal and interest evidenced by the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest on the Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

THE AUTHORITY, THE UNIVERSITY, THE UNDERWRITERS OR THE TRUSTEE WILL NOT HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC PARTICIPANTS, INDIRECT

PARTICIPANTS OR BENEFICIAL OWNERS WITH RESPECT TO THE PAYMENTS OR THE PROVIDING OF NOTICE TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS.

None of the Authority, the University, the Underwriters or the Trustee can give any assurances that DTC, DTC Participants, Indirect Participants or others will distribute payments of principal and interest on the Bonds paid to DTC or its nominee, as the registered Owner, or any notice, to the Beneficial Owners or that they will do so on a timely basis or that DTC will serve and act in a manner described in this Official Statement.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Authority, the University, the Underwriters and the Trustee believe to be reliable, but the Authority, the University, the Underwriters and the Trustee take no responsibility for the accuracy thereof.

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APPENDIX D

FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the “Agreement”) dated as of June 1, 2016, by and between The Board of Trustees of the Leland Stanford Junior University (the “University”) and The Bank of New York Mellon Trust Company, N.A., bond trustee (the “Trustee”) under an Indenture dated as of May 1, 2010, as supplemented from time to time, including by a Fifth Supplemental Indenture dated as of June 1, 2016 (as supplemented, the “Indenture”), between the California Educational Facilities Authority (the “Authority”) and the Trustee, the Trustee executing this Agreement both in its capacity as Trustee and in its capacity as Dissemination Agent hereunder, is executed and delivered in connection with the issuance of the Authority’s California Educational Facilities Authority Revenue Bonds (Stanford University) Series U-7 (the “Bonds”). The proceeds of the Bonds are to be loaned by the Authority to the University pursuant to a Loan Agreement dated as of May 1, 2010, as supplemented from time to time, including by a Fifth Supplemental Loan Agreement dated as of June 1, 2016, between the Authority and the University (as supplemented, the “Loan Agreement”). Capitalized terms used in this Agreement which are not otherwise defined in the Indenture shall have the respective meanings specified in Article IV hereof. The parties agree as follows:

ARTICLE I

The Undertaking

Section 1.1. Purpose; No Authority Responsibility or Liability. This Agreement shall constitute a written undertaking for the benefit of the holders of the Bonds and is being executed and delivered solely to assist the Underwriters in complying with subsection (b)(5) of the Rule. The University, the Dissemination Agent and the Trustee acknowledge that the Authority has undertaken no responsibility, and shall not be required to undertake any responsibility, with respect to any reports, notices or disclosures required by or provided pursuant to this Agreement, and shall have no liability to any person, including any holder of the Bonds, with respect to any such reports, notices or disclosures.

Section 1.2. Annual Financial Information. (a) The University shall provide Annual Financial Information to the Dissemination Agent with respect to each fiscal year of the University, commencing with fiscal year ended August 31, 2016 by no later than one hundred and eighty (180) days after the end of the respective fiscal year. The Dissemination Agent shall provide such Annual Financial Information to the Repository and the Authority, in each case within two (2) Business Days after receipt by the Dissemination Agent, or as soon as reasonably practicable thereafter.

(b) The Dissemination Agent shall provide, in a timely manner, notice of any failure of the University or the Dissemination Agent to provide the Annual Financial Information by the date specified in subsection (a) above, in each case to (i) the Repository, (ii) the Authority, and (iii) if such failure is of the University, the University. Such notice shall substantially be in the form attached hereto as Exhibit A.

Section 1.3. Audited Financial Statements. If not provided as part of Annual Financial Information by the date required by Section 1.2 hereof, the University shall provide Audited Financial Statements, when and if available, to the Dissemination Agent. The Dissemination Agent shall provide any such Audited Financial Statements to the Repository and the Authority, in each case within two (2) Business Days after receipt by the Dissemination Agent, or as soon as reasonably practicable thereafter.

Section 1.4. Listed Event Notices. (a) If a Listed Event occurs, the University shall provide, in a timely manner, notice of such Listed Event to the Dissemination Agent. The Dissemination Agent shall provide notice of each such Listed Event received from the University to the Repository within one Business Day after receipt by the Dissemination Agent, or as soon as reasonably practicable thereafter, but in no case in excess of ten (10) Business Days after the occurrence of such Listed Event (provided that the Dissemination Agent receives notice of such Listed Event from the University prior to such date).

(b) Any such notice of a defeasance of the Bonds shall state whether the Bonds have been escrowed to maturity and the timing of such maturity.

(c) The Trustee shall promptly advise the University and the Authority whenever, in the course of performing its duties as Trustee under the Indenture, the Trustee has actual notice of an occurrence of an event described herein as a “Listed Event”; provided, however, that the failure of the Trustee so to advise the University or the Authority shall not constitute a breach by the Trustee of any of its duties and responsibilities under this Agreement or the Indenture and the Trustee shall not be required to make any determination regarding materiality of any such event.

Section 1.5. Additional Disclosure Obligations. The University acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933, as amended, and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, as amended, may apply to the University and that, under some circumstances, additional disclosures or other action may be required to enable the University to fully discharge all of its duties and obligations under such laws.

Section 1.6. Additional Information. Nothing in this Agreement shall be deemed to prevent the University from disseminating any other information, using the means of dissemination set forth in this Agreement or any other means of communication, or including any other information in any Annual Financial Information or notice of Listed Event hereunder, in addition to that which is required by this Agreement. If the University chooses to do so, the University shall have no obligation under this Agreement to update such additional information or include it in any future Annual Financial Information or notice of a Listed Event hereunder.

Section 1.7. No Previous Non-Compliance. The University represents that since June 1, 2011, it has not failed to comply in any material respect with any previous undertaking in a written contract or agreement specified in paragraph (b)(5)(i) of the Rule.

ARTICLE II

Operating Rules

Section 2.1. Reference to Other Documents. It shall be sufficient for purposes of Section 1.2 hereof if the University provides Annual Financial Information by specific reference to documents (including Official Statements) available from the Repository.

Section 2.2. Submission of Information. Annual Financial Information may be provided in one document or multiple documents and at one time or in part from time to time.

Section 2.3. Listed Event Notices. Each notice of a Listed Event hereunder shall be captioned “Notice of Listed Event” and shall prominently state the title, date and CUSIP numbers of the Bonds.

Section 2.4. Transmission of Information and Notices. Unless otherwise required by law and, in the Dissemination Agent’s sole determination, subject to technical and economic feasibility, the

Dissemination Agent shall employ such methods of information and notice transmission as shall be requested or recommended by the herein-designated recipients of the University's information and notices.

Section 2.5. Fiscal Year. (a) The University's current fiscal year is September 1 to August 31, and the University shall promptly notify the Dissemination Agent in writing of each change in its fiscal year. The Trustee shall provide such notice to the Repository and the Authority, in each case within two (2) Business Days after receipt by the Dissemination Agent, or as soon as reasonably practicable thereafter.

(b) Annual Financial Information shall be provided at least annually notwithstanding any fiscal year longer than twelve (12) calendar months.

ARTICLE III

Effective Date, Termination, Amendment and Enforcement

Section 3.1. Effective Date, Termination. (a) This Agreement shall be effective upon the issuance of the Bonds.

(b) The University's and the Dissemination Agent's obligations under this Agreement shall terminate upon a legal defeasance or payment in full of all of the Bonds.

(c) If the University's obligations under the Loan Agreement are assumed in full by some other entity, such person shall be responsible for compliance with this Agreement in the same manner as if it were the University, and thereupon the original University shall have no further responsibility hereunder.

(d) This Agreement, or any provision hereof, shall be null and void in the event that (1) the University delivers to the Dissemination Agent and the Trustee an opinion of Counsel, addressed to the University, the Authority and the Trustee, to the effect that those portions of the Rule which require this Agreement, or such provision, as the case may be, do not or no longer apply to the Bonds, whether because such portions of the Rule are invalid, have been repealed, or otherwise, as shall be specified in such opinion, and (2) the Dissemination Agent delivers copies of such opinion to the Repository and the Authority. The Dissemination Agent shall so deliver such opinion within one Business Day after receipt by the Dissemination Agent, or as soon as reasonably practicable thereafter.

Section 3.2. Amendment. (a) This Agreement may be amended, by written agreement of the parties, without the consent of the holders of the Bonds (except to the extent required under clause (4)(ii) below), if all of the following conditions are satisfied: (1) such amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, or a change in the identity, nature or status of the University or the type of business conducted thereby, (2) this Agreement as so amended would have complied with the requirements of the Rule as of the date of this Agreement, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, (3) the University shall have delivered to the Dissemination Agent and the Trustee an opinion of Counsel, addressed to the University, the Authority and the Trustee, to the same effect as set forth in clause (2) above, (4) either (i) the University shall have delivered to the Dissemination Agent and the Trustee an opinion of Counsel or a determination by a person, in each case unaffiliated with the Authority or the University (such as bond counsel or Dissemination Agent) and acceptable to the University, addressed to the University, the Authority and the Trustee, to the effect that the amendment does not materially impair

the interests of the holders of the Bonds or (ii) the holders of the Bonds consent to the amendment to this Agreement pursuant to the same procedures as are required for amendments to the Indenture with consent of holders of the Bonds pursuant to Section 9.01 of the Indenture as in effect on the date of this Agreement, and (5) the Dissemination Agent shall have delivered copies of such opinion(s) and amendment to the Repository and the Authority. The Dissemination Agent shall so deliver such opinion(s) and amendment within one Business Day after receipt by the Dissemination Agent.

(b) In addition to subsection (a) above, this Agreement may be amended by written agreement of the parties, without the consent of the holders of the Bonds, if all of the following conditions are satisfied: (1) an amendment to the Rule is adopted, or a new or modified official interpretation of the Rule is issued, after the effective date of this Agreement which is applicable to this Agreement, (2) the University shall have delivered to the Dissemination Agent and the Trustee an opinion of Counsel, addressed to the University, the Authority and the Trustee, to the effect that performance by the University and the Trustee under this Agreement as so amended will not result in a violation of the Rule and (3) the Dissemination Agent shall have delivered copies of such opinion and amendment to the Repository and the Authority. The Dissemination Agent shall so deliver such opinion and amendment within one Business Day after receipt by the Dissemination Agent or as soon as reasonably practicable thereafter.

(c) To the extent any amendment to this Agreement results in a change in the type of financial information or operating data provided pursuant to this Agreement, the first Annual Financial Information provided thereafter shall include a narrative explanation of the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

(d) If an amendment is made pursuant to Section 3.2(a) hereof to the accounting principles to be followed by the University in preparing its financial statements, the Annual Financial Information for the fiscal year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. Such comparison shall include a qualitative and, to the extent reasonably feasible, quantitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information.

Section 3.3. Benefit; Third-Party Beneficiaries; Enforcement. (a) The provisions of this Agreement shall constitute a contract with and inure solely to the benefit of the holders from time to time of the Bonds, except that Beneficial Owners of the Bonds shall be third-party beneficiaries of this Agreement and shall be deemed to be holders of the Bonds for purposes of Section 3.3(b) hereof. The provisions of this Agreement shall create no rights in any person or entity except as provided in this subsection (a).

(b) The obligations of the University to comply with the provisions of this Agreement shall be enforceable (i) in the case of enforcement of obligations to provide financial statements, financial information, operating data and notices, by any holder of the outstanding Bonds or by the Trustee on behalf of the holders of the outstanding Bonds, or (ii) in the case of challenges to the adequacy of the financial statements, financial information and operating data so provided, by the Trustee on behalf of the holders of the outstanding Bonds; provided, however, that the Trustee shall not be required to take any enforcement action except at the direction of the holders of not less than a majority in aggregate principal amount of the Bonds at the time outstanding, who shall have provided the Trustee with adequate security and indemnity. The holders' and Trustee's rights to enforce the provisions of this Agreement shall be limited solely to a right, by action in mandamus or for specific performance, to compel performance of the University's obligations under this Agreement.

(c) Any failure by the University, the Dissemination Agent or the Trustee to perform in accordance with this Agreement shall not constitute a default or an Event of Default under the Indenture, and the rights and remedies provided by the Indenture upon the occurrence of a default or an Event of Default shall not apply to any such failure.

(d) This Agreement shall be construed and interpreted in accordance with the laws of the State, and any suits and actions arising out of this Agreement shall be instituted in a court of competent jurisdiction in the State; provided, however, that to the extent this Agreement addresses matters of federal securities laws, including the Rule, this Agreement shall be construed in accordance with such federal securities laws and official interpretations thereof.

ARTICLE IV

Definitions

Section 4.1. Definitions. The following terms used in this Agreement shall have the following respective meanings:

(1) “Annual Financial Information” means, collectively, (i) the financial information and operating data with respect to the University for each fiscal year of the University ended on and after August 31, 2016 to be provided in any reasonable manner and containing, in substance, such information and data as is set forth in Appendix A to the Authority’s Official Statement regarding the Bonds under the headings “PART I – GENERAL INFORMATION ABOUT STANFORD UNIVERSITY – Faculty and Staff,” “– Students,” and “– Capital Improvement Programs” and (ii) the information regarding amendments to this Agreement required pursuant to Sections 3.2(c) and (d) of this Agreement. Annual Financial Information shall include Audited Financial Statements, if available, or Unaudited Financial Statements.

The descriptions contained in clause (i) above of financial information and operating data constituting Annual Financial Information are of general categories of financial information and operating data. When such descriptions include information that no longer can be generated because the operations to which it related have been materially changed or discontinued, a statement to that effect shall be provided in lieu of such information.

(2) “Audited Financial Statements” means the annual financial statements for each fiscal year ended on and after August 31, 2016, if any, of the University, audited by such auditor as shall then be required or permitted by State law or the Indenture. Audited Financial Statements shall be prepared in accordance with GAAP.

(3) “Counsel” means any nationally recognized bond counsel or counsel expert in federal securities laws.

(4) “Dissemination Agent” means The Bank of New York Mellon Trust Company, N.A., acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the University and which has filed with the Trustee and the University a written acceptance of such designation.

(5) “GAAP” means generally accepted accounting principles as prescribed from time to time by the Financial Accounting Standards Board or any successor to the duties or responsibilities thereof.

(6) “Listed Events” means any of the following events with respect to the Bonds, whether relating to the University or otherwise:

- (i) Principal and interest payment delinquencies;
- (ii) Non-payment related defaults, if material;
- (iii) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) Substitution of credit or liquidity providers, or their failure to perform;
- (vi) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;
- (vii) Modifications to rights of Bondowners, if material;
- (viii) Bond calls, if material (the giving of notice of regularly scheduled mandatory sinking fund redemption shall not be deemed material for this purpose);
- (ix) Defeasances;
- (x) Release, substitution, or sale of property securing repayment of the Bonds, if material;
- (xi) Rating changes;
- (xii) Tender offers;
- (xiii) Bankruptcy, insolvency, receivership or similar event with respect to an obligated person;
- (xiv) The consummation of a merger, consolidation, acquisition or sale of all or substantially all of the assets of an obligated person, other than in the ordinary course of business, the entry into a definitive agreement to take such an action or termination of a definitive agreement to undertake any such action, other than pursuant to its terms, if material; and
- (xv) Appointment of a successor or an additional trustee or change in the name of a trustee, if material.

(7) “MSRB” means the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934.

(8) “Official Statement” means a “final official statement,” as defined in paragraph (f)(3) of the Rule.

(9) “Repository” means the MSRB or any other information repository as recognized from time to time by the SEC for the purposes referred to in the Rule.

(10) “Rule” means Rule 15c2-12 promulgated by the SEC under the Securities Exchange Act of 1934 (17 CFR Part 240, §240.15c2-12), as in effect on the date of this Agreement, including any official interpretations thereof issued either before or after the effective date of this Agreement which are applicable to this Agreement.

(11) “SEC” means the United States Securities and Exchange Commission.

(12) “State” means the State of California.

(13) “Unaudited Financial Statements” means the same as Audited Financial Statements, except that they shall not have been audited.

(14) “Underwriters” means Goldman, Sachs & Co., Barclays Capital Inc., and Merrill Lynch, Pierce, Fenner & Smith Incorporated.

ARTICLE V

Miscellaneous

Section 5.1. Duties, Immunities and Liabilities of Dissemination Agent and Trustee. The Dissemination Agent and the Trustee shall have only such duties under this Agreement as are specifically set forth in this Agreement and the Dissemination Agent shall not be liable except for its negligence or willful misconduct hereunder. The University agrees to indemnify and save the Dissemination Agent and the Trustee, their officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys’ fees and expenses) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent’s or the Trustee’s negligence or willful misconduct in the performance of its duties hereunder. Such indemnity shall be separate from, and in addition to, that provided to the Trustee under the Indenture. The Dissemination Agent shall be paid compensation by the University for its services provided hereunder in accordance with its schedule of fees as amended from time to time and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent shall have no duty or obligation to review any information provided to it hereunder and shall not be deemed to be acting in any fiduciary capacity for the Issuer, the University, the holders of the Bonds, or any other party. The obligations of the University under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds. The Dissemination Agent shall have the same rights, protections and immunities hereunder as provided to the Trustee under the Indenture.

Section 5.2. Counterparts. This Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Section 5.3. Dissemination Agent. The University may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent, upon notice to the University and the Dissemination Agent. The Dissemination Agent may resign at any time by providing thirty (30) days' written notice to the Trustee and the University. The initial Dissemination Agent shall be The Bank of New York Mellon Trust Company, N.A.

Section 5.4. Filing. The University and the Dissemination Agent may satisfy the University's disclosure obligations hereunder to file any Annual Financial Information or notices of Listed Events by filing the same with the MSRB through its Electronic Municipal Market Access system, in the format and with identifying or other information as may be required by the Securities and Exchange Commission or the MSRB, or any other Repository that may be recognized or permitted by the Securities and Exchange Commission in such manner as may be specified by the Securities and Exchange Commission or the Repository.

IN WITNESS WHEREOF, the parties have each caused this Agreement to be executed by their duly authorized representatives as of the date first above written.

THE BOARD OF TRUSTEES OF THE LELAND
STANFORD JUNIOR UNIVERSITY

By: _____
Karen L. Kearney
Treasurer

THE BANK OF NEW YORK MELLON TRUST
COMPANY, N.A., as Trustee and as Dissemination
Agent

By: _____
Authorized Representative

EXHIBIT A

NOTICE TO REPOSITORY OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: California Educational Facilities Authority
Name of Issue: California Educational Facilities Authority
Revenue Bonds (Stanford University)
Series U-7
Name of Obligor: The Board of Trustees of the Leland Stanford Junior University
Date of Issuance: June 22, 2016

NOTICE IS HEREBY GIVEN that The Board of Trustees of the Leland Stanford Junior University (the "University") has not provided Annual Financial Information with respect to the above-named Bonds as required by Section 1.2(a) of the Continuing Disclosure Agreement relating to the Bonds. The University anticipates that the Annual Financial Information will be filed by _____.

Dated: _____

The Bank of New York Mellon Trust Company, N.A.,
as Trustee and Dissemination Agent

By: _____
Authorized Officer

cc: The Board of Trustees of the Leland Stanford Junior University
California Educational Facilities Authority

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APPENDIX E

FORM OF BOND COUNSEL OPINION

[Closing Date]

California Educational Facilities Authority
915 Capitol Mall, Room 590
Sacramento, California 95814

California Educational Facilities Authority
Revenue Bonds (Stanford University)
Series U-7
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the California Educational Facilities Authority (the “Authority”) in connection with the issuance of \$170,350,000 aggregate principal amount of California Educational Facilities Authority Revenue Bonds (Stanford University) Series U-7 (the “Bonds”), issued pursuant to the Indenture, dated as of May 1, 2010, as supplemented by the First Supplemental Indenture, dated as of April 1, 2012, the Second Supplemental Indenture, dated as of May 1, 2013, the Third Supplemental Indenture, dated as of May 1, 2014, the Fourth Supplemental Indenture, dated as of May 1, 2014, and the Fifth Supplemental Indenture, dated as of June 1, 2016 (as supplemented, the “Indenture”), between the Authority and The Bank of New York Mellon Trust Company, N.A., as trustee (the “Trustee”). The Indenture provides that the Bonds are issued for the stated purpose of making a loan of the proceeds thereof to The Board of Trustees of the Leland Stanford Junior University (the “Borrower”) pursuant to the Loan Agreement, dated as of May 1, 2010, as supplemented by the First Supplemental Loan Agreement, dated as of April 1, 2012, the Second Supplemental Loan Agreement, dated as of May 1, 2013, the Third Supplemental Loan Agreement, dated as of May 1, 2014, the Fourth Supplemental Loan Agreement, dated as of May 1, 2014, and the Fifth Supplemental Loan Agreement, dated as of June 1, 2016 (as supplemented, the “Loan Agreement”), between the Authority and the Borrower. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Indenture.

In such connection, we have reviewed the Indenture, the Loan Agreement, the Tax Agreement, dated the date hereof (the “Tax Agreement”), between the Authority and the Borrower, opinions of counsel to the Authority, the Borrower and the Trustee, certificates of the Authority, the Borrower, the Trustee and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

We have relied on the opinion of the Office of the General Counsel for Stanford University, counsel to the Borrower, regarding, among other matters, the current qualification of the Borrower as an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986 (the “Code”). We note that such opinion is subject to a number of qualifications and limitations. Failure of the Borrower to be organized and operated in accordance with the Internal Revenue Service’s requirements for the maintenance of its status as an organization described in Section 501(c)(3) of the Code may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of issuance of the Bonds.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this letter speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used in connection with any such actions, events or matters. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Authority. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second and third paragraphs hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Indenture, the Loan Agreement and the Tax Agreement, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the Indenture, the Loan Agreement and the Tax Agreement and their enforceability may be subject to bankruptcy, insolvency, receivership, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against public instrumentalities and agencies of the State of California. We express no opinion with respect to any indemnification, contribution, liquidated damages, penalty (including any remedy deemed to constitute a penalty), right of set-off, arbitration, judicial reference, choice of law, choice of forum, choice of venue, non-exclusivity of remedies, waiver or severability provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any of the assets described in or as subject to the lien of the Indenture or the Loan Agreement or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such assets. Our services did not include financial or other non-legal advice. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute the valid and binding limited obligations of the Authority.
2. The Indenture has been duly executed and delivered by, and constitutes the valid and binding obligation of, the Authority. The Indenture creates a valid pledge, to secure the payment of the principal of and interest on the Bonds, of the Revenues and any other amounts (including proceeds of the sale of the Bonds) held by the Trustee in any fund or account established pursuant to the Indenture, except the Rebate Fund, subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture. The Indenture also creates a valid assignment to the Trustee, for the benefit of the holders from time to time of the Bonds, of the right, title and interest of the Authority in the Loan Agreement (to the extent more particularly described in the Indenture).
3. The Loan Agreement has been duly executed and delivered by, and constitutes a valid and binding agreement of, the Authority.

4. The Bonds are not a lien or charge upon the funds or property of the Authority except to the extent of the aforementioned pledge and assignment. Neither the faith and credit nor the taxing power of the State of California or of any political subdivision thereof is pledged to the payment of the principal of or interest on the Bonds. The Bonds are not a debt of the State of California, and said State is not liable for the payment thereof.

5. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Code and is exempt from State of California personal income taxes. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that it is included in adjusted current earnings when calculating corporate alternative minimum taxable income. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

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