

*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 alternative minimum tax. 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.*



**\$441,830,000**  
**CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY**  
**REVENUE BONDS (STANFORD UNIVERSITY)**  
**SERIES V-1**

Dated: Date of Delivery

Due: May 1, as shown below

The \$441,830,000 California Educational Facilities Authority Revenue Bonds (Stanford University) Series V-1 (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 May 1 and November 1, commencing November 1, 2019. 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 (or Redemption Price) 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 April 1, 2019 (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 and accounts 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 (OR REDEMPTION PRICE) OF THE BONDS 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 (OR REDEMPTION PRICE) OF 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

**\$41,830,000 5.00% Term Bond due May 1, 2029 Yield – 1.830% CUSIP<sup>†</sup>: 130179SC9**  
**\$400,000,000 5.00% Term Bond due May 1, 2049 Yield – 3.120% CUSIP<sup>†</sup>: 130179SD7**

*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 April 4, 2019.*

**HONORABLE FIONA MA**  
**Treasurer of the State of California**  
**As Agent for Sale**

**Goldman Sachs & Co. LLC**

**J.P. Morgan**

**BofA Merrill Lynch**

Dated: March 21, 2019

<sup>†</sup> CUSIP is a registered trademark of the American Bankers Association. CUSIP Global Services (CGS) is managed on behalf of the American Bankers Association by S&P Global Market Intelligence. 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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**\$441,830,000**  
**CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY**  
**REVENUE BONDS (STANFORD UNIVERSITY)**  
**SERIES V-1**

**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 \$441,830,000 aggregate principal amount of California Educational Facilities Authority Revenue Bonds (Stanford University) Series V-1 (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 April 1, 2019 (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 April 1, 2019 (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. 323, adopted on February 28, 2019 (the “Series V 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 (or Redemption Price) 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 (or Redemption Price) and interest, DTC is to remit such principal (or Redemption Price) 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) 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 (the “Rule”). 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 at <https://treasurer.stanford.edu/> 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 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 the 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 specified funds or accounts 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 December 31, 2018, the Authority had outstanding \$4,559,226,072 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 V Resolution (the "Series V 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, \$158,170,000 in bonds will remain authorized and unissued under the Series V Resolution.

On or about March 28, 2019, the University will issue its \$121,000,000 Taxable Bonds Series 2019 for general corporate purposes, including without limitation, financing and refinancing capital projects.

### SOURCES AND USES OF FUNDS

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

SOURCES:

Principal amount of the Bonds	\$441,830,000
Plus Original Issue Premium	158,169,105
University Contribution	1,624,741
Total Sources	\$601,623,846

USES:

Series V Projects	\$600,000,000
Costs of Issuance <sup>(1)</sup>	1,623,846
Total Uses	\$601,623,846

<sup>(1)</sup> 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 May 1 and November 1 of each year, commencing November 1, 2019, 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 (or Redemption Price) and interest on such Bond.

Interest payable on any Interest Payment Date will be payable to the registered owner of the Bonds (a “Holder” or “Bondholder”) as of the close of business on the Record Date for such Interest Payment Date. So long as the Bonds are held in the book-entry system, the principal (or Redemption Price) and interest on the Bonds will be paid through the facilities of DTC (or a successor securities depository). Otherwise, the principal (or Redemption Price) of 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 for each Interest Payment Date at the addresses of Holders as they appear on the registration books of the Trustee. In the case of a Holder of all of the Bonds and any Holder of the Bonds in an aggregate principal amount in excess of \$1,000,000 who, prior to the Record Date next preceding any Interest Payment Date, has provided the Trustee with written wire transfer instructions to a bank or trust company located in the United States of America, 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 the applicable basis points as follows: (i) for the Bonds maturing on May 1, 2029, thirty-five basis points (0.35%); and (ii) for the Bonds maturing on May 1, 2049, fifteen basis points (0.15%).

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. LLC 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, Inc. ("Moody's") and S&P Global Ratings ("S&P") 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 will 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 Redemption Price 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 (or Redemption Price) of 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) 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 (or Redemption Price) of the Bonds, 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 (or Redemption Price) of 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, increase

liabilities associated with investments, reduce investment income distributable from the endowment and other expendable funds 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 6, 7, 8, 10, 11 and 12 to the consolidated financial statements of the University for the years ended and as of August 31, 2018 and 2017 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, impose constraints or mandates on tuition levels and endowment payout, or impose significant new compliance requirements with associated costs.

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

(vi) The ability to recruit and retain faculty, graduate students, postdoctoral scholars and staff may be impaired 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 actions and private litigation, and may incur substantial costs of compliance, defense, sanctions, penalties and reputational harm for violation of applicable laws. The University self-insures for the first \$1 million to \$2 million of liability claims, but certain types of claims may not be covered by insurance policies.

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 thousands of 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, the amounts of third-party payments received, limitations on and inadequate governmental reimbursements for medical services and graduate medical education, increasing costs of providing indigent care, escalating costs of personnel and equipment and inpatient capacity constraints that limit the Hospitals' ability to absorb increased costs through greater volume. In addition, industry trends, adverse legislative and regulatory developments such as state or federal adoption of a single-payor reimbursement system, and government enforcement actions could also 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, continue to be challenged in various venues and could have adverse financial impacts on the Hospitals. Legislative and regulatory actions to repeal, postpone and replace elements of the ACA or other components of the United States health care system create unpredictability for the strategic and business planning efforts of health care providers, which creates additional risks.

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, STANFORD UNIVERSITY'S FY2018 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 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 alternative minimum tax. 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 bonds, 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 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 Counsel to the University has given any opinion or assurance concerning Section 513(a) of the Code and neither Bond Counsel nor Counsel to the University 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 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 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 Owners from realizing the full current benefit of the tax status of such interest. 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 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, although the Authority's obligation to comply with the requirements of the Code is dependent in part upon actions of the University and is contingent upon indemnification of the Authority's expenses therefor.

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. In addition, successful defense of an audit examination by the IRS will require participation by the Authority, and the Authority is not obligated to incur expenses to defend an audit examination unless its expenses are paid or reimbursed by the University. 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 Bonds and certain other legal matters are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority. A complete copy of the proposed form of Bond Counsel opinion is contained in Appendix E hereto. 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 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. LLC, as representative of itself, J.P. Morgan Securities LLC 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 \$599,999,105.20 (being the principal amount of the Bonds, plus an original issue premium of \$158,169,105.20). The Underwriters' compensation is \$942,866.33, 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. Certain of the Underwriters and their respective affiliates have provided, and may in the future provide, a variety of these services to the University and to persons and entities with relationships with the University, for which they received or will receive customary fees and expenses. 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.

J.P. Morgan Securities LLC (“JPMS”), one of the Underwriters of the Bonds, has entered into negotiated dealer agreements (each, a “Dealer Agreement”) with each of Charles Schwab & Co., Inc. (“CS&Co.”) and LPL Financial LLC (“LPL”) for the retail distribution of certain securities offerings at the original issue prices. Pursuant to each Dealer Agreement, each of CS&Co. and LPL may purchase Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any Bonds that such firm sells.

### **CERTAIN RELATIONSHIPS**

Gene T. Sykes, Managing Director of Goldman Sachs & Co. LLC, is a member of the University’s Board of Trustees. The University believes that the participation of Goldman Sachs & Co. LLC in this offering is on terms no less favorable than could be obtained from other parties.

### **INDEPENDENT ACCOUNTANTS**

The consolidated financial statements as of August 31, 2018 and 2017 and for each of the two years in the period ended August 31, 2018, 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 Ratings, Inc. (“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, New York, New York, 10007, from Fitch at 33 Whitehall Street, 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 enter into 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 the Continuing Disclosure Agreement is set forth in Appendix D hereto. The Continuing Disclosure Agreement 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

March 21, 2019

\_\_\_\_\_  
/s/ Frank Moore  
Acting 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

March 21, 2019

\_\_\_\_\_  
/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 The Leland Stanford Junior University (“Stanford” or the “University”). Part II consists of portions of the University’s Annual Financial Report for the fiscal years ended August 31, 2018 and 2017 (the “University’s FY2018 Annual Financial Report”), which includes management’s discussion and analysis, selected financial and other data, the report of independent auditors, and the University’s consolidated financial statements for the years ended and as of August 31, 2018 and 2017 (the “University’s FY2018 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 FY2018 Audited Financial Statements.

#### PART I

##### GENERAL INFORMATION ABOUT STANFORD 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.

##### **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 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 (the “Board”) 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 Audit, Compliance and Risk; Development; Finance; Land and Buildings; Student, Alumni and External Affairs; 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.

The following table lists the members of the Board of Trustees as of March 1, 2019.

Jeffrey S. Raikes ( <i>Chair</i> )	Christy O. MacLear
Felix J. Baker	Kenneth E. Olivier
Mary T. Barra	Carrie W. Penner
Bret E. Comolli	Ruth M. Porat
RoAnn Costin	Laurene Powell Jobs
Michelle R. Clayman	Mindy B. Rogers
Dipanjan Deb	Victoria B. Rogers
Henry A. Fernandez	Kavitark Ram Shriram
Angela S. Filo	Ronald P. Spogli
Sakurako D. Fisher	Srinija Srinivasan
Bradley A. Geier	Jeffrey E. Stone
James D. Halper	Gene T. Sykes
Ronald B. Johnson	Marc Tessier-Lavigne
Marc E. Jones	Jerry Yang
Tonia G. Karr	Charles D. Young
Carol C. Lam	

***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 March 1, 2019.

### **University Officers**

Marc Tessier-Lavigne  
*President*

Jon Denney\*  
*Vice President for Development*

Persis Drell  
*Provost*

Harry Elam  
*Vice President for the Arts*

Farnaz Khadem\*\*  
*Vice President for Communications*

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

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 and Chief External Relations Officer*

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*

### **University Executive Cabinet**

Harry Elam  
*Senior Vice Provost for Education,  
Vice Provost for Undergraduate Education*

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

Stephan Graham  
*Dean, School of Earth, Energy &  
Environmental Sciences*

Patricia J. Gumpport  
*Vice Provost for Graduate Education*

Chi-Chang Kao  
*Director, SLAC National Accelerator Laboratory*

Jon Levin  
*Dean, Graduate School of Business*

M. Elizabeth Magill\*\*\*  
*Dean, School of Law*

Lloyd Minor  
*Dean, School of Medicine*

Kathryn Ann “Kam” Moler  
*Vice Provost and Dean of Research*

Debra Satz  
*Dean, School of Humanities and Sciences*

Daniel Schwartz  
*Dean, Graduate School of Education*

Jennifer Widom  
*Dean, School of Engineering*

### **Stanford Management Company**

Robert F. Wallace  
*Chief Executive Officer*

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\* Effective April 2019

\*\* Effective March 11, 2019

\*\*\* Effective April 1, 2019, Jenny S. Martinez will succeed M. Elizabeth Magill as Dean, School of Law

## Faculty and Staff

For the 2018 fall quarter, the Stanford professoriate had 2,241 members. Of those, 53% 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 1,682 members, 1,536 are tenure-line faculty, and 146 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, 2018, the University, including the SLAC National Accelerator Laboratory, employed 14,792 non-academic staff members. Of these employees, 1,223 were represented by the Service Employees International Union, and 25 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 2018 fall quarter, the University enrolled 7,083 undergraduate and 9,437 graduate students. During academic year 2017-2018, 1,754 bachelor degrees and 3,440 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 <sup>(1)(2)</sup>			Graduate <sup>(2)</sup>		
	Applications	Admissions	Enrollment	Applications	Admissions	Enrollment
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
2016-17	45,956	2,160	1,778	45,564	4,530	2,701
2017-18	46,307	2,116	1,730	45,907	4,157	2,696
2018-19	49,804	2,098	1,721	46,889	4,181	2,635

<sup>(1)</sup> Includes both freshman and transfer students.

<sup>(2)</sup> 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 2013-14 through 2018-19.



Academic Year	Tuition	Room and Board	Total	Average Financial Aid <sup>(1)</sup>	Average Financial Aid + Athletic Aid
2013-14	\$42,690	\$13,166	\$55,856	\$18,444	\$21,487
2014-15	44,184	13,631	57,815	19,009	21,981
2015-16	45,729	14,107	59,836	19,676	23,016
2016-17	47,331	14,601	61,932	21,698	24,986
2017-18	48,987	15,112	64,009	22,143	25,557
2018-19	50,703	15,763	66,466	n/a	n/a

<sup>(1)</sup> 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 also provides a gift funded institutional loan program. Student loan receivables, net of allowances for doubtful accounts, were \$60.3 million and \$70.9 million as of August 31, 2018 and 2017, respectively.

### **The Stanford Campus and Other Real Property**

Stanford’s campus consists of 8,180 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 municipalities. 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 2019 Capital Budget approved by the Board of Trustees is \$1.2 billion and represents the anticipated capital expenditures in the first year of the rolling three-year Capital Plan. The fiscal year 2019-2021 Capital Plan includes projects with estimated total costs of nearly \$4.1 billion, and represents one of the largest capital programs in Stanford’s history. Estimated funding sources for projects under the current Capital Plan consist of \$2.0 billion in debt, \$1.4 billion in reserves and other funds, \$644.5 million in gifts, and \$107.9 million of resources to be identified in the course of annual capital planning. 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 and plan previously in force since 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 2,035,000 square feet of new academic facilities and 4,468 new housing units for students, faculty and staff. The 2000 GUP contains a number of significant restrictions and conditions upon which such developments are contingent. Through August 31, 2018, projects using approximately 1,826,000 gross square feet of the GUP allotment had been completed or were under construction and approximately 2,400 housing units have been added, with another 2,020 net new units under construction.

In anticipation of completing the academic space and housing authorized by the 2000 GUP and Community Plan, the University filed an application in November 2016 for an updated General Use Permit to guide campus planning over the next two decades. The approval process, which includes community discussions and feedback, an environmental impact report and public hearings, is expected to conclude in Summer 2019. The University's application for an updated General Use Permit includes a development request for 2,275,000 square feet of academic facilities and 3,150 housing units/student beds, with construction expected to be completed by 2035.

## **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 FY2018 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. LPCH opened a majority of its new expanded facilities in FY2018 and SHC's new facility is currently scheduled to be completed in late 2019. The estimated cost is approximately \$2.1 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 approximately \$1.4 billion 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, 2016 and 2018 and may in the future include lines of credit. (See also "Certain Investment Considerations" in the forepart of this Official 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, including the following two matters which have received broad public attention.

**College Admissions.** The University is a defendant in a private lawsuit filed on March 13, 2019 derived from an alleged college admissions bribery scheme affecting several universities. The scheme is the subject of federal charges brought against a number of individuals, including a former University sailing coach, by the U.S. Department of Justice (“DOJ”). The DOJ has advised the University that the DOJ considers the University to be a victim of the alleged scheme. The University has been fully cooperating with the DOJ in the matter. The private suit asserts various damages claims based on alleged negligence and other theories of liability. The University considers these allegations, and possible future claims against the University similar in nature, to be without merit. The University will vigorously defend against all such claims.

**Title IX.** The University is among over 100 colleges and universities under investigation or monitoring by the Office for Civil Rights, Department of Education (“OCR”), relating to Title IX concerns. As is its practice when a university is under review, OCR looks not only at the matters that are the subject of the complaints, but also at all reports of sexual harassment and sexual violence for the past three academic years. On April 6, 2018, Stanford entered into a Resolution Agreement and on April 10, 2018, OCR issued its letter of findings from the investigation. OCR made no finding that laws were violated in the handling of any individual student matters.

OCR’s investigation raised concerns about some omissions and errors in the University’s policies and determined that some provisions in the University’s policies did not comply with Title IX. Stanford committed in the Resolution Agreement to make certain policy changes, give training on those changes, and meet with two of the student complainants to discuss Title IX issues and these changes. Stanford is now implementing the commitments it made. This process may take several years, and OCR will continue to monitor Stanford’s compliance with the Resolution Agreement until all commitments have been completed and approved by OCR.

One responding student disciplined by the University after a sexual assault claim and who filed a claim with OCR (since dismissed by OCR) later filed two related actions against the University. The first is a writ petition 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. Stanford prevailed at trial on the writ petition, and the responding student has filed a notice of appeal. The second is a complaint filed in federal court alleging gender discrimination by the University and seeking money damages, which is pending.

The University believes it is reasonably possible that other students may bring claims against the University under Title IX. The University intends to vigorously defend against all such claims, including the pending claims, 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, 2018, the University held investments with a fair value of approximately \$34.5 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 FY2018 Audited Financial Statements and prior years’ financial statements.

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

	2018	2017	2016	2015	2014
Total Investments	<u>\$34,517,436</u>	<u>\$33,297,493</u>	<u>\$29,085,787</u>	<u>\$28,766,240</u>	<u>\$27,828,590</u>
Less: Permanently Restricted Investments	<u>7,418,610</u>	<u>7,082,379</u>	<u>6,703,622</u>	<u>6,281,590</u>	<u>6,037,754</u>
Unrestricted and Temporarily Restricted Investments	<u>\$27,098,826</u>	<u>\$26,215,114</u>	<u>\$22,382,165</u>	<u>\$22,484,650</u>	<u>\$21,790,836</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 6, “Investments,” and Note 18, “Commitments and Contingencies,” to the University’s FY2018 Audited Financial Statements included in Part II of this Appendix A).

**PART II**

**STANFORD UNIVERSITY'S FY2018 ANNUAL FINANCIAL REPORT**

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# MANAGEMENT'S DISCUSSION AND ANALYSIS

## **CONSOLIDATED FINANCIAL HIGHLIGHTS**

Stanford's FY18 consolidated financial results were solid, providing essential financial resources to advance our education, research and clinical care missions. Stanford includes the University, Stanford Health Care (SHC) and Lucile Salter Packard Children's Hospital at Stanford (LPCH) and their respective controlled affiliates. On a consolidated basis, operating revenues exceeded expenses by \$472 million, compared to \$448 million in FY17. Net assets increased \$2.7 billion to end the year at \$43.2 billion. The University's endowment was \$26.5 billion at August 31, 2018. Stanford achieved these results through the generosity of its donors, solid investment performance and continued growth in health care services.

Despite these positive results, FY18 was not without its challenges. Bay Area housing affordability issues persisted, creating challenges in recruiting faculty and staff, and driving up Stanford's costs. The Federal Tax Cuts and Jobs Act was passed, imposing significant new taxes on Stanford beginning in FY19. The multi-billion Renewal Project to rebuild SHC and expand LPCH's facilities continued throughout the year. LPCH opened the majority of its new state-of-the-art children's hospital facilities in December 2017, more than doubling its square footage. However, transition issues related to these new facilities negatively impacted LPCH's FY18 operating results.

Under the leadership of President Marc Tessier-Lavigne and Provost Persis Drell, the University is in the midst of a Long Range Planning effort for which the vision was communicated in April. A number of design teams are now working on implementation of each of the plan initiatives. In parallel, the medical center leadership has been working on a Stanford Medicine Integrated Strategic Plan for which the vision was communicated in January.

Below are highlights of Stanford's FY18 financial results.

### **Generous Donor Support**

The University's Office of Development reported \$1.1 billion in gifts benefiting the University, SHC and LPCH. This amount, which includes \$49 million and \$50 million in support of SHC and LPCH, respectively, represents contributions from more than 72,000 donors. These results reflect our donors' ongoing commitment to Stanford's mission.

Philanthropic support is vital to our continued efforts in making a Stanford education more affordable, improving the quality and breadth of our academic programs, and building 21st century facilities for research and clinical care. Most gifts are designated by donors for specific programs and purposes.

### **Investment Performance**

Consolidated investments at August 31, 2018 were \$37.8 billion, compared to \$35.8 billion at August 31, 2017. Consolidated investment returns in FY18 were \$3.3 billion, resulting primarily from returns in the Merged Pool (MP), which is the University's primary investment vehicle, and income-generating properties on Stanford's lands. Investment income provides substantial funding for education, including student financial aid, faculty salaries, and research programs, among other needs.

**Health Care Services**

Health care services have grown at a five-year compound annual rate of 12% and represent 56% of consolidated revenues in FY18. To support this growth, the Renewal Project is underway at both Hospitals to assure adequate capacity and provide modern state-of-the-art facilities. During FY18, LPCH opened the majority of its new expanded facilities and expects to complete remaining components in FY19. SHC’s new hospital is scheduled to open in late 2019.

Stanford Medicine continues to focus on “Precision Health: Predict, Prevent, Cure, Precisely” as a unifying theme across the School of Medicine, SHC and LPCH.

See further discussion in the sections for *Stanford Health Care* and *Lucile Salter Packard Children’s Hospital at Stanford*.

The sections below provide additional details about the financial position, financial results and operations of the University, SHC and LPCH individually.

**UNIVERSITY**

FY18 net assets increased 6% to \$36.9 billion compared to \$34.7 billion in the prior year. The endowment grew by \$1.7 billion after distributing \$1.2 billion to support operations, ending the year at \$26.5 billion.

**UNIVERSITY OPERATING RESULTS**

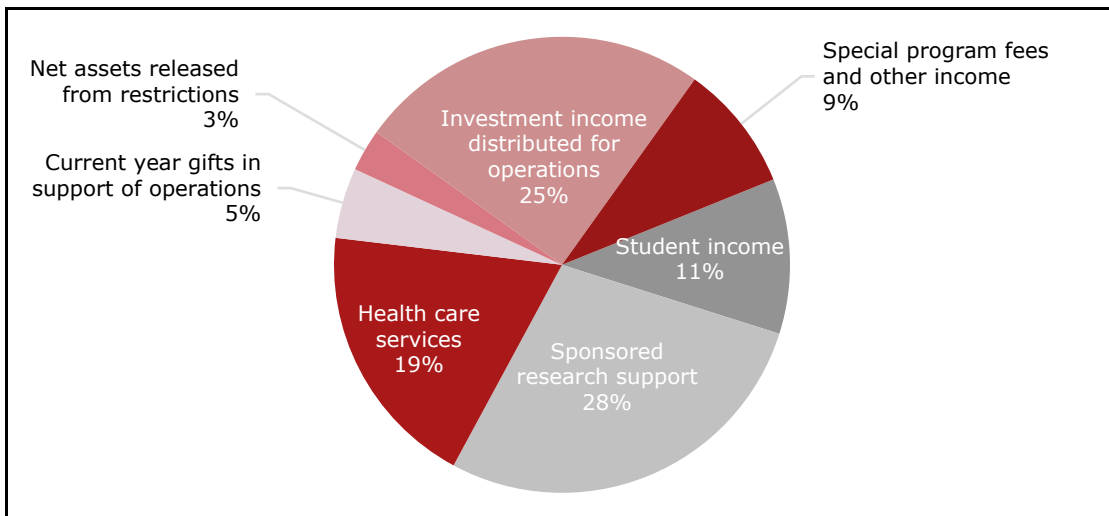
The University's *Statements of Activities* include results from both operating and non-operating activities. Operating activities include the revenues earned and expenses incurred in the current year to support the University’s core activities of teaching, research, and patient care.

The University ended the year with a surplus from operating activities of \$198 million, down \$30 million from the FY17 surplus of \$227 million. In FY18, operating expenses increased \$292 million, outpacing the operating revenue increase of \$263 million.

**UNIVERSITY OPERATING REVENUES**

FY18 operating revenues of \$5.9 billion were derived from a variety of sources, as shown in Figure 1.

**FIGURE 1  
UNIVERSITY OPERATING REVENUES**

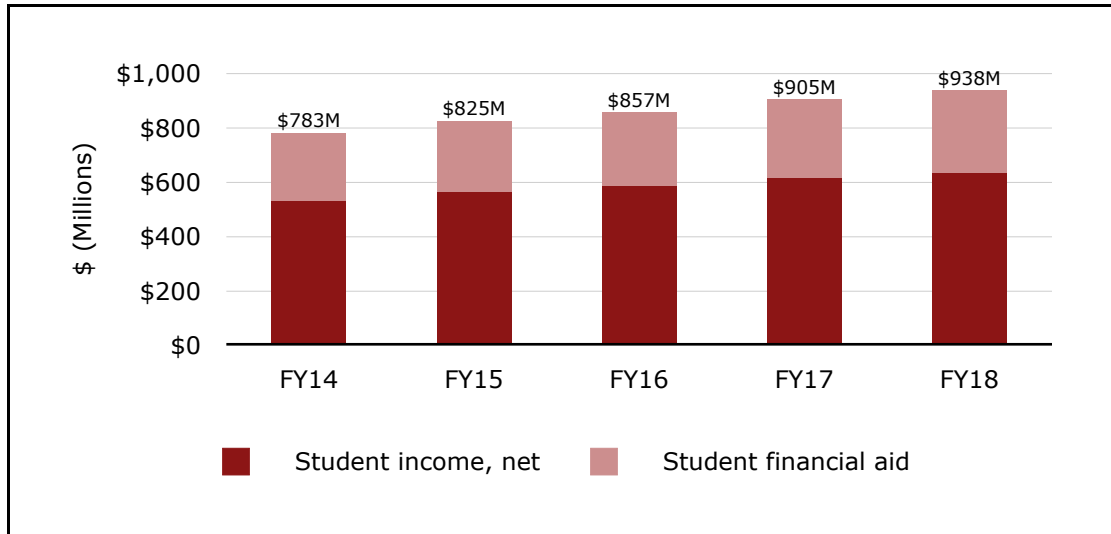




## Student Income

Total student income, which represents 11% of University operating revenues, increased 3% to \$635 million in FY18. Total student income includes tuition and fees from undergraduate and graduate programs and room and board, offset by financial aid in the form of scholarship and fellowship grants that cover a portion of tuition, living and other costs.

**FIGURE 2**  
**UNIVERSITY STUDENT INCOME AND FINANCIAL AID**



### Student Tuition

Revenues from student tuition and fees before the deduction for student financial aid increased by 3.5% to \$743 million in FY18 primarily as a result of undergraduate and graduate tuition rate increases of 3.5%. Also contributing to this result was a slightly higher graduate student enrollment; undergraduate enrollment remained flat.

### Student Room and Board

Revenues from room and board increased 5% to \$195 million in FY18 due to an increase in undergraduate room and board rates of 3.5%, graduate room and board rates of 4.75%, and a slight increase in housing capacity due to the completion of the Schwab Residential Center which was offline for renovation during a significant part of FY17. Construction is progressing on the Escondido Village Graduate Residences project which will increase capacity to house more graduate students on campus. The residences are scheduled to be complete by the fall of 2020, adding over 2,000 net new beds. See the *Capital Projects* section.

### Student Financial Aid and Other Graduate Support

One of the University's highest priorities is to remain affordable and accessible to all admitted students, regardless of their financial circumstances. The University's admissions process for undergraduate students from the United States is need-blind, which means that students are admitted without consideration of their ability to pay.

Since 2000, the University has continued to enhance its financial aid programs for both its undergraduate and graduate students.

- Currently, families of undergraduate students from the U.S. with incomes below \$125,000 and assets typical of that income level receive at least enough scholarship to cover the cost of tuition. Those with incomes below \$65,000 and typical assets receive enough scholarship assistance to cover tuition, room and board, and other expenses. In FY18, 47% of undergraduates were awarded need-based financial aid from Stanford.

- Graduate student financial aid and other support is awarded based on financial need, academic merit and the availability of funds. In FY18, 79% of graduate students received some form of financial support.

The University provides financial assistance to students in the form of scholarships, fellowships, and stipends, some small student loan programs, as well as teaching and research assistantships. Total student financial aid and other graduate support for FY18 and FY17 is presented in the following table:

<i>(\$ in millions)</i>	FY18	FY17
Student Financial Aid ( <i>offsets student income</i> )		
Undergraduate	\$ 185	\$ 174
Graduate	118	113
Total Student Financial Aid	303	287
Other Graduate Support ( <i>included in operating expenses</i> )		
Stipends	111	106
Assistantships (research and teaching)	116	110
Allowance for tuition (for assistantship recipients)	92	87
Total Other Graduate Support	319	303
<b>Total Student Financial Aid and other Graduate Support</b>	<b>\$ 622</b>	<b>\$ 590</b>

Total student financial aid and other graduate support increased by over 5%, exceeding the increase in tuition. FY18 undergraduate aid and graduate fellowships of \$303 million represent an increase of 5.6% over the prior year and are included in "Student Financial Aid", offsetting "Student Income" in the University's *Statements of Activities*. For FY18, the University also provided other graduate student support in the form of stipends of \$111 million, and teaching and research assistantships and related allowances for tuition of \$208 million. These amounts are included in operating expenses.

During FY18, sources of the total \$622 million of student financial aid and graduate support included approximately \$300 million in payout from endowment funds and expendable gifts restricted for student aid, \$207 million from unrestricted University funds and \$115 million from grants and contracts.

### **Sponsored Research Support**

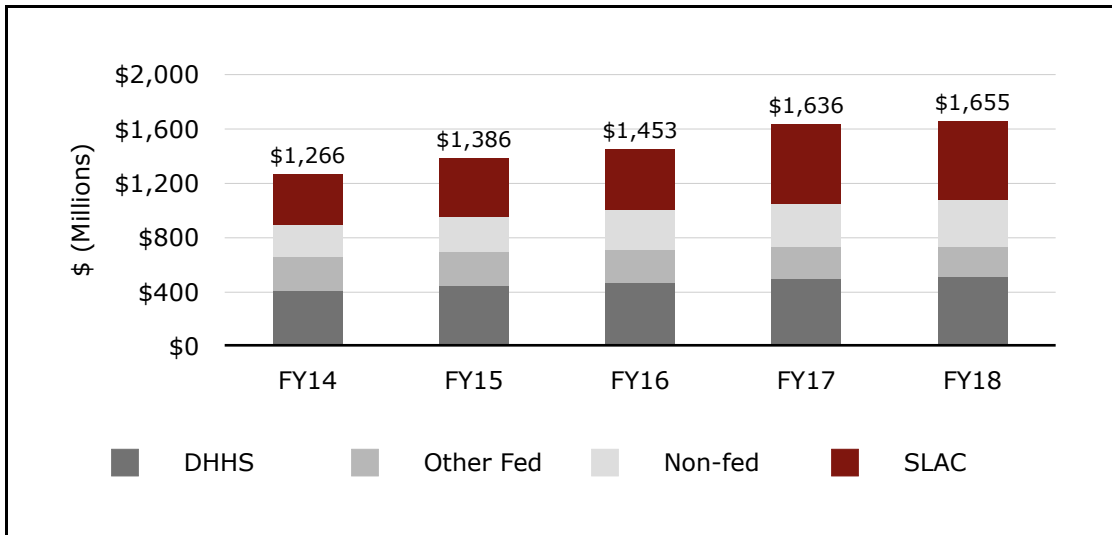
FY18 sponsored research support, including the SLAC National Accelerator Laboratory (SLAC), increased \$19 million to \$1.7 billion compared to FY17 revenues. Sponsored research support is the largest source of operating revenue, representing 28% of total revenues.

#### Sponsored Research Support - University

FY18 sponsored research support for the University (excluding SLAC) increased \$24 million or 2% to \$1.1 billion. This comprises \$802 million of direct costs and \$274 million of indirect costs. Approximately 68% of the University's sponsored research support (excluding SLAC) is received directly or indirectly from the federal government.

The Department of Health and Human Services (DHHS) provided support of \$511 million in FY18 compared to \$496 million in the prior year, primarily through the National Institutes of Health (NIH). Stanford is one of the top ten recipients of NIH funding. Most of these funds support research within the University's SOM.

**FIGURE 3  
UNIVERSITY SPONSORED RESEARCH SUPPORT**



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. Recovery of facilities and administrative costs associated with federally sponsored awards is recorded at rates negotiated with the University’s cognizant federal agency, the Office of Naval Research. For FY18, the total amount of federal and non-federal indirect cost recovery increased by 3% to \$274 million.

Sponsored Research Support - SLAC

The U.S. Department of Energy (DOE) provides substantially all of SLAC's sponsored research support. In FY18, SLAC's sponsored research support was \$580 million, comprised of \$296 million for operations and \$284 million for construction of new facilities and instruments. Included in new facilities was \$211 million for the Linac Coherent Light Source (LCLS) II project expected to be completed in 2022. LCLS II is a major upgrade to increase the power and capacity of LCLS, the X-ray free-electron laser that became operational in October 2009.

In FY18, a new facility for cryogenic electron microscopy (Cryo-EM) opened at SLAC. Built and operated in partnership with the University, it is equipped with four state-of-the-art scientific instruments. Cryo-EM is a groundbreaking technology that has given scientists unprecedented views of the inner workings of the cell.

**Health Care Services**

FY18 health care services revenue represented 19% of University operating revenues, increasing \$66 million (6%) to \$1.1 billion resulting from growth in the Hospitals' clinical programs.

The SOM faculty serve as physicians for the Hospitals. More than 90% of the University’s health care revenue is received from SHC and LPCH through inter-entity funds flow agreements which pass a portion of the hospitals’ clinical service revenues to the University based on clinician productivity. Additional payments are made for medical direction, programmatic development, and department overhead costs. These inter-entity revenues are eliminated in consolidation. The remaining \$41 million in health care services revenue is for services provided to other health care systems, including the Santa Clara Valley Medical Center and other adult and pediatric outreach clinics.

The results of operations and financial position for SHC and LPCH are discussed in more detail in the *Stanford Health Care* and *Lucile Salter Packard Children’s Hospital at Stanford* sections.

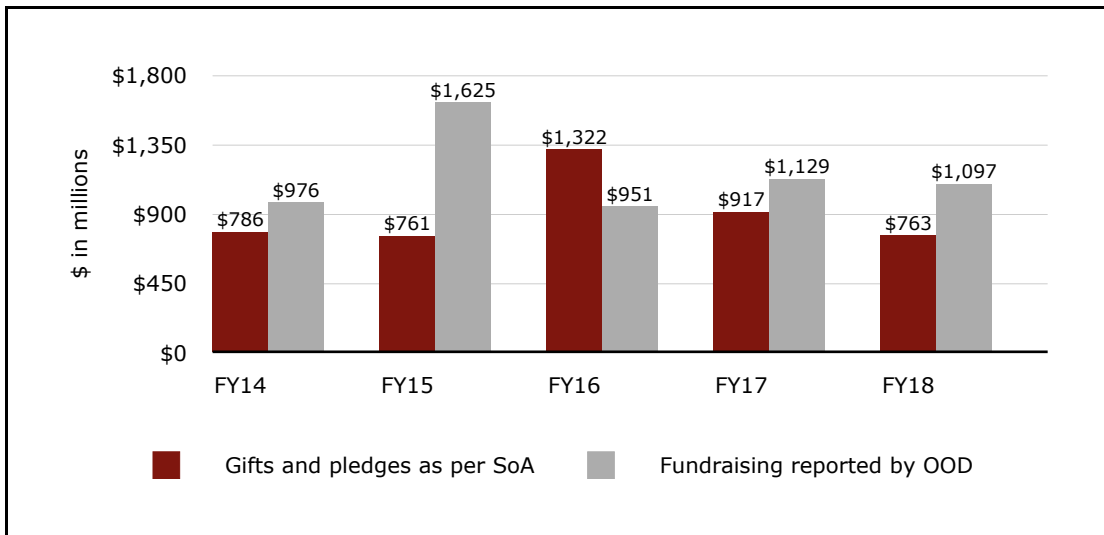
**THE UNIVERSITY'S GIFTS AND PLEDGES**

Gifts from the University's donors are a key source of funding for the University's current operations as well as capital projects and new endowments. The majority of the University's gifts and pledges are restricted by donors for specific purposes. The University has both legal and fiduciary obligations to use the funds according to the donor's restrictions, which guide how they are reported in the financial statements. In FY18, current year gifts in support of operations were \$279 million, and were recorded in the operating section of the University's *Statements of Activities*. In addition, gifts and pledges of \$484 million were recorded in the non-operating section of the University's *Statements of Activities*, bringing the FY18 total University gifts and pledges recorded in the University's financial statements to \$763 million, down \$154 million from FY17.

The University's Office of Development (OOD) fundraising results include certain gifts that are not recognized as contributions in the University's financial statements. Grants from foundations and corporations are reflected as sponsored research support revenue rather than gifts and pledges. Donations of art collections are not recorded on the University's financial statements. Gifts raised on behalf of SHC and LPCH are reflected in the hospitals' financial statements. In addition, the University's *Statements of Activities* recognizes pledges as revenue when the pledges are made by donors, while OOD includes them in the fundraising results when the pledge payments are received.

In FY18, OOD reported gifts benefiting the University, SHC and LPCH of \$1.1 billion. Figure 4 reflects the gifts and pledges in the *University's Statements of Activities* as well as the fundraising results reported by OOD over the past 5 years.

**FIGURE 4  
GIFTS AND PLEDGES: STATEMENT OF ACTIVITIES  
VS. FUNDRAISING RESULTS REPORTED BY OOD**



**Total Investment Income Distributed for Operations**

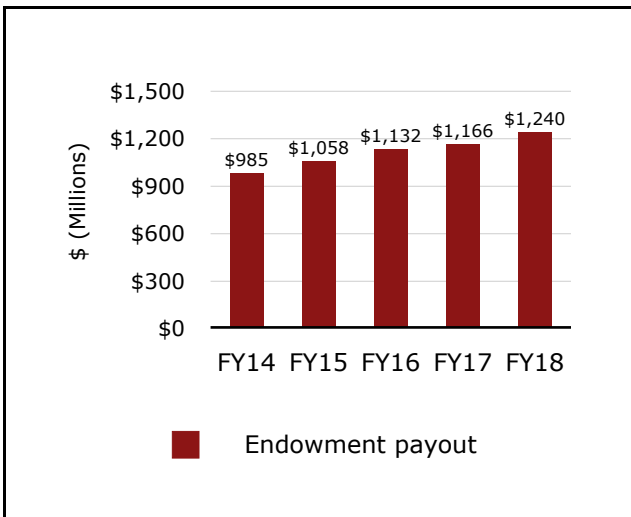
The University distributes investment income for use in operations according to policies approved by the Board of Trustees (BOT or "Board"). Total investment income distributed for operations was \$1.5 billion in FY18, \$1.2 billion of which was distributed from the University's endowment with the remainder from the Expendable Funds Pool (EFP) and other sources. Investment income distributed for operations represented 25% of University operating revenues in FY18, the University's second highest source of revenue. Through the combination of investment strategy and payout policy, the University strives to provide a reasonably consistent payout from endowment to support current operations, while preserving the purchasing power of the endowment for the future.

Endowment Income Distributed for Operations

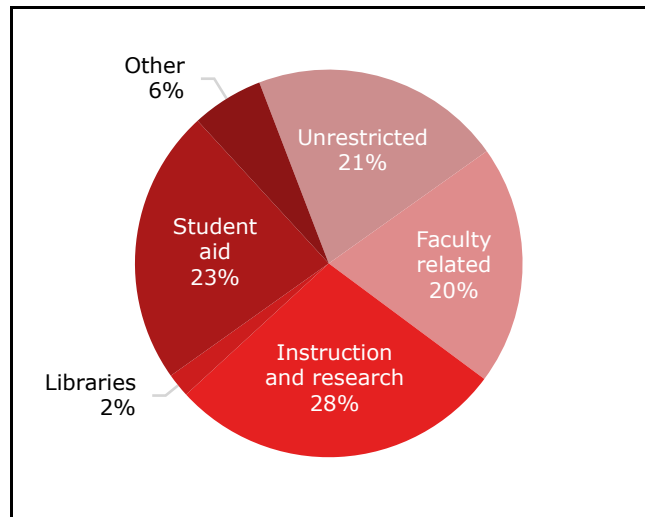
Endowment income distributed for operations (also referred to as endowment payout) increased 6% to \$1.2 billion in FY18. This amount includes payout from the University's MP based on a Board approved formula, and endowment income received from sources not included in the MP, including real estate income from the University's endowed lands. As shown in Figure 5, annual payout to operations from the endowment continues to be a significant source of operating revenue for the University, covering approximately 22% of operating expenses in FY18.

As shown in Figure 6, 79% of the endowment payout is restricted as to purpose, and provided funding for instruction and research activities (28%), student aid (23%), faculty salaries and support (20%), and libraries (2%). Unrestricted endowment payout is also used to support these activities in addition to other critical strategic priorities.

**FIGURE 5**  
**UNIVERSITY ENDOWMENT PAYOUT**



**FIGURE 6**  
**UNIVERSITY ENDOWMENT PAYOUT BY PURPOSE**



Expendable Funds Pool and Other Investment Income Distributed for Operations

The EFP and Endowment Income Funds Pool (EIFP) are the principal investment vehicles for the University's expendable funds. The amount distributed for operations from these funds was \$254 million in FY18, compared to \$143 million in FY17. See Note 7 to the FY18 Consolidated Financial Statements.

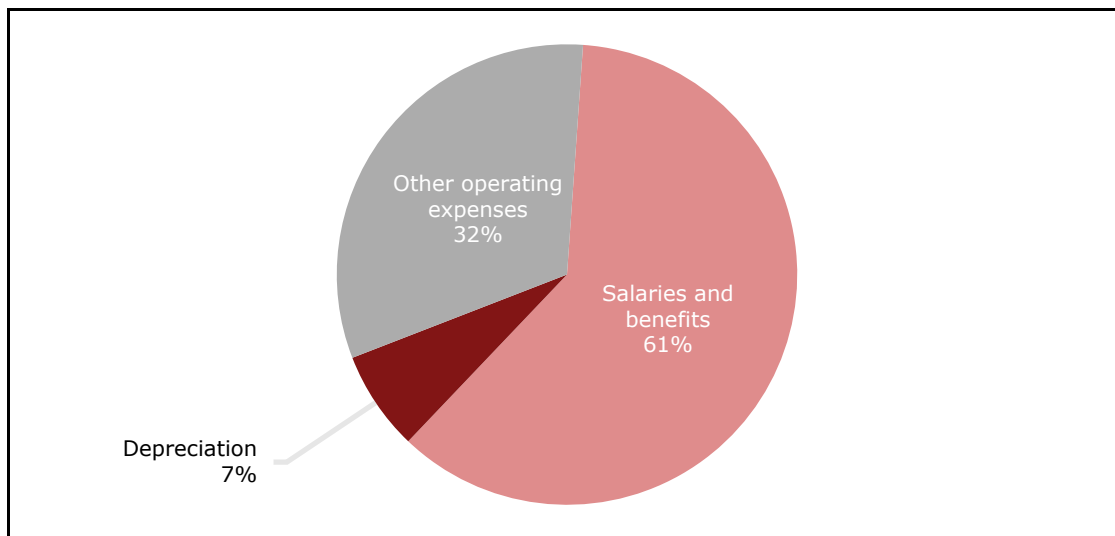
The EFP policy provides a variable payout to operations primarily based on prior year EFP investment returns. Payout on the EFP in FY18 was \$102 million more than the prior year due to higher EFP investment returns in FY17 compared to FY16.

The EIFP holds previously distributed but unspent endowment payout. These amounts are held, for instance, until there is adequate funding to support a program or professorship, or until a faculty member is hired. These amounts are invested in highly liquid instruments in order to preserve the principal balance and ensure availability of funds to support activities. Earnings on these investments are fully distributed to the University fund holders. See the *University Investment Pools and Liquidity Management* section.

### UNIVERSITY OPERATING EXPENSES

Total expenses increased \$292 million, or 5%, to \$5.7 billion in FY18. As shown in Figure 7, salaries and benefits comprised 61% of the University’s total expenses; depreciation expense was 7% and other operating expenses represented 32%.

**FIGURE 7**  
**UNIVERSITY OPERATING EXPENSES**



Salaries and benefits increased 6% in FY18 to \$3.5 billion. The increase resulted from a combination of factors including annual salary increases for faculty and staff and continued growth in headcount, notably in clinical programs at the SOM.

Depreciation expense increased by 4% to \$380 million in FY18 from \$365 million in FY17. The increase resulted from buildings recently placed in service as described in the *Capital Projects* section below.

Other operating expenses increased by 5% to \$1.8 billion in FY18. The increase resulted from a number of factors including an increase in interest expense from the \$750 million FY17 bond issuance, insurance expense and professional costs related to system improvements.

## **UNIVERSITY FINANCIAL POSITION**

Total University assets increased \$2.1 billion in FY18 to end the year at \$44.0 billion. Total University liabilities decreased \$110 million to \$7.2 billion, and net assets increased \$2.2 billion to \$36.9 billion.

### **Cash and Cash Equivalents**

At August 31, 2018, the University's cash and cash equivalents (as defined in *Note 1* to the FY18 *Consolidated Financial Statements*) increased by \$5 million to \$266 million.

### **THE UNIVERSITY'S INVESTMENT POOLS AND LIQUIDITY MANAGEMENT**

The University's investments are held in various investment pools or in specific investments with varying levels of liquidity. The University closely monitors liquidity required to meet its operating needs and contractual commitments.

As discussed further in *Note 11*, Endowments, the University classifies a substantial portion of its financial resources as endowment, which includes board-designated funds functioning as endowment (FFE) in addition to temporarily and permanently restricted endowment funds.

The Merged Pool (MP) (*see Note 7*) is the primary investment pool in which the endowment and other long-term funds are invested. The MP maintains sufficient liquidity to distribute the annual budgeted endowment payout in support of University operating expenditures, and to meet unfunded commitments associated with certain alternative investments (*see Note 6*). It is not the intention of the University to utilize board-designated endowment or other unrestricted reserves invested for the long-term for unplanned operating commitments; however, amounts could be made available from these sources if necessary, except from those underlying investments with lock-up provisions as discussed in *Note 6*.

The majority of Stanford's cash and other liquid investments are accumulated and managed in a short-term investment pool (STIP). The primary objective of this pool is to preserve the principal value of the portfolio while meeting the liquidity needs of the University.

The EFP and EIFP are the principal investment vehicles for the University's expendable funds. A substantial portion of the EFP is cross-invested in the MP with the remainder being invested in the STIP and Intermediate Pool (IPool). The entire balance of the EIFP is invested in the STIP.

In FY17, the University created the IPool. The IPool was established to invest funds with the objective of achieving greater liquidity than the MP and higher returns than the STIP.

To meet short-term operating needs, cash is managed by matching the timing of cash inflows and outflows as closely as possible. Back-up borrowing facilities of \$425 million and a \$500 million taxable commercial paper program, if not drawn for capital improvements, are also available.

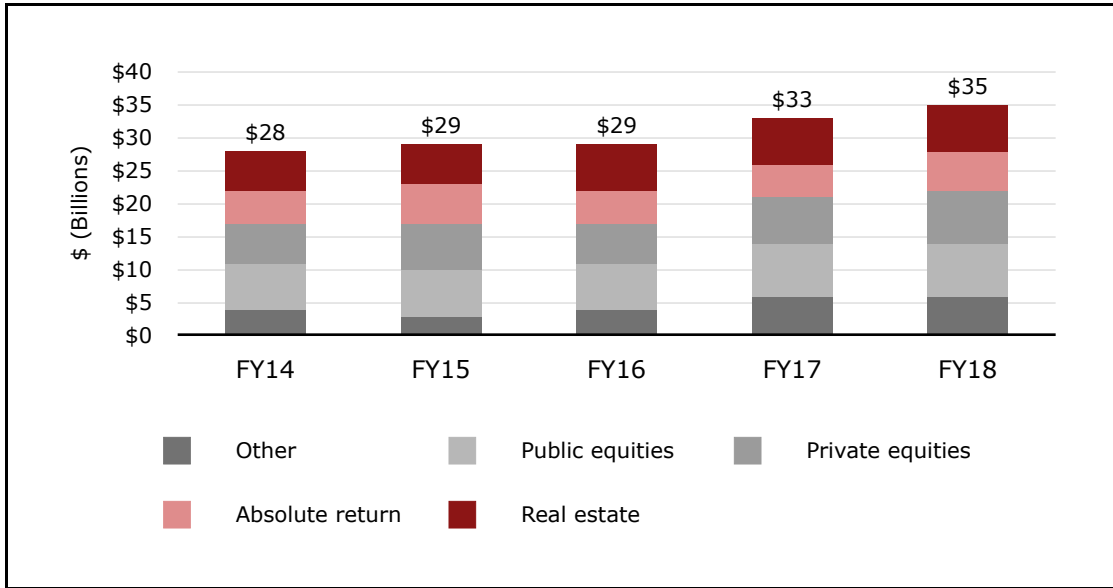
### **Assets Limited as to Use**

Assets limited as to use primarily consist of the University's non-qualified deferred compensation plan under IRC 457(b) offered to a select group of highly compensated employees. Assets are held by custodians on behalf of the University and are restricted for payments to participants and beneficiaries. At August 31, 2018, total assets held by the University were \$165 million. A corresponding liability is included in "deferred income and other obligations." The FY17 balance of \$194 million represented proceeds from tax-exempt bonds that were spent on eligible capital projects during FY18.

**Investments**

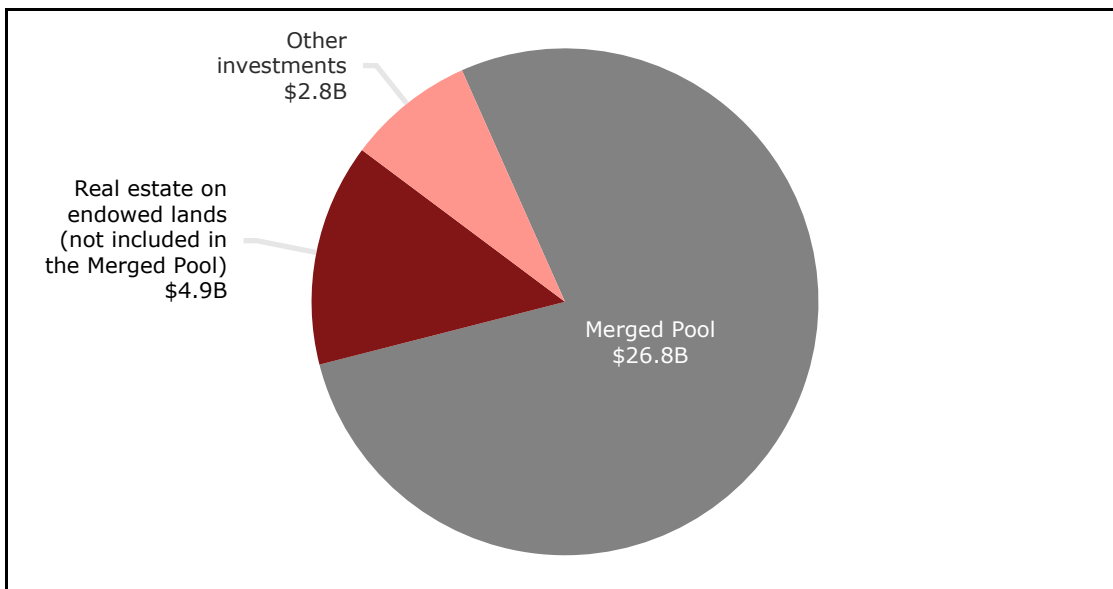
At August 31, 2018, University investments totaled \$34.5 billion. Investments by asset class are shown in Figure 8.

**FIGURE 8**  
**UNIVERSITY INVESTMENTS BY ASSET CLASS**



There are three primary categories of investments as shown in Figure 9: the MP, real estate investments on endowed lands, and other specific investments.

**FIGURE 9**  
**UNIVERSITY INVESTMENT BY CATEGORY**





Investments in MP

As shown in Figure 9, the majority of the University’s endowment assets are invested in the MP, as well as a majority of the EFP and capital reserves from SHC and LPCH. The MP, totaling \$26.8 billion at August 31, 2018, is a diversified portfolio of actively managed public and private equity, absolute return, natural resources and real estate assets. 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's BOT. 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 students and scholars.

Real Estate on Endowed Lands

A portion of Stanford’s 8,180 acres, including the Stanford Research Park and Stanford Shopping Center, is designated for the production of income by the BOT. As of August 31, 2018, \$5.7 billion of real estate investments (including \$811 million in the MP) are located on these lands. In FY18, these properties (including MP real estate) generated \$144 million in income, net of expenses, and appreciated in value by \$337 million. These lands have been developed for various uses, including research, medical and commercial offices, hotels, retail properties and a regional shopping center. The University further diversifies this portfolio by employing a variety of financial 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.

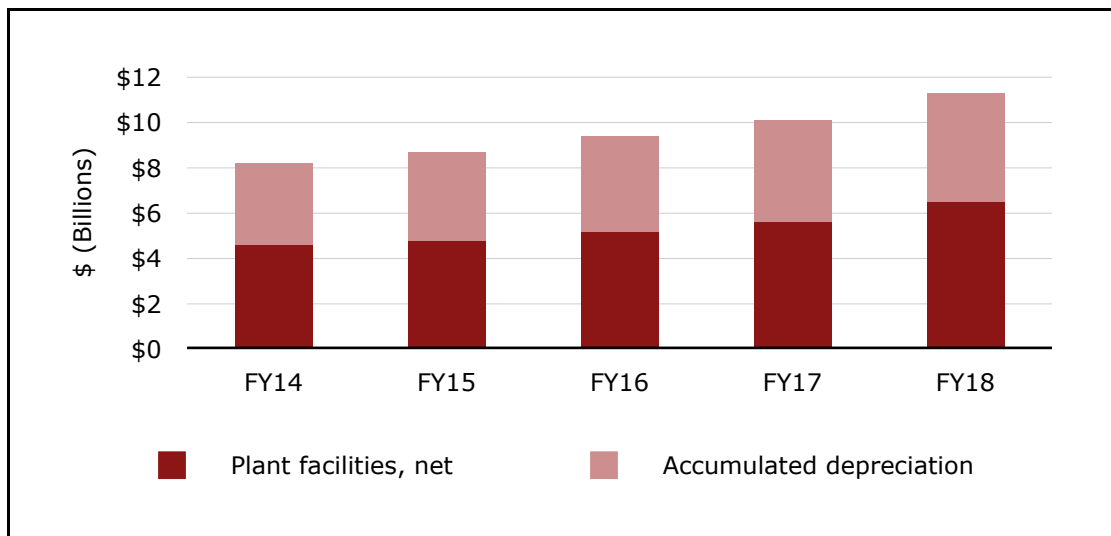
Other Specific Investments

The remaining \$2.8 billion of investments consists of the IPool, a portion of the STIP, and other specific investments.

**Capital Projects**

The University continues to make significant investments in its physical facilities, driven by the academic priorities for teaching, research, and related activities, and the initiatives of the administrative and auxiliary units that support the academic mission. During FY18, the University invested \$1.2 billion in capital projects, bringing gross plant facilities (before accumulated depreciation) to \$11.3 billion. Plant facilities, net of accumulated depreciation, increased \$884 million to \$6.5 billion, as shown in Figure 10.

**FIGURE 10**  
**PLANT FACILITIES AND ACCUMULATED DEPRECIATION**



The University completed several significant projects in FY18, as it continues to invest in its academic infrastructure to facilitate teaching and research. The Anne T. and Robert M. Bass Biology Research Building is a new laboratory research facility designed to support the University's biochemistry and computational research initiative. The David and Joan Traitel Building at the Hoover Institution provides added capacity in both office and conferencing facilities to meet its demand for public policy research and education. Finally, the Denning House is a new building dedicated to the Knight-Hennessy scholars program, the international graduate level scholars program which commenced in September 2018.

Construction continued on almost 200 projects, including the following academic projects with budgets greater than \$100 million.

- The new Stanford ChEM-H (Chemistry, Engineering and Medicine for Human Health) and Neurosciences Institute complex will house two interdisciplinary research institutes designed to bring faculty from many disciplines together to stimulate novel interactions.
- The Center for Academic Medicine 1 (CAM 1) will consolidate office space for clinical faculty, computational researchers, departmental administration and leadership.
- The BioMedical Innovations Building 1 will replace aging structures and house a mix of disciplines, research labs and leading edge translational studies.
- Phase I of Stanford in Redwood City's off-site administrative campus is underway and is expected to be completed with occupancy in 2019. Approximately 2,700 staff will relocate to this site in order to preserve core campus space for the University's highest academic priorities.

Over one-third of the University's FY18 capital expenditures were focused on student, faculty and staff housing to address the acute shortage of affordable housing in the region. The Escondido Village Graduate Residences (EV) project, currently under construction, will address the critical need for additional graduate student housing on campus. With occupancy targeted for fall 2020, EV will add over 2,000 new beds raising the percentage of graduate students housed to approximately 75% from just over 50% today.

Stanford's Housing Acquisition Initiative is expanding the University's supply of faculty and staff housing by acquiring land and residential units proximate to, or within easy transit of, campus. University Terrace, located just off the main campus on 17 acres at the edge of the Stanford Research Park, will provide a 180-home faculty community that includes single-family homes and condominiums. University Terrace is a critical part of Stanford's efforts to expand housing options amid a challenging local market.

## **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.

The University has \$425 million of unsecured revolving credit facilities, of which \$75.9 million was drawn down as of August 31, 2018. The University also has taxable and tax-exempt commercial paper authorized borrowing capacity of \$500 million and \$300 million, respectively. Tax-exempt commercial paper of \$130 million was outstanding at August 31, 2018.

Total debt decreased \$120 million in FY18. In August 2018, the University exercised an early make whole call redemption of \$262 million of the taxable Series 2009A bonds due in 2019. The remaining \$138 million of Series 2009A bonds was fully paid down in November 2018. The University's short and long-term debt is rated in the highest categories, which were affirmed by S&P Global Ratings in June 2018 and by Moody's Investors Service and Fitch Ratings in March 2017.

**Net Assets**

The University's net assets are classified as unrestricted, temporarily restricted or permanently restricted. See *Note 1* to the FY18 *Consolidated Financial Statements*. As previously noted, FY18 net assets increased 6% to \$36.9 billion compared to \$34.7 billion in the prior year. The increase of \$2.2 billion resulted from investment gains of \$1.5 billion, non-operating gifts and pledges, of \$484 million and operating income of \$198 million.

**TAX REFORM**

The Tax Cuts and Jobs Act (TCJA) was signed into law on December 22, 2017. It contains a number of provisions which will add considerable financial and administrative costs to Stanford, the exact magnitude of which will not be fully known until more detailed regulations and guidance are issued. Under the TCJA, effective September 1, 2018, the University is subject to a 1.4% excise tax on its net investment income as defined under the Internal Revenue Code which, among other things, includes net investment income of certain related entities such as the Hospitals. Under a special "stepped-up basis rule" the IRS has allowed universities to use the investment's fair market value at the end of 2017 as its basis for determining tax on any resulting gain from the sale of the investment. Based on our interpretation of the law and available guidance, the University has assessed deferred tax obligations arising from the excise tax and has determined that there is no obligation at August 31, 2018.

In addition, effective September 1, 2018, the University and Hospitals are subject to a 21% excise tax on annual compensation in excess of one million dollars paid to certain covered employees.

Effective January 1, 2018, the University and Hospitals are subject to a 21% income tax on certain expenses incurred in connection with providing qualified transportation benefits to employees. Management of the University and Hospitals has determined that the amount of current income tax payable at August 31, 2018 and income tax expense for the period then ended is not material.

**THE UNIVERSITY'S ENDOWMENT**

The University's endowment is a collection of gift funds and reserves invested to generate income to support the University's teaching and research missions. At August 31, 2018, the endowment totaled \$26.5 billion (See Figure 11) and represented approximately 72% of the University's net assets. The endowment, which includes the University's endowed lands, is comprised of pure endowment funds, term endowment funds and funds functioning as endowment. Many of these funds are designated by donors for specific purposes including scholarships, fellowships, professorships or other academic initiatives.

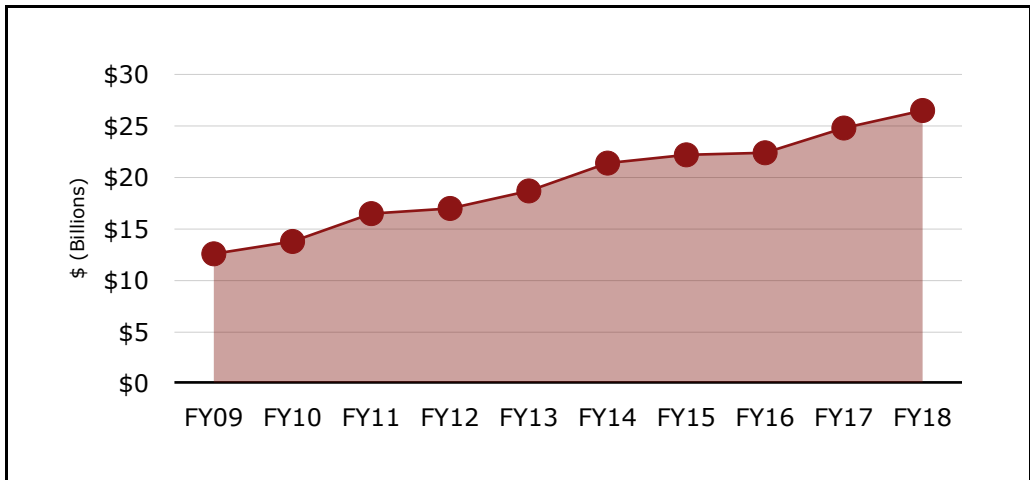
The University's endowment is crucial to providing funding for education and research programs, including increasing the amount spent on student financial aid. As discussed in the *Student Financial Aid and Other Graduate Support* section, a significant portion of the \$622 million of student financial aid and graduate support comes from endowment payout.

Through a combination of investment strategy and payout policy, the University strives to provide a reasonably consistent payout from endowment to support operations, while preserving the purchasing power of the endowment, adjusted for cost inflation, so that the endowment can continue to support the University in perpetuity. The endowment payout as a percentage of the beginning endowment value was 5.0% for FY18 and 5.2% for FY17.

The Board is responsible for determining endowment payout with the aim of balancing current and future needs of the University. For the majority of endowment invested in the MP, the target payout rate is 5.5%. The actual payout amount is determined by applying a smoothing rule designed to mitigate the impact of short-term market volatility. In situations when the payout rate reaches 6% or drops below 4%, the Board has the authority to override the smoothing rule and set the payout rate directly. For endowment invested in real estate on Stanford endowed lands, all of the net lease income is paid out to operations each year.

The University's endowment provides funding annually for a wide variety of important purposes. See the *Total Investment Income Distributed for Operations* section for more information.

**FIGURE 11  
UNIVERSITY ENDOWMENT**



## **HOSPITALS**

The financial results and financial position of Stanford Health Care (SHC) and Lucile Salter Packard Children's Hospital at Stanford (LPCH) and their controlled affiliates, are included in the FY18 *Consolidated Financial Statements*.

In FY11, Stanford received local government approval for a Renewal Project to rebuild SHC and expand LPCH's principal facilities. During FY18, LPCH opened the majority of its new expanded facilities and expects to complete the remaining components of the project in FY19. SHC's new hospital is scheduled to open in late 2019. These improvements are designated to add inpatient capacity in modern, technologically-advanced and patient-centered facilities, and meet state-mandated earthquake safety standards. The total estimated cost is approximately \$2.1 billion for SHC and \$1.4 billion for LPCH. Management of each hospital believes that sources of funding are adequate to cover remaining costs.

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 their respective hospitals and the SOM faculty, these organizations have acquired general and multi-specialty practices to form a network of coordinated care throughout the Bay Area.

SHC and LPCH continue to participate in the California Hospital Quality Assurance Fee (QAF) Program and the Hospital Fee Program (HFP). 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 discussion below provides additional detail about SHC's and LPCH's consolidated operations and financial results as derived from their separate consolidated financial statements.

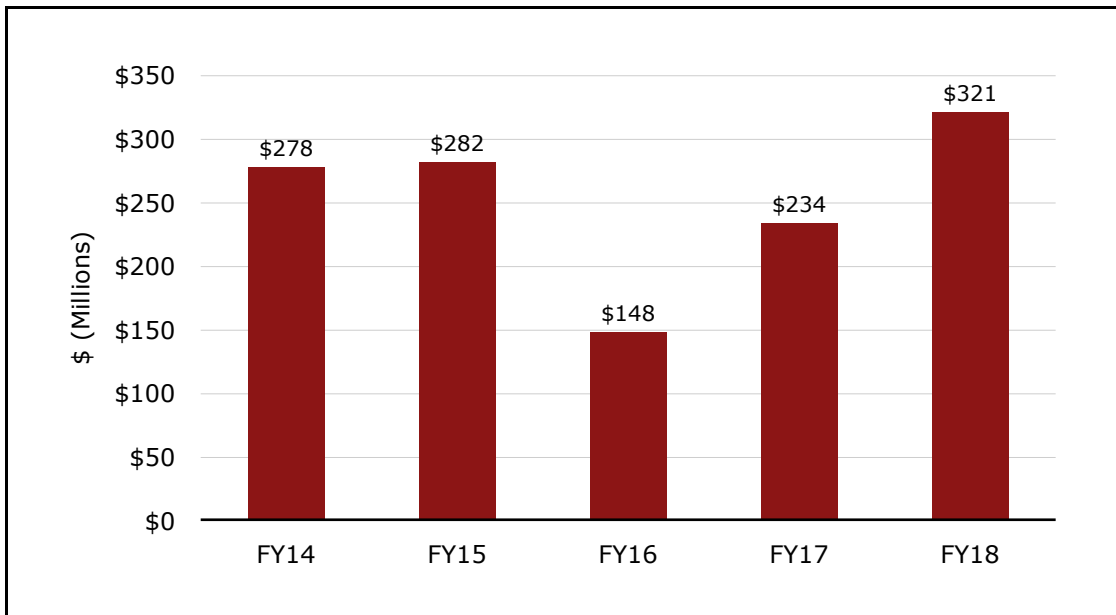
## STANFORD HEALTH CARE

Stanford Health Care (“SHC”) achieved favorable operating performance in FY18. SHC’s FY18 financial results reflect the consolidation of SHC and its subsidiaries.

### SHC FINANCIAL HIGHLIGHTS

Net assets increased \$457 million to end the year at \$4.0 billion. Operating revenues exceeded operating expenses by \$321 million, or 7%, compared to \$234 million in FY17. The FY18 operating margin increased primarily due to increased outpatient volume and management’s cost saving initiatives. FY18 results include community benefits of \$1.0 billion in charity care, and Medi-Cal and Medicare uncompensated care. These community benefits represent a 0.5% increase from the prior year.

**FIGURE 12**  
**SHC OPERATING MARGIN**



### SHC OPERATING RESULTS

SHC’s *Consolidated 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. During FY18, SHC recorded revenues and expenses from the Hospital Fee Program (“HFP”) totaling \$90 million and \$77 million, respectively. The figures discussed throughout this document include these amounts. FY18 operating revenues increased 10% compared to an increase in operating expenses of 9% during the same period. Revenues grew more than expenses mainly due to continued focus on strategic growth while implementing cost reductions. In addition, SHC continues to market two health plans: SHC Advantage, a Medicare health plan offered to Santa Clara and Alameda County residents, and SHC Alliance, a benefit plan that allows faculty and employees of Stanford University, SHC employees, and other employers access to the Stanford network of care.

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

**SHC OPERATING REVENUES**

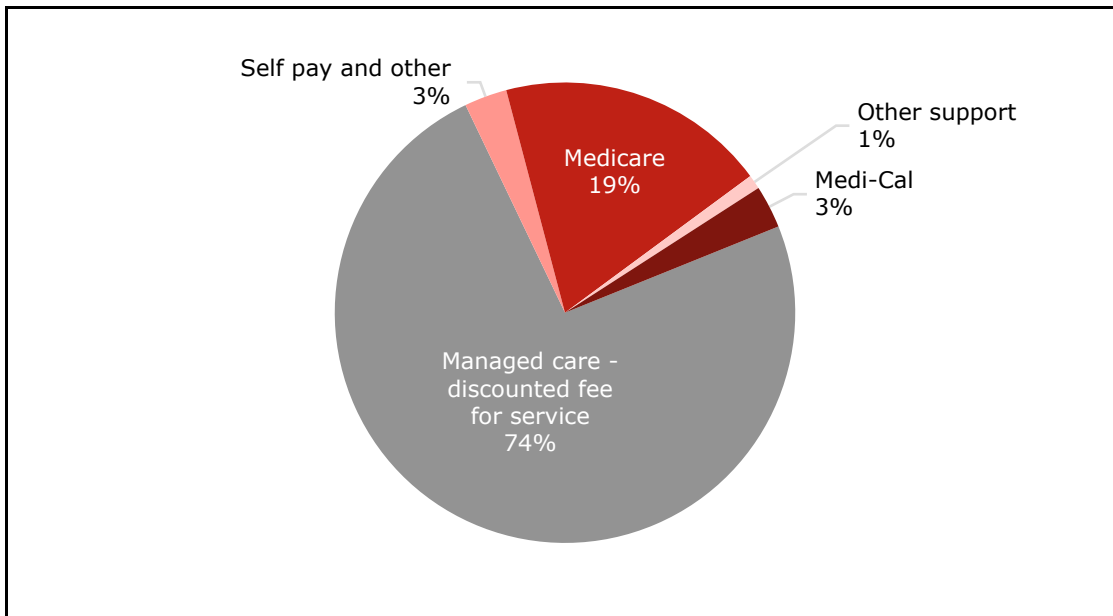
FY18 operating revenues were \$4.9 billion, reflecting a 10% increase over FY17.

**Net Patient Service Revenue**

FY18 net patient service revenue less doubtful accounts (including capitation / premium revenue) increased \$455 million, or 11%, from FY17 to \$4.8 billion and represented 97% of operating revenues. During FY18, SHC’s net patient service revenue includes amounts received under the Hospital Fee Program (HFP) totaling \$90 million. Revenues under this program nearly doubled from FY17.

Patient service revenue net of contractual allowances (but before provision for doubtful accounts), by major payer is shown in Figure 13.

**FIGURE 13**  
**SHC NET PATIENT SERVICE REVENUE**



Inpatient and outpatient, which represented 40% and 60% of net patient revenues (including capitation / premium revenue), respectively, grew significantly due to strong volume growth in multiple areas, such as operating rooms, pharmacy, imaging, cancer services and other ambulatory care services.

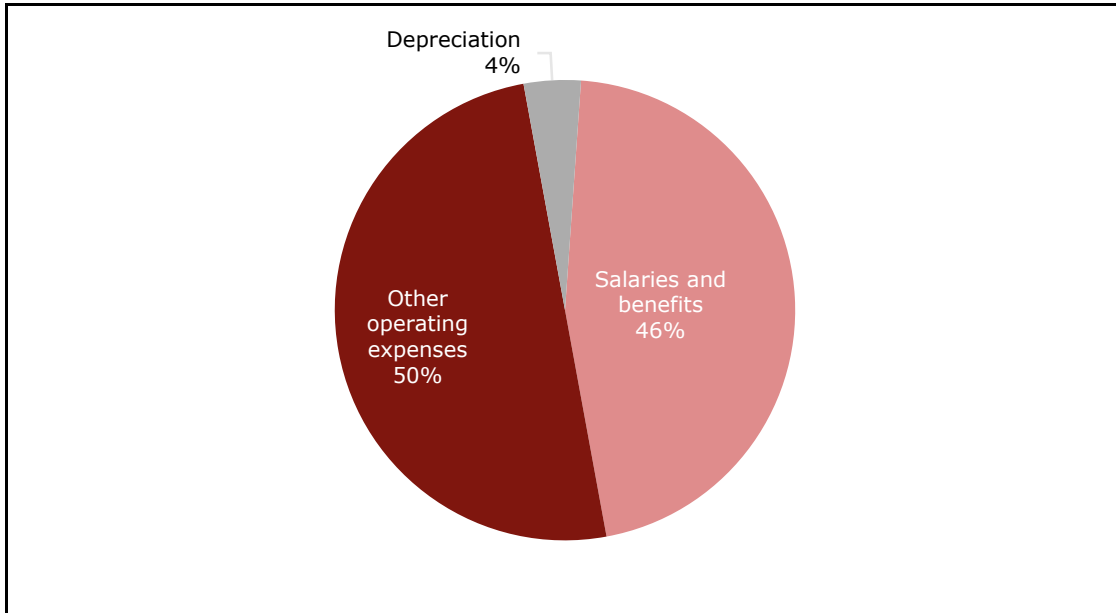
**Other Operating Revenues**

Other operating income, which includes revenues from various related entities and outreach clinical activities, increased 5% to \$136 million.

### SHC OPERATING EXPENSES

Total expenses increased \$369 million, or 9%, to \$4.6 billion in FY18, which was primarily due to salaries and benefits, physician services, and supplies required to provide high quality patient care.

**FIGURE 14**  
**SHC OPERATING EXPENSES**



As shown in Figure 14, salaries and benefits comprised 46% of SHC's total expenses, depreciation expense was 4%, and all other operating expenses represented 50%.

- Salaries and benefits increased 5% in FY18 to \$2.1 billion (inclusive of UHA and network growth). The increase resulted from expanded headcount to support current growth in patient volumes and future expansion (see the *Capital Projects* section below). The remaining increase was due to annual salary increases necessary to maintain SHC's position in the competitive market for healthcare professionals and higher benefit costs.
- Depreciation expense increased by 14% to \$177 million in FY18 from \$155 million in FY17. The increase resulted from buildings and equipment recently placed in service, additional asset retirement obligations on existing buildings and a full year of service for SHC's new facilities in Emeryville.
- Other operating expenses increased by 12% to \$2.3 billion for FY18 due to a number of factors, notably, increases in purchased services of 7% to \$1.2 billion related to payments to the University under its inter-entity agreement with the SOM. Supplies expense also increased by 14% to \$667 million in response to patient volume growth and inflation.

### SHC FINANCIAL POSITION

SHC's *Consolidated Statements of Financial Position* reflect strong operating results and positive investment returns. Total SHC assets increased \$985 million in FY18 to end the year at \$7.2 billion. Total SHC liabilities increased \$529 million in FY18 due to the issuance of taxable debt of \$500 million, and ended the year at \$3.3 billion.

### Unrestricted Cash and Investments

Unrestricted cash and investments increased to \$2.9 billion in FY18 from \$2.3 billion at the end of FY17.



### **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 FY18, SHC invested \$475 million in capital projects, bringing property and equipment, net of accumulated depreciation, to \$3.3 billion, a \$410 million increase.

The majority of the FY18 spending was for the New Stanford Hospital (to meet State-mandated earthquake safety standards, and provide modern, technologically-advanced hospital facilities), additional asset retirement obligations and expansion of healthcare facilities in Redwood City.

### **Debt**

Total debt was \$2.0 billion as of August 31, 2018, an increase of \$389 million over FY17. In December 2017, SHC refunded certain tax-exempt debt (\$454 million par) at a lower effective interest rate. In January 2018, SHC issued \$500 million of new taxable debt. At August 31, 2018, there was no balance outstanding on the revolver.

In December 2017, SHC's long-term ratings were affirmed by S&P Global Ratings, Moody's Investors Service and Fitch Ratings at AA-/Aa3/AA, respectively.

### **Net Assets**

SHC's net assets are classified as unrestricted, temporarily restricted or permanently restricted. See *Note 1* to the *Consolidated Financial Statements*. Unrestricted net assets increased by \$411 million to end the year at \$3.3 billion. SHC's operating surplus of \$321 million and an increase of \$159 million on investments (majority from the University MP) were the major drivers. SHC also transferred \$98 million to the University to fund the Center for Academic Medicine 1 (CAM1) building and parking structure (part of renewed efforts on clinical enterprise) and academic grants. Temporarily restricted net assets increased by \$46 million to \$649 million in large part due to fundraising commitments for the New Stanford Hospital. Permanently restricted net assets increased slightly over FY17.

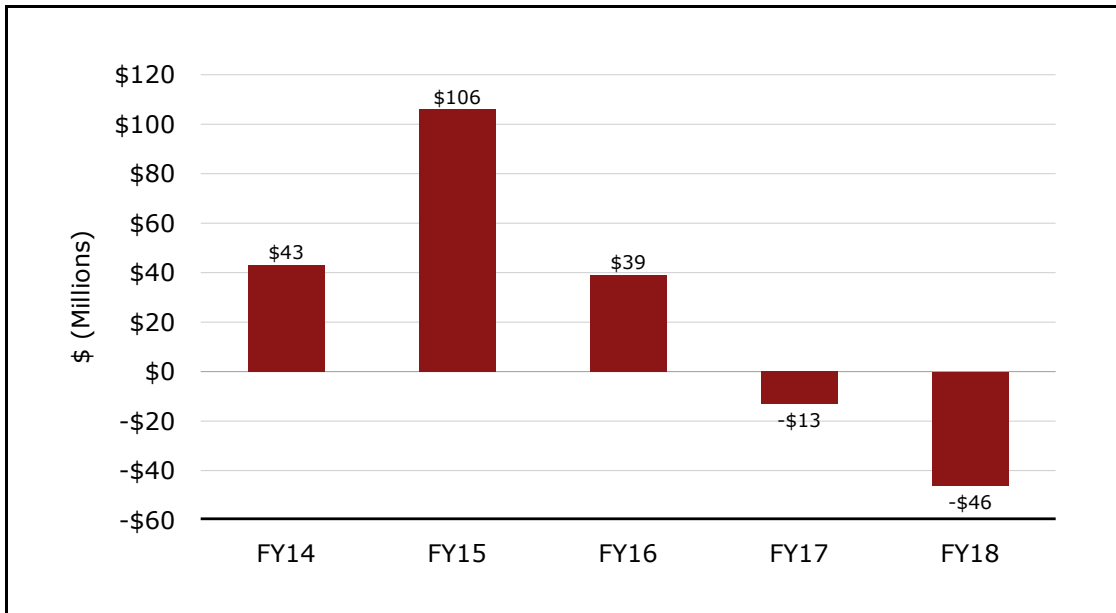
## LUCILE SALTER PACKARD CHILDREN'S HOSPITAL AT STANFORD

The financial results reflect the consolidation of LPCH and its subsidiaries.

### LPCH FINANCIAL HIGHLIGHTS

In FY18, LPCH opened a new hospital expansion, more than doubling its hospital square footage, and adding six new operating rooms and seven new interventional units (comprising LPCH's portion of the Renewal Project). Net assets at August 31, 2018 were \$2.4 billion, reflecting an increase of \$23 million over FY17. However, operating revenues were lower than operating expenses by \$46 million in FY18, compared to a loss of \$13 million in FY17. In FY18, inpatient volumes increased given the new clinical capacity, but did not increase enough to cover the increased costs of supporting the new space. Operating results experienced pressure from an increase of 12% in operating expenses over FY17 primarily related to higher personnel costs, physician payments to the University's SOM, non-capitalizable one-time costs related to bringing the Renewal Project live and additional facilities costs related to the increased square footage, such as utilities, housekeeping and engineering. Figure 15 shows the change in net assets from operating activities, or operating margin, over the past five years.

**FIGURE 15**  
**LPCH OPERATING MARGIN**



**LPCH OPERATING RESULTS**

The loss from operations was \$46 million in FY18, as compared to \$13 million in FY17.

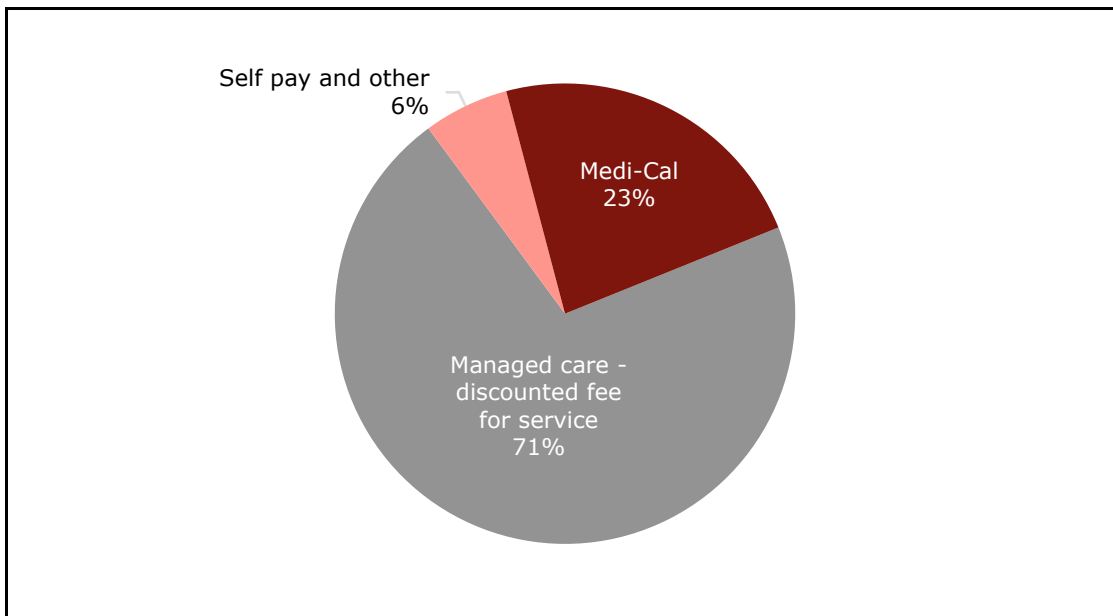
**LPCH OPERATING REVENUES**

FY18 operating revenues increased \$151 million, or 10%, compared to the prior year.

**Net Patient Service Revenue**

Net patient service revenue increased \$162 million from the prior year, mainly due to increases in inpatient days and outpatient visits and commercial managed care contract rates. This increase was also partially due to the California Hospital Quality Assurance Fee (QAF) Program and Hospital Fee program revenues of \$111 million in FY18 compared to \$41 million in FY17. Patient service revenue by major payer, net of contractual allowances (but before provision for doubtful accounts), is shown in Figure 16.

**FIGURE 16**  
**LPCH NET PATIENT SERVICE REVENUE**



LPCH’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 \$300 million in FY18 compared with \$240 million in FY17. These amounts also include investments LPCH makes in improving the health of children through a range of community-based programs.

**Other Operating Revenues**

LPCH’s other operating revenues decreased \$10 million from the prior year, primarily due to decreases in earnings from certain investments.

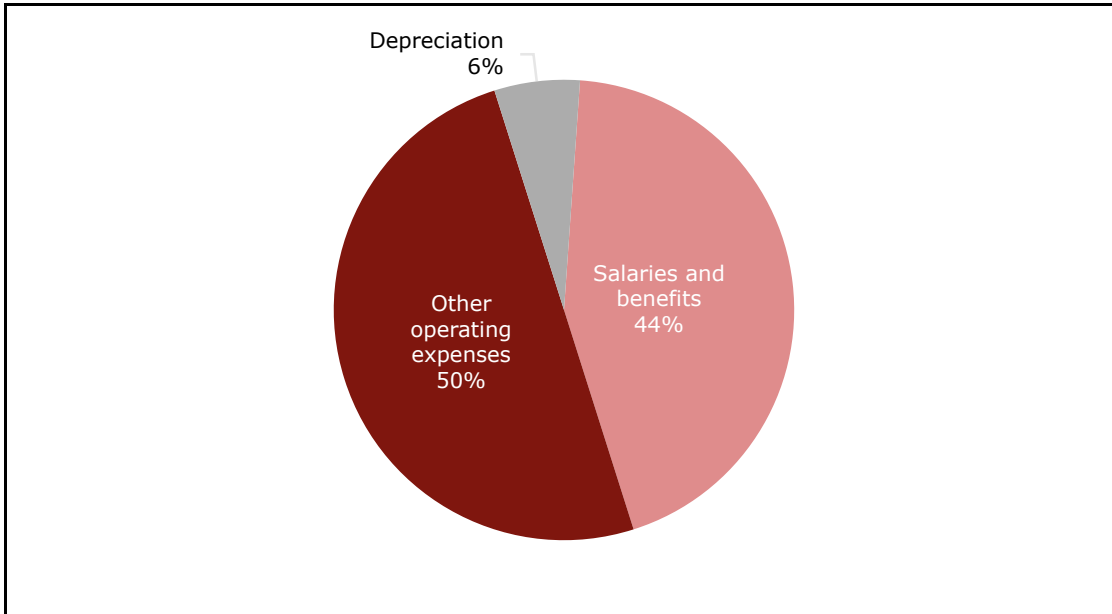
**Net Assets Released from Restrictions**

LPCH’s net assets released from restrictions for use in operations was \$23 million in FY18 and \$24 million in FY17.

**LPCH OPERATING EXPENSES**

Operating expenses increased \$184 million, or 12%, compared to the prior year. This increase was mainly attributable to higher salaries and benefits due to the opening of the new hospital expansion in 2018 and higher annual salary rates needed to maintain a competitive market position. In addition, LPCH experienced increases in payments to the SOM for services provided by the physician faculty (included in other operating expenses).

**FIGURE 17**  
**LPCH OPERATING EXPENSES**



As shown in Figure 17, salaries and benefits comprised 44% of LPCH’s total expenses, depreciation expense was 6%, and all other operating expenses represented 50%.

**LPCH FINANCIAL POSITION**

Total assets increased by \$69 million, or 2%, driven by a combination of cash generated from operations, investment gains, and continued support from the donor community. These cash flows were used to fund the construction of the new hospital expansion.

Total liabilities increased by \$46 million, or 4%, primarily due to deferred revenue related to portions of the FY14-16 Managed Care provider fee program for which cash was received in advance of all necessary regulatory approvals. Revenue will be recognized when LPCH receives the final approvals.

**Unrestricted Cash and Investments**

Unrestricted cash and investments decreased by \$123 million, or 13%, mainly due to the cash outflows associated with the completion of the hospital expansion and operating rooms for LPCH's portion of the Renewal Project and purchase of a long-term lease of property adjacent to the hospital.

**Capital Projects**

LPCH’s *Statements of Financial Position* reflects 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 FY18 spending was for LPCH’s portion of the Renewal Project, which represented \$216 million of the increase in property and equipment. Property and equipment, net of accumulated depreciation increased \$162 million to \$1.9 billion as of August 31, 2018.

**Debt**

Total debt, including the current portion, decreased by \$8 million, or 1% from the prior year due to principal payments on existing debt.

During FY17, S&P Global Ratings, Moody's Investor's Service and Fitch Ratings assigned ratings on the new debt of A+, A1, and AA-, respectively. In addition, the ratings agencies adjusted their previous ratings on the existing debt from AA-, Aa3, and AA to A+, A1, and AA-, respectively, with a stable outlook. In November of 2018, S&P upheld its FY17 rating and outlook and Moody's upheld its FY17 rating, but adjusted the outlook from stable to negative.

**Net Assets**

Total net assets increased by \$23 million, or 1%, from August 31, 2017 to August 31, 2018. Unrestricted net assets increased by \$328 million to end the year at \$1.9 billion. The increase was due to the transfer of net assets from temporarily restricted to unrestricted once the new hospital expansion went into service. Temporarily restricted net assets decreased by \$306 million to \$345 million in large part due to the aforementioned release from restrictions associated with the Renewal Project and other capital projects. Permanently restricted net assets increased \$1 million to \$228 million in FY18. 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 enters FY19 with a strong financial foundation, a solid physical infrastructure and an engaged and dedicated community. The University’s endowment is projected to generate over \$1.3 billion of payout in FY19, providing critical support to education and research programs and student financial aid. Our generous donor support comes from a wide and diverse base, reflecting continued commitment to our mission. New buildings and facilities that opened during the year continue to sustain the excellence of our academic programs and health care services. Planned capital projects will continue to strengthen this infrastructure during FY19 and beyond.

Economic factors in general, and the higher education landscape, however, remain challenging. Federal funding is constrained. The pressure to make higher education more affordable through increased levels of financial aid continues. The Tax Cuts and Jobs Act will divert critical resources from our academic and research activities. Investment markets appear to have entered a period of intense volatility after almost a decade of bull market returns. Given our dependence on investment income, this will likely pose challenges in the years ahead. As our global profile expands, we continue to feel the impact of political unrest, natural disasters and changing regulations throughout the world. And, at home, Stanford is significantly impacted by the local economy where Bay Area affordability and congestion issues impact retention and hiring of top talent. Addressing these numerous challenges is one of the key drivers for undertaking our Long Range Planning efforts.

Stanford Medicine’s integrated plan recognizes Stanford’s unique position as an academic medical center integrated with a research university and a network of care facilities. Both SHC and LPCH have struggled with inpatient capacity constraints in the past. The opening of new hospital facilities will provide cutting edge technology and additional space for patient care. However, opening this new space requires one-time transitional costs and results in a higher level of fixed expenses. Continuing focus on efficiency and effectiveness will be critical as care in the new spaces stabilizes. Additionally, potential changes in private and government healthcare reimbursement will likely put pressure on hospital margins. Stanford Medicine continues to develop innovative and cost conscious ways to deliver care including new programs in precision health and digital health.

We appreciate the confidence in our mission that is demonstrated by the generous support of our donors, alumni, faculty and staff. With a solid financial foundation and focused vision for the future, we are optimistic, yet realistic, about what lies ahead.



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



Linda Hoff  
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

	2018	2017	2016	2015	2014
	(dollars in millions)				
<b>CONSOLIDATED STATEMENT OF ACTIVITIES HIGHLIGHTS:</b>					
Total operating revenues	\$ 11,311	\$ 10,504	\$ 9,797	\$ 9,051	\$ 7,924
Student income (A)	635	618	587	564	534
Sponsored research support	1,656	1,636	1,453	1,387	1,266
Health care services	6,302	5,682	5,264	4,744	3,942
Investment income distributed for operations	1,509	1,327	1,338	1,292	1,181
Total operating expenses	10,839	10,056	9,307	8,351	7,389
Change in net assets from operating activities	472	448	490	700	535
Other changes in net assets	2,181	3,156	947	1,034	3,582
Net change in total net assets	\$ 2,653	\$ 3,604	\$ 1,437	\$ 1,734	\$ 4,117
<b>CONSOLIDATED STATEMENT OF FINANCIAL POSITION HIGHLIGHTS:</b>					
Investments at fair value	\$ 37,784	\$ 35,842	\$ 31,332	\$ 31,399	\$ 30,464
Plant facilities, net of accumulated depreciation	11,678	10,223	9,000	7,797	6,832
Notes and bonds payable	6,662	6,401	5,402	5,125	5,139
Total assets	54,746	51,648	46,586	44,509	42,547
Total liabilities	11,519	11,074	9,616	8,976	8,748
Total net assets	43,227	40,574	36,970	35,533	33,799
<b>UNIVERSITY STATEMENT OF FINANCIAL POSITION HIGHLIGHTS:</b>					
Investments at fair value	\$ 34,517	\$ 33,297	\$ 29,086	\$ 28,766	\$ 27,829
Plant facilities, net of accumulated depreciation	6,508	5,623	5,169	4,796	4,559
Notes and bonds payable	3,834	3,954	3,271	3,085	3,265
Total assets	44,037	41,954	37,767	36,214	35,227
Total liabilities	7,153	7,263	6,048	5,780	6,006
Total net assets	36,884	34,691	31,719	30,434	29,221
<b>OTHER FINANCIAL DATA AND METRICS:</b>					
University endowment at year end	\$ 26,465	\$ 24,785	\$ 22,398	\$ 22,223	\$ 21,446
University endowment payout in support of operations	1,240	1,166	1,132	1,058	985
As a % of beginning of year University endowment	5.0%	5.2%	5.1%	4.9%	5.3%
As a % of University total expenses	21.9%	21.7%	23.0%	22.8%	24.8%
Total gifts as reported by the Office of Development (B)	1,097	1,129	951	1,625	976
<b>STUDENTS:</b>					
<b>ENROLLMENT: (C)</b>					
Undergraduate	7,083	7,056	7,032	6,994	7,018
Graduate	9,437	9,368	9,304	9,196	9,118
<b>DEGREES CONFERRED:</b>					
Bachelor degrees	1,754	1,669	1,744	1,671	1,651
Advanced degrees	3,440	3,429	3,370	3,286	3,292
<b>FACULTY:</b>					
Total Professoriate (C)	2,241	2,219	2,180	2,153	2,118
ANNUAL UNDERGRADUATE TUITION RATE (IN DOLLARS)	\$ 48,987	\$ 47,331	\$ 45,729	\$ 44,184	\$ 42,690

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

(B) Includes University, SHC and LPCH gifts. The FY15 amount includes \$626 million in works of art and special collections which is included with other donations reported by the Office of Development. As stated in Note 1, Stanford 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 (SHC) and Lucile Salter Packard Children’s Hospital at Stanford (LPCH). SHC and LPCH each have their own separate management with responsibility for their own financial reporting.

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

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

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

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



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## Report of Independent Auditors

To the Board of Trustees of the  
Leland Stanford Junior University

We have audited the accompanying consolidated financial statements of the Leland Stanford Junior University and its subsidiaries ("Stanford"), which comprise the consolidated statements of financial position as of August 31, 2018 and 2017, and the related consolidated statements of activities and cash flows for the years then ended.

### ***Management's Responsibility for the Consolidated Financial Statements***

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

### ***Auditors' Responsibility***

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

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

### ***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Leland Stanford Junior University and its subsidiaries as of August 31, 2018 and 2017, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in cursive script, appearing to read "PricewaterhouseCoopers LLP", is written in black ink.

December 4, 2018

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PricewaterhouseCoopers LLP, Three Embarcadero Center, San Francisco, CA 94111-4004  
T: (415) 498 5000, F: (415) 498 7100, [www.pwc.com/us](http://www.pwc.com/us)

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

At August 31, 2018 and 2017 (in thousands of dollars)

*Includes the separate legal entities of The Leland Stanford Junior University, Stanford Health Care and Lucile Salter Packard Children's Hospital at Stanford and other majority-owned or controlled entities of these organizations*

	2018	2017
<b>ASSETS</b>		
Cash and cash equivalents	\$ 1,199,367	\$ 1,370,118
Assets limited as to use	165,429	285,606
Accounts receivable, net	1,298,945	1,269,998
Prepaid expenses and other assets	329,700	335,230
Pledges receivable, net	1,518,486	1,574,593
Student loans receivable, net	60,336	70,906
Faculty and staff mortgages and other loans receivable, net	712,161	677,545
Investments at fair value, including securities pledged or on loan of \$75,499 and \$341,412 for 2018 and 2017, respectively	37,783,592	35,841,611
Plant facilities, net of accumulated depreciation	11,678,286	10,222,737
Works of art and special collections	—	—
<b>TOTAL ASSETS</b>	<b>\$ 54,746,302</b>	<b>\$ 51,648,344</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES:</b>		
Accounts payable and accrued expenses	\$ 2,291,677	\$ 2,091,027
Accrued pension and postretirement benefit obligations	604,592	702,375
Liabilities associated with investments	708,629	953,794
Deferred income and other obligations	1,212,519	871,729
Notes and bonds payable	6,661,644	6,401,342
U.S. government refundable loan funds	39,678	53,936
<b>TOTAL LIABILITIES</b>	<b>11,518,739</b>	<b>11,074,203</b>
<b>NET ASSETS:</b>		
Unrestricted	25,589,701	23,465,472
Temporarily restricted	9,701,287	9,528,279
Permanently restricted	7,936,575	7,580,390
<b>TOTAL NET ASSETS</b>	<b>43,227,563</b>	<b>40,574,141</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 54,746,302</b>	<b>\$ 51,648,344</b>

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

## CONSOLIDATED STATEMENTS OF ACTIVITIES

For the years ended August 31, 2018 and 2017 (in thousands of dollars)

Includes the separate legal entities of The Leland Stanford Junior University, Stanford Health Care and Lucile Salter Packard Children's Hospital at Stanford and other majority-owned or controlled entities of these organizations

	2018	2017
<b>UNRESTRICTED NET ASSETS</b>		
OPERATING REVENUES:		
Student income:		
Undergraduate programs	\$ 368,383	\$ 356,871
Graduate programs	374,857	361,228
Room and board	195,225	186,565
Student financial aid	(303,445)	(286,851)
<b>TOTAL STUDENT INCOME</b>	<b>635,020</b>	<b>617,813</b>
Sponsored research support:		
Direct costs - University	801,534	786,866
Direct costs - SLAC National Accelerator Laboratory	580,314	584,635
Indirect costs	273,679	264,604
<b>TOTAL SPONSORED RESEARCH SUPPORT</b>	<b>1,655,527</b>	<b>1,636,105</b>
<b>HEALTH CARE SERVICES</b> , primarily net patient service revenue	<b>6,302,278</b>	<b>5,681,865</b>
<b>CURRENT YEAR GIFTS IN SUPPORT OF OPERATIONS</b>	<b>283,112</b>	<b>330,350</b>
Net assets released from restrictions:		
Payments received on pledges	142,632	122,980
Prior year gifts released from donor restrictions	55,943	72,807
<b>TOTAL NET ASSETS RELEASED FROM RESTRICTIONS</b>	<b>198,575</b>	<b>195,787</b>
Investment income distributed for operations:		
Endowment	1,254,315	1,182,432
Expendable funds pools and other investment income	254,492	144,138
<b>TOTAL INVESTMENT INCOME DISTRIBUTED FOR OPERATIONS</b>	<b>1,508,807</b>	<b>1,326,570</b>
<b>SPECIAL PROGRAM FEES AND OTHER INCOME</b>	<b>728,076</b>	<b>715,889</b>
<b>TOTAL OPERATING REVENUES</b>	<b>11,311,395</b>	<b>10,504,379</b>
OPERATING EXPENSES:		
Salaries and benefits	6,328,491	5,946,539
Depreciation	656,104	585,915
Other operating expenses	3,854,513	3,523,701
<b>TOTAL OPERATING EXPENSES</b>	<b>10,839,108</b>	<b>10,056,155</b>
<b>CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES</b>	<b>\$ 472,287</b>	<b>\$ 448,224</b>

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

## CONSOLIDATED STATEMENTS OF ACTIVITIES, Continued

For the years ended August 31, 2018 and 2017 (in thousands of dollars)

Includes the separate legal entities of The Leland Stanford Junior University, Stanford Health Care and Lucile Salter Packard Children's Hospital at Stanford and other majority-owned or controlled entities of these organizations

	2018	2017
<b>UNRESTRICTED NET ASSETS (continued)</b>		
<b>CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES</b>	<b>\$ 472,287</b>	<b>\$ 448,224</b>
NON-OPERATING ACTIVITIES:		
Increase in reinvested gains	1,159,554	1,600,577
Donor advised funds, net	(6,489)	68,021
Current year gifts not included in operations	3,064	4,090
Capital and other gifts released from restrictions	515,799	110,649
Pension and other postemployment benefit related changes other than net periodic benefit expense	99,844	11,316
Transfer to permanently restricted net assets, net	(53,349)	(50,490)
Transfer to temporarily restricted net assets, net	(61,251)	(67,369)
Swap interest and change in value of swap agreements	56,211	96,212
Loss on extinguishment of debt	(47,613)	—
Contribution received in acquisition of LPFCH	—	109,794
Other	(13,828)	(1,974)
<b>NET CHANGE IN UNRESTRICTED NET ASSETS</b>	<b>2,124,229</b>	<b>2,329,050</b>
<b>TEMPORARILY RESTRICTED NET ASSETS</b>		
Gifts and pledges, net	335,677	387,575
Increase in reinvested gains	525,083	846,654
Change in value of split-interest agreements, net	11,195	10,073
Net assets released to operations	(218,239)	(218,351)
Capital and other gifts released to unrestricted net assets	(515,799)	(110,649)
Transfer from unrestricted net assets, net	61,251	67,369
Transfer from (to) permanently restricted net assets, net	(22,730)	1,811
Other	(3,430)	(2,153)
<b>NET CHANGE IN TEMPORARILY RESTRICTED NET ASSETS</b>	<b>173,008</b>	<b>982,329</b>
<b>PERMANENTLY RESTRICTED NET ASSETS</b>		
Gifts and pledges, net	239,617	242,898
Increase in reinvested gains	27,885	33,251
Change in value of split-interest agreements, net	12,920	(33,419)
Transfer from unrestricted net assets, net	53,349	50,490
Transfer from (to) temporarily restricted net assets, net	22,730	(1,811)
Other	(316)	1,125
<b>NET CHANGE IN PERMANENTLY RESTRICTED NET ASSETS</b>	<b>356,185</b>	<b>292,534</b>
<b>NET CHANGE IN TOTAL NET ASSETS</b>	<b>2,653,422</b>	<b>3,603,913</b>
Total net assets, beginning of year	40,574,141	36,970,228
<b>TOTAL NET ASSETS, END OF YEAR</b>	<b>\$ 43,227,563</b>	<b>\$ 40,574,141</b>

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

## CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended August 31, 2018 and 2017 (in thousands of dollars)

Includes the separate legal entities of The Leland Stanford Junior University, Stanford Health Care and Lucile Salter Packard Children's Hospital at Stanford and other majority-owned or controlled entities of these organizations

	2018	2017
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 2,653,422	\$ 3,603,913
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	656,104	585,915
Amortization of bond premiums and discounts	(21,581)	(18,932)
Provision for doubtful accounts for health care services	63,097	84,661
Losses (gains) on disposal of plant facilities	4,350	(4,247)
Net gains on investments	(2,845,934)	(3,608,538)
Change in fair value of interest rate swaps	(74,093)	(99,223)
Change in split-interest agreements	44,979	132,367
Investment income for restricted purposes	(12,413)	(30,733)
Gifts restricted for long-term investments	(341,510)	(438,816)
Gifts of securities and properties	(31,093)	(89,611)
Contribution received in acquisition of LPFCH	—	(109,794)
Loss on extinguishment of debt	47,613	—
Other	34,049	13,986
Premiums received from bond issuance	76,138	29,069
Changes in operating assets and liabilities:		
Accounts receivable	(99,051)	(279,714)
Pledges receivable, net	(14,565)	79,553
Prepaid expenses and other assets	(31,394)	(15,265)
Accounts payable and accrued expenses	141,623	105,704
Accrued pension and postretirement benefit obligations	(97,783)	2,911
Deferred income and other obligations	112,186	214,351
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>264,144</b>	<b>157,557</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Additions to plant facilities, net	(1,879,306)	(1,799,979)
Change in assets limited as to use	285,606	266,524
Student, faculty and other loans:		
New loans made	(121,949)	(132,076)
Principal collected	69,831	63,187
Purchases of investments	(12,655,132)	(19,707,814)
Sales and maturities of investments	13,429,380	19,449,776
Change associated with repurchase agreements	246,599	(410,116)
Swap settlement payments, net	(15,393)	—
Cash received in acquisition of LPFCH	—	13,290
<b>NET CASH USED FOR INVESTING ACTIVITIES</b>	<b>(640,364)</b>	<b>(2,257,208)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Gifts and reinvested income for restricted purposes	391,953	477,391
Proceeds from borrowing	1,247,671	1,264,385
Repayment of notes and bonds payable	(1,083,503)	(241,982)
Bond issuance costs and interest rate swaps	(6,783)	(4,390)
Contributions received for split-interest agreements	29,561	15,730
Payments made under split-interest agreements	(42,630)	(39,750)
Change in liabilities associated with investments	(342,969)	134,900
Other	12,169	(99)
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>205,469</b>	<b>1,606,185</b>
<b>DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(170,751)</b>	<b>(493,466)</b>
Cash and cash equivalents, beginning of year	1,370,118	1,863,584
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 1,199,367</b>	<b>\$ 1,370,118</b>
<b>SUPPLEMENTAL DATA:</b>		
Interest paid, net of capitalized interest	\$ 202,437	\$ 183,541
Cash collateral received under security lending agreements	\$ 77,137	\$ 348,783
Change in payables for plant facilities	\$ 197,208	\$ 36,946

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. Basis of Presentation and Significant Accounting Policies

### **BASIS OF PRESENTATION**

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

### **University**

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

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

### **Hospitals**

SHC and LPCH (the “Hospitals”) are California not-for-profit public benefit corporations, each governed by a separate Board of Directors. The University is the sole member of each of these entities. SHC and LPCH support the mission of medical education and clinical research of the University’s School of Medicine (SOM). Collectively, the SOM and Hospitals comprise Stanford Medicine. SHC and LPCH operate two licensed acute care and specialty hospitals on the Stanford campus 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.

Effective September 1, 2016, LPCH became the sole member of Lucile Packard Foundation for Children’s Health (LPFCH). LPFCH’s mission is to elevate the priority of children’s health and increase the quality and accessibility of children’s healthcare through leadership and direct investment. No consideration was paid as part of the transaction. The activities of LPFCH are included in LPCH’s consolidated financial statements. For financial reporting purposes, during the year ended August 31, 2017, LPCH recognized a contribution for LPFCH’s net assets of \$109.8 million in “non-operating activities” in the *Consolidated Statements of Activities*. LPCH also recorded assets acquired of \$277.9 million, including “pledges receivable” of \$123.2 million, and assumed liabilities of \$168.1 million.

## **TAX STATUS**

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

In accordance with the guidance on accounting for uncertainty in income taxes, management regularly evaluates its tax positions and does not believe the University, SHC or LPCH have any uncertain tax positions that require disclosure in or adjustment to the *Consolidated Financial Statements*. The University, SHC and LPCH are subject to routine audits by taxing jurisdictions. Management of each of the consolidated entities believes they are no longer subject to income tax examinations for fiscal years prior to August 31, 2014.

The Tax Cuts and Jobs Act (TCJA) was signed into law on December 22, 2017. Under the TCJA, the University is subject to a 1.4% excise tax on its net investment income as defined under the Internal Revenue Code which, among other things, includes net investment income of certain related entities such as the Hospitals. In addition, the University and Hospitals are both subject to a 21% excise tax on annual compensation in excess of one million dollars paid to certain covered employees. The tax is effective beginning fiscal year 2019. Based on management's interpretation of the law and available guidance, the University has assessed deferred tax obligations arising from the excise tax and has determined that there is no obligation at August 31, 2018.

The University and Hospitals are also subject to a 21% income tax on certain expenses incurred in connection with providing qualified transportation benefits to employees. The tax is effective as of January 1, 2018. Management of the University and Hospitals has determined that the amount of current income tax payable at August 31, 2018 and income tax expense for the period then ended is not material.

## **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 Stanford for specific purposes under internal operating and administrative arrangements or be subject to contractual agreements with external parties. Donor-restricted contributions that relate to Stanford's core activities and are received and expended or deemed expended based on the nature of donors' restrictions are classified as unrestricted. All expenses are recorded as a reduction of unrestricted net assets.

The operating activities of Stanford include the revenues earned and expenses incurred in the current year to support teaching, research, and patient care. The non-operating activities of Stanford include increases in reinvested gains, current year gifts not included in operations, capital and other gifts released from restrictions, pension and other postemployment benefit related changes other than net periodic benefit expense, 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 Stanford, 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 *Note 11*). Donor-restricted resources intended for capital projects are initially recorded as temporarily restricted and then released and reclassified as unrestricted net assets when the asset is placed in service. Also included in this category is Stanford'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, Stanford'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 *Consolidated Statements of Financial Position* consist of U.S. Treasury bills, certificates of deposit, money market funds and all other short-term investments available for current operations with original maturities of 90 days or less at the time of purchase. These amounts are carried at amortized cost, which approximates fair value. Cash and cash equivalents that are held for investment purposes are classified as investments (see *Note 6*).

### **ASSETS LIMITED AS TO USE**

At August 31, 2018, assets limited as to use consist of 457(b) non-qualified deferred compensation plan assets. The University custodians hold the assets under a grantor trust which requires that they be used to satisfy plan obligations to participants and beneficiaries unless the University becomes insolvent. The funds are primarily invested in mutual funds, at the participants' discretion, which are valued based on quoted market prices (and exchange rates, if applicable) on the last trading date of the principal market on or before August 31.

At August 31, 2017, assets limited as to use consisted of proceeds of tax-exempt bonds issued for the benefit of the University and trustee-held accounts holding proceeds of tax-exempt bonds issued for the benefit of SHC and LPCH. They were limited by the terms of indentures to use for qualified capital projects. These assets consisted of cash and cash equivalents and short-term investments, recorded at cost, which approximated 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, 2009 are recorded at an applicable risk-adjusted discount rate commensurate with the duration of the donor's payment plan. Pledges recognized in periods prior to September 1, 2009 were recorded at a discount based on the U.S. Treasury rate. Conditional promises, 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 *Consolidated Statements of Activities* (see Note 6).

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

## **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, 2018 and 2017 are as follows:

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

## **WORKS OF ART AND SPECIAL COLLECTIONS**

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

## **DONATED ASSETS**

Donated assets, other than works of art and special collections, are recorded at fair value at the date of donation. Undeveloped land, including land acquired under the original endowment to the University from Senator Leland and Mrs. Jane Stanford, is reported at fair value 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, 2018 and 2017, approximately \$491.7 million and \$509.5 million, respectively, of DAFs may be used to support other approved charities; the donors have advisory privileges with respect to the distribution of these funds.

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

### **SPLIT-INTEREST AGREEMENTS**

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

The assets held under split-interest agreements, where the University is the trustee, were \$823.1 million and \$773.3 million at August 31, 2018 and 2017, respectively, and were recorded in specific investment categories. The assets held under split-interest agreements, where LPCH is the trustee, were \$26.6 million and \$24.1 million at August 31, 2018 and 2017, respectively, and were recorded in specific investment categories. Liabilities for the discounted present value of any income beneficiary interest are reported in “liabilities associated with investments” in the *Consolidated Statements of Financial Position*. At August 31, 2018 and 2017, the University used discount rates of 3.4% and 2.4%, respectively, based on the Charitable Federal Midterm Rate. The LPCH discount rate used during the years ended August 31, 2018 and 2017 was 2.9% and 2.1%, respectively, determined using the T-bill rate.

Included in assets held under split-interest agreements are amounts held to meet legally mandated annuity reserves of \$26.6 million and \$27.6 million as of August 31, 2018 and 2017 respectively, as required by California state law.

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

During fiscal years 2018 and 2017, the discounted present value of new University gifts subject to split-interest agreements, net of any income beneficiary share, was \$20.9 million and \$12.0 million, respectively, and was included in “gifts and pledges, net” in the *Consolidated Statements of Activities*. Actuarial gains or losses were included in “change in value of split-interest agreements, net” in the *Consolidated Statements of Activities*.

Funds subject to donor-imposed restrictions requiring that the principal be invested in perpetuity are classified as “permanently restricted net assets” in the *Consolidated 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.”

### **DEFERRED INCOME AND OTHER OBLIGATIONS**

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

### **Deferred Rental Income**

As part of its investment portfolio, the University holds certain investment properties that it leases to third parties under non-cancellable leases. In some lease transactions with properties in the Stanford Research Park and other properties, including the Stanford Shopping Center, prepaid rent is received, recorded as deferred rental income and amortized over the term of the lease (see also the *Future Minimum Rental Income* section in *Note 6*). As of August 31, 2018 and 2017, deferred rental income was \$601.9 million and \$609.6 million, respectively.

### **457(b) Deferred Compensation Plan**

The University offers a non-qualified deferred compensation plan under Internal Revenue Code 457(b) to a select group of highly compensated employees. There is no University contribution related to the plan. The University has recorded both an asset and a liability related to the plan of \$165.4 million as of August 31, 2018; the assets are included in "assets limited as to use" on the *Consolidated Statements of Financial Position*.

### **Repurchase Obligations**

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

The University has the obligation to repurchase certain residential units when certain triggering events occur. As of August 31, 2018, Stanford has recognized a net repurchase obligation of \$63.2 million to repurchase its interests in these residential units, net of home mortgage financing assistance provided by the University of \$117.9 million (see *Note 5*). The change in the repurchase obligation and the original purchase price is recorded as interest accretion and is reflected in "other operating expenses" in the *Consolidated Statements of Activities*. For the year ended August 31, 2018, interest accretion was \$1.5 million.

### **Asset Retirement Obligations**

Asset retirement obligations are legal obligations associated with the retirement of long-lived assets. These liabilities are initially recorded at fair value and the related asset retirement costs are capitalized at the same amount as the liability. Asset retirement costs are subsequently amortized over the useful lives of the related assets and the obligations are increased based on an appropriate discount rate. As of August 31, 2018 and 2017, SHC had asset retirement obligations of \$93.6 million and \$8.3 million, respectively.

### **SELF-INSURANCE**

The University self-insures at varying levels for unemployment, disability, workers' compensation, property losses, certain health care plans and general and professional liability losses. SHC and LPCH self-insure at varying levels for health care plans, workers' compensation and, through their captive insurance company, for professional liability losses. 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 *Consolidated Statements of Activities* as a non-operating activity in "swap interest and change in value of swap agreements." The settlements (net cash payments less receipts) under the interest rate exchange agreements are recorded in the *Consolidated Statements of Activities* in "swap interest and change in value of swap agreements" for the University and SHC; in fiscal year 2017 SHC recorded the settlements in "other operating expenses."

The University has also entered into interest rate exchange agreements to reduce the effect of interest rate fluctuations of certain investment positions (see *Note 8*).

### **STUDENT FINANCIAL AID**

The University provides financial assistance in the form of scholarship and fellowship grants that cover a portion of tuition, living and other costs that is reflected as a reduction of student income. Graduate student research and teaching assistantship appointments provide the recipient with salary and tuition support, which are reflected as salaries and benefits expense and other operating expense, respectively.

### **SPONSORED RESEARCH**

The University conducts substantial research for the federal government pursuant to contracts and grants from federal agencies and departments. Sponsored research revenue earned from the Federal government (including SLAC) totaled \$1.3 billion for both years ended August 31, 2018 and 2017. 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.

### **PATIENT CARE AND OTHER SERVICES**

#### **Health Care Services**

"Patient care, net" is reported in the *Consolidated Statements of Activities* at the estimated net realizable amounts from patients, third-party payers, and others for services rendered. SHC and LPCH derive a majority of patient care revenues from contractual agreements with Medicare, Medi-Cal and other third-party payers. Payments under these agreements and programs are based on a variety of payment models (see *Note 3*).

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

#### **Charity Care**

SHC and LPCH provide care to patients who meet certain criteria under their charity care policies without charge or at amounts less than their established rates. The Hospitals do not record revenue for amounts determined to qualify as charity care (see *Note 3*).

### **RECENT ACCOUNTING PRONOUNCEMENTS**

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

**Fair value** - In August 2018, the FASB issued an ASC update which adds, modifies, and removes some fair value measurement disclosure requirements. The new guidance is effective for fiscal year 2021 and will not have a material impact on the *Consolidated Financial Statements*.

**Defined benefit plan disclosures** - In August 2018, the FASB issued an ASC update which adds, removes, and clarifies disclosure requirements related to defined benefit pension and other postretirement plans. The new guidance is effective for fiscal year 2021 and will not have a material impact on the *Consolidated Financial Statements*.

**Cloud computing arrangements** - In August 2018, the FASB issued an ASC update to allow capitalization of implementation costs incurred in a cloud computing arrangement in a manner that is consistent with the

capitalization of implementation costs incurred to develop or obtain internal-use software. The new guidance is effective for fiscal year 2022.

**Pension service costs** - In March 2017, the FASB issued an ASC update which requires that an employer report the service cost component of pension costs in the same line item as employee compensation costs within operating income. The other components of net benefit cost are required to be presented as "non-operating activities", and will not be eligible for capitalization. The new guidance is effective for fiscal year 2020 and will have minimal impact. There is no impact on total net assets or change in total net assets.

**Statement of cash flows** - In November 2016, the FASB issued an ASC update which requires that the amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The new guidance is effective for fiscal year 2020 and will have minimal impact. There is no impact on total net assets or change in total net assets.

In August 2016, the FASB issued an ASC update which intends to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. The new guidance is effective for fiscal year 2020.

**Not-for-profit reporting** - In August 2016, the FASB issued an ASC update which modifies the current NFP reporting requirements. The ASC update changes the way NFPs classify net assets and results in significant changes to financial reporting and disclosures for NFPs. The new guidance is effective for fiscal year 2019.

**Leases** - In February 2016, the FASB issued an ASC update which requires lessees to recognize operating and financing lease liabilities and corresponding right-of use assets on the statement of financial position. The new guidance is effective for fiscal year 2020.

**Revenue recognition** - In May 2014, the FASB issued an ASC update to improve consistency of revenue recognition practices across industries for economically similar transactions. Subsequently, the FASB has issued several amendments and updates to the original standard. The core principle is that an entity recognizes revenue for goods or services to customers in an amount that reflects the consideration it expects to receive in return. The guidance is effective for fiscal year 2019.

In June 2018, the FASB issued an ASC update which will assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions and (2) determining whether a contribution is conditional. The guidance is effective for fiscal year 2019.

## 2. Accounts Receivable

Accounts receivable, net of bad debt allowances, at August 31, 2018 and 2017, in thousands of dollars, are as follows:

	UNIVERSITY	SHC	LPCH	CONSOLIDATED
<b>2018</b>				
U.S. government sponsors	\$ 119,245	\$ —	\$ —	\$ 119,245
Non-federal sponsors and programs	85,797	28,711	22,990	137,498
Pending trades of securities	11,318	—	—	11,318
Accrued interest on investments	17,934	—	—	17,934
Student	7,940	—	—	7,940
Patient and third-party payers:				
Blue Cross	—	176,858	84,585	261,443
Blue Shield	—	76,401	29,163	105,564
Medicare	—	114,210	1,419	115,629
Medi-Cal	—	17,159	43,740	60,899
Other managed care and payers	—	446,731	141,985	588,716
Other	44,536	18,479	32,317	95,332
	286,770	878,549	356,199	1,521,518
Less bad debt allowances	(1,732)	(208,282)	(12,559)	(222,573)
<b>ACCOUNTS RECEIVABLE, NET</b>	<b>\$ 285,038</b>	<b>\$ 670,267</b>	<b>\$ 343,640</b>	<b>\$ 1,298,945</b>
<b>2017</b>				
U.S. government sponsors	\$ 122,645	\$ —	\$ —	\$ 122,645
Non-federal sponsors and programs	74,438	20,483	9,271	104,192
Pending trades of securities	22,033	—	—	22,033
Accrued interest on investments	16,366	—	—	16,366
Student	7,660	—	—	7,660
Patient and third-party payers:				
Blue Cross	—	149,536	62,217	211,753
Blue Shield	—	82,847	29,470	112,317
Medicare	—	116,950	836	117,786
Medi-Cal	—	16,072	48,651	64,723
Other managed care and payers	—	436,614	159,532	596,146
Other	43,208	36,961	20,364	100,533
	286,350	859,463	330,341	1,476,154
Less bad debt allowances	(1,657)	(191,285)	(13,214)	(206,156)
<b>ACCOUNTS RECEIVABLE, NET</b>	<b>\$ 284,693</b>	<b>\$ 668,178</b>	<b>\$ 317,127</b>	<b>\$ 1,269,998</b>

### 3. Health Care Services Revenue

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

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

#### **Medicare**

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

Inpatient non-acute services, certain outpatient services and medical education costs related to Medicare beneficiaries are paid based, in part, on a cost reimbursement methodology subject to final settlement after submission of annual cost reports and audits thereof by the Medicare fiscal intermediary. The estimated amounts due to or from the program are reviewed and adjusted annually based on the status of such audits and any subsequent appeals. Differences between final settlements and amounts accrued in previous years are reported as adjustments to net health care services revenue in the year examination is substantially completed. Medicare cost reports have been audited by the Medicare administrative contractor through August 31, 2010 for SHC and August 31, 2016 for LPCH.

Professional services are reimbursed based on a fee schedule.

#### **Medi-Cal**

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

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

#### **Managed Care Organizations**

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

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

## Uninsured

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

The following table presents health care services revenue, net of contractual allowances (but before provision for doubtful accounts), for the years ended August 31, in thousands of dollars:

	UNIVERSITY	SHC	LPCH	ELIMINATIONS	CONSOLIDATED
<b>2018</b>					
Patient care revenue:					
Medicare	\$ —	\$ 892,195	\$ 5,512	\$ —	\$ 897,707
Medi-Cal	—	140,788	362,300	—	503,088
Managed care	—	3,498,434	1,103,782	—	4,602,216
Self pay and other	—	160,605	80,871	—	241,476
Physician services and support (see Note 1)	1,048,749	43,344	—	(1,092,093)	—
<b>Total patient care revenue</b>	<b>1,048,749</b>	<b>4,735,366</b>	<b>1,552,465</b>	<b>(1,092,093)</b>	<b>6,244,487</b>
Premium revenue	—	92,654	—	—	92,654
Other services and support	40,672	—	—	(12,438)	28,234
	1,089,421	4,828,020	1,552,465	(1,104,531)	6,365,375
Provision for doubtful accounts	—	(57,437)	(5,660)	—	(63,097)
<b>HEALTH CARE SERVICES REVENUE</b>	<b>\$1,089,421</b>	<b>\$4,770,583</b>	<b>\$1,546,805</b>	<b>\$ (1,104,531)</b>	<b>\$ 6,302,278</b>
<b>2017</b>					
Patient care revenue:					
Medicare	\$ —	\$ 858,076	\$ 6,094	\$ —	\$ 864,170
Medi-Cal	—	93,699	270,041	—	363,740
Managed care	—	3,108,719	1,030,995	—	4,139,714
Self pay and other	—	206,191	85,356	—	291,547
Physician services and support (see Note 1)	986,184	44,845	—	(1,031,029)	—
<b>Total patient care revenue</b>	<b>986,184</b>	<b>4,311,530</b>	<b>1,392,486</b>	<b>(1,031,029)</b>	<b>5,659,171</b>
Premium revenue	—	80,647	—	—	80,647
Other services and support	37,137	—	—	(10,429)	26,708
	1,023,321	4,392,177	1,392,486	(1,041,458)	5,766,526
Provision for doubtful accounts	—	(77,004)	(7,657)	—	(84,661)
<b>HEALTH CARE SERVICES REVENUE</b>	<b>\$1,023,321</b>	<b>\$4,315,173</b>	<b>\$1,384,829</b>	<b>\$ (1,041,458)</b>	<b>\$ 5,681,865</b>

SHC recognized net health care services revenue adjustments of \$2.4 million and \$24.3 million as a result of prior years' favorable developments related to reimbursement and appeals for the years ended August 31, 2018 and 2017, respectively. LPCH had no significant adjustments to revenue for the years ended August 31, 2018 and 2017.

SHC's and LPCH's provisions for doubtful accounts are based upon management's assessment of expected net collections considering historical experience and other collection indicators.



### Charity Care and Uncompensated Costs

SHC's estimated cost of providing charity care was \$24.8 million and \$22.0 million, and LPCH's estimated cost of providing charity care was \$1.8 million and \$2.1 million for the years ended August 31, 2018 and 2017, respectively. This cost is estimated by calculating a ratio of total costs to gross patient service charges at established rates, and then multiplying that ratio by gross uncompensated patient service charges at established rates associated with providing care to charity patients. SHC received \$876 thousand and \$663 thousand during the years ended August 31, 2018 and 2017, respectively, from contributions that were restricted for the care of indigent patients.

SHC and LPCH also provide services to other patients under the Medicare, Medi-Cal and other publicly sponsored programs, which reimburse at amounts less than the cost of the services provided to the recipients. Estimated costs in excess of reimbursements for the Medicare, Medi-Cal and other publicly sponsored programs for the years ended August 31, 2018 and 2017 were \$976.2 million and \$973.6 million for SHC, and \$298.1 million and \$237.5 million for LPCH, respectively.

### Provider Fee

The State of California enacted legislation in 2009 as subsequently amended which established a Hospital Quality Assurance Fee (QAF) Program and a Hospital Fee Program. These programs impose a provider fee on certain California general acute care hospitals that, combined with federal matching funds, is used to provide supplemental payments to certain hospitals and support the State's effort to maintain health care coverage for children. California's participation in these programs was made permanent by a ballot initiative passed in November 2016. However, specific portions of the program covering the period from January 1, 2015 to June 30, 2019, have not yet been approved by the Centers for Medicare and Medicaid Services (CMS). Accordingly, any potential activity under unapproved programs related to January 1, 2015 through August 31, 2018 have not been recorded in the *Consolidated Statements of Activities*. SHC recorded \$49.5 million and \$6.2 million in deferred revenue as of August 31, 2018 and 2017, respectively, pending CMS approval. LPCH recorded \$63.4 million and \$7.4 million in deferred revenue as of August 31, 2018 and 2017, respectively, pending CMS approval.

Provider fee revenue, net of expenses, under the approved portions of the programs for the years ended August 31, in thousands of dollars, is as follows:

	SHC	LPCH	CONSOLIDATED
<b>2018</b>			
Revenues	\$ 89,718	\$ 110,999	\$ 200,717
Expenses	(77,302)	(25,852)	(103,154)
<b>TOTAL</b>	<b>\$ 12,416</b>	<b>\$ 85,147</b>	<b>\$ 97,563</b>
<b>2017</b>			
Revenues	\$ 45,616	\$ 40,976	\$ 86,592
Expenses	(41,594)	(22,011)	(63,605)
<b>TOTAL</b>	<b>\$ 4,022</b>	<b>\$ 18,965</b>	<b>\$ 22,987</b>

#### 4. Pledges Receivable

Pledges are recorded at discount rates, ranging from 1.1% to 5.7%. At August 31, 2018 and 2017, pledges receivable, net of discounts and allowances, in thousands of dollars, are as follows:

	UNIVERSITY	SHC	LPCH	ELIMINATIONS	CONSOLIDATED
<b>2018</b>					
One year or less	\$ 217,754	\$ 34,906	\$ 42,720	\$ (2,922)	\$ 292,458
Between one year and five years	968,495	52,023	81,894	(22,671)	1,079,741
More than five years	295,908	7,000	39,460	(8,000)	334,368
	1,482,157	93,929	164,074	(33,593)	1,706,567
Less discounts and allowances	(160,989)	(9,394)	(17,698)	—	(188,081)
<b>PLEDGES RECEIVABLE, NET</b>	<b>\$ 1,321,168</b>	<b>\$ 84,535</b>	<b>\$ 146,376</b>	<b>\$ (33,593)</b>	<b>\$ 1,518,486</b>
<b>2017</b>					
One year or less	\$ 127,474	\$ 14,772	\$ 49,367	\$ (5,252)	\$ 186,361
Between one year and five years	1,055,991	82,647	102,743	(20,023)	1,221,358
More than five years	332,268	2,750	28,050	(9,000)	354,068
	1,515,733	100,169	180,160	(34,275)	1,761,787
Less discounts and allowances	(159,198)	(10,161)	(17,835)	—	(187,194)
<b>PLEDGES RECEIVABLE, NET</b>	<b>\$ 1,356,535</b>	<b>\$ 90,008</b>	<b>\$ 162,325</b>	<b>\$ (34,275)</b>	<b>\$ 1,574,593</b>

## 5. Loans Receivable

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

### STUDENT LOANS RECEIVABLE

Student loans receivable consist of institutional and federally-sponsored loans due from both current and former students. Student loans and allowance for student loan losses at August 31, 2018 and 2017, in thousands of dollars, are as follows:

	2018	2017
Institutional loans	\$ 26,714	\$ 26,179
Federally-sponsored loans	34,261	45,575
	60,975	71,754
Less allowance for student loan losses	(639)	(848)
<b>STUDENT LOANS RECEIVABLE, NET</b>	<b>\$ 60,336</b>	<b>\$ 70,906</b>

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

Federally-sponsored loans are funded by advances to the University primarily under the Federal Perkins Loan Program (the "Program"). Loans to students under the Program are subject to mandatory interest rates and significant restrictions and can be assigned to the federal government in certain non-repayment situations. In these situations, the federal portion of the loan balance is guaranteed.

Amounts received under the Program are ultimately refundable to the federal government in the event the University no longer participates in the Program, and accordingly, have been reported as an obligation in the *Consolidated Statements of Financial Position* as "U.S. government refundable loan funds." The Program expired in September 2017 and the University is no longer issuing new loans under the Program. During the year ended August 31, 2018, the University returned \$14.3 million of Program funds to the U.S. Department of Education.

### FACULTY AND STAFF MORTGAGES

In a program to attract and retain excellent faculty and senior staff, the University provides home mortgage financing assistance, primarily in the form of subordinated loans. The loans and mortgages are collateralized by deeds of trust on properties concentrated in the region surrounding the University. Notes receivable amounting to \$695.7 million and \$676.8 million at August 31, 2018 and 2017, respectively, from University faculty and staff are included in "faculty and staff mortgages and other loans receivable, net" in the *Consolidated Statements of Financial Position*. Management has determined that no allowance is necessary.

The 2018 amount is net of \$117.9 million offset against the University's recorded obligation to repurchase certain residential units sold under long-term restricted ground leases. There was no offset recorded in 2017. See the *Repurchase Obligations* section of *Note 1*.

## 6. Investments

Investments are measured and recorded at fair value. The valuation methodology, investment categories, fair value hierarchy, certain investment activities and related commitments for fiscal years 2018 and 2017 are discussed below.

Investments held by Stanford at August 31, 2018 and 2017, in thousands of dollars, are as follows:

	UNIVERSITY	SHC	LPCH	ELIMINATIONS	CONSOLIDATED
<b>2018</b>					
Investment assets:					
Cash and short-term investments	\$ 1,040,835	\$ 447,307	\$ 3,400	\$ —	\$ 1,491,542
Collateral held for securities loaned	77,137	—	—	—	77,137
Public equities	8,335,690	248,631	45,865	—	8,630,186
Derivatives	(554)	—	—	—	(554)
Fixed income	2,419,741	169,983	93,485	—	2,683,209
Real estate	7,367,786	41,688	6,693	—	7,416,167
Natural resources	2,525,967	—	10,944	—	2,536,911
Private equities	8,430,025	—	22,247	—	8,452,272
Absolute return	5,673,513	—	23,378	—	5,696,891
Assets held by other trustees	123,993	—	26,634	—	150,627
Other	648,308	896	—	—	649,204
<b>Total</b>	<b>36,642,441</b>	<b>908,505</b>	<b>232,646</b>	<b>—</b>	<b>37,783,592</b>
Hospitals' funds invested in the University's investment pools	(2,125,005)	1,393,429	724,423	7,153	—
<b>INVESTMENTS AT FAIR VALUE</b>	<b>\$34,517,436</b>	<b>\$ 2,301,934</b>	<b>\$ 957,069</b>	<b>\$ 7,153</b>	<b>\$ 37,783,592</b>
Investment liabilities:					
Income beneficiary share of split interest agreements <sup>1</sup>	\$ 541,558	\$ —	\$ —	\$ —	\$ 541,558
Securities lending	77,137	—	—	—	77,137
Securities sold, not yet purchased	69,092	—	—	—	69,092
Accrued management fees	6,693	—	—	—	6,693
Pending trades of securities	2,912	—	—	—	2,912
Other	11,237	—	—	—	11,237
<b>LIABILITIES ASSOCIATED WITH INVESTMENTS</b>	<b>\$ 708,629</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 708,629</b>

<sup>1</sup> See split-interest agreements section in Note 1

	UNIVERSITY	SHC	LPCH	ELIMINATIONS	CONSOLIDATED
<b>2017</b>					
Investment assets:					
Cash and short-term investments	\$ 1,251,787	\$ 284,403	\$ —	\$ —	\$ 1,536,190
Collateral held for securities loaned	348,783	—	—	—	348,783
Public equities	8,106,229	—	42,086	—	8,148,315
Derivatives	1,152	—	—	—	1,152
Fixed income	2,599,389	66,399	99,130	—	2,764,918
Real estate	7,069,189	—	7,220	—	7,076,409
Natural resources	2,475,606	—	10,328	—	2,485,934
Private equities	7,305,412	—	20,784	—	7,326,196
Absolute return	5,497,956	—	20,429	—	5,518,385
Assets held by other trustees	138,804	—	24,052	—	162,856
Other	471,443	415	615	—	472,473
Total	35,265,750	351,217	224,644	—	35,841,611
Hospitals' funds invested in the University's investment pools	(1,968,257)	1,281,173	680,037	7,047	—
<b>INVESTMENTS AT FAIR VALUE</b>	<b>\$ 33,297,493</b>	<b>\$ 1,632,390</b>	<b>\$ 904,681</b>	<b>\$ 7,047</b>	<b>\$ 35,841,611</b>
Investment liabilities:					
Income beneficiary share of split interest agreements <sup>1</sup>	\$ 509,972	\$ —	\$ —	\$ —	\$ 509,972
Securities lending	348,783	—	—	—	348,783
Debt of investment entity	65,550	—	—	—	65,550
Pending trades of securities	12,480	—	—	—	12,480
Other	17,009	—	—	—	17,009
<b>LIABILITIES ASSOCIATED WITH INVESTMENTS</b>	<b>\$ 953,794</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 953,794</b>

<sup>1</sup> See *split-interest agreements* section in Note 1

## VALUATION METHODOLOGY

To the extent available, Stanford's investments are recorded at fair value based on quoted prices in active markets on a trade-date basis. Stanford's investments that are listed on any U.S. or non-U.S. recognized exchanges are valued based on readily available market quotations. When such inputs do not exist, fair value measurements are based on the best available information and usually require a degree of judgment. For alternative investments, which are principally interests in limited partnerships or similar investments in private equity, real estate, natural resources, public equities and absolute return funds, the value is primarily based on the Net Asset Value (NAV) of the underlying investments. The NAV is reported by external investment managers in accordance with their policies as described in their respective financial statements and offering memoranda. The most recent NAV reported is adjusted for any investment-related transactions such as capital calls or distributions and significant known valuation changes of its related portfolio through August 31, 2018 and 2017, respectively. These investments are generally less liquid than other investments, and the value reported may differ from the values that would have been reported had a ready market for these investments existed.

The University exercises due diligence in assessing the policies, procedures, and controls implemented by its external investment managers and believes its proportionate share of the carrying amount of these alternative investments is a reasonable estimate of fair value. Such due diligence procedures include, but are not limited to, ongoing communication, on-site visits, and review of information from external investment managers as well as review of performance. In conjunction with these procedures, estimated fair value is

determined by consideration of a range of factors, such as market conditions, redemption terms and restrictions, and risks inherent in the inputs of the external investment managers' valuations.

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

## **INVESTMENT CATEGORIES**

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

**Cash and short-term investments** include cash, cash equivalents, mutual funds, and fixed income investments with maturities of less than one year (see also *Note 1*). Cash equivalents such as money market funds and overnight repurchase agreements are carried at cost. Fixed income investments such as short-term U.S. Treasury bills are carried at amortized cost. Due to the short-term nature and liquidity of these financial instruments, the carrying values of these assets approximates fair value. Cash may include collateral provided to or received from counterparties associated with investment-related derivative contracts (see *Note 8*).

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

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

**Derivatives** are used by Stanford to manage its exposure to certain risks relating to ongoing business and investment operations. Derivatives include forward currency contracts which are valued using industry standard models with the applicable forward exchange rates.

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

**Real estate** represents directly owned real estate, mutual funds, interests in long-term ground leases and other real estate interests held through limited partnerships. The fair value of real estate directly owned by Stanford, 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 alternative investments in real estate held through limited partnerships is based on the NAV reported by the external investment managers and is adjusted as described under *Valuation Methodology* above. The fair value of real estate held through commingled and mutual funds are based on quoted market prices.

**Natural resources** represent commodity and energy related investments held through both public and non-public investments. Public securities are valued based on quoted market prices (and exchange rates, if applicable) on the last trading day of the principal market on or before August 31. The fair value of direct

non-public investments are based on a combination of models, including appraisals, discounted cash flows and commodity price factors. The fair value of natural resources held as alternative investments is based on the NAV reported by the external investment managers and is adjusted as described under *Valuation Methodology* above.

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

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

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

**Other** investments are typically non-public investments such as preferred stocks, convertible notes and mineral rights. The fair value of these types of direct investments is determined as described 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 8*).

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

Privately negotiated over-the-counter (OTC) derivatives such as forward currency contracts, total return swaps, and interest rate swaps are typically classified as Level 2 (see *Note 8*). In instances where quotations received from counterparties or valuation models are used, the value of an OTC derivative depends upon the contractual terms of the instrument as well as the availability and reliability of observable inputs. Such inputs include market prices for reference securities, yield curves, or credit curves.

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

The following tables summarize Stanford's investment assets and liabilities within the fair value hierarchy and asset categories at August 31, 2018 and 2017, in thousands of dollars:

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
<b>2018</b>				
Investment assets:				
Cash and short-term investments	\$ 569,707	\$ 914,425	\$ —	\$ 1,484,132
Collateral held for securities loaned	—	77,137	—	77,137
Public equities	2,990,428	1,417	—	2,991,845
Derivatives	—	(554)	—	(554)
Fixed income	466,923	2,216,286	—	2,683,209
Real estate	96,565	—	5,792,978	5,889,543
Natural resources	520,183	—	210,270	730,453
Private equities	505	—	20,188	20,693
Absolute return	1,278	—	27,378	28,656
Assets held by other trustees	11,157	—	139,470	150,627
Other	9,921	—	627,989	637,910
<b>INVESTMENTS SUBJECT TO FAIR VALUE LEVELING</b>	<b>\$ 4,666,667</b>	<b>\$ 3,208,711</b>	<b>\$ 6,818,273</b>	<b>14,693,651</b>
Investments measured using Net Asset Value <sup>1</sup>				23,089,941
<b>TOTAL CONSOLIDATED INVESTMENT ASSETS</b>				<b>\$ 37,783,592</b>
Investment liabilities:				
Income beneficiary share of split interest agreements	\$ —	\$ 541,558	\$ —	\$ 541,558
Securities lending	—	77,137	—	77,137
Securities sold, not yet purchased	69,092	—	—	69,092
Accrued management fees	6,693	—	—	6,693
Pending trades of securities	2,912	—	—	2,912
Other	—	—	11,237	11,237
<b>LIABILITIES ASSOCIATED WITH INVESTMENTS</b>	<b>\$ 78,697</b>	<b>\$ 618,695</b>	<b>\$ 11,237</b>	<b>\$ 708,629</b>



	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
<b>2017</b>				
Investment assets:				
Cash and short-term investments	\$ 364,762	\$ 1,171,428	\$ —	\$ 1,536,190
Collateral held for securities loaned	—	348,783	—	348,783
Public equities	2,576,316	261	—	2,576,577
Derivatives	—	1,152	—	1,152
Fixed income	359,964	2,402,729	—	2,762,693
Real estate	49,811	—	5,417,959	5,467,770
Natural resources	412,487	—	238,161	650,648
Private equities	3,424	—	52,259	55,683
Absolute return	1,313	—	28,653	29,966
Assets held by other trustees	8,004	—	154,852	162,856
Other	1,423	—	461,040	462,463
<b>INVESTMENTS SUBJECT TO FAIR VALUE LEVELING</b>	<b>\$ 3,777,504</b>	<b>\$ 3,924,353</b>	<b>\$ 6,352,924</b>	<b>14,054,781</b>
Investments measured using Net Asset Value <sup>1</sup>				21,786,830
<b>TOTAL CONSOLIDATED INVESTMENT ASSETS</b>				<b>\$ 35,841,611</b>
Investment liabilities:				
Income beneficiary share of split interest agreements	\$ —	\$ 509,972	\$ —	\$ 509,972
Securities lending	—	348,783	—	348,783
Debt of investment entity	—	65,550	—	65,550
Pending trades of securities	12,480	—	—	12,480
Other	—	—	17,009	17,009
<b>LIABILITIES ASSOCIATED WITH INVESTMENTS</b>	<b>\$ 12,480</b>	<b>\$ 924,305</b>	<b>\$ 17,009</b>	<b>\$ 953,794</b>

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

### SUMMARY OF LEVEL 3 INVESTMENT ACTIVITIES AND TRANSFERS

The following tables present the activities for Level 3 investments for the years ended August 31, 2018 and 2017, in thousands of dollars:

FAIR VALUE MEASUREMENTS USING SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)	BEGINNING BALANCE AS OF SEPTEMBER 1, 2017	PURCHASES AND ADDITIONS	SALES AND MATURITIES	NET REALIZED AND UNREALIZED GAINS (LOSSES)	TRANSFERS IN*	TRANSFERS OUT*	ENDING BALANCE AS OF AUGUST 31, 2018
Real estate	\$ 5,417,959	\$ 140,542	\$ (111,150)	\$ 345,627	\$ —	\$ —	\$ 5,792,978
Natural resources	238,161	3,879	(13,705)	(2,837)	—	(15,228)	210,270
Private equities	52,259	—	(38,242)	6,171	—	—	20,188
Absolute return	28,653	—	—	(1,275)	—	—	27,378
Assets held by other trustees	154,852	4,111	(23,763)	4,895	—	(625)	139,470
Other	461,040	71,441	(30,221)	125,729	—	—	627,989
<b>TOTAL</b>	<b>\$ 6,352,924</b>	<b>\$ 219,973</b>	<b>\$ (217,081)</b>	<b>\$ 478,310</b>	<b>\$ —</b>	<b>\$ (15,853)</b>	<b>\$ 6,818,273</b>

FAIR VALUE MEASUREMENTS USING SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)	BEGINNING BALANCE AS OF SEPTEMBER 1, 2016	PURCHASES AND ADDITIONS	SALES AND MATURITIES	NET REALIZED AND UNREALIZED GAINS (LOSSES)	TRANSFERS IN*	TRANSFERS OUT*	ENDING BALANCE AS OF AUGUST 31, 2017
Public equities	\$ 3,045	\$ —	\$ (2,857)	\$ (188)	\$ —	\$ —	\$ —
Real estate	4,956,210	51,242	(37,885)	448,392	—	—	5,417,959
Natural resources	208,655	24,292	(32,745)	37,959	—	—	238,161
Private equities	71,875	—	(262)	20,435	—	(39,789)	52,259
Absolute return	25,587	—	—	3,066	—	—	28,653
Assets held by other trustees	191,358	5,728	(32,764)	(7,328)	489	(2,631)	154,852
Other	366,342	79,874	(22,564)	37,038	350	—	461,040
<b>TOTAL</b>	<b>\$ 5,823,072</b>	<b>\$ 161,136</b>	<b>\$ (129,077)</b>	<b>\$ 539,374</b>	<b>\$ 839</b>	<b>\$ (42,420)</b>	<b>\$ 6,352,924</b>

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

Net realized and unrealized gains (losses) in the tables above are included in the *Consolidated Statements of Activities* primarily as increases or decreases in reinvested gains by level of restriction. For the years ended August 31, 2018 and 2017, the change in unrealized gains (losses) for Level 3 investments still held at August 31, 2018 and 2017 was \$490.9 million and \$303.4 million, respectively.

Transfers in (out) include situations where observable inputs have changed. 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, 2018 and 2017.

### 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, 2018 and 2017, in thousands of dollars.

For each investment category and respective valuation technique, the range of the significant unobservable input is dependent on the nature and characteristics of the investment. The input range and weighted average values may vary at each balance sheet date.

INVESTMENT CATEGORIES	FAIR VALUE <sup>1</sup>	VALUATION TECHNIQUE	SIGNIFICANT UNOBSERVABLE INPUTS	RANGE		IMPACT TO VALUATION FROM AN INCREASE IN INPUT <sup>2</sup>
				MIN	MAX	
<b>2018</b>						
Real estate	\$ 5,155,212	Discounted cash flow	Discount rate	5.0%	20.0%	Decrease
			Capitalization rate	3.9%	9.0%	Decrease
Assets held by other trustees	123,993	Net present value	Discount rate	3.4%	3.4%	Decrease
Other	604,585	Market comparables	Recent transactions	N/A	N/A	N/A
<b>TOTAL AMOUNT WITH SIGNIFICANT UNOBSERVABLE INPUTS</b>	<b>\$ 5,883,790</b>					
<b>2017</b>						
Real estate	\$ 4,721,602	Discounted cash flow	Discount rate	5.3%	20.0%	Decrease
			Capitalization rate	6.3%	9.0%	Decrease
Natural resources	6,858	Market comparables	Weights ascribed to market comparables	20.0%	50.0%	N/A
Assets held by other trustees	138,804	Net present value	Discount rate	2.4%	2.4%	Decrease
Other	467,515	Market comparables	Recent transactions	N/A	N/A	N/A
<b>TOTAL AMOUNT WITH SIGNIFICANT UNOBSERVABLE INPUTS</b>	<b>\$ 5,334,779</b>					

<sup>1</sup> \$0.9 billion and \$1.0 billion of Level 3 investments at August 31, 2018 and 2017, respectively, are valued using third-party valuations, other market comparables or recent transactions as an approximation of fair value.

<sup>2</sup> 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 including redemption terms, notice periods, and remaining life for all related alternative investments at August 31, 2018, in thousands of dollars:

ASSET CLASS	FAIR VALUE	UNFUNDED COMMITMENT	REMAINING LIFE (YEARS)	REDEMPTION TERMS
Public equities	\$ 5,594,615	\$ 318,326	0 to 3	Generally, lock-up provisions ranging from 0 to 2 years. After initial lock up expires, redemptions are available on a rolling basis and require 30 to 90 days prior notification.
Real estate	1,571,977	1,121,263	0 to 15	Not eligible for redemption
Natural resources	1,970,869	674,629	0 to 15	Not eligible for redemption
Private equities	8,429,463	3,704,724	0 to 15	Not eligible for redemption
Absolute return	5,673,513	1,011,338	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 30 to 90 days prior notification.
<b>TOTAL</b>	<b>\$23,240,437</b>	<b>\$ 6,830,280</b>		

## **LIABILITIES ASSOCIATED WITH INVESTMENTS**

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

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

Under the securities lending agreement, securities loaned are primarily public equities, corporate bonds or U.S. Treasury bills and the agreement continues until the security is delivered back to the University. The estimated fair value of securities loaned at August 31, 2018 and 2017 was \$75.5 million and \$341.4 million, respectively. At August 31, 2018, the University received cash and short-term investments in the amount of \$77.1 million; \$30.4 million was received for loaned publicly traded equities and \$46.7 million was received for loaned U.S. Treasury notes. At August 31, 2017, the University received cash and short-term investments in the amount of \$348.8 million; \$121.2 million was received for loaned publicly traded equities and \$227.6 million was received for loaned U.S. Treasury notes.

**Debt of investment entity** relates to the University's controlling interests in several investment entities which are consolidated in the financial statements. The investment assets of these entities are \$234.4 million and \$223.7 million as of August 31, 2018 and 2017, respectively, and are included in "investments" in the *Consolidated Statements of Financial Position*. An investment entity held debt of \$65.6 million as of August 31, 2017, where the University was ultimately liable for principal should the entity default. The debt was paid in full as of August 31, 2018.

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

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

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

## OFFSETS TO INVESTMENT-RELATED ASSETS AND LIABILITIES

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

The University generally maintains master netting agreements and collateral agreements with its counterparties. These agreements provide the University the right to net a counterparty's rights and obligations under the agreement and to liquidate and offset collateral against any net amount owed by the counterparty, in the event of default by the counterparty, such as bankruptcy or a failure to pay or perform. For certain derivatives, a master netting arrangement allows the counterparty to net any of its applicable liabilities or payment obligations to the University against any collateral previously provided or received (see *Note 8*).

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

The following table presents information about the gross amounts of assets and liabilities, the offset of these instruments and the related collateral amounts as of August 31, 2018 and 2017, in thousands of dollars:

	GROSS AMOUNTS OF ASSETS AND LIABILITIES	OFFSET AMOUNTS	NET AMOUNTS	COLLATERAL RECEIVED (PLEDGED) <sup>2</sup>	NET EXPOSURE
<b>2018</b>					
Assets:					
Derivatives <sup>1</sup>	\$ 3	\$ (3)	\$ —	\$ —	\$ —
Repurchase agreements <sup>3</sup>	176,539	—	176,539	176,539	—
<b>TOTAL</b>	<b>176,542</b>	<b>(3)</b>	<b>176,539</b>	<b>176,539</b>	<b>—</b>
Liabilities:					
Derivatives <sup>1</sup>	557	(3)	554	(554)	—
Securities sold, not yet purchased	69,092	—	69,092	(69,092)	—
Securities lending	77,137	—	77,137	(77,137)	—
<b>TOTAL</b>	<b>\$ 146,786</b>	<b>\$ (3)</b>	<b>\$ 146,783</b>	<b>\$ (146,783)</b>	<b>\$ —</b>
<b>2017</b>					
Assets:					
Derivatives <sup>1</sup>	\$ 1,163	\$ (11)	\$ 1,152	\$ —	\$ 1,152
Repurchase agreements <sup>3</sup>	410,116	—	410,116	410,116	—
<b>TOTAL</b>	<b>411,279</b>	<b>(11)</b>	<b>411,268</b>	<b>410,116</b>	<b>1,152</b>
Liabilities:					
Derivatives <sup>1</sup>	11	(11)	—	—	—
Securities lending	348,783	—	348,783	(348,783)	—
<b>TOTAL</b>	<b>\$ 348,794</b>	<b>\$ (11)</b>	<b>\$ 348,783</b>	<b>\$ (348,783)</b>	<b>\$ —</b>

<sup>1</sup> Gross derivative assets less gross derivative liabilities are presented as "derivatives" in the investment assets table.

<sup>2</sup> These collateral amounts received (pledged) are limited to the asset balance and accordingly, do not include any excess collateral received.

<sup>3</sup> Repurchase agreements are included in "Cash and short-term investments" in the investment assets table.

## INVESTMENT RETURNS

Total investment returns for the years ended August 31, 2018 and 2017, in thousands of dollars, are as follows:

	UNIVERSITY	SHC	LPCH	CONSOLIDATED
<b>2018</b>				
Investment income	\$ 349,569	\$ 40,091	\$ 5,072	\$ 394,732
Net realized and unrealized gains	2,689,706	122,912	87,336	2,899,954
<b>TOTAL INVESTMENT RETURNS</b>	<b>\$ 3,039,275</b>	<b>\$ 163,003</b>	<b>\$ 92,408</b>	<b>\$ 3,294,686</b>
<i>Reconciliation to Statements of Activities:</i>				
Total investment income distributed for operations	\$ 1,493,388	\$ 1,232	\$ 14,187	\$ 1,508,807
Increase (decrease) in reinvested gains:				
Unrestricted	951,197	158,592	49,765	1,159,554
Temporarily restricted	493,660	3,179	28,244	525,083
Permanently restricted	27,885	—	—	27,885
Change in value of split-interest agreements, net:				
Temporarily restricted	11,198	—	(3)	11,195
Permanently restricted	12,705	—	215	12,920
Adjustments for actuarial re-evaluations and maturities of split-interest agreements:				
Temporarily restricted	14,039	—	—	14,039
Permanently restricted	35,203	—	—	35,203
<b>TOTAL INVESTMENT RETURNS</b>	<b>\$ 3,039,275</b>	<b>\$ 163,003</b>	<b>\$ 92,408</b>	<b>\$ 3,294,686</b>
<b>2017</b>				
Investment income	\$ 258,801	\$ 26,393	\$ 2,953	\$ 288,147
Net realized and unrealized gains	3,365,278	147,101	107,565	3,619,944
<b>TOTAL INVESTMENT RETURNS</b>	<b>\$ 3,624,079</b>	<b>\$ 173,494</b>	<b>\$ 110,518</b>	<b>\$ 3,908,091</b>
<i>Reconciliation to Statements of Activities:</i>				
Total investment income distributed for operations	\$ 1,309,833	\$ 1,068	\$ 15,669	\$ 1,326,570
Increase in reinvested gains:				
Unrestricted	1,375,450	166,326	58,801	1,600,577
Temporarily restricted	805,790	6,100	34,764	846,654
Permanently restricted	33,251	—	—	33,251
Change in value of split-interest agreements, net:				
Temporarily restricted	9,189	—	884	10,073
Permanently restricted	(33,819)	—	400	(33,419)
Adjustments for actuarial re-evaluations and maturities of split-interest agreements:				
Temporarily restricted	42,610	—	—	42,610
Permanently restricted	81,775	—	—	81,775
<b>TOTAL INVESTMENT RETURNS</b>	<b>\$ 3,624,079</b>	<b>\$ 173,494</b>	<b>\$ 110,518</b>	<b>\$ 3,908,091</b>

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, Stanford holds certain investment properties that it leases to third parties. Future minimum rental income due from the Stanford Shopping Center, the Stanford Research Park and other properties under non-cancelable leases in effect with tenants at August 31, 2018, in thousands of dollars, is as follows:

YEAR ENDING AUGUST 31	FUTURE MINIMUM RENTAL INCOME			
	UNIVERSITY	SHC	LPCH	CONSOLIDATED
2019	\$ 126,629	\$ 2,823	\$ 1,453	\$ 130,905
2020	126,279	1,946	1,070	129,295
2021	126,226	1,541	1,014	128,781
2022	123,939	1,601	962	126,502
2023	111,109	941	316	112,366
Thereafter	2,087,350	9,223	—	2,096,573
<b>TOTAL</b>	<b>\$ 2,701,532</b>	<b>\$ 18,075</b>	<b>\$ 4,815</b>	<b>\$ 2,724,422</b>

## 7. Investment Pools

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, 2018 and 2017, in thousands of dollars:

	2018	2017
Merged Pool (MP)	\$ 28,882,135	\$ 27,507,695
Short-Term Investment Pool (STIP)	1,086,578	1,367,072
Expendable Funds Pool (EFP)	4,011,294	3,891,181
Endowment Income Funds Pool (EIFP)	368,194	356,001
Intermediate Pool (IPool)	485,382	431,514
Other investment pools	123,845	107,154
Specific investments	6,787,501	6,794,982
	41,744,929	40,455,599
Adjustments:		
Amounts included in "cash and cash equivalents" in the <i>Statements of Financial Position</i>	(212,648)	(199,625)
Funds cross-invested in investment pools	(4,889,840)	(4,990,224)
Hospitals' funds not invested in the University's investment pools	1,141,151	575,861
<b>TOTAL INVESTMENTS</b>	<b>\$ 37,783,592</b>	<b>\$ 35,841,611</b>

The MP is the primary investment pool in which endowment (see *Note 11*) 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 fundholders purchase investments and withdraw funds based on a monthly share value.

The University manages the majority of SHC's and LPCH's investments, including their investments in the Merged Pool (MP). SHC's investments in the MP were \$1.4 billion and \$1.3 billion at August 31, 2018 and 2017, respectively. LPCH's investments in the MP were \$724.4 million and \$680.0 million at August 31, 2018 and 2017, respectively.

The majority of Stanford's cash and other highly liquid investments are accumulated and managed in a short-term investment pool (STIP). The primary objective of the STIP is to preserve the principal value of the portfolio, while meeting the liquidity needs of the University.

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. For the year ended August 31, 2018, the EFP was also invested in the STIP and the Intermediate Pool (IPool). The EIFP holds income previously distributed to holders of permanently restricted endowment funds that has not yet been expended and the entire balance is invested in the STIP.

During fiscal year 2017, the IPool was established to invest funds with the objective of achieving greater liquidity than the MP and higher returns than the STIP. Similar to the MP, the IPool is a unitized investment pool with a monthly share value.



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 11). For the years ended August 31, 2018 and 2017, the results of the EFP, in thousands of dollars, are as follows:

	2018		2017	
Total investment return of the EFP	\$	336,767	\$	448,934
Less distributions to fund holders and operations		(181,411)		(79,490)
<b>AMOUNTS ADDED TO FFE</b>	<b>\$</b>	<b>155,356</b>	<b>\$</b>	<b>369,444</b>

## 8. Derivatives

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

### INVESTMENT-RELATED DERIVATIVES

The following table presents amounts for investment-related derivatives, including the notional amount, the fair values at August 31, 2018 and 2017, and gains and losses for the years ended August 31, 2018 and 2017, in thousands of dollars:

	NOTIONAL AMOUNT <sup>1</sup>	GROSS DERIVATIVE ASSETS <sup>2</sup>	GROSS DERIVATIVE LIABILITIES <sup>2</sup>	REALIZED AND UNREALIZED GAINS (LOSSES) <sup>3</sup>
	AS OF AUGUST 31			YEAR ENDED AUGUST 31
<b>2018</b>				
Foreign exchange contracts	\$ 8,700	\$ 3	\$ 557	\$ (4,017)
Equity contracts	—	—	—	(2,248)
<b>TOTAL</b>	<b>\$ 8,700</b>	<b>\$ 3</b>	<b>\$ 557</b>	<b>\$ (6,265)</b>
<b>2017</b>				
Foreign exchange contracts	\$ 150,592	\$ 1,163	\$ 11	\$ 3,560
<b>TOTAL</b>	<b>\$ 150,592</b>	<b>\$ 1,163</b>	<b>\$ 11</b>	<b>\$ 3,560</b>

<sup>1</sup> The notional amount is representative of the volume and activity of the respective derivative type during the years ended August 31, 2018 and 2017.

<sup>2</sup> Gross derivative assets less gross derivative liabilities of (\$554) thousand and \$1.2 million as of August 31, 2018 and 2017, respectively, are presented as "derivatives" on the investment table in Note 6.

<sup>3</sup> Gains (losses) on derivatives are included in the Statements of Activities line "increase in reinvested gains" in "non-operating activities."

## 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, 2018, 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 \$13.5 million and \$19.8 million at August 31, 2018 and 2017, respectively, and is included in the *Consolidated Statements of Financial Position*. In addition, the University issued an irrevocable standby letter of credit of \$15.0 million to support collateral requirements at August 31, 2018 and 2017 (see *Note 10*).

At August 31, 2018, SHC had interest rate exchange agreements expiring through November 2051 (see *Note 10*). 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 no cash collateral required to be posted with counterparties at August 31, 2018 and \$10.1 million cash collateral posted at August 31, 2017.

The following table presents amounts for debt-related derivatives including the notional amount, the fair values at August 31, 2018 and 2017, and gains and losses for the years ended August 31, 2018 and 2017, in thousands of dollars:

	AS OF AUGUST 31, 2018		YEAR ENDED AUGUST 31, 2018	AS OF AUGUST 31, 2017		YEAR ENDED AUGUST 31, 2017
	NOTIONAL AMOUNT <sup>1</sup>	GROSS DERIVATIVE LIABILITIES <sup>2</sup>	UNREALIZED GAINS <sup>3</sup>	NOTIONAL AMOUNT <sup>1</sup>	GROSS DERIVATIVE LIABILITIES <sup>2</sup>	UNREALIZED GAINS <sup>3</sup>
Debt-related interest-rate contracts:						
University	\$ 97,000	\$ 27,714	\$ 10,653	\$ 97,000	\$ 38,367	\$ 13,855
SHC	575,400	182,527	63,439	575,825	245,966	85,368
<b>TOTAL</b>	<b>\$ 672,400</b>	<b>\$ 210,241</b>	<b>\$ 74,092</b>	<b>\$ 672,825</b>	<b>\$ 284,333</b>	<b>\$ 99,223</b>

<sup>1</sup> The notional amount is representative of the volume and activity of the respective derivative type during the years ended August 31, 2018 and 2017.

<sup>2</sup> Fair value is measured using Level 2 inputs as defined in Note 6. Amounts are included in the Statements of Financial Position in "accounts payable and accrued expenses" and discussed more fully in Note 10.

<sup>3</sup> Gains (losses) on derivatives are included in the Statements of Activities as "swap interest and change in value of swap agreements" in "non-operating activities".

## 9. Plant Facilities

Plant facilities, net of accumulated depreciation, at August 31, 2018 and 2017, in thousands of dollars, are as follows:

	UNIVERSITY	SHC	LPCH	CONSOLIDATED
<b>2018</b>				
Land and improvements	\$ 595,470	\$ 68,844	\$ 120,519	\$ 784,833
Buildings and building improvements	6,624,088	1,694,056	1,736,783	10,054,927
Furniture, fixtures and equipment	1,872,370	1,185,244	476,025	3,533,639
Utilities	862,810	—	—	862,810
Construction in progress	1,387,188	1,969,625	108,531	3,465,344
	11,341,926	4,917,769	2,441,858	18,701,553
Less accumulated depreciation	(4,834,389)	(1,638,721)	(550,157)	(7,023,267)
<b>PLANT FACILITIES, NET OF ACCUMULATED DEPRECIATION</b>	<b>\$ 6,507,537</b>	<b>\$ 3,279,048</b>	<b>\$ 1,891,701</b>	<b>\$ 11,678,286</b>
<b>2017</b>				
Land and improvements	\$ 584,623	\$ 68,885	\$ 91,630	\$ 745,138
Buildings and building improvements	6,123,026	1,446,312	471,172	8,040,510
Furniture, fixtures and equipment	1,798,289	1,052,857	367,781	3,218,927
Utilities	836,533	—	—	836,533
Construction in progress	787,544	1,768,837	1,288,173	3,844,554
	10,130,015	4,336,891	2,218,756	16,685,662
Less accumulated depreciation	(4,506,732)	(1,467,545)	(488,648)	(6,462,925)
<b>PLANT FACILITIES, NET OF ACCUMULATED DEPRECIATION</b>	<b>\$ 5,623,283</b>	<b>\$ 2,869,346</b>	<b>\$ 1,730,108</b>	<b>\$ 10,222,737</b>

At August 31, 2018, \$2.1 billion, \$979.3 million, and \$142.4 million of fully depreciated plant facilities were still in use by the University, SHC, and LPCH, respectively, and were included in plant facilities and accumulated depreciation.

## 10. Notes and Bonds Payable

Notes and bonds payable for the University, SHC, and LPCH at August 31, 2018 and 2017, in thousands of dollars, are presented in the table below. The University is not an obligor or guarantor with respect to any obligations of SHC or LPCH, nor are SHC or LPCH obligors or guarantors with respect to obligations of the University or each other.

	YEAR OF MATURITY	EFFECTIVE INTEREST RATE *	OUTSTANDING PRINCIPAL	
			2018	2017
<b>UNIVERSITY:</b>				
<b>Tax-exempt:</b>				
CEFA Fixed Rate Revenue Bonds:				
Series S	2040	3.18%	\$ 30,210	\$ 30,210
Series T	2023-2039	3.66%-4.30%	188,900	188,900
Series U	2021-2046	1.75%-4.25%	1,167,205	1,167,205
CEFA Variable Rate Revenue Bonds and Notes:				
Series L	2023	1.31%/0.75%	36,208	51,373
Series S	2040-2051	1.53%-1.78%/0.88%-0.92%	141,200	141,200
Commercial Paper	2019	1.60%-1.63%	130,000	—
<b>Taxable:</b>				
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	4.75%	137,815	400,000
Stanford University Series 2012	2042	4.01%	143,235	143,235
Stanford University Series 2013	2044	3.56%	150,115	150,115
Stanford University Series 2014	2054	4.25%	150,000	150,000
Stanford University Series 2015	2047	3.46%	250,000	250,000
Stanford University Series 2017	2048	3.65%	750,000	750,000
Other	2020-2031	Various	3,481	3,480
Revolving Credit Facilities	2021	2.22%-2.27%/1.53%	75,850	33,400
University notes and bonds payable			3,554,219	3,659,118
Unamortized issuance costs, premiums, and discounts, net			280,078	295,023
<b>UNIVERSITY TOTAL</b>			<b>\$ 3,834,297</b>	<b>\$ 3,954,141</b>
<b>SHC:</b>				
CHFFA Fixed Rate Revenue Bonds:				
2008 Series A-1	2019-2021	3.79%/5.14%	\$ 1,375	\$ 67,410
2008 Series A-2	2019-2022	3.65%/5.32%	2,475	99,725
2008 Series A-3	2019-2022	3.65%/5.29%	2,000	80,615
2010 Series A	2019-2021	3.76%/4.66%	19,325	119,315
2010 Series B	2026-2037	4.95%	—	146,710
2012 Series A	2028-2051	3.98%	340,000	340,000
2012 Series B	2019-2023	2.36%/2.30%	35,420	41,340
2015 Series A	2052-2054	4.10%	100,000	100,000
2017 Series A	2022-2041	2.81%	454,200	—
2018 Series Taxable Bonds	2049	3.80%	500,000	—
CHFFA Variable Rate Revenue Bonds:				
2008 Series B	2042-2046	1.38%/0.84%	168,200	168,200
2012 Series C	2039-2051	1.81%/1.04%	60,000	60,000
2012 Series D	2020-2051	1.79%/1.23%	100,000	100,000
2015 Series B	2024-2054	1.94%/1.38%	75,000	75,000
Revolving Credit Facility	2020	1.53%	—	135,000
SHC notes and bonds payable			1,857,995	1,533,315
Unamortized issuance costs, premiums, and discounts, net			96,677	32,749
<b>SHC TOTAL</b>			<b>\$ 1,954,672</b>	<b>\$ 1,566,064</b>
<b>LPCH:</b>				
CHFFA Fixed Rate Revenue Bonds:				
2012 Series A	2044-2051	4.32%	\$ 200,000	\$ 200,000
2012 Series B	2018-2027	2.79%/2.71%	37,205	39,760
2014 Series A	2025-2043	3.84%	100,000	100,000
2016 Series A	2018-2033	2.23%/2.16%	67,170	70,415
2016 Series B	2052-2055	3.34%	100,000	100,000
2017 Series A	2018-2056	3.01%	200,000	200,000
CHFFA Variable Rate Revenue Bonds:				
2014 Series B	2034-2043	1.79%/1.22%	100,000	100,000
LPCH notes and bonds payable			804,375	810,175
Unamortized issuance costs, premiums, and discounts, net			68,300	70,962
<b>LPCH TOTAL</b>			<b>\$ 872,675</b>	<b>\$ 881,137</b>
<b>CONSOLIDATED TOTAL</b>			<b>\$ 6,661,644</b>	<b>\$ 6,401,342</b>

\*Exclusive of interest rate exchange agreements (see Note 8).

All bonds held at August 31, 2018 and 2017 are classified as Level 2 in the fair value hierarchy as described in *Note 6*. The fair values of the University's, SHC's, and LPCH's debt instruments at August 31, 2018 and 2017, in thousands of dollars, are as follows:

	2018	2017
University	\$ 3,946,058	\$ 4,298,362
SHC	1,956,292	1,517,350
LPCH	878,938	911,301
<b>TOTAL</b>	<b>\$ 6,781,288</b>	<b>\$ 6,727,013</b>

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

The University's long-term ratings of AAA/Aaa/AAA were affirmed in June 2018 by S&P Global Ratings and in March 2017 by Moody's Investors Service and Fitch Ratings, respectively. In December 2017, SHC's long-term ratings were affirmed by S&P Global Ratings, Moody's Investors Service and Fitch Ratings at AA-/Aa3/AA, respectively. In July 2017, LPCH's long-term ratings were adjusted by S&P Global Ratings, Moody's Investors Service and Fitch Ratings to A+/A1/AA-, respectively, and the 2017 Series A Bonds were assigned the same ratings. In November 2018, S&P Global Ratings and Moody's Investors Service reaffirmed LPCH's July 2017 rating of A+ and A1, respectively.

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

## **UNIVERSITY**

### **Debt issuances and repayment activity**

In August 2018, the University called and prepaid \$262.2 million of the taxable Series 2009A bonds due in May 2019.

In April 2017, the University issued taxable fixed rate bonds (Series 2017) in the amount of \$750.0 million plus an original issue discount of \$15 thousand. The bonds bear interest at a coupon rate and yield of 3.65% and mature on May 1, 2048. Proceeds will be used for general corporate purposes, including financing and refinancing capital projects.

The University has two unsecured revolving credit facilities with a \$250.0 million and \$175.0 million capacity, respectively. Funds drawn on the revolving credit facilities bear interest at a floating rate equal to the applicable LIBOR rate plus a specified margin. The amount outstanding on these credit facilities was \$75.9 million and \$33.4 million at August 31, 2018 and 2017, respectively.

In October 2017 and 2016, CEFA Series L tranches in the amount of \$15.2 million and \$8.8 million, respectively, matured and were repaid.

The University's taxable and tax-exempt commercial paper authorized borrowing capacity was \$500.0 million and \$300.0 million, respectively, at both August 31, 2018 and 2017. Tax-exempt commercial paper of \$130.0 million was outstanding at August 31, 2018 and no amounts were outstanding at August 31, 2017.

**Variable rate debt subject to remarketing or tender**

The University had \$177.4 million of revenue bonds in variable rate mode outstanding at August 31, 2018. CEFA Series L bonds bear interest at a weekly rate and CEFA Series S bonds bear interest at a commercial paper municipal rate for various interest periods of 270 days or less. In the event the University receives notice of any optional tender of these bonds, or if the bonds become subject to mandatory tender, the purchase price of the bonds will be paid from the remarketing of such bonds. However, if the remarketing proceeds are insufficient, the University will have a current obligation to purchase the bonds tendered. The University has identified several sources of funding including cash, money market funds, U.S. Treasury securities and agencies' discount notes to provide for the full and timely purchase price of any bonds tendered in the event of a failed remarketing.

**Letters of credit**

In December 2010, the University entered into a credit agreement and established a letter of credit facility under which the bank agreed to issue standby letters of credit in a principal amount not to exceed \$50.0 million. In June 2018, the University increased the facility to \$75.0 million. At August 31, 2018, irrevocable standby letters of credit of \$53.0 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 8*; (2) \$32.7 million to serve as security for workers' compensation deductible insurance arrangements; and (3) \$5.3 million for other purposes. No amounts have been drawn on these letters of credit at August 31, 2018.

**SHC****Debt issuances and repayment activity**

In January 2018, SHC issued taxable fixed rate bonds in the amount of \$500.0 million. The bonds bear interest at a coupon rate and yield of 3.80% and mature on November 15, 2048. Proceeds will be used for general corporate purposes.

In December 2017, CHFFA, on behalf of SHC, issued fixed rate refunding revenue bonds (the "2017 Bonds") in the aggregate principal amount of \$454.2 million plus an original issue premium of \$76.1 million. Proceeds of the 2017 Bonds were used to advance refund a portion of the 2008 Series A bonds and the 2010 Series A and B bonds.

In May 2017, SHC entered into a \$200.0 million revolving credit facility. Funds drawn on the revolving credit facility bear interest at a floating rate equal to the applicable LIBOR rate plus a specified margin. No amounts were outstanding as of August 31, 2018. The amount outstanding on this credit facility was \$135.0 million at August 31, 2017.

**Variable rate debt subject to remarketing or tender**

At August 31, 2018, SHC had \$403.2 million of revenue bonds in variable rate mode outstanding. The 2008 Series B-1 bonds bear interest at a weekly rate, and bondholders have the option to tender their bonds on a weekly basis. The 2008 Series B-2 bonds bear interest at the commercial paper rate for each commercial paper period of 270 days or less. Bondholders in commercial paper mode have the option to tender their bonds only at the end of the commercial paper rate period.

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.

#### Letters of credit

At August 31, 2018, SHC had irrevocable standby letters of credit in the aggregate amount of \$21.8 million posted with certain beneficiaries in the following amounts and for the following respective purposes: (i) \$19.6 million to serve as security for the workers' compensation self-insurance arrangement and (ii) \$2.2 million to serve as security deposits for certain construction projects being undertaken by SHC including the Renewal Project (see *Note 18*). No amounts have been drawn on these letters of credit at August 31, 2018 and 2017.

#### LPCH

##### Debt issuances and repayment activity

In August 2017, CHFFA, on behalf of LPCH, issued a series of revenue bonds (2017 Series A) in the aggregate par amount of \$200.0 million plus an original issue premium of \$29.1 million. Proceeds of the bonds are being used to finance a portion of the Renewal Project and to pay for the cost of issuance.

In May 2017, LPCH entered into a \$200.0 million revolving credit facility. There were no amounts outstanding on the revolving credit facility as of August 31, 2018 and 2017.

#### Letters of credit

At August 31, 2018, LPCH had irrevocable standby letters of credit in the aggregate amount of \$7.7 million posted with certain beneficiaries in the following amounts and for the following respective purposes: (i) \$6.3 million to serve as security for the workers' compensation self-insurance arrangement, and (ii) \$1.4 million to serve as security deposits for certain construction projects being undertaken by LPCH including the Renewal Project (see *Note 18*). No amounts have been drawn on these letters of credit at August 31, 2018 and 2017.

#### INTEREST

Stanford's 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:

	UNIVERSITY	SHC	LPCH	CONSOLIDATED
<b>2018</b>				
Interest expense, gross	\$ 149,051	\$ 61,191	\$ 36,390	\$ 246,632
Less:				
Interest income earned on unspent proceeds	(9,643)	—	—	(9,643)
Interest capitalized as a cost of construction	(16,402)	(27,718)	(19,359)	(63,479)
Interest expense on Series 2009A bonds which is classified as an investment expense	(14,844)	—	—	(14,844)
<b>INTEREST EXPENSE, NET</b>	<b>\$ 108,162</b>	<b>\$ 33,473</b>	<b>\$ 17,031</b>	<b>\$ 158,666</b>
<b>2017</b>				
Interest expense, gross	\$ 127,335	\$ 68,986	\$ 27,107	\$ 223,428
Less:				
Interest income earned on unspent proceeds	(5,266)	—	—	(5,266)
Interest capitalized as a cost of construction	(5,280)	(25,815)	(15,954)	(47,049)
Interest expense on Series 2009A bonds which is classified as an investment expense	(13,260)	—	—	(13,260)
<b>INTEREST EXPENSE, NET</b>	<b>\$ 103,529</b>	<b>\$ 43,171</b>	<b>\$ 11,153</b>	<b>\$ 157,853</b>

The University and SHC use interest rate exchange agreements to manage the interest rate exposure of their debt portfolios. University net payments on interest rate exchange agreements were \$2.5 million and \$3.0 million for the years ended August 31, 2018 and 2017, respectively. SHC net payments on interest rate exchange agreements were \$15.4 million and \$17.2 million for the years ended August 31, 2018 and 2017, respectively.

**PRINCIPAL PAYMENTS**

At August 31, 2018, scheduled principal payments on notes, bonds and capital lease obligations, in thousands of dollars, are as follows:

YEAR ENDING AUGUST 31	PRINCIPAL PAYMENTS			
	UNIVERSITY	SHC	LPCH	CONSOLIDATED
2019 Commercial paper	\$ 130,000	\$ —	\$ —	\$ 130,000
2019 Variable debt subject to remarketing	177,408	228,200	—	405,608
2019 Other	137,815	14,505	7,920	160,240
2020	3,000	14,235	8,245	25,480
2021	199,965	16,045	8,635	224,645
2022	—	15,505	9,045	24,550
2023	51,765	17,065	9,490	78,320
Thereafter	2,854,266	1,552,440	761,040	5,167,746
<b>TOTAL</b>	<b>\$ 3,554,219</b>	<b>\$ 1,857,995</b>	<b>\$ 804,375</b>	<b>\$ 6,216,589</b>



## 11. Endowments

The University classifies a substantial portion of its financial resources as endowment, which is invested to generate income to support operating and strategic initiatives. The endowment, which includes endowed lands, is comprised of pure endowment funds, term endowment funds, and funds functioning as endowment (FFE). Depending on the nature of the donor's stipulation, these resources are recorded as 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.

Stanford 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 \$1.4 million and \$2.4 million at August 31, 2018 and 2017, respectively.

Endowment funds by net asset classification at August 31, 2018 and 2017, in thousands of dollars, are as follows:

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
<b>2018</b>				
University endowment				
Donor-restricted endowment funds	\$ (1,448)	\$ 7,336,653	\$ 6,777,977	\$ 14,113,182
Funds functioning as endowment	12,351,730	—	—	12,351,730
University endowment	12,350,282	7,336,653	6,777,977	26,464,912
SHC donor-restricted endowment funds	—	13,982	8,233	22,215
LPCH donor-restricted endowment funds	—	125,386	227,988	353,374
<b>TOTAL ENDOWMENT FUNDS</b>	<b>\$ 12,350,282</b>	<b>\$ 7,476,021</b>	<b>\$ 7,014,198</b>	<b>\$26,840,501</b>
<b>2017</b>				
University endowment				
Donor-restricted endowment funds	\$ (2,406)	\$ 6,867,393	\$ 6,435,268	\$ 13,300,255
Funds functioning as endowment	11,484,688	—	—	11,484,688
University endowment	11,482,282	6,867,393	6,435,268	24,784,943
SHC donor-restricted endowment funds	—	12,567	8,144	20,711
LPCH donor-restricted endowment funds	—	112,153	227,129	339,282
<b>TOTAL ENDOWMENT FUNDS</b>	<b>\$ 11,482,282</b>	<b>\$ 6,992,113</b>	<b>\$ 6,670,541</b>	<b>\$25,144,936</b>

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

## UNIVERSITY

Changes in the University's endowment, excluding pledges, for the years ended August 31, 2018 and 2017, in thousands of dollars, are as follows:

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
<b>2018</b>				
Endowment, beginning of year	\$ 11,482,282	\$ 6,867,393	\$ 6,435,268	\$ 24,784,943
Investment returns:				
Earned income	215,677	—	—	215,677
Unrealized and realized gains	1,684,630	459,790	27,537	2,171,957
Total investment returns	1,900,307	459,790	27,537	2,387,634
Amounts distributed for operations	(1,239,746)	—	—	(1,239,746)
Gifts, transfers and other changes in endowment:				
Current year gifts and pledge payments	4,414	16,030	211,724	232,168
Transfers of prior year gifts	2,621	—	69,816	72,437
EFP funds added to the endowment	155,356	—	—	155,356
Other funds invested in (withdrawn from) the endowment, net	45,048	(6,560)	33,632	72,120
Total gifts, transfers and other changes in endowment	207,439	9,470	315,172	532,081
Total net increase in endowment	868,000	469,260	342,709	1,679,969
<b>ENDOWMENT, END OF YEAR</b>	<b>\$ 12,350,282</b>	<b>\$ 7,336,653</b>	<b>\$ 6,777,977</b>	<b>\$ 26,464,912</b>
<b>2017</b>				
Endowment, beginning of year	\$ 10,211,076	\$ 6,119,400	\$ 6,067,654	\$ 22,398,130
Investment returns:				
Earned income	156,730	—	—	156,730
Unrealized and realized gains	1,902,599	766,666	33,027	2,702,292
Total investment returns	2,059,329	766,666	33,027	2,859,022
Amounts distributed for operations	(1,166,399)	—	—	(1,166,399)
Gifts, transfers and other changes in endowment:				
Current year gifts and pledge payments	4,155	1,698	246,109	251,962
Transfers of prior year gifts	8,250	500	64,574	73,324
EFP funds added to the endowment	369,444	—	—	369,444
Other funds invested in (withdrawn from) the endowment, net	(3,573)	(20,871)	23,904	(540)
Total gifts, transfers and other changes in endowment	378,276	(18,673)	334,587	694,190
Total net increase in endowment	1,271,206	747,993	367,614	2,386,813
<b>ENDOWMENT, END OF YEAR</b>	<b>\$ 11,482,282</b>	<b>\$ 6,867,393</b>	<b>\$ 6,435,268</b>	<b>\$ 24,784,943</b>

Approximately 15% of the University's endowment is invested in real estate on Stanford's lands, including the Stanford Research Park. This portion of the endowment includes the present value of ground leases, and rental properties that have been developed on Stanford lands. The net operating income from these properties is distributed each year for University operations.

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

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

The current Board approved targeted spending rate is 5.5%. The payout amount is determined by applying a smoothing rule that limits payout in a given year to the sum of 70% of the previous year's actual rate and 30% of the long-term spending target rate applied to the projected per share value of the endowment adjusted by a growth factor. The smoothing rule is designed to mitigate the impact of short-term market volatility on the flow of funds to support operations. In situations when the payout rate reaches 6% or drops below 4%, the Board has the authority to override the smoothing rule and set the payout rate directly. The sources of payout are earned income on endowment assets (interest, dividends, rents and royalties), realized capital gains and FFE, as needed and as available.

#### **SHC AND LPCH**

The endowments of SHC and LPCH are intended to generate investment income to support their current operating and strategic initiatives. The Hospitals invest the majority of their endowments in the University's MP. The endowments are subject to similar investment and spending strategies that the University employs. 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 tables below represents SHC's and LPCH's current year endowment payout spent for designated purposes during fiscal years 2018 and 2017 .

**SHC**

Changes in SHC's endowment, excluding pledges, for the years ended August 31, 2018 and 2017, in thousands of dollars, are as follows:

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
<b>2018</b>				
Endowments, beginning of year	\$ —	\$ 12,567	\$ 8,144	\$ 20,711
Investment returns:				
Earned income	—	541	—	541
Unrealized and realized gains	—	1,256	—	1,256
Total investment returns	—	1,797	—	1,797
Amounts distributed for operations	—	(382)	—	(382)
Gifts and pledge payments	—	—	89	89
Total net increase in endowments	—	1,415	89	1,504
<b>ENDOWMENT, END OF YEAR</b>	<b>\$ —</b>	<b>\$ 13,982</b>	<b>\$ 8,233</b>	<b>\$ 22,215</b>
<b>2017</b>				
Endowments, beginning of year	\$ —	\$ 10,723	\$ 7,894	\$ 18,617
Investment returns:				
Earned income	—	491	—	491
Unrealized and realized gains	—	1,717	—	1,717
Total investment returns	—	2,208	—	2,208
Amounts distributed for operations	—	(364)	—	(364)
Gifts and pledge payments	—	—	250	250
Total net increase in endowments	—	1,844	250	2,094
<b>ENDOWMENT, END OF YEAR</b>	<b>\$ —</b>	<b>\$ 12,567</b>	<b>\$ 8,144</b>	<b>\$ 20,711</b>

**LPCH**

Changes in LPCH's endowment, excluding pledges, for the years ended August 31, 2018 and 2017, in thousands of dollars, are as follows:

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
<b>2018</b>				
Endowments, beginning of year	\$ —	\$ 112,153	\$ 227,129	\$ 339,282
Investment returns:				
Earned income	—	17,383	—	17,383
Unrealized and realized gains	—	10,930	932	11,862
Total investment returns	—	28,313	932	29,245
Amounts distributed for operations	—	(14,187)	—	(14,187)
Gifts and pledge payments	—	—	869	869
Other	—	(893)	(942)	(1,835)
Total net increase in endowments	—	13,233	859	14,092
<b>ENDOWMENT, END OF YEAR</b>	<b>\$ —</b>	<b>\$ 125,386</b>	<b>\$ 227,988</b>	<b>\$ 353,374</b>
<b>2017</b>				
Endowments, beginning of year	\$ —	\$ 94,936	\$ 211,348	\$ 306,284
Investment returns:				
Earned income	—	16,202	—	16,202
Unrealized and realized gains	—	18,623	940	19,563
Total investment returns	—	34,825	940	35,765
Amounts distributed for operations	—	(15,669)	—	(15,669)
Gifts and pledge payments	—	—	14,186	14,186
Other	—	(1,939)	655	(1,284)
Total net increase in endowments	—	17,217	15,781	32,998
<b>ENDOWMENT, END OF YEAR</b>	<b>\$ —</b>	<b>\$ 112,153</b>	<b>\$ 227,129</b>	<b>\$ 339,282</b>

## 12. Gifts and Pledges

Gifts and pledges reported for financial statement purposes are recorded on the accrual basis. The Office of Development (OOD), which is the primary fundraising agent for the University and SHC, reports total gifts based on contributions received in cash or property during the fiscal year. Lucile Packard Foundation for Children's Health (LPFCH) is the primary community fundraising agent for LPCH and the pediatric faculty and programs at the University's SOM. The following summarizes gifts and pledges reported for the years ended August 31, 2018 and 2017, per the *Consolidated Statements of Activities*, in thousands of dollars:

	UNIVERSITY	SHC	LPCH	CONSOLIDATED
<b>2018</b>				
Current year gifts in support of operations	\$ 278,867	\$ 294	\$ 3,951	\$ 283,112
Donor advised funds, net	(6,489)	—	—	(6,489)
Current year gifts not included in operations	3,064	—	—	3,064
Temporarily restricted gifts and pledges, net	248,955	44,894	41,828	335,677
Permanently restricted gifts and pledges, net	238,568	89	960	239,617
<b>TOTAL</b>	<b>\$ 762,965</b>	<b>\$ 45,277</b>	<b>\$ 46,739</b>	<b>\$ 854,981</b>
<b>2017</b>				
Current year gifts in support of operations	\$ 324,523	\$ 160	\$ 5,667	\$ 330,350
Donor advised funds, net	68,021	—	—	68,021
Current year gifts not included in operations	4,090	—	—	4,090
Temporarily restricted gifts and pledges, net	291,606	28,541	67,428	387,575
Permanently restricted gifts and pledges, net	228,392	250	14,256	242,898
<b>TOTAL</b>	<b>\$ 916,632</b>	<b>\$ 28,951</b>	<b>\$ 87,351</b>	<b>\$ 1,032,934</b>

## 13. Functional Expenses

Expenses for the years ended August 31, 2018 and 2017 are categorized on a functional basis as follows, in thousands of dollars:

	UNIVERSITY	SHC	LPCH	ELIMINATIONS	CONSOLIDATED
<b>2018</b>					
Instruction and departmental research	\$ 1,967,459	\$ —	\$ —	\$ —	\$ 1,967,459
Organized research - direct costs	1,170,600	—	—	—	1,170,600
Patient services	—	4,119,260	1,473,893	(1,050,187)	4,542,966
Auxiliary activities	1,207,516	—	—	—	1,207,516
Administration and general	476,570	457,722	186,881	(42,659)	1,078,514
Student services	284,183	—	—	—	284,183
Libraries	159,633	—	—	—	159,633
Development	112,511	12,905	23,029	(11,685)	136,760
SLAC construction	291,477	—	—	—	291,477
<b>TOTAL EXPENSES</b>	<b>\$ 5,669,949</b>	<b>\$ 4,589,887</b>	<b>\$ 1,683,803</b>	<b>\$ (1,104,531)</b>	<b>\$ 10,839,108</b>
<b>2017</b>					
Instruction and departmental research	\$ 1,839,112	\$ —	\$ —	\$ —	\$ 1,839,112
Organized research - direct costs	1,149,557	—	—	—	1,149,557
Patient services	—	3,811,682	1,323,255	(980,468)	4,154,469
Auxiliary activities	1,113,053	—	—	—	1,113,053
Administration and general	449,893	396,871	159,647	(50,250)	956,161
Student services	270,542	—	—	—	270,542
Libraries	161,681	—	—	—	161,681
Development	109,587	11,966	16,662	(10,740)	127,475
SLAC construction	284,105	—	—	—	284,105
<b>TOTAL EXPENSES</b>	<b>\$ 5,377,530</b>	<b>\$ 4,220,519</b>	<b>\$ 1,499,564</b>	<b>\$ (1,041,458)</b>	<b>\$ 10,056,155</b>

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

## 14. University Retirement Plans

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

### **DEFINED CONTRIBUTION PLAN**

The University offers a defined contribution plan to eligible faculty and staff through the *Stanford Contributory Retirement Plan* (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 \$168.1 million and \$156.1 million for the years ended August 31, 2018 and 2017, respectively.

### **DEFINED BENEFIT PLANS**

The University provides retirement and postretirement medical and other benefits through the *Staff Retirement Annuity Plan*, the *Faculty Retirement Incentive Program*, and the *Postretirement Benefit Plan* (the "Plans"). The obligations for the Plans, net of plan assets, are recorded in the *Consolidated Statements of Financial Position* as "accrued pension and postretirement benefit obligations." These plans are described 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. Contributions to the plan are made in accordance with the Employee Retirement Income Security Act (ERISA) based on actuarially determined amounts sufficient to meet the benefits to be paid to plan participants.

In fiscal year 2018, the University purchased a group annuity contract for certain SRAP retirees. This resulted in a \$21.7 million lump sum payment from plan assets and a permanent reduction in the plan benefit obligation and triggered a settlement event. This transaction and other routine payments resulted in additional net periodic benefit expense of approximately \$4.8 million for the year ended August 31, 2018.

#### **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, 2018 and 2017, 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
<b>2018</b>				
Fair value of plan assets, beginning of year	\$ 282,461	\$ —	\$ 230,081	\$ 512,542
Change in plan assets:				
Actual return on plan assets	8,523	—	21,925	30,448
Employer contributions	—	7,236	14,753	21,989
Plan participants' contributions	—	—	14,620	14,620
Benefits and plan expenses paid	(12,180)	(7,236)	(31,790) *	(51,206)
Plan settlements	(29,371)	—	—	(29,371)
<b>FAIR VALUE OF PLAN ASSETS, END OF YEAR</b>	<b>249,433</b>	<b>—</b>	<b>249,589</b>	<b>499,022</b>
Benefit obligation, beginning of year	330,234	174,447	571,951	1,076,632
Change in projected benefit obligation:				
Service cost	3,008	10,301	16,840	30,149
Interest cost	10,364	5,795	21,247	37,406
Plan participants' contributions	—	—	14,620	14,620
Plan amendments	4,564	—	—	4,564
Plan settlements	(29,371)	—	—	(29,371)
Actuarial gain	(18,183)	(10,543)	(36,493)	(65,219)
Benefits and plan expenses paid	(12,180)	(7,236)	(31,790) *	(51,206)
<b>BENEFIT OBLIGATION, END OF YEAR</b>	<b>288,436</b>	<b>172,764</b>	<b>556,375</b>	<b>1,017,575</b>
<b>NET LIABILITY RECOGNIZED IN THE STATEMENTS OF FINANCIAL POSITION</b>	<b>\$ (39,003)</b>	<b>\$(172,764)</b>	<b>\$(306,786)</b>	<b>\$ (518,553)</b>
* Net of Medicare subsidy of \$1.8 million				
<b>2017</b>				
Fair value of plan assets, beginning of year	\$ 285,674	\$ —	\$ 210,574	\$ 496,248
Change in plan assets:				
Actual return on plan assets	15,949	—	27,199	43,148
Employer contributions	5,000	8,028	8,600	21,628
Plan participants' contributions	—	—	13,011	13,011
Benefits and plan expenses paid	(24,162)	(8,028)	(29,303) *	(61,493)
<b>FAIR VALUE OF PLAN ASSETS, END OF YEAR</b>	<b>282,461</b>	<b>—</b>	<b>230,081</b>	<b>512,542</b>
Benefit obligation, beginning of year	346,563	170,689	534,043	1,051,295
Change in projected benefit obligation:				
Service cost	2,923	10,234	15,668	28,825
Interest cost	10,482	5,197	18,703	34,382
Plan participants' contributions	—	—	13,011	13,011
Actuarial loss (gain)	(5,572)	(3,645)	19,829	10,612
Benefits and plan expenses paid	(24,162)	(8,028)	(29,303) *	(61,493)
<b>BENEFIT OBLIGATION, END OF YEAR</b>	<b>330,234</b>	<b>174,447</b>	<b>571,951</b>	<b>1,076,632</b>
<b>NET LIABILITY RECOGNIZED IN THE STATEMENTS OF FINANCIAL POSITION</b>	<b>\$ (47,773)</b>	<b>\$(174,447)</b>	<b>\$(341,870)</b>	<b>\$ (564,090)</b>
* Net of Medicare subsidy of \$2.0 million				

The accumulated benefit obligation for the SRAP was \$287.6 million and \$328.9 million at August 31, 2018 and 2017, respectively.



Net periodic benefit expense and non-operating activities related to the Plans for the years ended August 31, 2018 and 2017, in thousands of dollars, includes the following components:

	SRAP	FRIP	PRBP	TOTAL
<b>2018</b>				
Service cost	\$ 3,008	\$ 10,301	\$ 16,840	\$ 30,149
Interest cost	10,364	5,795	21,247	37,406
Expected return on plan assets	(13,961)	—	(14,955)	(28,916)
Amortization of:				
Prior service cost	390	—	—	390
Actuarial loss	916	597	701	2,214
Settlement loss	4,779	—	—	4,779
<b>NET PERIODIC BENEFIT EXPENSE</b>	<b>5,496</b>	<b>16,693</b>	<b>23,833</b>	<b>46,022</b>
New prior service cost	4,564	—	—	4,564
Net actuarial gain	(12,745)	(10,543)	(43,463)	(66,751)
Amortization of:				
Prior service cost	(390)	—	—	(390)
Actuarial loss	(916)	(597)	(701)	(2,214)
Settlement loss	(4,779)	—	—	(4,779)
<b>TOTAL AMOUNTS RECOGNIZED IN NON-OPERATING ACTIVITIES</b>	<b>(14,266)</b>	<b>(11,140)</b>	<b>(44,164)</b>	<b>(69,570)</b>
<b>TOTAL AMOUNT RECOGNIZED IN NET PERIODIC BENEFIT EXPENSE AND NON-OPERATING ACTIVITIES</b>	<b>\$ (8,770)</b>	<b>\$ 5,553</b>	<b>\$ (20,331)</b>	<b>\$ (23,548)</b>
<b>2017</b>				
Service cost	\$ 2,923	\$ 10,234	\$ 15,668	\$ 28,825
Interest cost	10,482	5,197	18,703	34,382
Expected return on plan assets	(15,173)	—	(14,740)	(29,913)
Amortization of:				
Prior service cost	390	—	—	390
Actuarial loss	1,508	870	464	2,842
<b>NET PERIODIC BENEFIT EXPENSE</b>	<b>130</b>	<b>16,301</b>	<b>20,095</b>	<b>36,526</b>
Net actuarial loss (gain)	(6,348)	(3,645)	7,370	(2,623)
Amortization of:				
Prior service cost	(390)	—	—	(390)
Actuarial loss	(1,508)	(870)	(464)	(2,842)
<b>TOTAL AMOUNTS RECOGNIZED IN NON-OPERATING ACTIVITIES</b>	<b>(8,246)</b>	<b>(4,515)</b>	<b>6,906</b>	<b>(5,855)</b>
<b>TOTAL AMOUNT RECOGNIZED IN NET PERIODIC BENEFIT EXPENSE AND NON-OPERATING ACTIVITIES</b>	<b>\$ (8,116)</b>	<b>\$ 11,786</b>	<b>\$ 27,001</b>	<b>\$ 30,671</b>

Cumulative amounts recognized in non-operating activities, but not yet recognized in net periodic benefit expense in the *Consolidated Statements of Activities*, are presented in the following table for the years ended August 31, 2018 and 2017, in thousands of dollars:

	SRAP	FRIP	PRBP	TOTAL
<b>2018</b>				
Prior service cost	\$ 4,990	\$ —	\$ —	\$ 4,990
Net actuarial loss	44,053	16,774	22,402	83,229
<b>ACCUMULATED PLAN BENEFIT COSTS NOT YET RECOGNIZED IN NET PERIODIC BENEFIT EXPENSE</b>	<b>\$ 49,043</b>	<b>\$ 16,774</b>	<b>\$ 22,402</b>	<b>\$ 88,219</b>
<b>2017</b>				
Prior service cost	\$ 816	\$ —	\$ —	\$ 816
Net actuarial loss	62,493	27,914	66,566	156,973
<b>ACCUMULATED PLAN BENEFIT COSTS NOT YET RECOGNIZED IN NET PERIODIC BENEFIT EXPENSE</b>	<b>\$ 63,309</b>	<b>\$ 27,914</b>	<b>\$ 66,566</b>	<b>\$ 157,789</b>

The prior service costs and net actuarial loss expected to be amortized from non-operating activities to net periodic benefit expense in fiscal year 2019, in thousands of dollars, are as follows:

	SRAP	FRIP	PRBP	TOTAL
Prior service cost	\$ 960	\$ —	\$ —	\$ 960
Net actuarial loss	\$ 627	\$ —	\$ —	\$ 627

### 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	
	2018	2017	2018	2017	2018	2017
<b>BENEFIT OBLIGATIONS</b>						
Discount rate	4.00%	3.42%	4.02%	3.44%	4.16%	3.78%
Covered payroll growth rate	3.00%	3.00%	4.26%	4.26%	N/A	N/A
<b>NET PERIODIC BENEFIT COST</b>						
Discount rate	3.42%/3.53%*	3.15%	3.44%	3.15%	3.78%	3.56%
Expected returns on plan assets	5.50%	5.50%	N/A	N/A	6.50%	7.00%
Covered payroll growth rate	3.00%	3.00%	4.26%	4.26%	N/A	N/A

\* Reflects discount rates as of August 31, 2017 and November 30, 2017, respectively

The expected long-term rate of return on asset assumptions for the SRAP and PRBP plans is 5.00% and 6.50%, 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, 2018, a 6.50% annual rate of increase in the per capita cost of covered health care was assumed for calendar year 2018, declining gradually to 4.50% by 2038 and remaining at this rate thereafter.

Health care cost trend rate assumptions have a significant effect on the amounts reported for the health care 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	\$	8,848	\$	(6,729)
Effect on accumulated PRBP obligation	\$	95,874	\$	(76,375)

### EXPECTED CONTRIBUTIONS

The University expects to contribute \$10.7 million to the FRIP and \$5.0 million to the SRAP, and does not expect to contribute to the PRBP during the fiscal year ending August 31, 2019.

### 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
2019	\$ 28,975	\$ 10,680	\$ 22,818	\$ 2,270
2020	22,678	15,663	24,129	2,455
2021	21,224	12,631	25,476	2,642
2022	21,211	12,052	26,861	2,833
2023	20,861	11,557	28,301	3,026
2024 - 2028	90,066	63,354	163,698	18,232

## 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, 2018, the University did not have concentrations of risk in any single entity, counterparty, sector, industry or country.

## PLAN ASSETS AND ALLOCATIONS

Current U.S. GAAP defines a hierarchy of valuation inputs for the determination of the fair value of plan assets as described in Note 6. As of August 31, 2018 and 2017, all of the assets of the PRBP and substantially all of the assets of the SRAP were categorized as Level 1 investments. The fair value of plan assets by asset category, in thousands of dollars, at August 31, 2018 and 2017 and actual allocations and weighted-average target allocations at August 31, 2018 are as follows:

	2018	2017	2018 ACTUAL ALLOCATION	2018 TARGET ALLOCATION
SRAP:				
Cash and cash equivalents	\$ 2,039	\$ 1,981	1%	0%
Public equities	99,934	113,622	40%	41%
Fixed income	147,383	166,772	59%	59%
Private equities	77	86	<1%	0%
<b>TOTAL</b>	<b>249,433</b>	<b>282,461</b>	<b>100%</b>	<b>100%</b>
PRBP:				
Public equities	188,310	172,813	75%	75%
Fixed income	61,279	57,268	25%	25%
<b>TOTAL</b>	<b>249,589</b>	<b>230,081</b>	<b>100%</b>	<b>100%</b>
<b>TOTAL PLAN ASSETS AT FAIR VALUE</b>	<b>\$ 499,022</b>	<b>\$ 512,542</b>		

## 15. SHC and LPCH Retirement Plans

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

### **DEFINED CONTRIBUTION PLAN**

The Hospitals offer a defined contribution plan to eligible employees. Employer contributions to the defined contribution retirement plan are based on a percentage of participant annual compensation, participant contributions and years of service. SHC and LPCH contributions under the plan, which are vested immediately to participants, were approximately \$111.4 million and \$90.5 million, and \$42.7 million and \$35.0 million for the years ended August 31, 2018 and 2017, respectively.

### **DEFINED BENEFIT PLANS**

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

#### **Staff Pension Plan**

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

During the year ended August 31, 2018, SHC purchased a group annuity contract for certain SHC Staff Pension Plan retirees. This resulted in a \$41.2 million payment from plan assets and a permanent reduction in the plan's benefit obligation and triggered a settlement event. The transaction resulted in additional net periodic benefit expense of \$12.1 million for the year ended August 31, 2018.

#### **Postretirement Medical Benefit Plan**

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

#### **Frozen Pension Plan**

The remainder of certain other LPCH employees and previously leased employees not covered by the previously described plans are covered by a frozen noncontributory defined benefit pension plan (the "LPCH *Frozen Pension Plan*"). Benefits are based on years of service and the employee's compensation. Contributions to the plan are made in accordance with ERISA based on actuarially determined amounts sufficient to meet the benefits to be paid to plan participants.

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

	STAFF PENSION PLAN	PRMB	LPCH FROZEN PENSION PLAN
<b>2018</b>			
Fair value of plan assets, beginning of year	\$ 193,476	\$ —	\$ 6,086
Change in plan assets:			
Actual return on plan assets	7,477	—	133
Employer contributions	34,800	5,098	400
Plan participants' contributions	—	860	—
Benefits and plan expenses paid	(13,619)	(5,958) *	(511)
Plan settlements	(41,204)	—	—
<b>FAIR VALUE OF PLAN ASSETS, END OF YEAR</b>	<b>180,930</b>	<b>—</b>	<b>6,108</b>
Benefit obligation, beginning of year	245,221	84,179	8,447
Change in projected benefit obligation:			
Service cost	1,611	2,501	—
Interest cost	8,485	2,685	280
Plan participants' contributions	—	860	—
Actuarial gain	(12,914)	(6,052)	(263)
Benefits and plan expenses paid	(13,619)	(5,958) *	(511)
Plan amendments	—	(671)	—
Plan settlements	(41,204)	—	—
<b>BENEFIT OBLIGATION, END OF YEAR</b>	<b>187,580</b>	<b>77,544</b>	<b>7,953</b>
<b>NET LIABILITY RECOGNIZED IN THE STATEMENTS OF FINANCIAL POSITION</b>	<b>\$ (6,650)</b>	<b>\$ (77,544)</b>	<b>\$ (1,845)</b>
<i>* Net of Medicare subsidy of \$289 thousand</i>			
<b>2017</b>			
Fair value of plan assets, beginning of year	\$ 191,021	\$ —	\$ 6,390
Change in plan assets:			
Actual return on plan assets	13,794	—	226
Employer contributions	3,207	6,439	—
Plan participants' contributions	—	925	—
Benefits and plan expenses paid	(14,546)	(7,364) *	(530)
<b>FAIR VALUE OF PLAN ASSETS, END OF YEAR</b>	<b>193,476</b>	<b>—</b>	<b>6,086</b>
Benefit obligation, beginning of year	256,484	76,644	8,700
Change in projected benefit obligation:			
Service cost	2,842	2,317	—
Interest cost	8,296	2,422	266
Plan participants' contributions	—	925	—
Actuarial loss (gain)	(7,855)	4,099	11
Benefits and plan expenses paid	(14,546)	(7,364) *	(530)
Plan amendments	—	5,136	—
<b>BENEFIT OBLIGATION, END OF YEAR</b>	<b>245,221</b>	<b>84,179</b>	<b>8,447</b>
<b>NET LIABILITY RECOGNIZED IN THE STATEMENTS OF FINANCIAL POSITION</b>	<b>\$ (51,745)</b>	<b>\$ (84,179)</b>	<b>\$ (2,361)</b>
<i>* Net of Medicare subsidy of \$160 thousand</i>			

The net liability for the PRMB includes amounts for both SHC and LPCH employees and is recognized on the Hospitals' respective *Statements of Financial Position*. The table below presents the plan obligations for each entity as of August 31, 2018 and 2017, in thousands of dollars:

	2018		2017	
SHC	\$	60,146	\$	65,823
LPCH		17,398		18,356
<b>TOTAL</b>	<b>\$</b>	<b>77,544</b>	<b>\$</b>	<b>84,179</b>

The accumulated benefit obligation for the Pension Plan and LPCH Frozen Pension Plan was \$186.2 million and \$243.2 million, and \$8.0 million and \$8.4 million at August 31, 2018 and 2017, respectively.

Net periodic benefit expense and non-operating activities related to the Plans for the years ended August 31, 2018 and 2017, in thousands of dollars, includes the following components:

	STAFF PENSION PLAN	PRMB	LPCH FROZEN PENSION PLAN
<b>2018</b>			
Service cost	\$ 1,611	\$ 2,501	\$ —
Interest cost	8,485	2,685	280
Expected return on plan assets	(12,786)	—	(291)
Amortization of:			
Prior service cost	—	1,602	—
Actuarial loss (gain)	2,605	(580)	121
Settlement loss	12,094	—	—
<b>NET PERIODIC BENEFIT EXPENSE</b>	<b>12,009</b>	<b>6,208</b>	<b>110</b>
Net actuarial gain	(7,604)	(6,052)	(104)
New prior service cost	—	(671)	—
Amortization of:			
Prior service cost	—	(1,602)	—
Actuarial gain (loss)	(14,699)	580	(121)
<b>TOTAL AMOUNTS RECOGNIZED IN NON-OPERATING ACTIVITIES</b>	<b>(22,303)</b>	<b>(7,745)</b>	<b>(225)</b>
<b>TOTAL AMOUNT RECOGNIZED IN NET PERIODIC BENEFIT EXPENSE AND NON-OPERATING ACTIVITIES</b>	<b>\$ (10,294) \$</b>	<b>(1,537) \$</b>	<b>(115)</b>
<b>2017</b>			
Service cost	\$ 2,842	\$ 2,317	\$ —
Interest cost	8,296	2,422	266
Expected return on plan assets	(10,682)	—	(303)
Amortization of:			
Prior service cost	—	1,602	—
Actuarial loss (gain)	3,012	(915)	118
<b>NET PERIODIC BENEFIT EXPENSE</b>	<b>3,468</b>	<b>5,426</b>	<b>81</b>
Net actuarial loss (gain)	(10,967)	4,099	88
New prior service cost	—	5,136	—
Amortization of:			
Prior service cost	—	(1,602)	—
Actuarial gain (loss)	(3,012)	915	(118)
<b>TOTAL AMOUNTS RECOGNIZED IN NON-OPERATING ACTIVITIES</b>	<b>(13,979)</b>	<b>8,548</b>	<b>(30)</b>
<b>TOTAL AMOUNT RECOGNIZED IN NET PERIODIC BENEFIT EXPENSE AND NON-OPERATING ACTIVITIES</b>	<b>\$ (10,511) \$</b>	<b>13,974 \$</b>	<b>51</b>



The net periodic benefit expense and amounts recognized in non-operating activities for the PRMB include amounts for both SHC and LPCH employees and is recognized on the Hospitals' respective *Statements of Activities*. The table below presents the amount for each entity as of August 31, 2018 and 2017, in thousands of dollars:

	SHC	LPCH	TOTAL
<b>2018</b>			
Net periodic benefit expense	\$ 4,596	\$ 1,612	\$ 6,208
Amounts recognized in non-operating activities	(5,974)	(1,772)	(7,746)
<b>TOTAL AMOUNT RECOGNIZED IN NET PERIODIC BENEFIT EXPENSE AND NON-OPERATING ACTIVITIES</b>	<b>\$ (1,378)</b>	<b>\$ (160)</b>	<b>\$ (1,538)</b>
<b>2017</b>			
Net periodic benefit expense	\$ 3,871	\$ 1,555	\$ 5,426
Amounts recognized in non-operating activities	7,797	751	8,548
<b>TOTAL AMOUNT RECOGNIZED IN NET PERIODIC BENEFIT EXPENSE AND NON-OPERATING ACTIVITIES</b>	<b>\$ 11,668</b>	<b>\$ 2,306</b>	<b>\$ 13,974</b>

Cumulative amounts recognized in non-operating activities, but not yet recognized in net periodic benefit expense in the *Consolidated Statements of Activities*, are presented in the following table for the years ended August 31, 2018 and 2017, in thousands of dollars:

	STAFF PENSION PLAN	PRMB	LPCH FROZEN PENSION PLAN
<b>2018</b>			
Prior service cost	\$ —	\$ 5,363	\$ —
Net actuarial loss (gain)	55,059	(14,589)	2,430
<b>ACCUMULATED PLAN BENEFIT COSTS NOT YET RECOGNIZED IN NET PERIODIC BENEFIT EXPENSE</b>	<b>\$ 55,059</b>	<b>\$ (9,226)</b>	<b>\$ 2,430</b>
<b>2017</b>			
Prior service cost	\$ —	\$ 7,636	\$ —
Net actuarial loss (gain)	77,362	(9,117)	2,656
<b>ACCUMULATED PLAN BENEFIT COSTS NOT YET RECOGNIZED IN NET PERIODIC BENEFIT EXPENSE</b>	<b>\$ 77,362</b>	<b>\$ (1,481)</b>	<b>\$ 2,656</b>

The prior service cost and net actuarial loss expected to be amortized from non-operating activities to net periodic benefit expense in fiscal year 2019, in thousands of dollars, are as follows:

	STAFF PENSION PLAN	PRMB	LPCH FROZEN PENSION PLAN
Prior service cost	\$ —	\$ 1,426	\$ —
Net actuarial loss (gain)	\$ 1,361	\$ (924)	\$ 113

## ACTUARIAL ASSUMPTIONS

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

	STAFF PENSION PLAN		PRMB		LPCH FROZEN PENSION PLAN	
	2018	2017	2018	2017	2018	2017
<b>BENEFIT OBLIGATIONS</b>						
Discount rate	4.07%	3.56%	3.96%	3.33%	4.01%	3.46%
Covered payroll growth rate	3.00%	3.00%	N/A	N/A	N/A	N/A
<b>NET PERIODIC BENEFIT COST</b>						
Discount rate	3.56%	3.32%	3.33%	3.07%	3.46%	3.18%
Expected return on plan assets	6.00%	6.00%	N/A	N/A	5.00%	5.00%
Covered payroll growth rate	3.00%	3.00%	N/A	N/A	N/A	N/A

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

To determine the accumulated PRMB obligation at August 31, 2018, a 6.5% annual rate of increase in the per capita cost of covered health care was assumed for calendar year 2018, declining gradually to 4.50% by 2038 and remaining at this rate thereafter.

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

	1% INCREASE IN HEALTH CARE COST TREND RATE	1% DECREASE IN HEALTH CARE COST TREND RATE
Effect on PRMB total service and interest cost	\$ 81	\$ (97)
Effect on accumulated PRMB obligation	\$ 1,699	\$ (1,554)

## EXPECTED CONTRIBUTIONS

SHC expects to contribute \$5.6 million to the PRMB and does not expect to contribute to the Pension Plan during the fiscal year ending August 31, 2019. LPCH does not expect to contribute to the LPCH Frozen Pension Plan during the fiscal year ending August 31, 2019.

### 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		LPCH FROZEN PENSION PLAN
		EXCLUDING MEDICARE SUBSIDY	EXPECTED MEDICARE PART D SUBSIDY	
2019	\$ 10,721	\$ 7,337	\$ 144	\$ 766
2020	11,115	7,060	141	733
2021	11,469	7,094	137	643
2022	11,756	7,100	132	594
2023	11,947	6,915	127	576
2024 - 2028	60,731	32,297	531	2,553

### INVESTMENT STRATEGY

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

### CONCENTRATION OF RISK

SHC and LPCH manage a variety of risks, including market, credit, and liquidity risks, across its plan assets. Concentration of risk is defined as an undiversified exposure to one of the above-mentioned risks that increases the exposure of the loss of plan assets unnecessarily. Risk is minimized by diversifying the Hospitals' exposure to such risks across a variety of instruments, markets, and counterparties. As of August 31, 2018, the Hospitals did not have concentrations of risk in any single entity, counterparty, sector, industry or country.

### PLAN ASSETS AND ALLOCATIONS

Current U.S. GAAP defines a hierarchy of valuation inputs for the determination of the fair value of plan assets as described in *Note 6*. The Plans' assets measured at fair value at August 31, 2018 and 2017, are all categorized as Level 1 investments. The fair value of plan assets by asset category, in thousands of dollars, at August 31, 2018 and 2017 and actual allocations and weighted-average target allocations at August 31, 2018 are as follows:

	2018	2017	2018 ACTUAL ALLOCATION	2018 TARGET ALLOCATION
STAFF PENSION PLAN:				
Cash and cash equivalents	\$ 683	\$ 1,247	<1%	0%
Public equities	72,009	96,202	40%	40%
Fixed income	108,238	96,027	60%	60%
<b>PLAN ASSETS AT FAIR VALUE</b>	<b>\$ 180,930</b>	<b>\$ 193,476</b>	<b>100%</b>	<b>100%</b>
LPCH FROZEN PENSION PLAN:				
Cash and cash equivalents	\$ 30	\$ 43	<1%	0%
Public equities	1,828	1,808	30%	30%
Fixed income	4,250	4,235	70%	70%
<b>PLAN ASSETS AT FAIR VALUE</b>	<b>\$ 6,108</b>	<b>\$ 6,086</b>	<b>100%</b>	<b>100%</b>

## 16. Operating Leases

Stanford leases certain equipment and facilities under operating leases expiring at various dates. Total rental expense under these leases for the years ended August 31, 2018 and 2017 was \$79.7 million and \$76.4 million, respectively, for the University, \$116.3 million and \$97.7 million, respectively, for SHC, and \$28.6 million and \$27.7 million, respectively, for LPCH.

Net minimum future operating lease payments for periods subsequent to August 31, 2018, in thousands of dollars, are as follows:

YEAR ENDING AUGUST 31	MINIMUM LEASE PAYMENTS			
	UNIVERSITY	SHC	LPCH	CONSOLIDATED
2019	\$ 65,366	\$ 78,207	\$ 26,204	\$ 169,777
2020	32,748	68,465	20,153	121,366
2021	29,126	59,364	8,683	97,173
2022	29,083	55,917	4,269	89,269
2023	26,456	50,066	3,750	80,272
Thereafter	112,222	83,000	6,618	201,840
<b>TOTAL</b>	<b>\$ 295,001</b>	<b>\$ 395,019</b>	<b>\$ 69,677</b>	<b>\$ 759,697</b>

## 17. Related Party Transactions

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

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

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

## 18. Commitments and Contingencies

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

### **SPONSORED RESEARCH**

As described in *Note 1*, 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, 2010 to 2018 are subject to audit. The University does not anticipate any adjustments material to the *Consolidated Financial Statements*.

### **HEALTH CARE**

As described in *Note 3*, cost reports filed under the Medicare program for services based upon cost reimbursement are subject to audit. The estimated amounts due to or from the program are reviewed and adjusted annually based upon the status of such audits and subsequent appeals.

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

### **INFORMATION PRIVACY AND SECURITY**

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

### **LABOR AGREEMENTS**

Approximately 7% of the University's, 29% 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. SHC's and LPCH's agreements with SEIU and the Committee for Recognition of Nursing Achievement (CRONA) will expire in 2020 and 2019, respectively.

## **GUARANTEES AND INDEMNIFICATIONS**

Stanford enters into indemnification agreements with third parties in the normal course of business. The impact of these agreements, individually or in the aggregate, is not expected to be material to the *Consolidated Financial Statements*. As a result, no liabilities related to guarantees and indemnifications have been recorded at August 31, 2018.

## **LITIGATION**

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

## **MEDICAL CENTER RENEWAL PROJECT**

In July 2011, Stanford 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 includes replacement of outdated laboratory facilities at the Stanford SOM.

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.

The sources of funding for the Renewal Project include operating surpluses, gifts, government grants, and bond proceeds. SHC's share of the estimated total cost of the Renewal Project is \$2.1 billion and construction is scheduled to be completed in late 2019. Through August 31, 2018, SHC has recorded \$1.8 billion in construction in progress, inclusive of \$151.0 million in capitalized interest.

During FY18, LPCH opened the majority of their new expanded facilities and expects to complete the remaining components of its portion of the Renewal Project in fiscal year 2019. The cost of LPCH's project has exceeded its originally estimated amount of \$1.2 billion because of cost increases related to changes in technology, change orders, and market availability of subcontractors, among other factors. Through August 31, 2018, LPCH has placed in service new facilities costing \$1.4 billion related to the Renewal Project.

The first of the replacement SOM laboratory facilities is currently under construction and is scheduled to be completed in 2020. Additional research facilities, which will allow for the full replacement of the outdated laboratory facilities, will be completed in subsequent years.

## **CONTRACTUAL COMMITMENTS**

At August 31, 2018, the University had contractual obligations of approximately \$1.3 billion in connection with major construction projects. Remaining expenditures on construction in progress are estimated to be \$1.8 billion, which will be financed with certain unexpended plant funds, gifts and debt. Commitments on contracts, including for the construction and remodeling of Hospital facilities, were approximately \$274.1 million for SHC and \$121.9 million for LPCH at August 31, 2018.

The University executed an agreement with a solar electricity developer and operator in 2015 to purchase the output from its solar photovoltaic facility, which was placed in service in December 2016. The minimum energy purchase requirements are expected to be well within the University's current consumption. The University's total payment under the agreement over the next 23 years, undiscounted, is \$184.9 million.

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

## 19. Subsequent Events

Stanford has evaluated subsequent events for the period from August 31, 2018 through December 4, 2018, the date the *Consolidated Financial Statements* were issued.

## 20. Consolidating Entity Statements

The pages which follow present consolidating statements of financial position as of August 31, 2018 and 2017, and consolidating statements of activities and cash flows for the years then ended, in thousands of dollars.

## CONSOLIDATING STATEMENTS OF FINANCIAL POSITION

At August 31, 2018 (in thousands of dollars)

	UNIVERSITY	SHC	LPCH	ELIMINATIONS	CONSOLIDATED
<b>ASSETS</b>					
Cash and cash equivalents	\$ 265,795	\$ 652,256	\$ 288,469	\$ (7,153)	\$ 1,199,367
Assets limited as to use	165,429	—	—	—	165,429
Accounts receivable, net	285,038	670,267	343,640	—	1,298,945
Receivables (payables) from SHC and LPCH, net	114,219	—	—	(114,219)	—
Prepaid expenses and other assets	87,666	226,809	82,731	(67,506)	329,700
Pledges receivable, net	1,321,168	84,535	146,376	(33,593)	1,518,486
Student loans receivable, net	60,336	—	—	—	60,336
Faculty and staff mortgages and other loans receivable, net	712,161	—	—	—	712,161
Investments at fair value, including securities pledged or on loan of \$75,499	34,517,436	2,301,934	957,069	7,153	37,783,592
Plant facilities, net of accumulated depreciation	6,507,537	3,279,048	1,891,701	—	11,678,286
Works of art and special collections	—	—	—	—	—
<b>TOTAL ASSETS</b>	<b>\$ 44,036,785</b>	<b>\$ 7,214,849</b>	<b>\$ 3,709,986</b>	<b>\$ (215,318)</b>	<b>\$ 54,746,302</b>
<b>LIABILITIES AND NET ASSETS</b>					
<b>LIABILITIES:</b>					
Accounts payable and accrued expenses	\$ 933,291	\$ 1,138,577	\$ 371,324	\$ (151,515)	\$ 2,291,677
Accrued pension and postretirement benefit obligations	518,553	66,796	19,243	—	604,592
Liabilities associated with investments	708,629	—	—	—	708,629
Deferred income and other obligations	1,118,899	93,620	—	—	1,212,519
Notes and bonds payable	3,834,297	1,954,672	872,675	—	6,661,644
U.S. government refundable loan funds	39,678	—	—	—	39,678
<b>TOTAL LIABILITIES</b>	<b>7,153,347</b>	<b>3,253,665</b>	<b>1,263,242</b>	<b>(151,515)</b>	<b>11,518,739</b>
<b>NET ASSETS:</b>					
Unrestricted, including non-controlling interest attributable to SHC of \$63,803	20,475,957	3,304,125	1,873,422	(63,803)	25,589,701
Temporarily restricted	8,707,127	648,826	345,334	—	9,701,287
Permanently restricted	7,700,354	8,233	227,988	—	7,936,575
<b>TOTAL NET ASSETS</b>	<b>36,883,438</b>	<b>3,961,184</b>	<b>2,446,744</b>	<b>(63,803)</b>	<b>43,227,563</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 44,036,785</b>	<b>\$ 7,214,849</b>	<b>\$ 3,709,986</b>	<b>\$ (215,318)</b>	<b>\$ 54,746,302</b>



## CONSOLIDATING STATEMENTS OF FINANCIAL POSITION

At August 31, 2017 (in thousands of dollars)

	UNIVERSITY	SHC	LPCH	ELIMINATIONS	CONSOLIDATED
<b>ASSETS</b>					
Cash and cash equivalents	\$ 260,373	\$ 710,109	\$ 406,683	\$ (7,047)	\$ 1,370,118
Assets limited as to use	194,376	58,134	33,096	—	285,606
Accounts receivable, net	284,693	668,178	317,127	—	1,269,998
Receivables (payables) from SHC and LPCH, net	92,808	—	—	(92,808)	—
Prepaid expenses and other assets	96,210	201,447	87,093	(49,520)	335,230
Pledges receivable, net	1,356,535	90,008	162,325	(34,275)	1,574,593
Student loans receivable, net	70,906	—	—	—	70,906
Faculty and staff mortgages and other loans receivable, net	677,545	—	—	—	677,545
Investments at fair value, including securities pledged or on loan of \$341,412	33,297,493	1,632,390	904,681	7,047	35,841,611
Plant facilities, net of accumulated depreciation	5,623,283	2,869,346	1,730,108	—	10,222,737
Works of art and special collections	—	—	—	—	—
<b>TOTAL ASSETS</b>	<b>\$ 41,954,222</b>	<b>\$ 6,229,612</b>	<b>\$ 3,641,113</b>	<b>\$ (176,603)</b>	<b>\$ 51,648,344</b>
<b>LIABILITIES AND NET ASSETS</b>					
<b>LIABILITIES:</b>					
Accounts payable and accrued expenses	\$ 865,313	\$ 1,041,412	\$ 315,195	\$ (130,893)	\$ 2,091,027
Accrued pension and postretirement benefit obligations	564,090	117,568	20,717	—	702,375
Liabilities associated with investments	953,794	—	—	—	953,794
Deferred income and other obligations	871,729	—	—	—	871,729
Notes and bonds payable	3,954,141	1,566,064	881,137	—	6,401,342
U.S. government refundable loan funds	53,936	—	—	—	53,936
<b>TOTAL LIABILITIES</b>	<b>7,263,003</b>	<b>2,725,044</b>	<b>1,217,049</b>	<b>(130,893)</b>	<b>11,074,203</b>
<b>NET ASSETS:</b>					
Unrestricted, including non-controlling interest attributable to SHC of \$45,710	19,072,619	2,893,173	1,545,390	(45,710)	23,465,472
Temporarily restricted	8,273,483	603,251	651,545	—	9,528,279
Permanently restricted	7,345,117	8,144	227,129	—	7,580,390
<b>TOTAL NET ASSETS</b>	<b>34,691,219</b>	<b>3,504,568</b>	<b>2,424,064</b>	<b>(45,710)</b>	<b>40,574,141</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 41,954,222</b>	<b>\$ 6,229,612</b>	<b>\$ 3,641,113</b>	<b>\$ (176,603)</b>	<b>\$ 51,648,344</b>

**CONSOLIDATING STATEMENTS OF ACTIVITIES***For the year ended August 31, 2018 (in thousands of dollars)*

	UNIVERSITY	SHC	LPCH	ELIMINATIONS	CONSOLIDATED
<b>UNRESTRICTED NET ASSETS</b>					
OPERATING REVENUES:					
Student income:					
Undergraduate programs	\$ 368,383	\$ —	\$ —	\$ —	\$ 368,383
Graduate programs	374,857	—	—	—	374,857
Room and board	195,225	—	—	—	195,225
Student financial aid	(303,445)	—	—	—	(303,445)
<b>TOTAL STUDENT INCOME</b>	<b>635,020</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>635,020</b>
Sponsored research support:					
Direct costs - University	801,534	—	—	—	801,534
Direct costs - SLAC National Accelerator Laboratory	580,314	—	—	—	580,314
Indirect costs	273,679	—	—	—	273,679
<b>TOTAL SPONSORED RESEARCH SUPPORT</b>	<b>1,655,527</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>1,655,527</b>
Health care services:					
Net patient service revenue	—	4,677,929	1,546,805	(43,344)	6,181,390
Premium revenue	—	92,654	—	—	92,654
Physicians' services and support - SHC and LPCH, net	1,048,749	—	—	(1,048,749)	—
Physicians' services and support - other facilities, net	40,672	—	—	(12,438)	28,234
<b>TOTAL HEALTH CARE SERVICES</b>	<b>1,089,421</b>	<b>4,770,583</b>	<b>1,546,805</b>	<b>(1,104,531)</b>	<b>6,302,278</b>
<b>CURRENT YEAR GIFTS IN SUPPORT OF OPERATIONS</b>	<b>278,867</b>	<b>294</b>	<b>3,951</b>	<b>—</b>	<b>283,112</b>
Net assets released from restrictions:					
Payments received on pledges	138,704	3,928	—	—	142,632
Prior year gifts released from donor restrictions	51,892	(1,088)	5,139	—	55,943
<b>TOTAL NET ASSETS RELEASED FROM RESTRICTIONS</b>	<b>190,596</b>	<b>2,840</b>	<b>5,139</b>	<b>—</b>	<b>198,575</b>
Investment income distributed for operations:					
Endowment	1,239,746	382	14,187	—	1,254,315
Expendable funds pools and other investment income	253,642	850	—	—	254,492
<b>TOTAL INVESTMENT INCOME DISTRIBUTED FOR OPERATIONS</b>	<b>1,493,388</b>	<b>1,232</b>	<b>14,187</b>	<b>—</b>	<b>1,508,807</b>
<b>SPECIAL PROGRAM FEES AND OTHER INCOME</b>	<b>524,675</b>	<b>135,597</b>	<b>67,804</b>	<b>—</b>	<b>728,076</b>
<b>TOTAL OPERATING REVENUES</b>	<b>5,867,494</b>	<b>4,910,546</b>	<b>1,637,886</b>	<b>(1,104,531)</b>	<b>11,311,395</b>
OPERATING EXPENSES:					
Salaries and benefits	3,495,306	2,091,260	741,925	—	6,328,491
Depreciation	380,142	176,595	99,367	—	656,104
Other operating expenses	1,794,501	2,322,032	842,511	(1,104,531)	3,854,513
<b>TOTAL OPERATING EXPENSES</b>	<b>5,669,949</b>	<b>4,589,887</b>	<b>1,683,803</b>	<b>(1,104,531)</b>	<b>10,839,108</b>
<b>CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES</b>	<b>\$ 197,545</b>	<b>\$ 320,659</b>	<b>\$ (45,917)</b>	<b>\$ —</b>	<b>\$ 472,287</b>

**CONSOLIDATING STATEMENTS OF ACTIVITIES, Continued**  
*For the year ended August 31, 2018 (in thousands of dollars)*

	UNIVERSITY	SHC	LPCH	ELIMINATIONS	CONSOLIDATED
<b>UNRESTRICTED NET ASSETS (continued)</b>					
<b>CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES</b>	<b>\$ 197,545</b>	<b>\$ 320,659</b>	<b>\$ (45,917)</b>	<b>\$ —</b>	<b>\$ 472,287</b>
NON-OPERATING ACTIVITIES:					
Increase in reinvested gains	951,197	158,592	49,765	—	1,159,554
Donor advised funds, net	(6,489)	—	—	—	(6,489)
Current year gifts not included in operations	3,064	—	—	—	3,064
Equity and fund transfers, net	126,000	(96,157)	(29,843)	—	—
Capital and other gifts released from restrictions	162,511	309	352,979	—	515,799
Pension and other postemployment benefit related changes other than net periodic benefit expense	69,570	28,277	1,997	—	99,844
Transfer to permanently restricted net assets, net	(53,349)	—	—	—	(53,349)
Transfer to temporarily restricted net assets, net	(61,251)	—	—	—	(61,251)
Swap interest and change in value of swap agreements	8,168	48,043	—	—	56,211
Loss on extinguishment of debt	—	(47,613)	—	—	(47,613)
Non-controlling interest attributable to SHC	18,093	—	—	(18,093)	—
Other	(11,721)	(1,158)	(949)	—	(13,828)
<b>NET CHANGE IN UNRESTRICTED NET ASSETS</b>	<b>1,403,338</b>	<b>410,952</b>	<b>328,032</b>	<b>(18,093)</b>	<b>2,124,229</b>
<b>TEMPORARILY RESTRICTED NET ASSETS</b>					
Gifts and pledges, net	248,955	44,894	41,828	—	335,677
Increase in reinvested gains	493,660	3,179	28,244	—	525,083
Change in value of split-interest agreements, net	11,198	—	(3)	—	11,195
Net assets released to operations	(190,596)	(4,366)	(23,277)	—	(218,239)
Capital and other gifts released to unrestricted net assets	(162,511)	(309)	(352,979)	—	(515,799)
Gift transfers, net	(2,381)	2,177	204	—	—
Transfer from unrestricted net assets, net	61,251	—	—	—	61,251
Transfer from permanently restricted net assets, net	(22,730)	—	—	—	(22,730)
Other	(3,202)	—	(228)	—	(3,430)
<b>NET CHANGE IN TEMPORARILY RESTRICTED NET ASSETS</b>	<b>433,644</b>	<b>45,575</b>	<b>(306,211)</b>	<b>—</b>	<b>173,008</b>
<b>PERMANENTLY RESTRICTED NET ASSETS</b>					
Gifts and pledges, net	238,568	89	960	—	239,617
Increase in reinvested gains	27,885	—	—	—	27,885
Change in value of split-interest agreements, net	12,705	—	215	—	12,920
Transfer from unrestricted net assets, net	53,349	—	—	—	53,349
Transfer to temporarily restricted net assets, net	22,730	—	—	—	22,730
Other	—	—	(316)	—	(316)
<b>NET CHANGE IN PERMANENTLY RESTRICTED NET ASSETS</b>	<b>355,237</b>	<b>89</b>	<b>859</b>	<b>—</b>	<b>356,185</b>
<b>NET CHANGE IN TOTAL NET ASSETS</b>	<b>2,192,219</b>	<b>456,616</b>	<b>22,680</b>	<b>(18,093)</b>	<b>2,653,422</b>
Total net assets, beginning of year	34,691,219	3,504,568	2,424,064	(45,710)	40,574,141
<b>TOTAL NET ASSETS, END OF YEAR</b>	<b>\$ 36,883,438</b>	<b>\$ 3,961,184</b>	<b>\$ 2,446,744</b>	<b>\$ (63,803)</b>	<b>\$ 43,227,563</b>

## CONSOLIDATING STATEMENTS OF ACTIVITIES

For the year ended August 31, 2017 (in thousands of dollars)

	UNIVERSITY	SHC	LPCH	ELIMINATIONS	CONSOLIDATED
<b>UNRESTRICTED NET ASSETS</b>					
OPERATING REVENUES:					
Student income:					
Undergraduate programs	\$ 356,871	\$ —	\$ —	\$ —	356,871
Graduate programs	361,228	—	—	—	361,228
Room and board	186,565	—	—	—	186,565
Student financial aid	(286,851)	—	—	—	(286,851)
<b>TOTAL STUDENT INCOME</b>	<b>617,813</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>617,813</b>
Sponsored research support:					
Direct costs - University	786,866	—	—	—	786,866
Direct costs - SLAC National Accelerator Laboratory	584,635	—	—	—	584,635
Indirect costs	264,604	—	—	—	264,604
<b>TOTAL SPONSORED RESEARCH SUPPORT</b>	<b>1,636,105</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>1,636,105</b>
Health care services:					
Net patient service revenue	—	4,234,526	1,384,829	(44,845)	5,574,510
Premium revenue	—	80,647	—	—	80,647
Physicians' services and support - SHC and LPCH, net	986,184	—	—	(986,184)	—
Physicians' services and support - other facilities, net	37,137	—	—	(10,429)	26,708
<b>TOTAL HEALTH CARE SERVICES</b>	<b>1,023,321</b>	<b>4,315,173</b>	<b>1,384,829</b>	<b>(1,041,458)</b>	<b>5,681,865</b>
<b>CURRENT YEAR GIFTS IN SUPPORT OF OPERATIONS</b>	<b>324,523</b>	<b>160</b>	<b>5,667</b>	<b>—</b>	<b>330,350</b>
Net assets released from restrictions:					
Payments received on pledges	119,002	3,978	—	—	122,980
Prior year gifts released from donor restrictions	65,082	4,698	3,027	—	72,807
<b>TOTAL NET ASSETS RELEASED FROM RESTRICTIONS</b>	<b>184,084</b>	<b>8,676</b>	<b>3,027</b>	<b>—</b>	<b>195,787</b>
Investment income distributed for operations:					
Endowment	1,166,399	364	15,669	—	1,182,432
Expendable funds pools and other investment income	143,434	704	—	—	144,138
<b>TOTAL INVESTMENT INCOME DISTRIBUTED FOR OPERATIONS</b>	<b>1,309,833</b>	<b>1,068</b>	<b>15,669</b>	<b>—</b>	<b>1,326,570</b>
<b>SPECIAL PROGRAM FEES AND OTHER INCOME</b>	<b>508,899</b>	<b>129,324</b>	<b>77,666</b>	<b>—</b>	<b>715,889</b>
<b>TOTAL OPERATING REVENUES</b>	<b>5,604,578</b>	<b>4,454,401</b>	<b>1,486,858</b>	<b>(1,041,458)</b>	<b>10,504,379</b>
OPERATING EXPENSES:					
Salaries and benefits	3,301,485	1,986,360	659,637	(943)	5,946,539
Depreciation	364,857	154,423	66,635	—	585,915
Other operating expenses	1,711,188	2,079,736	773,292	(1,040,515)	3,523,701
<b>TOTAL OPERATING EXPENSES</b>	<b>5,377,530</b>	<b>4,220,519</b>	<b>1,499,564</b>	<b>(1,041,458)</b>	<b>10,056,155</b>
<b>CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES</b>	<b>\$ 227,048</b>	<b>\$ 233,882</b>	<b>\$ (12,706)</b>	<b>\$ —</b>	<b>\$ 448,224</b>

**CONSOLIDATING STATEMENTS OF ACTIVITIES, Continued**  
For the year ended August 31, 2017 (in thousands of dollars)

	UNIVERSITY	SHC	LPCH	ELIMINATIONS	CONSOLIDATED
<b>UNRESTRICTED NET ASSETS (continued)</b>					
<b>CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES</b>	<b>\$ 227,048</b>	<b>\$ 233,882</b>	<b>\$ (12,706)</b>	<b>\$ —</b>	<b>\$ 448,224</b>
NON-OPERATING ACTIVITIES:					
Increase in reinvested gains	1,375,450	166,326	58,801	—	1,600,577
Donor advised funds, net	68,021	—	—	—	68,021
Current year gifts not included in operations	4,090	—	—	—	4,090
Equity and fund transfers, net	87,760	(69,376)	(18,384)	—	—
Capital and other gifts released from restrictions	109,174	1,320	155	—	110,649
Pension and other postemployment benefit related changes other than net periodic benefit expense	5,855	6,182	(721)	—	11,316
Transfer to permanently restricted net assets, net	(50,490)	—	—	—	(50,490)
Transfer to temporarily restricted net assets, net	(67,369)	—	—	—	(67,369)
Swap interest and change in value of swap agreements	10,844	85,368	—	—	96,212
Non-controlling interest attributable to SHC	45,710	—	—	(45,710)	—
Contribution received in acquisition of LPFCH	—	—	109,794	—	109,794
Other	707	301	(2,982)	—	(1,974)
<b>NET CHANGE IN UNRESTRICTED NET ASSETS</b>	<b>1,816,800</b>	<b>424,003</b>	<b>133,957</b>	<b>(45,710)</b>	<b>2,329,050</b>
<b>TEMPORARILY RESTRICTED NET ASSETS</b>					
Gifts and pledges, net	291,606	28,541	67,428	—	387,575
Increase in reinvested gains	805,790	6,100	34,764	—	846,654
Change in value of split-interest agreements, net	9,189	—	884	—	10,073
Net assets released to operations	(184,084)	(9,904)	(24,363)	—	(218,351)
Capital and other gifts released to unrestricted net assets	(109,174)	(1,320)	(155)	—	(110,649)
Gift transfers, net	(625)	2,748	(2,123)	—	—
Transfer from unrestricted net assets, net	67,369	—	—	—	67,369
Transfer from permanently restricted net assets, net	1,811	—	—	—	1,811
Other	(3,144)	—	991	—	(2,153)
<b>NET CHANGE IN TEMPORARILY RESTRICTED NET ASSETS</b>	<b>878,738</b>	<b>26,165</b>	<b>77,426</b>	<b>—</b>	<b>982,329</b>
<b>PERMANENTLY RESTRICTED NET ASSETS</b>					
Gifts and pledges, net	228,392	250	14,256	—	242,898
Increase in reinvested gains	33,251	—	—	—	33,251
Change in value of split-interest agreements, net	(33,819)	—	400	—	(33,419)
Transfer from unrestricted net assets, net	50,490	—	—	—	50,490
Transfer to temporarily restricted net assets, net	(1,811)	—	—	—	(1,811)
Other	—	—	1,125	—	1,125
<b>NET CHANGE IN PERMANENTLY RESTRICTED NET ASSETS</b>	<b>276,503</b>	<b>250</b>	<b>15,781</b>	<b>—</b>	<b>292,534</b>
<b>NET CHANGE IN TOTAL NET ASSETS</b>	<b>2,972,041</b>	<b>450,418</b>	<b>227,164</b>	<b>(45,710)</b>	<b>3,603,913</b>
Total net assets, beginning of year	31,719,178	3,054,150	2,196,900	—	36,970,228
<b>TOTAL NET ASSETS, END OF YEAR</b>	<b>\$ 34,691,219</b>	<b>\$ 3,504,568</b>	<b>\$ 2,424,064</b>	<b>\$ (45,710)</b>	<b>\$ 40,574,141</b>

## CONSOLIDATING STATEMENTS OF CASH FLOWS

For the year ended August 31, 2018 (in thousands of dollars)

	UNIVERSITY	SHC	LPCH	ELIMINATIONS	CONSOLIDATED
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>					
Change in net assets	\$ 2,192,219	\$ 456,616	\$ 22,680	\$ (18,093)	\$ 2,653,422
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:					
Depreciation	380,142	176,595	99,367	—	656,104
Amortization of bond premiums and discounts	(14,896)	(3,839)	(2,846)	—	(21,581)
Provision for doubtful accounts for health care services	—	57,437	5,660	—	63,097
Losses on disposal of plant facilities	4,350	—	—	—	4,350
Net gains on investments	(2,683,987)	(123,731)	(38,216)	—	(2,845,934)
Change in fair value of interest rate swaps	(10,654)	(63,439)	—	—	(74,093)
Change in split-interest agreements	44,626	—	353	—	44,979
Investment income for restricted purposes	(12,413)	—	—	—	(12,413)
Gifts restricted for long-term investments	(232,520)	(37,958)	(71,032)	—	(341,510)
Equity and fund transfers, net	(123,619)	93,938	29,681	—	—
Gifts of securities and properties	(31,093)	—	—	—	(31,093)
Loss on extinguishment of debt	—	47,613	—	—	47,613
Other	32,140	1,909	—	—	34,049
Premiums received from bond issuance	—	76,138	—	—	76,138
Changes in operating assets and liabilities:					
Accounts receivable	(9,697)	(82,765)	(6,589)	—	(99,051)
Pledges receivable, net	(31,016)	2,684	13,767	—	(14,565)
Prepaid expenses and other assets	578	(13,877)	(18,095)	—	(31,394)
Accounts payable and accrued expenses	10,345	64,535	66,743	—	141,623
Accrued pension and postretirement benefit obligations	(45,537)	(50,772)	(1,474)	—	(97,783)
Deferred income and other obligations	18,566	93,620	—	—	112,186
<b>NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES</b>	<b>(512,466)</b>	<b>694,704</b>	<b>99,999</b>	<b>(18,093)</b>	<b>264,144</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>					
Additions to plant facilities, net	(1,133,180)	(474,735)	(271,391)	—	(1,879,306)
Change in assets limited as to use	194,376	58,134	33,096	—	285,606
Student, faculty and other loans:					
New loans made	(121,949)	—	—	—	(121,949)
Principal collected	69,831	—	—	—	69,831
Purchases of investments	(12,054,658)	(605,959)	(12,502)	17,987	(12,655,132)
Sales and maturities of investments	13,367,548	47,262	14,570	—	13,429,380
Change associated with repurchase agreements	246,599	—	—	—	246,599
Swap settlement payments, net	—	(15,393)	—	—	(15,393)
<b>NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES</b>	<b>568,567</b>	<b>(990,691)</b>	<b>(236,227)</b>	<b>17,987</b>	<b>(640,364)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>					
Gifts and reinvested income for restricted purposes	297,548	40,747	53,658	—	391,953
Equity and fund transfers from Hospitals	100,718	(70,875)	(29,843)	—	—
Proceeds from borrowing	293,471	954,200	—	—	1,247,671
Repayment of notes and bonds payable	(398,371)	(679,331)	(5,801)	—	(1,083,503)
Bond issuance costs and interest rate swaps	—	(6,783)	—	—	(6,783)
Contributions received for split-interest agreements	29,561	—	—	—	29,561
Payments made under split-interest agreements	(42,630)	—	—	—	(42,630)
Change in liabilities associated with investments	(342,969)	—	—	—	(342,969)
Other	11,993	176	—	—	12,169
<b>NET CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES</b>	<b>(50,679)</b>	<b>238,134</b>	<b>18,014</b>	<b>—</b>	<b>205,469</b>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>5,422</b>	<b>(57,853)</b>	<b>(118,214)</b>	<b>(106)</b>	<b>(170,751)</b>
Cash and cash equivalents, beginning of year	260,373	710,109	406,683	(7,047)	1,370,118
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 265,795</b>	<b>\$ 652,256</b>	<b>\$ 288,469</b>	<b>\$ (7,153)</b>	<b>\$ 1,199,367</b>
SUPPLEMENTAL DATA:					
Interest paid, net of capitalized interest	\$ 154,654	\$ 33,033	\$ 14,750	\$ —	\$ 202,437
Cash collateral received under security lending agreements	\$ 77,137	\$ —	\$ —	\$ —	\$ 77,137
Change in payables for plant facilities	\$ 75,031	\$ 111,562	\$ 10,615	\$ —	\$ 197,208

## CONSOLIDATING STATEMENTS OF CASH FLOWS

For the year ended August 31, 2017 (in thousands of dollars)

	UNIVERSITY	SHC	LPCH	ELIMINATIONS	CONSOLIDATED
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>					
Change in net assets	\$ 2,972,041	\$ 450,418	\$ 227,164	\$ (45,710)	\$ 3,603,913
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:					
Depreciation	364,857	154,423	66,635	—	585,915
Amortization of bond premiums and discounts	(15,147)	(1,583)	(2,202)	—	(18,932)
Provision for doubtful accounts for health care services	—	77,004	7,657	—	84,661
Gains on disposal of plant facilities	(4,247)	—	—	—	(4,247)
Net gains on investments	(3,377,819)	(162,143)	(68,576)	—	(3,608,538)
Change in fair value of interest rate swaps	(13,855)	(85,368)	—	—	(99,223)
Change in split-interest agreements	132,367	—	—	—	132,367
Investment income for restricted purposes	(30,733)	—	—	—	(30,733)
Gifts restricted for long-term investments	(324,742)	(21,989)	(92,085)	—	(438,816)
Equity and fund transfers, net	(87,135)	66,628	20,507	—	—
Gifts of securities and properties	(89,611)	—	—	—	(89,611)
Contribution received in acquisition of LPFCH	—	—	(109,794)	—	(109,794)
Other	13,986	—	—	—	13,986
Premiums received from bond issuance	—	—	29,069	—	29,069
Changes in operating assets and liabilities:					
Accounts receivable	(35,224)	(128,875)	(115,615)	—	(279,714)
Pledges receivable, net	1,458	1,422	76,673	—	79,553
Prepaid expenses and other assets	3,030	(10,919)	(7,376)	—	(15,265)
Accounts payable and accrued expenses	102,974	4,108	(1,378)	—	105,704
Accrued pension and postretirement benefit obligations	9,043	(7,790)	1,658	—	2,911
Deferred income and other obligations	214,351	—	—	—	214,351
<b>NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES</b>	<b>(164,406)</b>	<b>335,336</b>	<b>32,337</b>	<b>(45,710)</b>	<b>157,557</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>					
Additions to plant facilities, net	(780,710)	(635,550)	(383,719)	—	(1,799,979)
Change in assets limited as to use	121,513	177,654	(32,643)	—	266,524
Student, faculty and other loans:					
New loans made	(132,076)	—	—	—	(132,076)
Principal collected	63,187	—	—	—	63,187
Purchases of investments	(19,489,991)	(219,338)	(37,148)	38,663	(19,707,814)
Sales and maturities of investments	19,164,395	248,339	37,042	—	19,449,776
Change associated with repurchase agreements	(410,116)	—	—	—	(410,116)
Cash received in acquisition of LPFCH	—	—	13,290	—	13,290
<b>NET CASH USED FOR INVESTING ACTIVITIES</b>	<b>(1,463,798)</b>	<b>(428,895)</b>	<b>(403,178)</b>	<b>38,663</b>	<b>(2,257,208)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>					
Gifts and reinvested income for restricted purposes	347,653	55,899	73,839	—	477,391
Equity and fund transfers from Hospitals	80,249	(58,912)	(21,337)	—	—
Proceeds from borrowing	929,385	135,000	200,000	—	1,264,385
Repayment of notes and bonds payable	(217,579)	(18,708)	(5,695)	—	(241,982)
Bond issuance costs and interest rate swaps	(2,136)	(71)	(2,183)	—	(4,390)
Contributions received for split-interest agreements	15,730	—	—	—	15,730
Payments made under split-interest agreements	(39,750)	—	—	—	(39,750)
Change in liabilities associated with investments	134,900	—	—	—	134,900
Other	(99)	—	—	—	(99)
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>1,248,353</b>	<b>113,208</b>	<b>244,624</b>	<b>—</b>	<b>1,606,185</b>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(379,851)</b>	<b>19,649</b>	<b>(126,217)</b>	<b>(7,047)</b>	<b>(493,466)</b>
Cash and cash equivalents, beginning of year	640,224	690,460	532,900	—	1,863,584
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 260,373</b>	<b>\$ 710,109</b>	<b>\$ 406,683</b>	<b>\$ (7,047)</b>	<b>\$ 1,370,118</b>
<b>SUPPLEMENTAL DATA:</b>					
Interest paid, net of capitalized interest	\$ 128,374	\$ 45,439	\$ 9,728	\$ —	\$ 183,541
Cash collateral received under security lending agreements	\$ 348,783	\$ —	\$ —	\$ —	\$ 348,783
Change in payables for plant facilities	\$ 33,198	\$ (13,356)	\$ 17,104	\$ —	\$ 36,946

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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 the reasonable and necessary application, commitment, financing or similar fees and expenses charged, or reimbursement for administrative or other expenses incurred, by the Authority or the Trustee pursuant to the Loan Agreement or the Indenture.

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

*“Authorized Representative”* means, (1) with respect to the Authority, its Chair (or any Deputy), Executive Director or any other Person or Persons designated as an Authorized Representative of the Authority by a Certificate of the Authority signed by its Chair (or any Deputy) or Executive Director and (2) with respect to the Borrower, its Chief Financial Officer, its Treasurer, its Senior Associate Vice President of Finance 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 Treasurer or its Senior Associate Vice President of Finance and furnished to the Trustee. Such authorizations shall remain in effect until the Trustee has received a written notice to the contrary, accompanied by a new designation.

*“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,”* as the term is used in the Indenture and in this Appendix B, means the California Educational Facilities Authority Revenue Bonds (Stanford University), Series V-1, together with any additional Series of Bonds, authorized by, and at any time Outstanding pursuant to, the Indenture and, as the term is used in the forepart of this Official Statement, means only the California Educational Facilities Authority Revenue Bonds (Stanford University), Series V-1.

*“Borrower”* means The Board of Trustees of the Leland Stanford Junior University, a body duly exercising corporate powers and privileges pursuant to 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 Chair 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.

“*Fitch*” means Fitch Ratings, Inc., and its successors or assigns, and, if such entity 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 Authority following receipt of a Request of 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.

“*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 is a legal investment under the Act and 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 and retains fee from funds for services provided to the fund, (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, bank deposit products, trust accounts, overnight bank deposits, interest bearing 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 or bank deposit products including those with the Trustee and its affiliates, 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 it may from time to time be 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, Inc., and its successors or assigns, and, if such entity 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 with reference to Bonds (subject to the provisions of the Indenture), 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, 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 Series V-1 Bonds, the fifteenth day of the calendar month preceding such Interest Payment Date, whether or not such day is a Business Day, and, with respect to any Interest Payment Date for any additional Series of Bonds, the date or dates so indicated in the Supplemental Indenture for such Series.

“*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), 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 S&P Global Ratings, a business unit of Standard & Poor’s Rating Services, and its successors or assigns, or, if such entity 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.

“Series” when used with respect to the Bonds, means all the Bonds designated as being of the same series, authenticated and delivered in a simultaneous transaction, and any Bonds thereafter authenticated and delivered upon a transfer or exchange or in view of or in substitution for such Bonds.

“Series V-1 Bonds” means the California Educational Facilities Authority Revenue Bonds (Stanford University) Series V-1, authorized by, and at any time Outstanding pursuant to the Indenture.

“Supplemental Indenture” means any indenture duly authorized and entered into between the Authority and the Trustee, supplementing, modifying or amending the Indenture.

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

“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); 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 to be indemnified, held harmless and defended and rights to inspection and to receive notices, certificates and opinions, (iii) express rights to give approvals, consents or waivers, and (iv) the obligation of the Borrower to make deposits pursuant to the Tax Agreement). The Trustee shall be entitled to, and shall 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 V Project Construction Fund, a Stanford University TECP 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 V Project Construction Fund.* The moneys, if any, in the Stanford University Series V 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 of the Series V Project (which is described in the Indenture).

*Stanford University TECP Repayment Fund.* The moneys, if any, in the Stanford University TECP 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.

*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 V 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, if such Bonds are to be Variable Rate Bonds, the tender, remarketing and interest rate provisions 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 Series V-1 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 Series V-1 Bonds under the Indenture (allowing for such changes to such opinion as are necessary or appropriate to reflect the tax treatment of such Bonds); and

(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.

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.

## **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 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 and the Authority 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 and the Authority.

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 may be permitted with respect to Variable Rate Bonds), 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 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 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 Rate Bonds or (iii) both (i) and (ii); (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 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 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 (including any investment income credited to the Interest Account pursuant to the Indenture) for the payment of interest on the Bonds 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 (including any investment income credited to the Principal Account pursuant to the Indenture) for the payment of principal on the Bonds 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 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 Base Loan Payment or Additional Payment by its 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 all installments of Base Loan Payments payable under the Loan Agreement for the remainder of its term to be immediately due and payable; 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](http://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 April 4, 2019, 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 April 1, 2019 (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 V-1 (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 April 1, 2019 (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, 2019 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 April 1, 2014, 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, 2019 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, 2019, 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;
- (xvi) Incurrence of a financial obligation, as defined in the Rule, of the University, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the University, any of which affect security holders, if material; and
- (xvii) Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the University, any of which reflect financial difficulties.

(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. LLC, J.P. Morgan Securities LLC 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 V-1  
Name of Obligor: The Board of Trustees of the Leland Stanford Junior University  
Date of Issuance: April 4, 2019

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 435  
Sacramento, California 95814

California Educational Facilities Authority Revenue Bonds  
(Stanford University) Series V-1  

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 (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 \$441,830,000 aggregate principal amount of California Educational Facilities Authority Revenue Bonds (Stanford University) Series V-1 (the “Bonds”), issued pursuant to the Indenture, dated as of April 1, 2019 (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 April 1, 2019 (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, 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 the Leland Stanford Junior 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 the opinion is subject to a number of qualifications and limitations. We have also relied upon representations of the Borrower regarding the use of the facilities financed or refinanced with the proceeds of the Bonds in activities that are not considered unrelated trade or business activities of the Borrower within the meaning of Section 513 of the Code. We note that the opinion of counsel to the Borrower does not address Section 513 of the Code. 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, or use of the bond-financed or refinanced facilities in activities that are considered unrelated trade or business activities of the Borrower within the meaning of Section 513 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 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.
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 alternative minimum tax. 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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