Stanford University
Annual Financial Report

August 31, 2017 and 2016

Sapp Center for Science Teaching and Learning

Stanford’s long-empty historic Old Chemistry building reopened in the fall of 2016 as the Sapp Center for Science Teaching and Learning. As a center for undergraduate education and anchor for the future Biology Chemistry quad, the renovated building serves as a multidisciplinary instruction space for chemistry, biology, art and economics, among other subjects. Stanford estimates that around 4,000 students make use of the Sapp Center’s facilities.

Photograph: Linda A. Cicero / Stanford News Service

STANFORD UNIVERSITY
ANNUAL FINANCIAL REPORT

MANAGEMENT'S DISCUSSION AND ANALYSIS

CONSOLIDATED FINANCIAL HIGHLIGHTS

Stanford's FY17 financial results reflect the consolidated financial position and results of the University, Stanford Health Care (SHC) and Lucile Salter Packard Children's Hospital at Stanford (LPCH), including their respective controlled affiliates. Operating revenues exceeded expenses by $448 million, compared to $490 million in FY16. Net assets increased $3.6 billion to end the year at $40.6 billion. Stanford achieved these positive results through the generosity of its donors, solid investment performance and continued growth in health care services.

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 $33 million and $77 million in support of SHC and LPCH, respectively, represents contributions from more than 75,000 donors. These results reflect our donors' ongoing commitment to Stanford's mission.

The generosity of Stanford's donors is integral to advancing the University's mission. Many of these gifts are restricted by donors for specific programs and purposes. Our donors make it possible to provide financial aid to our undergraduate and graduate students, steadily improve the quality and breadth of our academic programs, and update and expand the physical infrastructure of the University, SHC and LPCH.

Investment Performance

Total consolidated investments at August 31, 2017 were $35.8 billion, compared to $31.3 billion at August 31, 2016. Consolidated investment returns in FY17 were $3.9 billion, resulting from investment returns in both the Merged Pool (MP), which is the University's primary investment vehicle, and income-generating properties on Stanford's lands.

Health Care Services

Stanford Medicine, comprising Stanford's School of Medicine (SOM), SHC and LPCH, continues to focus on precision health, personalized health care that empowers people to lead healthy lives.

Consolidated health care services represented approximately 54% of consolidated revenues in FY17, which have grown at a five-year compound annual rate of approximately 12%. 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 University's, SHC's and LPCH's financial position, financial results and operations.

UNIVERSITY

FY17 net assets increased 9% to $34.7 billion compared to $31.7 billion in the prior year. The University's endowment grew by $2.4 billion after distributing $1.2 billion to support operations. The endowment ended the year at $24.8 billion.

UNIVERSITY OPERATING RESULTS

The *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 and research, and the SOM's patient care.

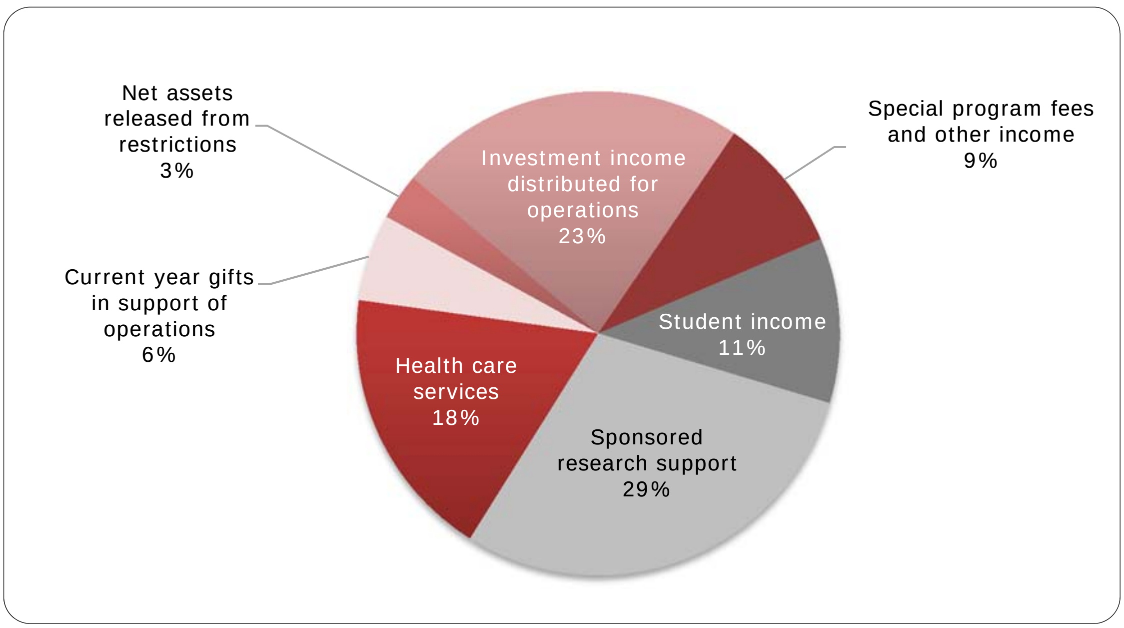
The University ended the year with a surplus from operating activities of $227 million, compared to a FY16 surplus of $303 million. In FY17, operating expenses increased $463 million or 9%, outpacing the operating revenue increase of $387 million or 7%. FY17 operating margin was unfavorably impacted by lower royalty revenues resulting from the expiration of a significant patent, lower payout from expendable funds (see the *Total Investment Income Distributed for Operations* section), and higher interest expense from the FY16 and FY17 bond issuances.

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

UNIVERSITY OPERATING REVENUES

FY17 operating revenues of $5.6 billion were derived from diverse sources, as shown in Figure 1.

FIGURE 1
UNIVERSITY OPERATING REVENUES

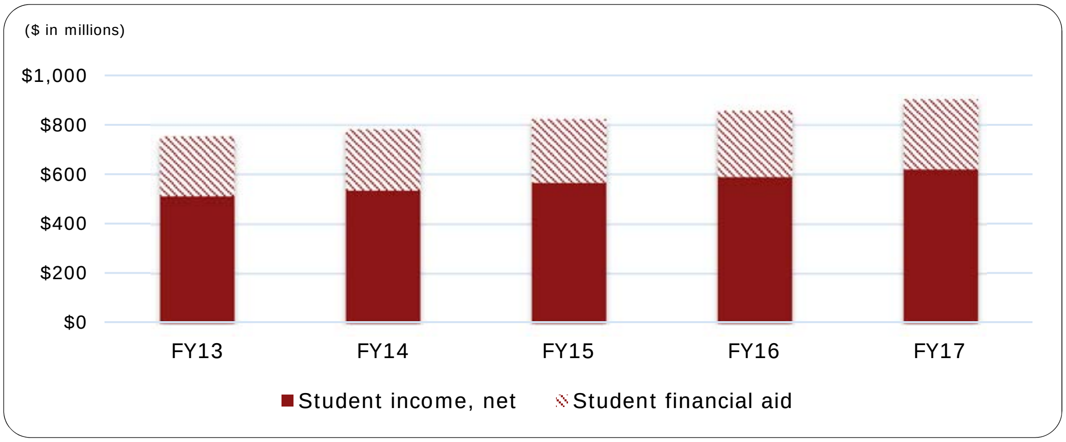


Student Income

Total student income, which represents 11% of University operating revenues, increased 5% to $618 million in FY17. 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

Tuition revenue supports many of the University's core academic programs and administrative functions, including portions of the undergraduate financial aid program, faculty and staff salaries, Stanford's two dozen libraries, and student services.

Revenues from student tuition and fees before the deduction for student financial aid increased by $35 million in FY17 primarily as a result of undergraduate and graduate tuition rate increases of 3.5% and higher graduate enrollments.

Student Room and Board

Revenues from room and board increased 7% in FY17 due to an increase in room and board rates of 3.5%, an increase in housing from the opening of the Meier and Norcliffe Halls at Lagunita Court for undergraduates and Highland Hall for graduate students, and from Stanford's off-campus graduate housing program. The University continues to increase its capacity to house more students on campus. 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 admission process for undergraduate students from the United States is need-blind, which means that students are admitted irrespective 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 are not expected to pay tuition. Those with incomes below $65,000 and typical assets receive enough scholarship funds to cover tuition, room and board, and other expenses. In FY17, approximately 46% of undergraduates were awarded need-based financial aid from Stanford.

- Graduate student financial aid and other support is awarded based on academic merit and the availability of financial aid. In the face of diminishing federal support, Stanford has increased its support for graduate students. In FY17, approximately 78% of graduate students received some form of financial support from Stanford.

The University provides financial assistance to students in the form of scholarships, fellowships, and stipends, as well as teaching and research assistantships. Total student financial aid and other graduate support for FY17 and FY16 is as follows:

($ in millions)	FY17	FY16
Student Financial Aid		
Undergraduate	$ 174	$ 163
Graduate	113	107
Total Student Financial Aid	287	270
Other Graduate Support		
Stipends	102	97
Assistantships (research and teaching)	110	103
Allowance for tuition (for assistantship recipients)	87	82
Total Other Graduate Support	299	282
Total Student Financial Aid and Other Graduate Support	**$ 586**	**$ 552**

FY17 undergraduate aid and graduate fellowships of $287 million represent an increase of 6% over the prior year and are included in “Student Financial Aid”, offsetting “Student Income” in the *Consolidated Statements of Activities*. For FY17, the University also provided other graduate student support in the form of stipends of $102 million, and teaching and research assistantships and related allowances for tuition of $197 million.

During FY17, sources of the total $586 million of student financial aid and graduate support included approximately $212 million in payout from restricted endowment funds, $216 million from unrestricted University funds (including unrestricted endowment funds) and approximately $158 million from grants and contracts.

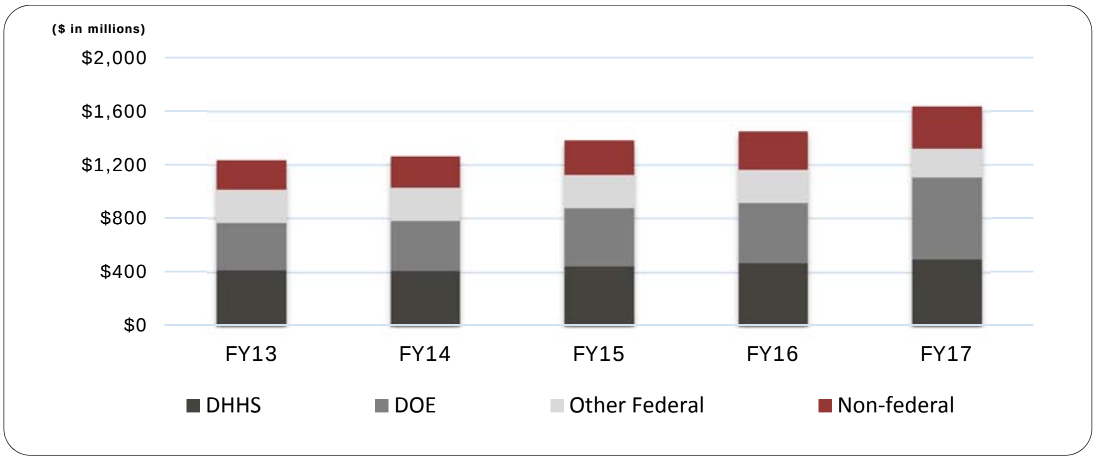
Sponsored Research Support

FY17 sponsored research support increased $183 million or 13% to $1.6 billion. This represents 29% of the University's operating revenues, and is the largest source of operating revenue for the University. Sponsored research support for SLAC National Accelerator Laboratory (SLAC) was $585 million in FY17, which included $301 million for ongoing support of research operations and $284 million of capital expenditures for construction of new facilities and instruments. Excluding SLAC capital expenditures from both FY17 and FY16, sponsored research support increased by 5%.

The U.S. Department of Energy (DOE) provided substantially all of the sponsored research support for SLAC. FY17 included $232 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 revolutionary X-ray free-electron laser that first became operational in October 2009.

FIGURE 3

UNIVERSITY SPONSORED RESEARCH SUPPORT



Approximately 81% of the University's sponsored research support (including support for SLAC) is received directly or indirectly from the federal government (See Figure 3). The Department of Health and Human Services (DHHS) provided support of $496 million in FY17 compared to $468 million in the prior year, primarily through the National Institutes of Health. Most of these funds support research within the University's SOM.

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 facility 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 FY17, the amount of federal and non-federal indirect cost recovery increased by 5% to $265 million.

Health Care Services

FY17 health care services revenue represented 18% of University operating revenues, increasing $117 million (13%) to $1.0 billion. This increase primarily reflects increased services at higher rates performed by the University's physicians for SHC and LPCH.

SOM faculty serve as physicians for the Hospitals. Clinical services are billed and collected by the Hospitals, and a portion is remitted to the University as payment for these physician services. In addition, the Hospitals pay the University for other essential services such as medical direction and various infrastructure and administrative services. Health care services revenues of $986 million represent the net value of services provided between the University and the Hospitals; these amounts are eliminated in consolidation. The remaining $37 million in health care services revenue is for services provided to other health care systems, primarily the Veterans Affairs Palo Alto Health Care System and Santa Clara Valley Medical Center.

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

Current Year Gifts in Support of Operations

Current year gifts in support of operations increased nearly 30% to $325 million in FY17. See *The University's Gifts and Pledges* section below for more information.

Net Assets Released from Restrictions

Net assets released from restrictions, which consisted primarily of pledge payments and gifts released from donor restrictions, increased slightly compared to the prior year.

THE UNIVERSITY'S GIFTS AND PLEDGES

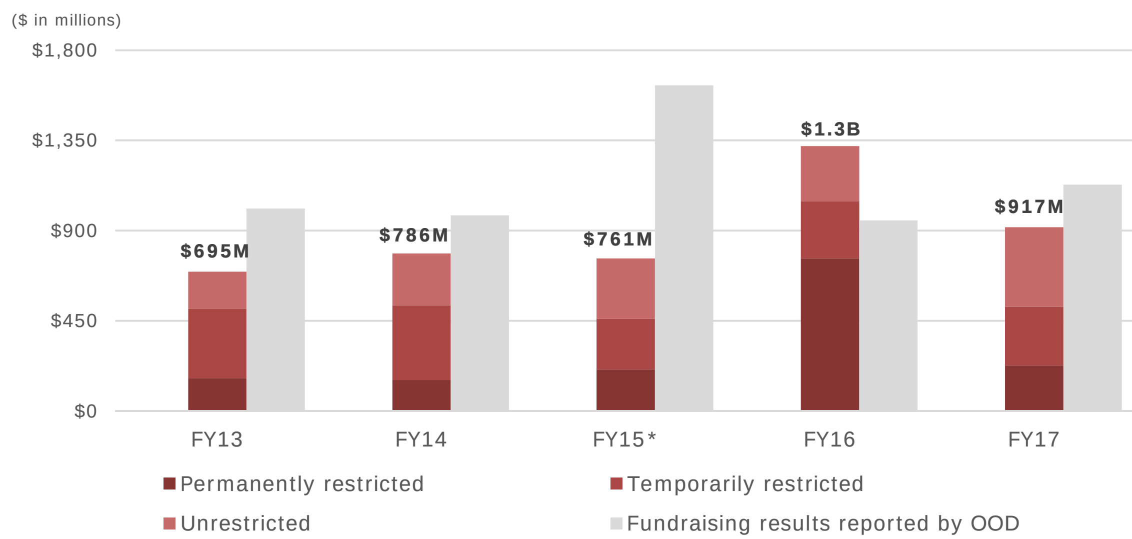
Donations from the University's donors are a key source of funding for the University's current operations as well as capital projects and new endowments. The majority of the University's gifts and pledges are restricted by donors for specific purposes. The University has both legal and fiduciary obligations to use the funds according to the donor's restrictions, which guide how they are reported in the financial statements. In FY17, current year gifts in support of operations were $325 million, and were recorded in the operating section of the *Statement of Activities*. In addition, gifts and pledges of $592 million were recorded in the non-operating section of the *Statements of Activities*, bringing the FY17 total University gifts and pledges recorded in the University's financial statements to $917 million.

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. In addition, the University's *Statement 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 FY17, OOD reported gifts benefiting the University, SHC and LPCH of $1.1 billion. Figure 4 reflects the gifts and pledges in the *Statement of Activities* as well as the fundraising results reported by OOD.

FIGURE 4

GIFTS AND PLEDGES: STATEMENTS OF ACTIVITIES AND FUNDRAISING RESULTS



*FY15 amount reported by OOD includes $626 million in works of art and special collections

Total Investment Income Distributed for Operations

The University distributes investment income for use in operations according to policies approved by the Board of Trustees (Board). Total investment income distributed for operations was $1.3 billion in FY17, with endowment payout of $1.2 billion and the remainder from the Expendable Funds Pool (EFP) and other sources. This revenue source represented 23% of University operating revenues in FY17, the University's second highest source of operating revenues. 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 so that the endowment can continue to support the University in perpetuity.

Endowment Income Distributed for Operations

Endowment income distributed for operations (also referred to as endowment payout) increased 3% to $1.2 billion in FY17. This includes payout from the University's MP based on a Board approved formula, and income received from endowment real estate and other investments not included in the MP. 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 FY17.

As shown in Figure 6, 77% 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 used to support these same activities and other critical strategic priorities.

FIGURE 5

UNIVERSITY ENDOWMENT PAYOUT

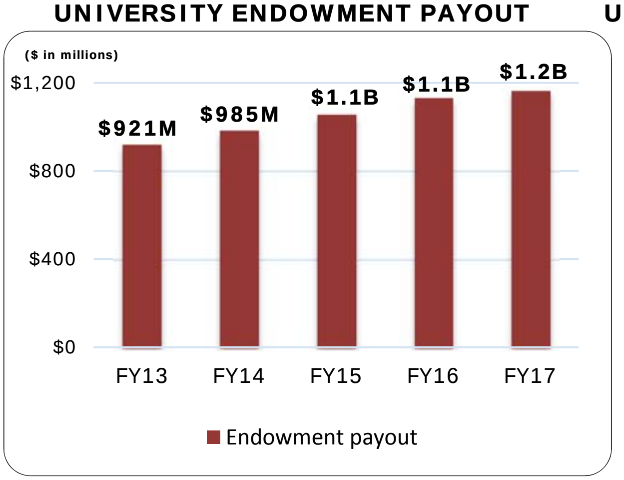
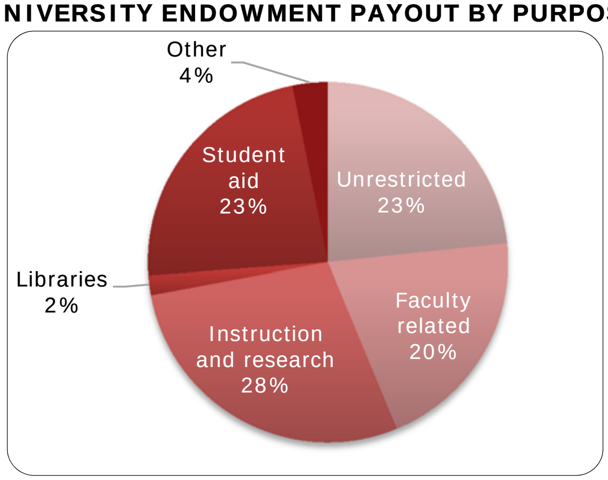


FIGURE 6

UNIVERSITY ENDOWMENT PAYOUT BY PURPOSE



Expendable Funds Pool and Other Investment Income Distributed for Operations

EFP and other investment income distributed for operations was $143 million in FY17, compared to $190 million in FY16. This category primarily includes the payout to operations from the EFP and Endowment Income Funds Pool (EIFP), the principal investment vehicles for the University's expendable funds. See *Note 7* to the FY17 *Consolidated Financial Statements.*

The EFP policy provides a variable payout to operations based on the prior year's investment returns. Payout on the EFP in FY17 was $65 million less than the prior year due primarily to weak investment returns in FY16. EFP payout should return to normal levels in FY18 based on stronger FY17 investment returns.

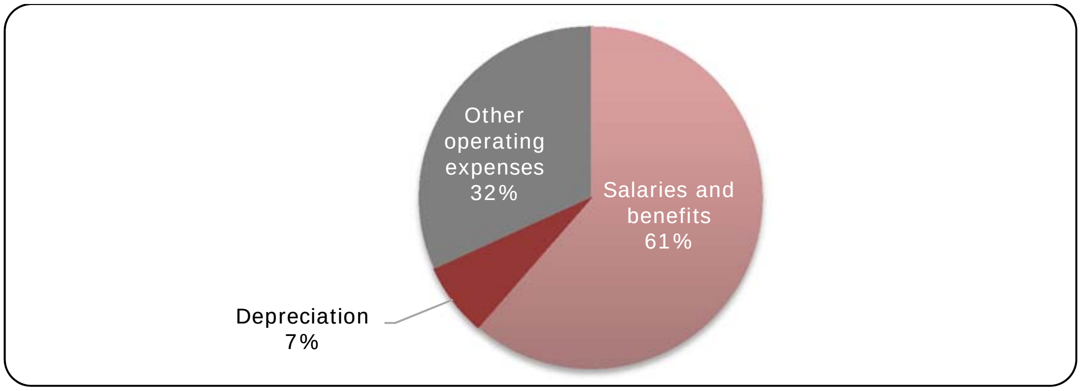
The EIFP holds previously distributed but unspent endowment payout. These amounts are held, for instance, until there is adequate funding to support a program, scholarship or professorship. These amounts are invested in highly liquid instruments in order to preserve the principal balance. Earnings on 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 $463 million, or 9%, to $5.4 billion in FY17. 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 7% in FY17 to $3.3 billion. The increase resulted from a combination of factors including additional headcount growth of almost 3% to support new programs and sponsored research activities, particularly within the SOM, salary programs designed to maintain Stanford's competitive position, and higher benefit costs.

Depreciation expense increased by 5% to $365 million in FY17 from $346 million in FY16. The increase resulted from buildings recently placed in service as described in the *Capital Projects* section below.

Other operating expenses increased by 16% to $1.7 billion in FY17. The increase resulted primarily from expenses for sponsored research support at both the University and SLAC, and interest expense resulting from the FY16 and FY17 bond issuances. Excluding SLAC construction expenditures and interest on these bond issuances, other operating expenses would have increased by 7%.

UNIVERSITY FINANCIAL POSITION

Total University assets increased $4.2 billion in FY17 to end the year at $42.0 billion. Total University liabilities increased $1.2 billion to $7.3 billion, and net assets increased $3.0 billion to $34.7 billion.

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. The University continues to refine its investment strategy to better manage its near-term liquidity needs and longer term investment objectives.

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 this pool is to preserve the principal value of the portfolio while meeting the liquidity needs of the University.

The Merged Pool (MP) is the primary investment pool in which endowment and other long-term funds are invested. The MP maintains sufficient liquidity to distribute the annual endowment payout that supports expenditures, and to meet call obligations associated with limited partnership investments.

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. The entire balance of the EIFP is invested in the STIP.

In FY17, the University created the Intermediate Pool (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 $500 million are available when needed.

Cash and Cash Equivalents

At August 31, 2017, the University's cash and cash equivalents (as defined in *Note 1* to the FY17 *Consolidated Financial Statements*) decreased by $380 million to $260 million. This decrease was primarily due to the use of bond proceeds on capital projects, and EFP and EIFP funds invested in cash vehicles with original maturities over 90 days, which are categorized as investments in the *Consolidated Statements of Financial Position*. At August 31, 2017, there was $1.3 billion in cash and short-term investments in the University's investments providing liquidity primarily for payout and MP needs. See *Notes 6 and 7* to the FY17 *Consolidated Financial Statements*.

Assets Limited as to Use

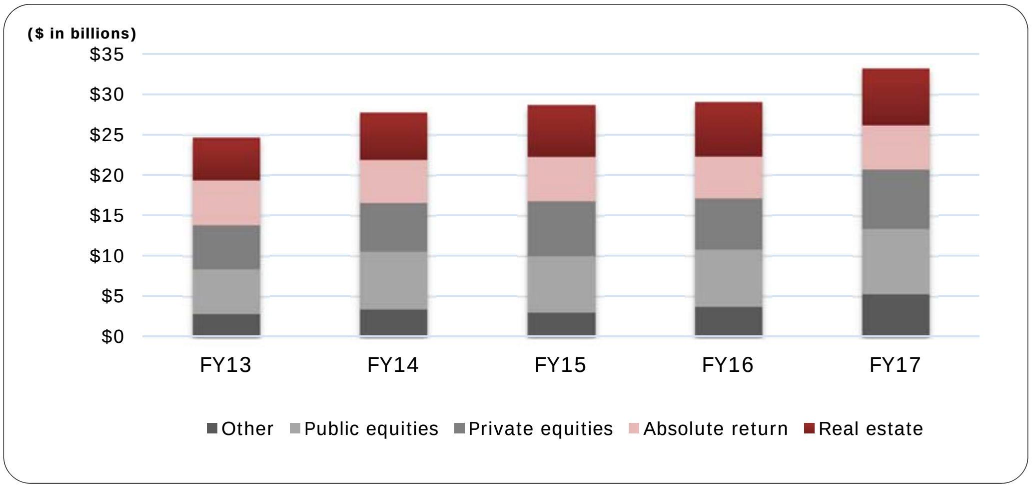
Assets limited as to use consist primarily of proceeds of tax-exempt bonds issued for the benefit of the University and limited by the terms of indentures to use for qualified capital projects. This amount decreased by $122 million to $194 million as the proceeds from tax-exempt bonds were spent on the University's eligible capital projects during the year.

Investments

University investments at August 31, 2017 were $33.3 billion. Investments by asset class are shown in Figure 8.

FIGURE 8

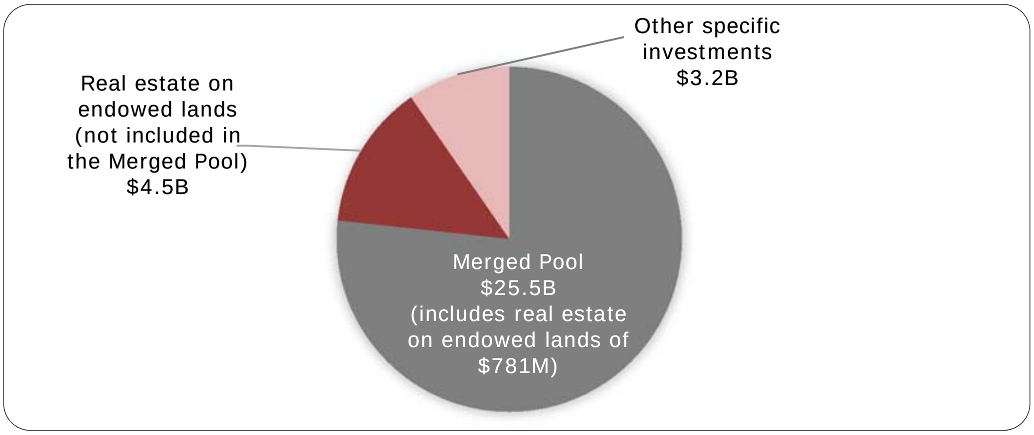
UNIVERSITY INVESTMENTS BY ASSET CLASS



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 INVESTMENTS BY CATEGORY



Investments in MP

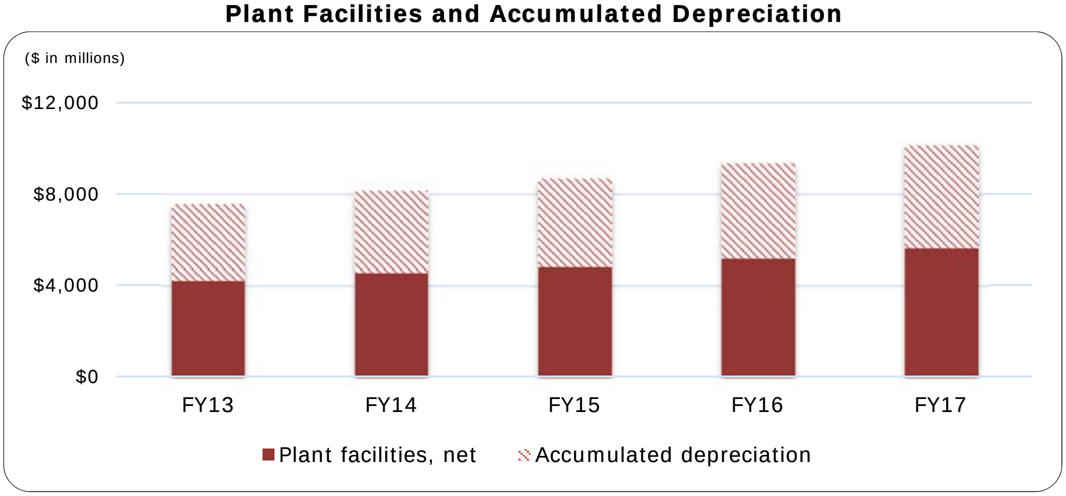
$25.5 billion of the University's investments was held in the MP at August 31, 2017. The majority of the University's endowment assets are invested in the MP, as well as a majority of the EFP and capital reserves from SHC and LPCH. The MP is a diversified portfolio of actively managed public and private 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 Board of Trustees. 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 of endowed lands, including the Stanford Research Park, is designated for the production of income by the Board of Trustees. As of August 31, 2017, $5.3 billion of real estate investments (including $781 million in the MP) are located on these lands. In FY17, these properties (including MP real estate) generated $131 million in income, net of expenses, and appreciated in value by $404 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 have 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 $3.2 billion of investments includes a portion of the EFP, the EIFP, IPool and 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 FY17, the University invested $814 million in capital projects, bringing gross plant facilities (before accumulated depreciation) to $10.1 billion. Plant facilities, net of accumulated depreciation, increased $455 million to $5.6 billion, as shown in Figure 10.

FIGURE 10
Plant Facilities and Accumulated Depreciation



The University completed several significant projects in FY17, as it continues to invest in its academic infrastructure to facilitate teaching and research. The Sapp Center for Science Teaching and Learning opened in the historic Old Chem building. As a center for undergraduate education and anchor for the future Biology Chemistry Quad, the Sapp Center will launch a new era for interdisciplinary science education and research at Stanford by encouraging collaboration across various disciplines. The Roble Field Parking Structure opened, providing 1,162 parking spaces under the Roble Recreation Field. Lastly, Kingscote Gardens was constructed in 1917, and its renovation was completed in time to celebrate its 100th birthday. In addition, the David and Joan Traitel Building at the Hoover Institution (opened in September 2017), provides added capacity in both office and conferencing facilities to meet its demand for public policy research and education.

Construction continued on almost 200 projects, including the following projects with budgets greater than $100 million. 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 new Stanford ChEM-H (Chemistry, Engineering and Medicine for Human Health) and the Stanford Neurosciences Institute complex will house an emerging interdisciplinary research institute and is 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 synergistic mix of disciplines, research labs and leading edge translational studies. Stanford in Redwood City phase 1'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.

Approximately half of the University's FY17 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 is expected to have 2,431 new graduate beds, resulting in an overall gain of 2,020 net new beds and 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 or residential units proximate to, or within easy transit of, campus. During FY17, the Colonnade apartment community in Los Altos was purchased under this initiative and provides 167 rental apartments near the campus.

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 is not an obligor or guarantor with respect to any debt obligations of SHC or LPCH, nor are SHC or LPCH obligors or guarantors with respect to any debt obligations of the University, or each other.

During FY17, the University issued $750 million in taxable debt to finance various facilities and infrastructure and to achieve long-term savings in interest costs. The debt was issued with a yield to maturity of 3.65% and matures in 2048. In addition, the University has $500 million of unsecured revolving credit facilities, of which $33 million has been drawn down as of August 31, 2017.

Total debt increased $684 million to $4.0 billion as of August 31, 2017. During FY17, Standard and Poor's, Moody's and Fitch affirmed the University's debt ratings in the highest rating categories for short and long-term debt.

Net Assets

The University's net assets are classified as unrestricted, temporarily restricted or permanently restricted. See *Note 1* to the FY17 *Consolidated Financial Statements*. As previously noted, FY17 net assets increased 9% to $34.7 billion compared to $31.7 billion in the prior year. The increase of $3.0 billion resulted from investment gains of $2.2 billion, non-operating gifts and pledges, net of $592 million (including donor-advised gifts, net) and operating income of $227 million.

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, while preserving the purchasing power of the endowment, after inflation, for future generations of students and scholars. Many of these funds are designated by donors for specific purposes. Endowment funds are designed to support programs in perpetuity, 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 $586 million of student financial aid and graduate support comes from endowment payout.

At August 31, 2017, the endowment totaled $24.8 billion (See Figure 11) and represented approximately 71% 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. Approximately 15% of the University's endowment is invested in real estate on Stanford's lands, including the Stanford Research Park.

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 5.2% for FY17 and 5.1% for FY16.

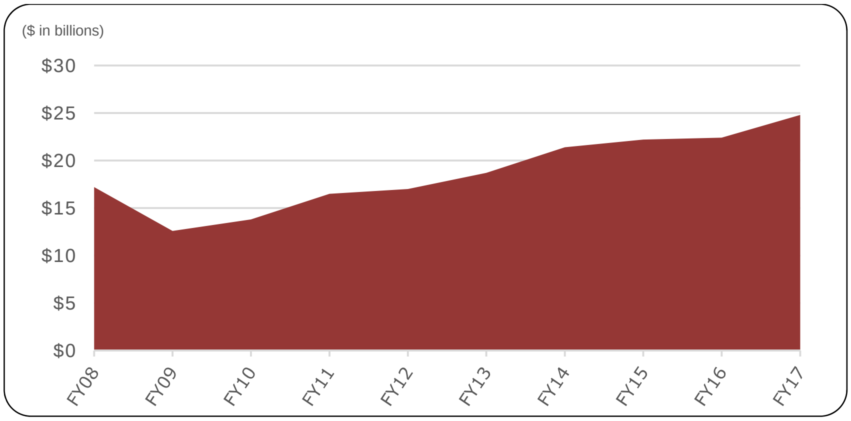
The Board is responsible for determining endowment payout with the aim of balancing current and future needs of the University. For the majority of endowment invested in the MP, the target payout rate is 5.5%. The actual payout amount is determined by applying a smoothing rule designed to mitigate the 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 represented by 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 FY17 *Consolidated Financial Statements*.

In FY11, SHC and LPCH received local government approval to rebuild and expand their principal facilities. Construction is projected to be completed in 2017 for LPCH and 2019 for SHC. These improvements will assure that SHC and LPCH have additional inpatient capacity in modern, technologically-advanced and patient-centered facilities, and meet state-mandated earthquake safety standards. The total estimated cost, inclusive of contingencies, is approximately $2.1 billion for SHC and exceeds $1.2 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 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. 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

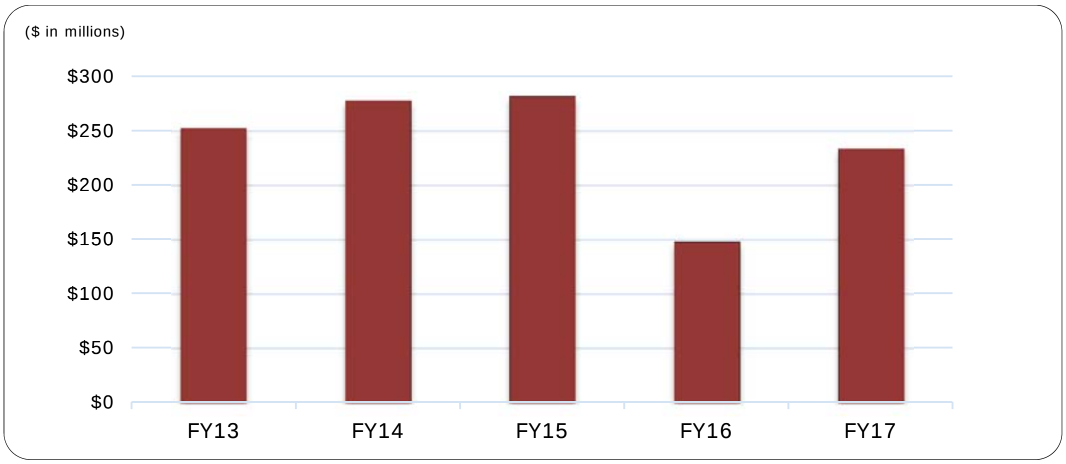
Stanford Health Care ("SHC") experienced positive financial results in FY17. SHC's results benefited from its operating performance and fundraising. The financial results reflect the consolidation of SHC and its subsidiaries.

SHC FINANCIAL HIGHLIGHTS

Net assets increased $450 million to end the year at $3.5 billion. Operating revenues exceeded operating expenses by $234 million, or 5%, compared to $148 million in FY16. As shown in Figure 12, the change in net assets from operating activities ("operating margin") increased compared to prior years, primarily due to cost management initiatives.

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 patient care. FY17 operating revenues increased 9% compared to an increase in operating expenses of 7% during the same period. Revenues grew more than expenses mainly due to renewed focus to grow strategically, such as the March 2017 opening of SHC – Emeryville (see the *Capital Projects* section), while implementing cost reduction initiatives. In addition, SHC continues to market its two health plans: SHC Advantage, a Medicare health plan offered to Santa Clara County residents, and increased membership in SHC Alliance, a benefit plan that allows University employees, 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

FY17 operating revenues were $4.5 billion, a 9% increase over FY16.

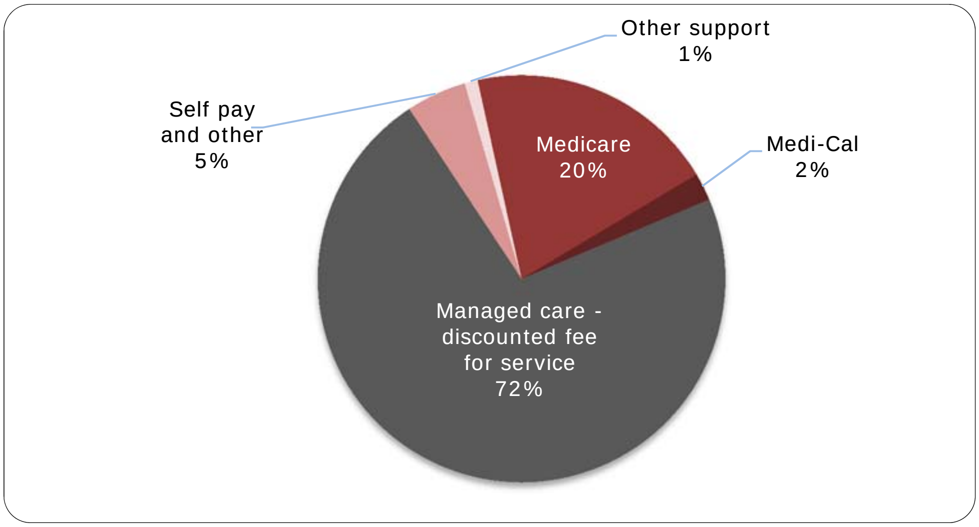
Health Care Services Revenue

FY17 health care services revenue (including capitation/premium revenue) less doubtful accounts increased $350 million, or 9%, from FY16 to $4.3 billion and represented 97% of operating revenues.

Patient care revenue consists of revenue from patient and third-party payers and comprises nearly all of SHC's health care services revenue. Patient care revenue by major payer, net of contractual allowances (but before provision for doubtful accounts), is shown in Figure 13.

FIGURE 13

SHC PATIENT CARE REVENUE



Inpatient and outpatient, which represented 42% and 58% of net patient revenues (including capitation / premium revenue), respectively, grew significantly due to strong volume growth in multiple areas, such as operating rooms, emergency department, pharmacy, cath angio, imaging, clinical labs and other ambulatory care services.

Other Operating Revenues

Other operating revenues, which include revenues from various related entities and outreach clinical activities, increased 5% to $129 million.

Net Assets Released from Restrictions

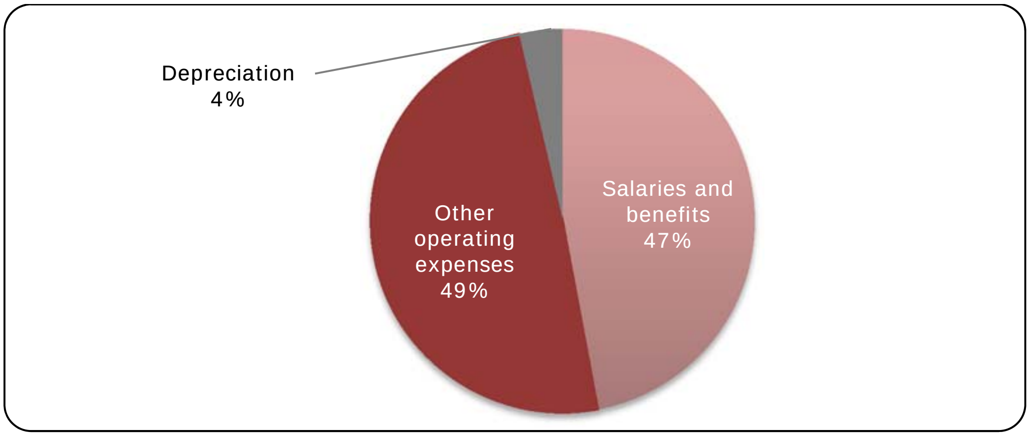
Net assets released from restrictions for use in operations was $9.9 million in FY17 compared to $9.4 million in FY16.

SHC OPERATING EXPENSES

Total expenses increased $271 million, or 7%, to $4.2 billion in FY17, primarily due to higher 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 47% of SHC's total expenses, depreciation expense was 4%, and all other operating expenses represented 49%.

- Salaries and benefits increased 7% in FY17 to $2.0 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 13% to $155 million in FY17 from $136 million in FY16. The increase resulted from buildings and equipment recently placed in service, such as the SHC – Emeryville, and a full year of service for the Stanford Neuroscience Health Center.

- Other operating expenses increased by 6% to $2.1 billion for FY17. The majority of this increase is purchased services related to payments to the University under a revised inter-entity agreement with the SOM to provide high quality patient care, support renewed focus on the clinical enterprise, and create a more cohesive and coordinated strategic plan. In addition, supplies expense increased by 10% to $586 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 $472 million in FY17 to end the year at $6.2 billion. Total SHC liabilities remained the same as FY16 at $2.7 billion.

Unrestricted Cash and Investments

Unrestricted cash and investments increased to $2.3 billion in FY17 from $2.1 billion at the end of FY16.

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 FY17, SHC invested $636 million in capital projects, bringing property and equipment, net of accumulated depreciation, to $2.9 billion, a $467 million increase from FY16.

The majority of the FY17 spending was for the New Stanford Hospital (to meet State-mandated earthquake safety standards, and provide modern, technologically-advanced hospital facilities), expansion of healthcare services in Redwood City, and SHC - Emeryville (state-of-the-art building that brings access to Stanford Medicine primary care, specialty care, diagnostics, and procedures to a convenient East Bay location).

Debt

Total debt, including the current portion, was $1.6 billion as of August 31, 2017.

A combination of fixed and variable rate debt of varying maturities is used to fund SHC's mission. Tax-exempt bonds with fixed interest rates account for 65% of the total, while the remaining 35% consists of tax-exempt bonds and a revolving credit facility with variable rates. At August 31, 2017, there was $135 million outstanding on the revolver. This was paid down in September 2017.

Swap agreements (included in other long-term liabilities) had a fair market value of $246 million at the end of FY17. The swap liability decreased by $85 million in FY17 mainly due to the rise in interest rates.

In September and October 2016, Standard & Poor's, Moody's Investors Service and Fitch Ratings affirmed their previous long-term 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*. FY17 net assets increased $450 million to $3.5 billion. SHC's operating surplus of $234 million, an increase of $166 million on investments (majority from the University MP), and an increase of $85 million on swap valuations, was partially offset by net transfers to the University of $69 million, of which the majority was funding for the Center for Academic Medicine 1 (CAM 1) building and parking structure (part of renewed efforts on clinical enterprise), and academic grants. Temporarily restricted net assets increased by $26 million to $603 million in large part due to fundraising commitments for the New Stanford Hospital, while permanently restricted net assets increased modestly by $250 thousand from contributions.

LUCILE SALTER PACKARD CHILDREN'S HOSPITAL AT STANFORD

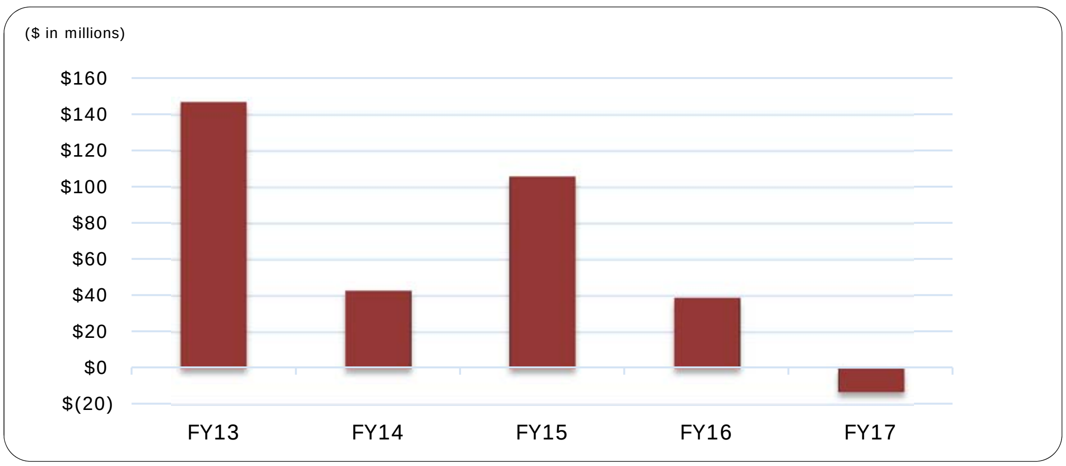
The financial results reflect the consolidation of LPCH and its subsidiaries. LPCH became the sole member in Lucile Packard Foundation for Children's Health (LPFCH) effective September 1, 2016. See *Note 1* to the University's *Consolidated Financial Statements.*

LPCH FINANCIAL HIGHLIGHTS

Net assets at August 31, 2017 were $2.4 billion, reflecting an increase of $227 million over FY16. However, operating revenues were lower than operating expenses by $13 million in FY17, compared to a positive operating margin of $39 million in FY16. In the first half of FY17, volumes were down and LPCH served a higher population of patients supported by Medi-Cal contracts. In addition, FY17 operating results experienced pressure due to an increase of 10% in operating expenses over FY16 primarily related to higher personnel costs, physician payments to the University's SOM and non-capitalizable costs related to bringing the Renewal Project live. In the second half of the year, benefitting from program growth and outreach, volumes were stronger and patients supported by Medi-Cal contracts were back to a more normalized range. Additionally, a direct focus on cost containment helped to reduce costs during that period. 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 $13 million in FY17, as compared to income from operations of $39 million in FY16.

LPCH OPERATING REVENUES

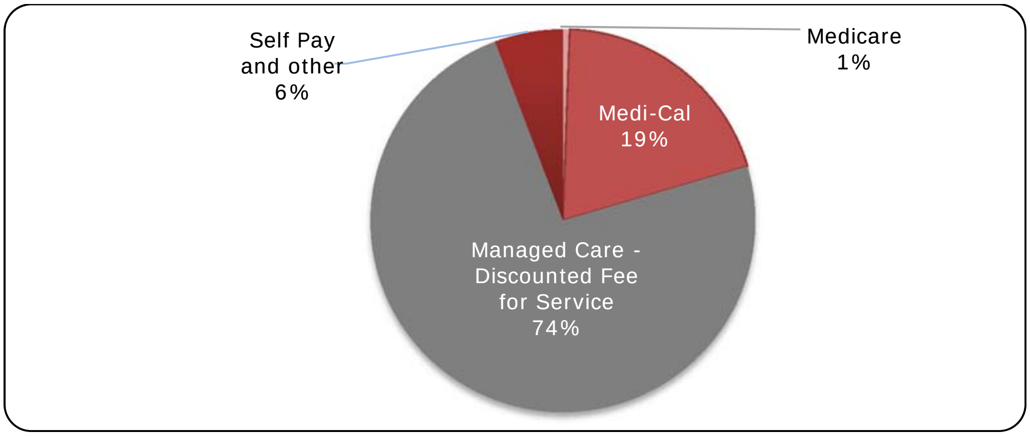
FY17 operating revenues increased $85 million, or 6%, compared to the prior year.

Patient Care Revenue

Patient care revenue increased $71 million from the prior year, mainly due to increases in outpatient visits and commercial managed care contract rates. This increase was partially offset by a decrease in the California Hospital Quality Assurance Fee (QAF) Program and Hospital Fee program revenues from $52 million in FY16 to $41 million in FY17. These programs are designed to provide supplemental payments to certain hospitals and support the State's effort to maintain health care coverage for children. Patient care revenue by major payer, net of contractual allowances (but before provision for doubtful accounts), is shown in Figure 16.

FIGURE 16

LPCH PATIENT CARE 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 $240 million in FY17 compared with $214 million in FY16. 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 increased $13 million from the prior year, primarily due to the consolidation of the LPFCH which added $10 million in other revenues from development fees.

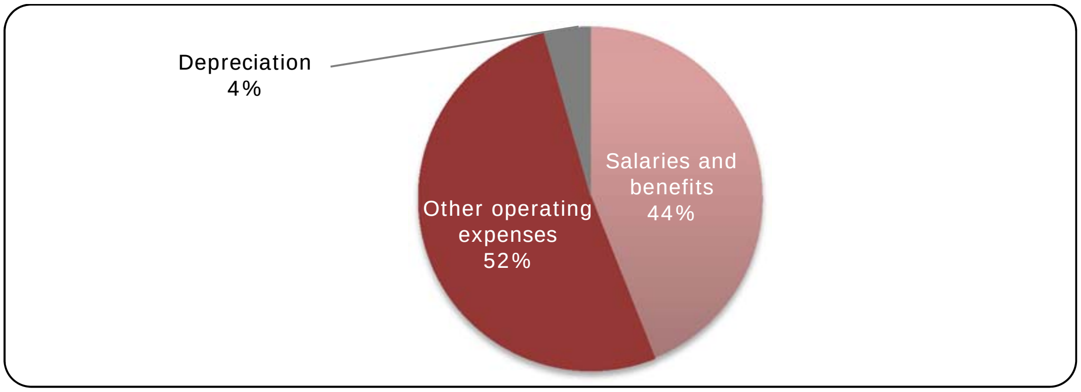
Net Assets Released from Restrictions

LPCH's net assets released from restrictions for use in operations was $24 million in both FY17 and FY16.

LPCH OPERATING EXPENSES

Operating expenses increased $136 million, or 10%, compared to the prior year. This increase was mainly attributable to higher salaries and benefits as LPCH ramps up headcount in preparation for the launch of the new hospital expansion in 2017 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). The increases were partially offset by a decrease of $2 million in the expense recorded from the QAF and Hospital Fee programs compared to the prior year and a $1 million decrease in consulting services.

FIGURE 17
LPCH OPERATING EXPENSES



As shown in Figure 17, salaries and benefits comprised 44% of LPCH's total expenses, depreciation expense was 4%, and all other operating expenses represented 52%.

LPCH FINANCIAL POSITION

Total assets increased by $491 million, or 16%, driven by a combination of cash generated from operations, proceeds from the 2017 Series A Bonds, acquisition of LPFCH, and continued support from the donor community. These cash flows were used to fund the ongoing construction of the new hospital expansion. As a result, fixed assets increased $301 million to $1.7 billion as of August 31, 2017.

Total liabilities increased by $263 million, or 28%, primarily due to the issuance of the 2017 Series A Bonds referenced above.

Unrestricted Cash and Investments

Unrestricted cash and investments increased by $188 million, or 25%, mainly due to the acquisition of LPFCH, income and gains on University managed pools and other investments, and unspent proceeds of the 2017 bond issuance.

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 FY17 spending was for LPCH's portion of the Renewal Project, which represented $335 million of the increase in property and equipment.

Debt

Total debt, including the current portion, increased by $218 million, or 33% from the prior year. In August 2017, the California Health Facilities Financing Authority issued, on behalf of LPCH, a series of revenue bonds in the aggregate par amount of $200 million. Proceeds of the bonds were used to finance a portion of the Renewal Project, and to pay for the cost of issuance. Remaining proceeds may be used to finance costs of routine capital and the acquisition of a long-term ground lease interest in land and improvements of a parcel located adjacent to the existing facility.

During FY17, S&P, Fitch and Moody's assigned ratings on the new debt of A+, AA-, and A1, respectively. In addition, the ratings agencies adjusted their previous ratings on the existing debt from AA-, AA, and Aa3 to A+, AA-, and A1, respectively, with a stable outlook.

Net Assets

Total net assets increased by $227 million, or 10%, from August 31, 2016 to August 31, 2017. Unrestricted net assets increased by $134 million to end the year at $1.5 billion. The increase was due to income and gains from University managed pools and other investments, and the acquisition of LPFCH, partially offset by the loss from operations and funding its portion of certain projects at the SOM and SHC through equity transfers. Temporarily restricted net assets increased by $77 million to $652 million in large part due to fundraising commitments for LPCH's portion of the Renewal Project and other capital projects. Permanently restricted net assets increased from $211 million in FY16 to $227 million in FY17. 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 begins FY18 with a solid financial base. Under the new leadership of President Marc Tessier-Lavigne and Provost Persis Drell, the University's interdisciplinary research and education programs continue to grow and we have reaffirmed our commitment to providing generous student financial aid. In recent years, we have updated our physical plant with an emphasis on creating collaborative spaces and sustainable facilities. The expanded LPCH hospital which opens in December 2017 and new SHC hospital, targeted to open in 2019, will provide state-of-the-art-facilities to support patient care. However, the challenges Stanford faces continue to grow, and exist on local, national and global levels.

On the local front, housing remains one of our greatest challenges despite recent efforts to provide additional accommodations for faculty, staff and students. The robust Bay Area economy has placed severe pressure on housing costs and transportation. In addition, we are constrained by local building restrictions. These factors make hiring and retaining faculty and staff difficult and we continue to search for creative solutions.

On the national front, uncertainty exists in a number of areas, making planning for the near and long term difficult. As this document is written, tax reform is looming, and the proposed tax changes could have significant adverse impacts on higher education institutions such as Stanford. There is continued pressure on tuition revenues and federal sponsored research. Health care reform continues to be debated, and will no doubt impact Stanford Medicine and employee benefit costs.

While recent investment returns have been positive, investment markets over the past decade have been volatile and are forecast to provide moderate returns in the coming decade. Investment returns impact Stanford's ability to maintain sufficient endowment payout to support academic priorities such as student financial aid and important academic programs and initiatives.

As Stanford expands its core activities beyond the United States, we continue to feel the impact of political unrest, natural disasters and changing regulations throughout the globe. Our global profile is important for the advancement of academic programs and sound investment strategies; therefore, building the infrastructure to support these efforts and being agile to adapt to these changes has been an important priority.

In the spring of 2017, Stanford embarked on a Long-Range Planning effort, inviting members of our campus and local communities and alumni to submit proposals and ideas to invigorate our education and research, to support and strengthen our community, and to engage and contribute to the world around us. We received an impressive 2,700 responses. As we begin to cull through these proposals, we are identifying themes and ideas to help move us forward thoughtfully as we continue to educate students to be global citizens and leaders, and discover and apply knowledge for the benefit of humanity.

Today, more than ever, complex global issues call for Stanford to contribute to the public good and to incorporate public service more deeply into our identity and culture—to be a purposeful university. We continue to explore innovative ways to stay current and address these challenges.

Since its founding over 125 years ago, Stanford has weathered challenges and approached them with optimism and spirit. Encouraged by the continued generous support of our donors, alumni, faculty and staff, we will continue on this path.

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

	2017	2016	2015	2014	2013
			(dollars in millions)		
CONSOLIDATED STATEMENT OF ACTIVITIES HIGHLIGHTS:					
Total operating revenues	$ 10,504	$ 9,797	$ 9,051	$ 7,924	$ 7,359
Student income (A)	618	587	564	534	511
Sponsored research support	1,636	1,453	1,387	1,266	1,233
Health care services	5,682	5,264	4,744	3,942	3,734
Investment income distributed for operations	1,327	1,338	1,292	1,181	1,019
Total operating expenses	10,056	9,307	8,351	7,389	6,794
Change in net assets from operating activities	448	490	700	535	565
Other changes in net assets	3,156	947	1,034	3,582	2,441
Net change in total net assets	$ 3,604	$ 1,437	$ 1,734	$ 4,117	$ 3,006
CONSOLIDATED STATEMENT OF FINANCIAL POSITION HIGHLIGHTS:					
Investments at fair value	$ 35,842	$ 31,332	$ 31,399	$ 30,464	$ 26,974
Plant facilities, net of accumulated depreciation	10,223	9,000	7,797	6,832	5,995
Notes and bonds payable	6,401	5,402	5,125	5,139	4,782
Total assets	51,648	46,586	44,509	42,547	37,988
Total liabilities	11,074	9,616	8,976	8,748	8,306
Total net assets	40,574	36,970	35,533	33,799	29,682
UNIVERSITY STATEMENT OF FINANCIAL POSITION HIGHLIGHTS:					
Investments at fair value	$ 33,297	$ 29,086	$ 28,766	$ 27,829	$ 24,703
Plant facilities, net of accumulated depreciation	5,623	5,169	4,796	4,559	4,208
Notes and bonds payable	3,954	3,271	3,085	3,265	3,098
Total assets	41,954	37,767	36,214	35,227	31,540
Total liabilities	7,263	6,048	5,780	6,006	5,817
Total net assets	34,691	31,719	30,434	29,221	25,723
OTHER FINANCIAL DATA AND METRICS:					
University endowment at year end	$ 24,785	$ 22,398	$ 22,223	$ 21,446	$ 18,689
University endowment payout in support of operations	1,166	1,132	1,058	985	921
As a % of beginning of year University endowment	5.2%	5.1%	4.9%	5.3%	5.4%
As a % of University total expenses	21.7%	23.0%	22.8%	24.8%	24.5%
Total gifts as reported by the Office of Development (B)	1,129	951	1,625	976	1,010
STUDENTS:					
ENROLLMENT: (C)					
Undergraduate	7,056	7,032	6,994	7,018	6,980
Graduate	9,368	9,304	9,196	9,118	8,980
DEGREES CONFERRED:					
Bachelor degrees	1,669	1,744	1,671	1,651	1,661
Advanced degrees	3,429	3,370	3,286	3,292	3,365
FACULTY:					
Total Professoriate (C)	2,219	2,180	2,153	2,118	2,043
ANNUAL UNDERGRADUATE TUITION RATE (IN DOLLARS)	$ 47,331	$ 45,729	$ 44,184	$ 42,690	$ 41,250

(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. In FY15, the University received a significant collection of artwork 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.

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

M. Suzanne Calandra
Senior Associate Vice President for Finance
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Linda Hoff
Chief Financial Officer
Stanford Health Care

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

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, 2017 and 2016, 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, 2017 and 2016, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

December 5, 2017

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

At August 31, 2017 and 2016 (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

	2017	2016
ASSETS		
Cash and cash equivalents	$ 1,370,118	$ 1,863,584
Assets limited as to use	285,606	551,896
Accounts receivable, net	1,269,998	1,260,796
Prepaid expenses and other assets	335,230	318,177
Pledges receivable, net	1,574,593	1,570,912
Student loans receivable, net	70,906	78,549
Faculty and staff mortgages and other loans receivable, net	677,545	610,026
Investments at fair value, including securities pledged or on loan of $341,412 and $205,128 for 2017 and 2016, respectively	35,841,611	31,332,231
Plant facilities, net of accumulated depreciation	10,222,737	8,999,916
Works of art and special collections	-	-
TOTAL ASSETS	**$ 51,648,344**	**$ 46,586,087**
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable and accrued expenses	$ 2,091,027	$ 2,034,934
Accrued pension and postretirement benefit obligations	702,375	699,464
Liabilities associated with investments	953,794	768,280
Deferred rental and other income	871,729	657,378
Notes and bonds payable	6,401,342	5,401,768
U.S. government refundable loan funds	53,936	54,035
TOTAL LIABILITIES	**11,074,203**	**9,615,859**
NET ASSETS:		
Unrestricted	23,465,472	21,136,422
Temporarily restricted	9,528,279	8,545,950
Permanently restricted	7,580,390	7,287,856
TOTAL NET ASSETS	**40,574,141**	**36,970,228**
TOTAL LIABILITIES AND NET ASSETS	**$ 51,648,344**	**$ 46,586,087**

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

CONSOLIDATED STATEMENTS OF ACTIVITIES

For the years ended August 31, 2017 and 2016 (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

	2017	2016
UNRESTRICTED NET ASSETS		
OPERATING REVENUES:		
Student income:		
Undergraduate programs	$ 356,871	$ 342,309
Graduate programs	361,228	340,537
Room and board	186,565	174,111
Student financial aid	(286,851)	(269,613)
TOTAL STUDENT INCOME	**617,813**	**587,344**
Sponsored research support:		
Direct costs - University	786,866	753,638
Direct costs - SLAC National Accelerator Laboratory	584,635	447,834
Indirect costs	264,604	251,395
TOTAL SPONSORED RESEARCH SUPPORT	**1,636,105**	**1,452,867**
HEALTH CARE SERVICES, primarily net patient service revenue	**5,681,865**	**5,264,433**
CURRENT YEAR GIFTS IN SUPPORT OF OPERATIONS	**330,350**	**258,285**
Net assets released from restrictions:		
Payments received on pledges	122,980	107,302
Prior year gifts released from donor restrictions	72,807	76,978
TOTAL NET ASSETS RELEASED FROM RESTRICTIONS	**195,787**	**184,280**
Investment income distributed for operations:		
Endowment	1,182,432	1,147,980
Expendable funds pools and other investment income	144,138	190,512
TOTAL INVESTMENT INCOME DISTRIBUTED FOR OPERATIONS	**1,326,570**	**1,338,492**
SPECIAL PROGRAM FEES AND OTHER INCOME	**715,889**	**711,591**
TOTAL OPERATING REVENUES	**10,504,379**	**9,797,292**
OPERATING EXPENSES:		
Salaries and benefits	5,946,539	5,527,284
Depreciation	585,915	538,597
Other operating expenses	3,523,701	3,241,294
TOTAL OPERATING EXPENSES	**10,056,155**	**9,307,175**
CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES	**$ 448,224**	**$ 490,117**

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

CONSOLIDATED STATEMENTS OF ACTIVITIES, Continued

For the years ended August 31, 2017 and 2016 (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

	2017	2016
UNRESTRICTED NET ASSETS (continued)		
CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES	**$ 448,224**	**$ 490,117**
NON-OPERATING ACTIVITIES:		
Increase in reinvested gains	1,600,577	167,634
Donor advised funds, net	68,021	21,783
Current year gifts not included in operations	4,090	2,381
Capital and other gifts released from restrictions	110,649	118,490
Pension and other postemployment benefit related changes other than net periodic benefit expense	11,316	182,013
Transfer to permanently restricted net assets, net	(50,490)	(45,651)
Transfer to temporarily restricted net assets, net	(67,369)	(35,082)
Swap interest and change in value of swap agreements	96,212	(135,924)
Contribution received in acquisition of LPFCH	109,794	-
Other	(1,974)	(4,378)
NET CHANGE IN UNRESTRICTED NET ASSETS	**2,329,050**	**761,383**
TEMPORARILY RESTRICTED NET ASSETS		
Gifts and pledges, net	387,575	435,507
Increase (decrease) in reinvested gains	846,654	(337,062)
Change in value of split-interest agreements, net	10,073	14,866
Net assets released to operations	(218,351)	(208,619)
Capital and other gifts released to unrestricted net assets	(110,649)	(118,490)
Transfer from unrestricted net assets, net	67,369	35,082
Transfer from (to) permanently restricted net assets, net	1,811	(35,551)
Other	(2,153)	(3,715)
NET CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	**982,329**	**(217,982)**
PERMANENTLY RESTRICTED NET ASSETS		
Gifts and pledges, net	242,898	769,861
Increase in reinvested gains	33,251	25,566
Change in value of split-interest agreements, net	(33,419)	19,308
Transfer from unrestricted net assets, net	50,490	45,651
Transfer from (to) temporarily restricted net assets, net	(1,811)	35,551
Other	1,125	(1,981)
NET CHANGE IN PERMANENTLY RESTRICTED NET ASSETS	**292,534**	**893,956**
NET CHANGE IN TOTAL NET ASSETS	**3,603,913**	**1,437,357**
Total net assets, beginning of year	36,970,228	35,532,871
TOTAL NET ASSETS, END OF YEAR	**$ 40,574,141**	**$ 36,970,228**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended August 31, 2017 and 2016 (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

	2017	2016
CASH FLOW FROM OPERATING ACTIVITIES		
Change in net assets	$ 3,603,913	$ 1,437,357
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	585,915	538,597
Amortization, loss on disposal of fixed assets and other adjustments	(9,193)	(2,782)
Provision for doubtful accounts for health care services	84,661	123,847
Net gains on investments and security agreements	(3,608,538)	(930,428)
Change in fair value of interest rate swaps	(99,223)	132,596
Change in split-interest agreements	132,367	9,172
Investment income for restricted purposes	(30,733)	(30,815)
Gifts restricted for long-term investments	(438,816)	(888,137)
Gifts of securities and properties	(89,611)	(15,585)
Contribution received in acquisition of LPFCH	(109,794)	-
Premiums received from bond issuance	29,069	94,098
Changes in operating assets and liabilities:		
Accounts receivable	(279,714)	(193,954)
Pledges receivable, net	79,553	(104,867)
Prepaid expenses and other assets	(15,265)	(48,914)
Accounts payable and accrued expenses	105,704	143,310
Accrued pension and postretirement benefit obligations	2,911	(124,725)
Deferred rental and other income	214,351	4,528
Other	-	5,577
NET CASH PROVIDED BY OPERATING ACTIVITIES	**157,557**	**148,875**
CASH FLOW FROM INVESTING ACTIVITIES		
Land, building and equipment purchases	(1,799,979)	(1,693,181)
Student, faculty and other loans:		
New loans made	(132,076)	(117,150)
Principal collected	63,187	50,335
Decrease in assets limited as to use	266,524	278,788
Purchases of investments	(19,707,814)	(14,416,420)
Sales and maturities of investments	19,449,776	15,385,843
Change associated with repurchase agreements	(410,116)	-
Cash received in acquisition of LPFCH	13,290	-
NET CASH USED FOR INVESTING ACTIVITIES	**(2,257,208)**	**(511,785)**
CASH FLOW FROM FINANCING ACTIVITIES		
Gifts and reinvested income for restricted purposes	477,391	366,426
Proceeds from borrowing	1,264,385	586,154
Contributions received for split-interest agreements	15,730	24,422
Payments made under split-interest agreements	(39,750)	(40,879)
Bond issuance costs and interest rate swaps	(4,390)	(2,154)
Repayment of notes and bonds payable	(241,982)	(322,700)
Increase in liabilities associated with investments	134,900	98,467
Other	(99)	(3,024)
NET CASH PROVIDED BY FINANCING ACTIVITIES	**1,606,185**	**706,712**
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(493,466)**	**343,802**
Cash and cash equivalents, beginning of year	1,863,584	1,519,782
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 1,370,118**	**$ 1,863,584**
SUPPLEMENTAL DATA:		
Interest paid, net of capitalized interest	$ 183,541	$ 173,268
Cash collateral received under security lending agreements	$ 348,783	$ 213,629
Increase in payables for plant facilities	$ 36,946	$ 31,428

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, 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 during the year ended August 31, 2017.

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 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, 2013.

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 12*). 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

Assets limited as to use consist primarily of proceeds of tax-exempt bonds issued for the benefit of the University and limited by the terms of indentures to use for qualified capital projects. Assets limited as to use also include trustee-held accounts reflecting proceeds of tax-exempt bonds issued for the benefit of SHC and LPCH and limited by the terms of indentures to use for qualified capital projects. Assets limited as to use consist of cash and cash equivalents and short-term investments, recorded at cost, which approximates fair value.

ACCOUNTS AND LOANS RECEIVABLE

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

PLEDGES RECEIVABLE

Unconditional promises to give are included in the consolidated financial statements as pledges receivable and are classified as temporarily restricted or permanently restricted, depending upon donor stipulations. Pledges recognized on or after September 1, 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, concentration, 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, 2017 and 2016 are as follows:

Land improvements	10-25 years
Buildings and building improvements	4-50 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, 2017 and 2016, approximately $509.5 million and $413.7 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 Stanford is the trustee, were $773.3 million and $733.9 million at August 31, 2017 and 2016, 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, 2017 and 2016, discount rates of 2.4% and 1.8% were used, respectively, based on the Charitable Federal Midterm Rate.

Included in assets held under split-interest agreements are amounts held to meet legally mandated annuity reserves of $27.6 million and $24.9 million as of August 31, 2017 and 2016 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 2017 and 2016, the discounted present value of new gifts subject to split-interest agreements, and net of any income beneficiary share, was $12.0 million and $11.3 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."

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 in "other operating expenses" for SHC.

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 and $1.2 billion for the years ended August 31, 2017 and 2016, respectively. 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.

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 in the income statement separately from the service cost component and outside a subtotal of income from operations, and will not be eligible for capitalization. The new guidance is effective for fiscal year 2020.

Consolidation - In January 2017, the FASB issued an ASC update which reconfirms the presumption that a not-for-profit (NFP) entity that is a general partner of a for-profit limited partnership or similar entity controls the limited partnership. The amendments in this update also add guidance on when an NFP limited partner should consolidate a for-profit limited partnership. The new guidance is effective for fiscal year

2018, but early adoption is allowed. Stanford has early adopted this guidance in fiscal year 2017. There was no material impact to the consolidated financial statements.

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.

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.

Debt issuance costs - In April 2015, the FASB issued an ASC update which requires debt issuance costs to be presented in the statement of financial position as a direct deduction from the carrying value of the associated debt liability, consistent with the presentation of a debt discount. The new guidance is effective for fiscal year 2017. In August 2015, the FASB issued a supplemental ASU which allows an entity to present debt issuance costs related to a line of credit arrangement as an asset and subsequently amortize the costs ratably over the term of the line of credit arrangement. The recognition and measurement guidance for debt issuance costs is not affected. Stanford has adopted the guidance on debt issuance costs in fiscal year 2017; however fiscal year 2016 amounts have not been reclassified.

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.

2. Accounts Receivable

Accounts receivable, net of bad debt allowances, at August 31, 2017 and 2016, in thousands of dollars, are as follows:

	UNIVERSITY	SHC	LPCH	CONSOLIDATED
2017				
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)
ACCOUNTS RECEIVABLE, NET	**$ 284,693**	**$ 668,178**	**$ 317,127**	**$ 1,269,998**
2016				
U.S. government sponsors	$ 104,240	$ -	$ -	$ 104,240
Non-federal sponsors and programs	49,282	26,730	15,827	91,839
Pending trades of securities	94,304	-	-	94,304
Accrued interest on investments	10,816	-	-	10,816
Student	7,171	-	-	7,171
Patient and third-party payers:				
Blue Cross	-	117,644	76,551	194,195
Blue Shield	-	73,561	32,356	105,917
Medicare	-	90,980	440	91,420
Medi-Cal	-	17,081	41,533	58,614
Other managed care and payers	-	421,486	128,964	550,450
Other	52,195	55,706	18,233	126,134
	318,008	803,188	313,904	1,435,100
Less bad debt allowances	(1,815)	(160,819)	(11,670)	(174,304)
ACCOUNTS RECEIVABLE, NET	**$ 316,193**	**$ 642,369**	**$ 302,234**	**$ 1,260,796**

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, 2008 for SHC and August 31, 2015 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
2017					
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)	-
Total patient care revenue	986,184	4,311,530	1,392,486	(1,031,029)	5,659,171
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)
HEALTH CARE SERVICES REVENUE	**$ 1,023,321**	**$ 4,315,173**	**$ 1,384,829**	**$(1,041,458)**	**$ 5,681,865**
2016					
Patient care revenue:					
Medicare	$ -	$ 755,658	$ 7,390	$ -	$ 763,048
Medi-Cal	-	106,728	260,368	-	367,096
Managed care	-	2,870,437	967,809	-	3,838,246
Self pay and other	-	239,248	75,384	-	314,632
Physician services and support (see *Note 1*)	873,520	47,214	-	(920,734)	-
Total patient care revenue	873,520	4,019,285	1,310,951	(920,734)	5,283,022
Premium revenue	-	72,292	-	-	72,292
Other services and support	32,966	-	-	-	32,966
	906,486	4,091,577	1,310,951	(920,734)	5,388,280
Provision for doubtful accounts	-	(126,280)	2,433	-	(123,847)
HEALTH CARE SERVICES REVENUE	**$ 906,486**	**$ 3,965,297**	**$ 1,313,384**	**$ (920,734)**	**$ 5,264,433**

SHC recognized net health care services revenue adjustments of $24.3 million and $4.3 million as a result of prior years' favorable developments related to reimbursement and appeals for the years ended August 31, 2017 and 2016, respectively. LPCH had no significant adjustments to revenue for the years ended August 31, 2017 and 2016.

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

SHC's estimated cost of providing charity care was $22.0 million and $19.4 million, and LPCH's estimated cost of providing charity care was $2.1 million and $1.6 million for the years ended August 31, 2017 and 2016, 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 $663 thousand and $799 thousand during the years ended August 31, 2017 and 2016, 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, 2017 and 2016 were $973.6 million and $869.0 million for SHC, and $237.5 million and $212.7 million for LPCH, respectively.

Provider Fee

The State of California enacted legislation in 2009 through 2016 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, specifics of the program covering the period from January 1, 2017 to December 31, 2019, have not yet been approved by the Centers for Medicare and Medicaid Services (CMS). Accordingly, any potential activity under this program related to January 1, 2017 through August 31, 2017 has not been recorded in the *Consolidated Financial Statements*.

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

	SHC	LPCH	CONSOLIDATED
2017			
Revenues	$ 45,616	$ 40,976	$ 86,592
Expenses	(41,594)	(22,011)	(63,605)
TOTAL	**$ 4,022**	**$ 18,965**	**$ 22,987**
2016			
Revenues	$ 55,195	$ 51,793	$ 106,988
Expenses	(45,809)	(24,196)	(70,005)
TOTAL	**$ 9,386**	**$ 27,597**	**$ 36,983**

4. Pledges Receivable

Pledges are recorded at applicable risk-adjusted discount rates, ranging from 1.1% to 5.7%, commensurate with the duration of the donor's payment plan. At August 31, 2017 and 2016, pledges receivable, net of discounts and allowances, in thousands of dollars, are as follows:

	UNIVERSITY	SHC	LPCH	ELIMINATIONS	CONSOLIDATED
2017					
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)
PLEDGES RECEIVABLE, NET	**$1,356,535**	**$ 90,008**	**$ 162,325**	**$ (34,275)**	**$ 1,574,593**
2016					
One year or less	$ 151,591	$ 11,531	$ 33,182	$ -	$ 196,304
Between one year and five years	997,348	86,428	55,921	-	1,139,697
More than five years	403,638	11,352	45,369	-	460,359
	1,552,577	109,311	134,472	-	1,796,360
Less discounts and allowances	(195,069)	(11,558)	(18,821)	-	(225,448)
PLEDGES RECEIVABLE, NET	**$1,357,508**	**$ 97,753**	**$ 115,651**	**$ -**	**$ 1,570,912**

Conditional pledges for the University, which depend on the occurrence of a specified future and uncertain event, were $745 thousand and $6.5 million at August 31, 2017 and 2016, respectively. SHC and LPCH had no conditional pledges at August 31, 2017 and 2016.

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, 2017 and 2016, in thousands of dollars, are as follows:

	2017	2016
Institutional loans	$ 26,179	$ 25,577
Federally-sponsored loans	45,575	53,766
	71,754	79,343
Less allowance for student loan losses	(848)	(794)
STUDENT LOANS RECEIVABLE, NET	**$ 70,906**	**$ 78,549**

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

Federally-sponsored loans are funded 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.”

FACULTY AND STAFF MORTGAGES

In a program to attract and retain excellent faculty and senior staff, the University provides home mortgage financing assistance, primarily in the form of subordinated loans. Notes receivable amounting to $676.8 million and $609.3 million at August 31, 2017 and 2016, 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*. These loans and mortgages are collateralized by deeds of trust on properties concentrated in the region surrounding the University. Management has determined that no allowance is necessary.

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 2017 and 2016 are discussed below.

Investments held by Stanford at August 31, 2017 and 2016, in thousands of dollars, are as follows:

	UNIVERSITY	SHC	LPCH	ELIMINATIONS	CONSOLIDATED
2017					
Cash and short-term investments	$ 1,251,787	$ 50,870	$ -	$ -	$ 1,302,657
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	299,932	99,130	-	2,998,451
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	-
INVESTMENTS AT FAIR VALUE	**$ 33,297,493**	**$ 1,632,390**	**$ 904,681**	**$ 7,047**	**$ 35,841,611**
2016					
Cash and short-term investments	$ 991,237	$ 44,085	$ -	$ -	$ 1,035,322
Collateral held for securities loaned	213,629	-	-	-	213,629
Public equities	7,069,873	-	-	-	7,069,873
Derivatives	43	-	-	-	43
Fixed income	1,655,649	163,371	70,642	-	1,889,662
Real estate	6,741,245	-	-	-	6,741,245
Natural resources	2,300,633	-	-	-	2,300,633
Private equities	6,363,481	-	-	-	6,363,481
Absolute return	5,155,970	-	-	-	5,155,970
Assets held by other trustees	176,310	-	15,048	-	191,358
Other	342,571	28,444	-	-	371,015
Total	31,010,641	235,900	85,690	-	31,332,231
Hospitals' funds invested in the University's investment pools	(1,924,854)	1,316,489	608,365	-	-
INVESTMENTS AT FAIR VALUE	**$ 29,085,787**	**$ 1,552,389**	**$ 694,055**	**$ -**	**$ 31,332,231**

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, 2017 and 2016, 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.

Stanford 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 wide range of factors, such as market conditions, redemption terms and restrictions, and risks inherent in the inputs of the external investment managers' valuation.

For alternative investments which are direct investments, 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 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 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, which approximates fair value. 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 (see *Note 10*).

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 such as forward currency contracts, options, interest rate swaps, and total return swaps are valued using models based on market verifiable inputs, or by using independent broker quotes.

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

Real estate represents directly owned real estate, 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 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.

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

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

Absolute return investments are typically commingled funds that employ multiple strategies to produce positive returns 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 are 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 and convertible notes. 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 in the circumstance and may require significant management judgment. These investments primarily consist of Stanford's alternative investments and are classified as Level 3 as the inputs are not observable.

The following tables summarize Stanford's investment assets within the fair value hierarchy and asset categories at August 31, 2017 and 2016, in thousands of dollars:

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
2017				
Cash and short-term investments	$ 131,229	$ 1,171,428	$ -	$ 1,302,657
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	293,565	2,702,661	-	2,996,226
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
INVESTMENTS SUBJECT TO FAIR VALUE LEVELING	**$ 3,477,572**	**$ 4,224,285**	**$ 6,352,924**	**14,054,781**
			Investments measured using Net Asset Value[1]	21,786,830
			CONSOLIDATED TOTAL	**$ 35,841,611**
2016				
Cash and short-term investments	$ 1,010,174	$ 25,148	$ -	$ 1,035,322
Collateral held for securities loaned	-	213,629	-	213,629
Public equities	2,308,666	189	3,045	2,311,900
Derivatives	-	43	-	43
Fixed income	165,292	1,724,370	-	1,889,662
Real estate	47,805	-	4,956,210	5,004,015
Natural resources	488,596	-	208,655	697,251
Private equities	603	-	71,875	72,478
Absolute return	-	-	25,587	25,587
Assets held by other trustees	-	-	191,358	191,358
Other	200	-	366,342	366,542
INVESTMENTS SUBJECT TO FAIR VALUE LEVELING	**$ 4,021,336**	**$ 1,963,379**	**$ 5,823,072**	**11,807,787**
			Investments measured using Net Asset Value[1]	19,524,444
			CONSOLIDATED TOTAL	**$ 31,332,231**

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

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 $1.3 billion at both August 31, 2017 and 2016. LPCH's investments in the MP were $680.0 million and $608.4 million at August 31, 2017 and 2016, respectively.

For reporting purposes, assets and liabilities of investment entities that are controlled by the University are consolidated. The following table represents the fair value of assets and liabilities of consolidated investment entities at August 31, 2017 and 2016, in thousands of dollars:

	2017	2016
Consolidated investment entity assets	$ 223,650	$ 166,378
Consolidated investment entity liabilities	(65,550)	(65,550)
CONSOLIDATED INVESTMENT ENTITY NET ASSETS	**$ 158,100**	**$ 100,828**

SUMMARY OF LEVEL 3 INVESTMENT ACTIVITIES AND TRANSFERS

The following tables present the activities for Level 3 investments for the years ended August 31, 2017 and 2016, in thousands of dollars:

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
TOTAL	**$ 5,823,072**	**$ 161,136**	**$ (129,077)**	**$ 539,374**	**$ 839**	**$ (42,420)**	**$ 6,352,924**

FAIR VALUE MEASUREMENTS USING SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)	BEGINNING BALANCE AS OF SEPTEMBER 1, 2015	PURCHASES AND ADDITIONS	SALES AND MATURITIES	NET REALIZED AND UNREALIZED GAINS (LOSSES)	TRANSFERS IN*	TRANSFERS OUT*	ENDING BALANCE AS OF AUGUST 31, 2016
Public equities	$ -	$ 1,740	$ -	$ 462	$ 843	$ -	$ 3,045
Real estate	4,537,715	68,596	(20,470)	370,364	29	(24)	4,956,210
Natural resources	269,963	13,584	(48,283)	(8,397)	-	(18,212)	208,655
Private equities	64,025	1,629	(1,233)	7,483	-	(29)	71,875
Absolute return	-	4,938	-	2,437	18,212	-	25,587
Assets held by other trustees	208,890	3,913	(11,477)	(7,839)	-	(2,129)	191,358
Other	284,217	144,724	(88,529)	25,906	24	-	366,342
TOTAL	**$ 5,364,810**	**$ 239,124**	**$ (169,992)**	**$ 390,416**	**$ 19,108**	**$ (20,394)**	**$ 5,823,072**

**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, 2017 and 2016, the change in unrealized gains (losses) for Level 3 investments still held at August 31, 2017 and 2016 was $303.4 million and $392.0 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, 2017 and 2016.

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, 2017 and 2016, 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[1]	VALUATION TECHNIQUE	SIGNIFICANT UNOBSERVABLE INPUTS	RANGE MIN	RANGE MAX	IMPACT TO VALUATION FROM AN INCREASE IN INPUT[2]
2017						
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
TOTAL AMOUNT WITH SIGNIFICANT UNOBSERVABLE INPUTS	**$ 5,334,779**					
2016						
Real estate	$ 4,493,680	Discounted cash flow	Discount rate	4.8%	20.0%	Decrease
			Capitalization rate	4.5%	9.0%	Decrease
Natural resources	6,769	Market comparables	Weights ascribed to market comparables	20.0%	50.0%	N/A
Assets held by other trustees	176,310	Net present value	Discount rate	1.4%	1.4%	Decrease
Other	353,581	Market comparables	Recent transactions	N/A	N/A	N/A
TOTAL AMOUNT WITH SIGNIFICANT UNOBSERVABLE INPUTS	**$ 5,030,340**					

[1] $1.0 billion and $792.7 million of Level 3 investments at August 31, 2017 and 2016, respectively, are valued using third-party valuations, other market comparables or recent transactions as an approximation of fair value.

[2] Unless otherwise noted, this column represents the directional change in the fair value of the Level 3 investments that would 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

Stanford 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, 2017, in thousands of dollars:

ASSET CLASS	FAIR VALUE	UNFUNDED COMMITMENT	REMAINING LIFE (YEARS)	REDEMPTION TERMS
Public equities	$ 5,527,701	$ 302,506	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	1,696,871	1,262,155	0 to 15	Not eligible for redemption
Natural resources	2,008,751	929,066	0 to 15	Not eligible for redemption
Private equities	7,312,867	2,856,450	0 to 15	Not eligible for redemption
Absolute return	5,497,891	569,527	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.
TOTAL	**$22,044,081**	**$ 5,919,704**		

OFFSETS TO INVESTMENT-RELATED ASSETS AND LIABILITIES

Financial instruments with off-balance sheet risk such as derivatives, securities lending agreements, and repurchase agreements are subject to counterparty credit risk. Stanford 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.

Stanford generally maintains master netting agreements and collateral agreements with its counterparties. These agreements provide Stanford the right, in the event of default by the counterparty, such as bankruptcy or a failure to pay or perform, 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.

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*).

Stanford may enter into repurchase and reverse repurchase agreements whereby they 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 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, 2017 and 2016, in thousands of dollars:

	GROSS AMOUNTS OF ASSETS AND LIABILITIES	OFFSET AMOUNTS	NET AMOUNTS	COLLATERAL RECEIVED (PLEDGED)[3]	NET EXPOSURE
2017					
Assets:					
Derivatives[1]	$ 1,163	$ (11)	$ 1,152	$ -	$ 1,152
Repurchase agreements[4]	410,116	-	410,116	410,116	-
TOTAL	**411,279**	**(11)**	**411,268**	**410,116**	**1,152**
Liabilities:					
Derivatives[1]	11	(11)	-	-	-
Securities lending[2]	348,783	-	348,783	348,783	-
TOTAL	**$ 348,794**	**$ (11)**	**$ 348,783**	**$ 348,783**	**$ -**
2016					
Assets:					
Derivatives[1]	$ 545	$ (502)	$ 43	$ -	$ 43
TOTAL	**545**	**(502)**	**43**	**-**	**43**
Liabilities:					
Derivatives[1]	502	(502)	-	-	-
Securities lending[2]	213,629	-	213,629	213,629	-
TOTAL	**$ 214,131**	**$ (502)**	**$ 213,629**	**$ 213,629**	**$ -**

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

[2] Refer to Note 10 for details.

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

[4] 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, 2017 and 2016, in thousands of dollars, are as follows:

	UNIVERSITY	SHC	LPCH	CONSOLIDATED
2017				
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
TOTAL INVESTMENT RETURNS	**$ 3,624,079**	**$ 173,494**	**$ 110,518**	**$ 3,908,091**
Reconciliation to *Statements of Activities:*				
Total investment income distributed for operations	$ 1,309,833	$ 1,068	$ 15,669	$ 1,326,570
Increase (decrease) 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)
Adjusted for actuarial re-evaluations and maturities of split-interest agreements:				
Temporarily restricted	42,610	-	-	42,610
Permanently restricted	81,775	-	-	81,775
TOTAL INVESTMENT RETURNS	**$ 3,624,079**	**$ 173,494**	**$ 110,518**	**$ 3,908,091**
2016				
Investment income	$ 250,478	$ 15,595	$ 2,351	$ 268,424
Net realized and unrealized gains	900,522	27,254	34,820	962,596
TOTAL INVESTMENT RETURNS	**$ 1,151,000**	**$ 42,849**	**$ 37,171**	**$ 1,231,020**
Reconciliation to *Statements of Activities:*				
Total investment income distributed for operations	$ 1,321,669	$ 1,361	$ 15,462	$ 1,338,492
Increase (decrease) in reinvested gains:				
Unrestricted	118,270	39,061	10,303	167,634
Temporarily restricted	(349,476)	2,427	9,987	(337,062)
Permanently restricted	25,566	-	-	25,566
Change in value of split-interest agreements, net:				
Temporarily restricted	14,702	-	164	14,866
Permanently restricted	18,053	-	1,255	19,308
Adjusted for actuarial re-evaluations and maturities of split-interest agreements:				
Temporarily restricted	(2,067)	-	-	(2,067)
Permanently restricted	4,283	-	-	4,283
TOTAL INVESTMENT RETURNS	**$ 1,151,000**	**$ 42,849**	**$ 37,171**	**$ 1,231,020**

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 11*).

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, 2017, in thousands of dollars, is as follows:

	FUTURE MINIMUM RENTAL INCOME			
YEAR ENDING AUGUST 31	UNIVERSITY	SHC	LPCH	CONSOLIDATED
2018	$ 119,020	$ 4,926	$ 1,277	$ 125,223
2019	124,853	2,260	1,072	128,185
2020	124,038	1,349	810	126,197
2021	122,622	876	768	124,266
2022	120,165	902	708	121,775
Thereafter	2,173,288	9,607	251	2,183,146
TOTAL	**$ 2,783,986**	**$ 19,920**	**$ 4,886**	**$ 2,808,792**

7. Investment Pools

The University's investments are held in various investment pools or in specific investments to comply with donor requirements as indicated in the following table, at August 31, 2017 and 2016, in thousands of dollars:

	2017	2016
Merged Pool	$ 27,507,695	$ 25,337,941
Short-Term Investment Pool	1,367,072	-
Expendable Funds Pool	3,891,181	3,752,886
Endowment Income Funds Pool	356,001	355,022
Intermediate Pool	431,514	-
Other investment pools	107,154	96,643
Specific investments	6,794,982	5,569,894
	40,455,599	35,112,386
Adjustments:		
Amounts included in "cash and cash equivalents" in the *Statements of Financial Position*	(199,625)	(518,762)
Funds cross-invested in investment pools	(4,990,224)	(3,582,983)
Hospitals' funds not invested in the University's investment pools	575,861	321,590
TOTAL INVESTMENTS	**$ 35,841,611**	**$ 31,332,231**

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

The 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; the remainder is invested in the STIP. 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 Intermediate Pool (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 12)*. For the years ended August 31, 2017 and 2016, the results of the EFP, in thousands of dollars, are as follows:

	2017	2016
Total investment return of the EFP	$ 448,934	$ 95,384
Less distributions to fund holders and operations	(79,490)	(144,158)
AMOUNTS ADDED TO (WITHDRAWN FROM) FFE	**$ 369,444**	**$ (48,774)**

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, 2017 and 2016, and gains and losses for the years ended August 31, 2017 and 2016, in thousands of dollars:

	NOTIONAL AMOUNT[1]	GROSS DERIVATIVE ASSETS[2]	GROSS DERIVATIVE LIABILITIES[2]	REALIZED AND UNREALIZED GAINS (LOSSES)[3]
2017	AS OF AUGUST 31			YEAR ENDED AUGUST 31
Foreign exchange contracts	$ 150,592	$ 1,163	$ 11	$ 3,560
TOTAL	**$ 150,592**	**$ 1,163**	**$ 11**	**$ 3,560**
2016				
Interest-rate contracts	$ -	$ -	$ -	$ (596)
Foreign exchange contracts	222,815	545	502	(1,589)
Equity contracts	-	-	-	1,163
TOTAL	**$ 222,815**	**$ 545**	**$ 502**	**$ (1,022)**

[1] The notional amount is representative of the volume and activity of the respective derivative type during the years ended August 31, 2017 and 2016.

[2] Gross derivative assets less gross derivative liabilities of $1.2 million and $43 thousand as of August 31, 2017 and 2016, respectively, are presented as "derivatives" on the investment table in Note 6.

[3] Gains (losses) on derivatives are included in the Statements of Activities as "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, 2017, 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 11*). 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 $19.8 million and $37.5 million at August 31, 2017 and 2016, 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, 2017 and 2016 (see *Note 11*).

At August 31, 2017, SHC had interest rate exchange agreements expiring through November 2051 (see *Note 11*). The agreements require SHC to pay fixed interest rates to the counterparties varying from 3.37% to 4.08% in exchange for variable rate payments from the counterparties based on a percentage of the One Month London Interbank Offered Rate (LIBOR). The notional amount and the fair value of the exchange agreements are included in the table below. There was $10.1 million and $36.2 million cash collateral required to be posted with counterparties at August 31, 2017 and 2016, respectively.

The following table presents amounts for debt-related derivatives including the notional amount, the fair values at August 31, 2017 and 2016, and gains and losses for the years ended August 31, 2017 and 2016, in thousands of dollars:

	AS OF AUGUST 31, 2017		YEAR ENDED AUGUST 31, 2017	AS OF AUGUST 31, 2016		YEAR ENDED AUGUST 31, 2016
	NOTIONAL AMOUNT[1]	GROSS DERIVATIVE LIABILITIES[2]	UNREALIZED GAINS[3]	NOTIONAL AMOUNT[1]	GROSS DERIVATIVE LIABILITIES[2]	UNREALIZED LOSSES[3]
Debt-related interest-rate contracts:						
University	$ 97,000	$ 38,367	$ 13,855	$ 97,000	$ 52,222	$ (16,638)
SHC	575,825	245,966	85,368	576,250	331,334	(115,958)
TOTAL	**$ 672,825**	**$ 284,333**	**$ 99,223**	**$ 673,250**	**$ 383,556**	**$ (132,596)**

[1] *The notional amount is representative of the volume and activity of the respective derivative type during the years ended August 31, 2017 and 2016.*

[2] *Fair value is measured using Level 2 inputs as defined in Note 6. Amounts are included in the Statements of Financial Position in "accounts payable and accrued expenses" and discussed more fully in Note 11.*

[3] *Gains (losses) on derivatives are included in the Statements of Activities as "swap interest and change in value of swap agreements" in "non-operating activities".*

9. Plant Facilities

Plant facilities, net of accumulated depreciation, at August 31, 2017 and 2016, in thousands of dollars, are as follows:

	UNIVERSITY	SHC	LPCH	CONSOLIDATED
2017				
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)
PLANT FACILITIES, NET OF ACCUMULATED DEPRECIATION	**$ 5,623,283**	**$ 2,869,346**	**$ 1,730,108**	**$ 10,222,737**
2016				
Land and improvements	$ 517,256	$ 67,816	$ 91,630	$ 676,702
Buildings and building improvements	5,817,312	1,321,441	465,945	7,604,698
Furniture, fixtures and equipment	1,706,663	944,194	310,498	2,961,355
Utilities	832,467	-	-	832,467
Construction in progress	475,327	1,383,279	981,974	2,840,580
	9,349,025	3,716,730	1,850,047	14,915,802
Less accumulated depreciation	(4,180,305)	(1,314,850)	(420,731)	(5,915,886)
PLANT FACILITIES, NET OF ACCUMULATED DEPRECIATION	**$ 5,168,720**	**$ 2,401,880**	**$ 1,429,316**	**$ 8,999,916**

At August 31, 2017, $1.9 billion, $849.7 million, and $165.0 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. Liabilities Associated with Investments

At August 31, 2017 and 2016, liabilities associated with investments, in thousands of dollars, are as follows:

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
2017				
Income beneficiary share of split-interest agreements[1]	$ -	$ 509,972	$ -	$ 509,972
Securities lending agreement	-	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
LIABILITIES ASSOCIATED WITH INVESTMENTS	**$ 12,480**	**$ 924,305**	**$ 17,009**	**$ 953,794**
2016				
Income beneficiary share of split-interest agreements[1]	$ -	$ 414,432	$ -	$ 414,432
Securities lending agreement	-	213,629	-	213,629
Debt of investment entity	-	65,550	-	65,550
Pending trades of securities	57,406	-	-	57,406
Other	-	-	17,263	17,263
LIABILITIES ASSOCIATED WITH INVESTMENTS	**$ 57,406**	**$ 693,611**	**$ 17,263**	**$ 768,280**

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

A securities lending agreement is effectively a short-term collateralized borrowing. In this transaction, the University generally 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 were to default on its obligations, Stanford 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 Stanford. The estimated fair value of securities loaned at August 31, 2017 and 2016 was $341.4 million and $205.1 million, respectively. At August 31, 2017, the University received cash and short-term investments in the amount of $348.8 million, of which $121.2 million related to public equities and $227.6 million related to U.S. Treasury notes. At August 31, 2016, the University received cash and short-term investments in the amount of $213.6 million, of which $176.5 million related to public equities and $37.1 million related to U.S. Treasury notes.

The University holds controlling interests in several investment entities which are consolidated in the financial statements. The investment assets of these entities are included in "investments" in the *Consolidated Statements of Financial Position*. At both August 31, 2017 and 2016, an investment entity held debt of $65.6 million where the University is ultimately liable for principal should the entity default (see *Note 6*).

The University has obligations related to pending trades of securities purchased but not settled. These are usually settled three business days after the trade date.

11. Notes and Bonds Payable

Notes and bonds payable for the University, SHC, and LPCH at August 31, 2017 and 2016, 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 * 2017/2016	OUTSTANDING PRINCIPAL 2017	2016
UNIVERSITY:				
Tax-exempt:				
CEFA Fixed Rate Revenue Bonds:				
Series S	2040	3.18%	$ 30,210	$ 30,210
Series T	2023-2039	3.66%-4.30%	188,900	188,900
Series U	2021-2046	1.75%-4.25%	1,167,205	1,167,205
CEFA Variable Rate Revenue Bonds and Notes:				
Series L	2018-2023	0.75%/0.62%	51,373	60,148
Series S	2040-2051	0.88%-0.92%/0.30%-0.47%	141,200	141,200
Taxable:				
Fixed Rate Notes and Bonds:				
Stanford University Bonds	2024	6.88%	150,000	150,000
Medium Term Note	2026	7.65%	50,000	50,000
Stanford University Series 2009A	2019	4.79%	400,000	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	-
Other	2031	Various	3,480	484
Revolving Credit Facilities	2019	1.53%/0.72%	33,400	65,800
University notes and bonds payable			3,659,118	2,947,297
Unamortized issuance costs, premiums, and discounts, net			295,023	323,320
UNIVERSITY TOTAL			**$ 3,954,141**	**$ 3,270,617**
SHC:				
CHFFA Fixed Rate Revenue Bonds:				
2008 Series A-1	2017-2040	5.14%	$ 67,410	$ 67,835
2008 Series A-2	2017-2040	5.32%/5.25%	99,725	100,350
2008 Series A-3	2017-2040	5.29%/5.49%	80,615	81,140
2010 Series A	2017-2031	4.66%/5.46%	119,315	124,875
2010 Series B	2023-2036	4.95%/5.20%	146,710	146,710
2012 Series A	2028-2051	3.98%/5.00%	340,000	340,000
2012 Series B	2018-2023	2.30%/4.71%	41,340	47,445
2015 Series A	2052-2054	4.10%/4.82%	100,000	100,000
CHFFA Variable Rate Revenue Bonds:				
2008 Series B	2041-2045	0.84%/0.55%	168,200	168,200
2012 Series C	2039-2051	1.04%/0.78%	60,000	60,000
2012 Series D	2024-2051	1.23%/0.75%	100,000	100,000
2015 Series B	2052-2054	1.38%/0.90%	75,000	75,000
Revolving Credit Facility	2020	1.53%	135,000	-
Other	2024	4.25%	-	4,870
SHC notes and bonds payable			1,533,315	1,416,425
Unamortized issuance costs, premiums, and discounts, net			32,749	46,320
SHC TOTAL			**$ 1,566,064**	**$ 1,462,745**
LPCH:				
CHFFA Fixed Rate Revenue Bonds:				
2012 Series A	2044-2051	4.32%	$ 200,000	$ 200,000
2012 Series B	2017-2027	2.71%/2.63%	39,760	42,195
2014 Series A	2025-2043	3.84%	100,000	100,000
2016 Series A	2017-2033	2.16%/2.10%	70,415	73,675
2016 Series B	2052-2055	3.34%	100,000	100,000
2017 Series A	2018-2056	3.01%	200,000	-
CHFFA Variable Rate Revenue Bonds:				
2014 Series B	2034-2043	1.22%/0.73%	100,000	100,000
LPCH notes and bonds payable			810,175	615,870
Unamortized issuance costs, premiums, and discounts, net			70,962	52,536
LPCH TOTAL			**$ 881,137**	**$ 668,406**
CONSOLIDATED TOTAL			**$ 6,401,342**	**$ 5,401,768**

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

All bonds held at August 31, 2017 and 2016 are classified as Level 2 in the fair value hierarchy as described in *Note 6*. The fair value of the University's, SHC's, and LPCH's debt instruments at August 31, 2017 and 2016, in thousands of dollars, are as follows:

	2017	2016
University	$ 4,298,362	$ 3,792,935
SHC	1,517,350	1,585,366
LPCH	911,301	711,846
TOTAL	**$ 6,727,013**	**$ 6,090,147**

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 their respective tax-exempt debt.

The University's long-term ratings of AAA/Aaa/AAA were affirmed in March 2017 by Standard & Poor's, Moody's Investors Service and Fitch Ratings, respectively. In September and October 2016, SHC's long-term ratings were affirmed by Standard & Poor's, Moody's Investors Service and Fitch Ratings at AA-/Aa3/AA, respectively. In July 2017, LPCH's long-term ratings were adjusted by Standard & Poor's, Moody's Investors Service and Fitch Ratings to A+/A1/AA-, respectively, and the 2017 Notes were assigned the same ratings.

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 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.

In August 2016 and May 2015, the University entered into two unsecured revolving credit facilities of $250.0 million each. 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 $33.4 million and $65.8 million at August 31, 2017 and 2016, respectively.

In June 2016, CEFA Series U-7 bonds were issued in the amount of $170.3 million plus an original issue premium of $79.7 million. The bonds bear interest at a coupon rate of 5.00%, mature on June 1, 2046, and have a yield of 2.71%. Proceeds are being used to finance facilities and infrastructure.

In October 2016 and 2015, CEFA Series L tranches in the amount of $8.8 million and $9.8 million, respectively, matured and were repaid.

The University's taxable and tax-exempt commercial paper authorized borrowing capacity was $300 million and $500 million, respectively, at both August 31, 2017 and 2016. There were no amounts outstanding at August 31, 2017 and 2016.

Variable rate debt subject to remarketing or tender

The University had $192.6 million of revenue bonds in variable rate mode outstanding at August 31, 2017, of which $15.2 million is scheduled to be repaid in fiscal year 2018. CEFA Series L bonds bear interest at a weekly rate and CEFA Series S bonds bear interest at a commercial paper municipal rate and are outstanding for various interest periods of 270 days or less. In the event the University receives notice of any optional tender of these bonds, or if the bonds become subject to mandatory tender, the purchase price of the bonds will be paid from the remarketing of such bonds. However, if the remarketing proceeds are insufficient, the University will have a current obligation to purchase the bonds tendered. The University has identified several sources of funding including cash, money market funds, U.S. treasury securities and agencies' discount notes to provide for the full and timely purchase price of any bonds tendered in the event of a failed remarketing.

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 2016, the University increased the facility to $65.0 million. At August 31, 2017, irrevocable standby letters of credit of $45.4 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) $30.2 million to serve as security for workers' compensation deductible insurance arrangements; and (3) $0.2 million for other purposes. No amounts have been drawn on these letters of credit at August 31, 2017.

SHC

Debt issuances and repayment activity

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. 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, 2017, SHC had $403.2 million revenue bonds in variable rate mode outstanding. The 2008 Series B-1 bonds bear interest at a weekly rate, and bondholders have the option to tender their bonds on a weekly basis. The 2008 Series B-2 bonds bear interest at the commercial paper rate for each commercial paper period of 270 days or less. Bondholders in commercial paper mode have the option to tender their bonds only at the end of the commercial paper rate period.

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

In the event SHC receives notice of any optional tender of the 2008 Series B-1 bonds or the 2012 Series C bonds, or if any bonds become subject to mandatory tender, the purchase price of the bonds will be paid from the remarketing of such bonds. However, if the remarketing proceeds are insufficient, SHC will have a current obligation to purchase any remaining bonds. SHC maintains sufficient liquidity to provide for the full and timely purchase price of any bonds tendered in the event of a failed remarketing.

Letters of credit

At August 31, 2017, SHC had irrevocable standby letters of credit in the aggregate amount of $23.7 million posted with certain beneficiaries in the following amounts and for the following respective purposes: (i) $21.6 million to serve as security for the workers' compensation self-insurance arrangement and (ii) $2.1 million to serve as security deposits for certain construction projects being undertaken by SHC including the Renewal Project (see *Note 19*). No amounts have been drawn on these letters of credit at August 31, 2017 and 2016.

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, 2017.

In March 2016, CHFFA, on behalf of LPCH, issued two series of revenue bonds (Series A and B) in the aggregate par amount of $177.0 million. A portion of the proceeds were used to redeem the 2008 Series A, B and C revenue bonds, and the remaining amount will be used to finance a portion of the Renewal Project and to pay for the cost of issuance.

Letters of credit

At August 31, 2017, LPCH had irrevocable standby letters of credit in the aggregate amount of $11.6 million posted with certain beneficiaries in the following amounts and for the following respective purposes: (i) $7.7 million to serve as security for the workers' compensation self-insurance arrangement, (ii) $1.4 million to serve as security deposits for certain construction projects being undertaken by LPCH including the Renewal Project (see *Note 19*), and (iii) $2.5 million to serve as a deposit for the acquisition of the long-term ground lease interest in land and improvements of a parcel located adjacent to the existing facility. No amounts have been drawn on these letters of credit at August 31, 2017 and 2016.

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
2017				
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)
INTEREST EXPENSE, NET	**$ 103,529**	**$ 43,171**	**$ 11,153**	**$ 157,853**
2016				
Interest expense, gross	$ 110,300	$ 63,365	$ 21,861	$ 195,526
Less:				
Interest income earned on unspent proceeds	(409)	-	-	(409)
Interest capitalized as a cost of construction	(3,717)	(24,190)	(10,897)	(38,804)
Interest expense on Series 2009A bonds which is classified as an investment expense	(13,230)	-	-	(13,230)
INTEREST EXPENSE, NET	**$ 92,944**	**$ 39,175**	**$ 10,964**	**$ 143,083**

The University and SHC use interest rate exchange agreements to manage the interest rate exposure of their debt portfolios. As described in *Note 1*, 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 in "other operating expenses" for SHC. University net payments on interest rate exchange agreements were $3.0 million and $3.3 million for the years ended August 31, 2017 and 2016, respectively. SHC net payments on interest rate exchange agreements were $17.2 million and $13.5 million for the years ended August 31, 2017 and 2016, respectively.

PRINCIPAL PAYMENTS

At August 31, 2017, scheduled principal payments on notes, bonds and capital lease obligations, in thousands of dollars, are as follows:

	PRINCIPAL PAYMENTS			
YEAR ENDING AUGUST 31	UNIVERSITY	SHC	LPCH	CONSOLIDATED
2018 Variable debt subject to remarketing	$ 192,573	$ 363,200	$ -	$ 555,773
2018 Other	-	13,335	5,800	19,135
2019	433,400	14,505	7,920	455,825
2020	3,000	14,235	8,245	25,480
2021	124,115	16,045	8,635	148,795
2022	-	15,775	9,045	24,820
Thereafter	2,906,030	1,096,220	770,530	4,772,780
TOTAL	**$ 3,659,118**	**$ 1,533,315**	**$ 810,175**	**$ 6,002,608**

12. 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 $2.4 million and $13.6 million at August 31, 2017 and 2016, respectively.

Endowment funds by net asset classification at August 31, 2017 and 2016, in thousands of dollars, are as follows:

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
2017				
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
TOTAL ENDOWMENT FUNDS	**$ 11,482,282**	**$ 6,992,113**	**$ 6,670,541**	**$ 25,144,936**
2016				
University endowment				
Donor-restricted endowment funds	$ (13,597)	$ 6,119,400	$ 6,067,654	$ 12,173,457
Funds functioning as endowment	10,224,673	-	-	10,224,673
University endowment	10,211,076	6,119,400	6,067,654	22,398,130
SHC donor-restricted endowment funds	-	10,723	7,894	18,617
LPCH donor-restricted endowment funds	-	94,936	211,348	306,284
TOTAL ENDOWMENT FUNDS	**$ 10,211,076**	**$ 6,225,059**	**$ 6,286,896**	**$ 22,723,031**

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, 2017 and 2016, in thousands of dollars, are as follows:

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
2017				
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
ENDOWMENT, END OF YEAR	**$ 11,482,282**	**$ 6,867,393**	**$ 6,435,268**	**$ 24,784,943**
2016				
Endowment, beginning of year	$ 10,036,260	$ 6,466,064	$ 5,720,633	$ 22,222,957
Investment returns:				
Earned income	170,659	-	-	170,659
Unrealized and realized gains (losses)	1,087,635	(353,178)	25,335	759,792
Total investment returns	1,258,294	(353,178)	25,335	930,451
Amounts distributed for operations	(1,132,105)	-	-	(1,132,105)
Gifts, transfers and other changes in endowment:				
Current year gifts and pledge payments	2,487	15,061	217,248	234,796
Transfers of prior year gifts	21,220	125	60,347	81,692
EFP funds withdrawn from the endowment	(48,774)	-	-	(48,774)
Other funds invested in (withdrawn from) the endowment, net	73,694	(8,672)	44,091	109,113
Total gifts, transfers and other changes in endowment	48,627	6,514	321,686	376,827
Total net increase (decrease) in endowment	174,816	(346,664)	347,021	175,173
ENDOWMENT, END OF YEAR	**$ 10,211,076**	**$ 6,119,400**	**$ 6,067,654**	**$ 22,398,130**

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. Their endowments are subject to the same 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 2017 and 2016.

SHC

Changes in SHC's endowment, excluding pledges, for the years ended August 31, 2017 and 2016, in thousands of dollars, are as follows:

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
2017				
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
ENDOWMENT, END OF YEAR	**$ -**	**$ 12,567**	**$ 8,144**	**$ 20,711**
2016				
Endowments, beginning of year	$ -	$ 10,666	$ 7,694	$ 18,360
Investment returns:				
Earned income	-	491	-	491
Unrealized and realized losses	-	(21)	-	(21)
Total investment returns	-	470	-	470
Amounts distributed for operations	-	(413)	-	(413)
Gifts and pledge payments	-	-	200	200
Total net increase in endowments	-	57	200	257
ENDOWMENT, END OF YEAR	**$ -**	**$ 10,723**	**$ 7,894**	**$ 18,617**

LPCH

Changes in LPCH's endowment, excluding pledges, for the years ended August 31, 2017 and 2016, in thousands of dollars, are as follows:

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
2017				
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
ENDOWMENT, END OF YEAR	**$ -**	**$ 112,153**	**$ 227,129**	**$ 339,282**
2016				
Endowments, beginning of year	$ -	$ 103,166	$ 204,405	$ 307,571
Investment returns:				
Earned income	-	16,134	-	16,134
Unrealized and realized gains (losses)	-	(8,746)	1,255	(7,491)
Total investment returns	-	7,388	1,255	8,643
Amounts distributed for operations	-	(15,462)	-	(15,462)
Gifts and pledge payments	-	-	5,763	5,763
Other	-	(156)	(75)	(231)
Total net increase (decrease) in endowments	-	(8,230)	6,943	(1,287)
ENDOWMENT, END OF YEAR	**$ -**	**$ 94,936**	**$ 211,348**	**$ 306,284**

13. Gifts and Pledges

Gifts and pledges reported for financial statement purposes are recorded on the accrual basis. The Office of Development (OOD), which is the primary fundraising agent for the University and SHC, reports total gifts based on contributions received in cash or property during the fiscal year. Lucile Packard Foundation for Children's Health (LPFCH) is the primary community fundraising agent for LPCH and the pediatric faculty and programs at the University's SOM. The following summarizes gifts and pledges reported for the years ended August 31, 2017 and 2016, per the *Consolidated Statements of Activities*, in thousands of dollars:

	UNIVERSITY	SHC	LPCH	CONSOLIDATED
2017				
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
TOTAL	**$ 916,632**	**$ 28,951**	**$ 87,351**	**$ 1,032,934**
2016				
Current year gifts in support of operations	$ 250,769	$ 1,776	$ 5,740	$ 258,285
Donor advised funds, net	21,783	-	-	21,783
Current year gifts not included in operations	2,381	-	-	2,381
Temporarily restricted gifts and pledges, net	284,923	20,716	129,868	435,507
Permanently restricted gifts and pledges, net	761,992	200	7,669	769,861
TOTAL	**$ 1,321,848**	**$ 22,692**	**$ 143,277**	**$ 1,487,817**

14. Functional Expenses

Expenses for the years ended August 31, 2017 and 2016 are categorized on a functional basis as follows, in thousands of dollars:

	UNIVERSITY	SHC	LPCH	ELIMINATIONS	CONSOLIDATED
2017					
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
TOTAL EXPENSES	**$ 5,377,530**	**$ 4,220,519**	**$ 1,499,564**	**$(1,041,458)**	**$10,056,155**
2016					
Instruction and departmental research	$ 1,733,100	$ -	$ -	$ -	$ 1,733,100
Organized research - direct costs	1,092,696	-	-	-	1,092,696
Patient services	-	3,553,997	1,232,211	(860,086)	3,926,122
Auxiliary activities	1,019,270	-	-	-	1,019,270
Administration and general	410,659	384,711	120,601	(50,669)	865,302
Student services	242,693	-	-	-	242,693
Libraries	151,531	-	-	-	151,531
Development	102,528	10,911	10,868	(9,979)	114,328
SLAC construction	162,133	-	-	-	162,133
TOTAL EXPENSES	**$ 4,914,610**	**$ 3,949,619**	**$ 1,363,680**	**$ (920,734)**	**$ 9,307,175**

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.

15. University Retirement Plans

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

DEFINED CONTRIBUTION PLAN

The University offers a defined contribution plan to eligible faculty and staff through the *Stanford Contributory Retirement Plan* (SCRP). Employer contributions are based on a percentage of participant annual compensation, participant contributions and years of service. University and participant contributions are primarily invested in annuities and mutual funds. University contributions under the SCRP, which are vested immediately to participants, were approximately $156.1 million and $145.8 million for the years ended August 31, 2017 and 2016, 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.

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, 2017 and 2016, 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
2017				
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)
FAIR VALUE OF PLAN ASSETS, END OF YEAR	**282,461**	**-**	**230,081**	**512,542**
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)
BENEFIT OBLIGATION, END OF YEAR	**330,234**	**174,447**	**571,951**	**1,076,632**
NET LIABILITY RECOGNIZED IN THE *STATEMENTS OF FINANCIAL POSITION*	**$ (47,773)**	**$ (174,447)**	**$ (341,870)**	**$ (564,090)**

** Net of Medicare subsidy of $2.0 million*

	SRAP	FRIP	PRBP	TOTAL
2016				
Fair value of plan assets, beginning of year	$ 269,969	$ -	$ 194,978	$ 464,947
Change in plan assets:				
Actual return on plan assets	34,625	-	14,670	49,295
Employer contributions	-	6,014	17,451	23,465
Plan participants' contributions	-	-	12,111	12,111
Benefits and plan expenses paid	(18,920)	(6,014)	(28,636) *	(53,570)
FAIR VALUE OF PLAN ASSETS, END OF YEAR	**285,674**	**-**	**210,574**	**496,248**
Benefit obligation, beginning of year	316,835	207,481	626,467	1,150,783
Change in projected benefit obligation:				
Service cost	2,794	12,637	23,677	39,108
Interest cost	12,124	7,947	27,538	47,609
Plan participants' contributions	-	-	12,111	12,111
Actuarial loss (gain)	33,730	(51,362)	(127,114)	(144,746)
Benefits and plan expenses paid	(18,920)	(6,014)	(28,636) *	(53,570)
BENEFIT OBLIGATION, END OF YEAR	**346,563**	**170,689**	**534,043**	**1,051,295**
NET LIABILITY RECOGNIZED IN THE *STATEMENTS OF FINANCIAL POSITION*	**$ (60,889)**	**$ (170,689)**	**$ (323,469)**	**$ (555,047)**

** Net of Medicare subsidy of $2.0 million*

The accumulated benefit obligation for the SRAP was $328.9 million and $344.7 million at August 31, 2017 and 2016, respectively.

Net periodic benefit expense and non-operating activities related to the Plans for the years ended August 31, 2017 and 2016, in thousands of dollars, includes the following components:

	SRAP	FRIP	PRBP	TOTAL
2017				
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
NET PERIODIC BENEFIT EXPENSE	**130**	**16,301**	**20,095**	**36,526**
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)
TOTAL AMOUNTS RECOGNIZED IN NON-OPERATING ACTIVITIES	**(8,246)**	**(4,515)**	**6,906**	**(5,855)**
TOTAL AMOUNT RECOGNIZED IN NET PERIODIC BENEFIT EXPENSE AND NON-OPERATING ACTIVITIES	**$ (8,116)**	**$ 11,786**	**$ 27,001**	**$ 30,671**
2016				
Service cost	$ 2,794	$ 12,637	$ 23,677	$ 39,108
Interest cost	12,124	7,947	27,538	47,609
Expected return on plan assets	(15,349)	-	(13,648)	(28,997)
Amortization of:				
Prior service cost	396	-	849	1,245
Actuarial loss	1,047	4,747	8,625	14,419
NET PERIODIC BENEFIT EXPENSE	**1,012**	**25,331**	**47,041**	**73,384**
Net actuarial loss (gain)	14,454	(51,362)	(128,136)	(165,044)
Amortization of:				
Prior service cost	(396)	-	(849)	(1,245)
Actuarial loss	(1,047)	(4,747)	(8,625)	(14,419)
TOTAL AMOUNTS RECOGNIZED IN NON-OPERATING ACTIVITIES	**13,011**	**(56,109)**	**(137,610)**	**(180,708)**
TOTAL AMOUNT RECOGNIZED IN NET PERIODIC BENEFIT EXPENSE AND NON-OPERATING ACTIVITIES	**$ 14,023**	**$ (30,778)**	**$ (90,569)**	**$ (107,324)**

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, 2017 and 2016, in thousands of dollars:

	SRAP	FRIP	PRBP	TOTAL
2017				
Prior service cost	$ 816	$ -	$ -	$ 816
Net actuarial loss	62,493	27,914	66,566	156,973
ACCUMULATED PLAN BENEFIT COSTS NOT YET RECOGNIZED IN NET PERIODIC BENEFIT EXPENSE	**$ 63,309**	**$ 27,914**	**$ 66,566**	**$ 157,789**
2016				
Prior service cost	$ 1,206	$ -	$ -	$ 1,206
Net actuarial loss	70,349	32,429	59,660	162,438
ACCUMULATED PLAN BENEFIT COSTS NOT YET RECOGNIZED IN NET PERIODIC BENEFIT EXPENSE	**$ 71,555**	**$ 32,429**	**$ 59,660**	**$ 163,644**

The prior service costs and net actuarial loss expected to be amortized from non-operating activities to net periodic benefit expense in fiscal year 2018, in thousands of dollars, are as follows:

	SRAP	FRIP	PRBP	TOTAL
Prior service cost	$ 390	$ -	$ -	$ 390
Net actuarial loss	$ 1,304	$ 597	$ 701	$ 2,602

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	
	2017	2016	2017	2016	2017	2016
BENEFIT OBLIGATIONS						
Discount rate	3.42%	3.15%	3.44%	3.15%	3.78%	3.56%
Covered payroll growth rate	3.00%	3.00%	4.26%	4.26%	N/A	N/A
NET PERIODIC BENEFIT COST						
Discount rate	3.15%	4.00%	3.15%	3.93%	3.56%	4.46%
Expected returns on plan assets	5.50%	6.00%	N/A	N/A	7.00%	7.00%
Covered payroll growth rate	3.00%	3.00%	4.26%	4.45%	N/A	N/A

The expected long-term rate of return on asset assumptions for the SRAP and PRBP plans is 5.5% and 7.00%, respectively. The assumption is used in determining the expected returns on plan assets, a component of net periodic benefit expense (income), representing the expected return for the upcoming fiscal year on plan assets. This assumption is developed based on future expectations for returns in each asset class, as well as the target asset allocation of the portfolios. The use of expected long-term returns on plan assets may result in income that is greater or less than the actual returns of those plan assets in any given year. Over time, however, the expected long-term returns are designed to approximate the actual long-term returns, and therefore result in a pattern of income and cost recognition that more closely matches the pattern of the services provided by the employees. Differences between actual and expected returns are recognized as a component of non-operating activities and amortized as a component of net periodic benefit expense (income) over the service or life expectancy of the plan participants, depending on the plan, provided such amounts exceed the accounting standards threshold.

To determine the accumulated PRBP obligation at August 31, 2017, a 6.75% annual rate of increase in the per capita cost of covered health care was assumed for calendar year 2017, 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	$ 7,995	$ (6,046)
Effect on accumulated PRBP obligation	$101,389	$(80,453)

EXPECTED CONTRIBUTIONS

The University expects to contribute $12.0 million to the FRIP and does not expect to contribute to the SRAP and the PRBP during the fiscal year ending August 31, 2018.

EXPECTED BENEFIT PAYMENTS

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

			PRBP	
YEAR ENDING AUGUST 31	SRAP	FRIP	EXCLUDING MEDICARE SUBSIDY	EXPECTED MEDICARE PART D SUBSIDY
2018	$ 29,133	$ 11,999	$ 22,400	$ 2,697
2019	24,957	12,369	23,827	2,925
2020	24,127	13,131	25,230	3,161
2021	22,782	11,258	26,664	3,406
2022	23,808	11,906	28,132	3,653
2023 - 2027	105,678	60,880	163,505	22,143

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, 2017, 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, 2017 and 2016, 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, 2017 and 2016 and actual allocations and weighted-average target allocations at August 31, 2017 are as follows:

	2017	2016	2017 ACTUAL ALLOCATION	2017 TARGET ALLOCATION
SRAP:				
Cash and cash equivalents	$ 1,981	$ 1,829	1%	0%
Public equities	113,622	114,544	40%	41%
Fixed income	166,772	169,171	59%	59%
Private equities	86	130	<1%	0%
TOTAL	**282,461**	**285,674**	**100%**	**100%**
PRBP:				
Public equities	172,813	157,937	75%	75%
Fixed income	57,268	52,637	25%	25%
TOTAL	**230,081**	**210,574**	**100%**	**100%**
TOTAL PLAN ASSETS AT FAIR VALUE	**$ 512,542**	**$ 496,248**		

16. SHC and LPCH Retirement Plans

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

DEFINED CONTRIBUTION PLAN

The Hospitals offer a defined contribution plan to eligible employees. Employer contributions to the defined contribution retirement plan are based on a percentage of participant annual compensation, participant contributions and years of service. SHC and LPCH contributions under the plan, which are vested immediately to participants, were approximately $90.5 million and $79.2 million, and $35.0 million and $29.0 million for the years ended August 31, 2017 and 2016, 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 fiscal year ending August 31, 2016, the Pension Plan was amended to allow for a temporary lump sum window for deferred vested participants. During the window, eligible participants were contacted and offered an opportunity to take the lump sum value of their benefit, resulting in a $17.2 million lump sum payment from the plan. This large lump sum payment triggered settlement accounting which required a $6.1 million recognition of the plan's deferred losses, and also reduced the projected benefit obligation and assets by $17.2 million.

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
2017			
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)
FAIR VALUE OF PLAN ASSETS, END OF YEAR	**193,476**	**-**	**6,086**
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	-
BENEFIT OBLIGATION, END OF YEAR	**245,221**	**84,179**	**8,447**
NET LIABILITY RECOGNIZED IN THE *STATEMENTS OF FINANCIAL POSITION*	**$ (51,745)**	**$ (84,179)**	**$ (2,361)**

** Net of Medicare subsidy of $160 thousand*

	STAFF PENSION PLAN	PRMB	LPCH FROZEN PENSION PLAN
2016			
Fair value of plan assets, beginning of year	$ 197,889	$ -	$ 5,664
Change in plan assets:			
Actual return on plan assets	24,034	-	820
Employer contributions	-	6,029	422
Plan participants' contributions	-	1,043	-
Benefits and plan expenses paid	(13,685)	(7,072) *	(516)
Plan settlements	(17,217)	-	-
FAIR VALUE OF PLAN ASSETS, END OF YEAR	**191,021**	**-**	**6,390**
Benefit obligation, beginning of year	249,109	84,751	8,046
Change in projected benefit obligation:			
Service cost	1,644	2,052	-
Interest cost	9,806	3,295	311
Plan participants' contributions	-	1,043	-
Actuarial loss (gain)	26,827	(9,714)	859
Benefits and plan expenses paid	(13,685)	(7,072) *	(516)
Plan settlements	(17,217)	-	-
Plan amendments	-	2,289	-
BENEFIT OBLIGATION, END OF YEAR	**256,484**	**76,644**	**8,700**
NET LIABILITY RECOGNIZED IN THE *STATEMENTS OF FINANCIAL POSITION*	**$ (65,463)**	**$ (76,644)**	**$ (2,310)**

** Net of Medicare subsidy of $162 thousand*

The net liability for the PRMB includes amounts for both SHC and LPCH employees and is recognized on the Hospitals' respective *Statements of Financial Position*. The table below presents the plan obligations for each entity as of August 31, 2017 and 2016, in thousands of dollars:

	2017	2016
SHC	$ 65,823	$ 59,895
LPCH	18,356	16,749
TOTAL	**$ 84,179**	**$ 76,644**

The accumulated benefit obligation for the Pension Plan and LPCH Frozen Pension Plan was $243.2 million and $254.1 million, and $8.4 million and $8.7 million at August 31, 2017 and 2016, respectively.

Net periodic benefit expense and non-operating activities related to the Plans for the years ended August 31, 2017 and 2016, in thousands of dollars, includes the following components:

	STAFF PENSION PLAN	PRMB	LPCH FROZEN PENSION PLAN
2017			
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
NET PERIODIC BENEFIT EXPENSE	**3,468**	**5,426**	**81**
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)
TOTAL AMOUNTS RECOGNIZED IN NON-OPERATING ACTIVITIES	**(13,979)**	**8,548**	**(30)**
TOTAL AMOUNT RECOGNIZED IN NET PERIODIC BENEFIT EXPENSE AND NON-OPERATING ACTIVITIES	**$ (10,511)**	**$ 13,974**	**$ 51**
2016			
Service cost	$ 1,644	$ 2,052	$ -
Interest cost	9,806	3,295	311
Expected return on plan assets	(11,909)	-	(295)
Amortization of:			
Prior service cost	-	773	-
Actuarial loss (gain)	2,272	(313)	105
Settlement loss	6,079	-	-
NET PERIODIC BENEFIT EXPENSE	**7,892**	**5,807**	**121**
Net actuarial loss (gain)	14,702	(9,714)	334
New prior service cost	-	2,289	-
Amortization of:			
Prior service cost	-	(773)	-
Actuarial gain (loss)	(2,272)	313	(105)
Settlement loss	(6,079)	-	-
TOTAL AMOUNTS RECOGNIZED IN NON-OPERATING ACTIVITIES	**6,351**	**(7,885)**	**229**
TOTAL AMOUNT RECOGNIZED IN NET PERIODIC BENEFIT EXPENSE AND NON-OPERATING ACTIVITIES	**$ 14,243**	**$ (2,078)**	**$ 350**

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, 2017 and 2016, in thousands of dollars:

	SHC	LPCH	TOTAL
2017			
Net periodic benefit expense	$ 3,871	$ 1,555	$ 5,426
Amounts recognized in non-operating activities	7,797	751	8,548
TOTAL AMOUNT RECOGNIZED IN NET PERIODIC BENEFIT EXPENSE AND NON-OPERATING ACTIVITIES	**$ 11,668**	**$ 2,306**	**$ 13,974**
2016			
Net periodic benefit expense	$ 4,272	$ 1,535	$ 5,807
Amounts recognized in non-operating activities	(6,271)	(1,614)	(7,885)
TOTAL AMOUNT RECOGNIZED IN NET PERIODIC BENEFIT EXPENSE AND NON-OPERATING ACTIVITIES	**$ (1,999)**	**$ (79)**	**$ (2,078)**

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, 2017 and 2016, in thousands of dollars:

	STAFF PENSION PLAN	PRMB	LPCH FROZEN PENSION PLAN
2017			
Prior service cost	$ -	$ 7,636	$ -
Net actuarial loss (gain)	77,362	(9,117)	2,656
ACCUMULATED PLAN BENEFIT COSTS NOT YET RECOGNIZED IN NET PERIODIC BENEFIT EXPENSE	**$ 77,362**	**$ (1,481)**	**$ 2,656**
2016			
Prior service cost	$ -	$ 4,102	$ -
Net actuarial loss (gain)	91,341	(14,131)	2,686
ACCUMULATED PLAN BENEFIT COSTS NOT YET RECOGNIZED IN NET PERIODIC BENEFIT EXPENSE	**$ 91,341**	**$ (10,029)**	**$ 2,686**

The prior service cost and net actuarial loss expected to be amortized from non-operating activities to net periodic benefit expense in fiscal year 2018, in thousands of dollars, are as follows:

	STAFF PENSION PLAN	PRMB	LPCH FROZEN PENSION PLAN
Prior service cost	$ -	$ 1,602	$ -
Net actuarial loss (gain)	$ 2,605	$ (580)	$ 121

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	
	2017	2016	2017	2016	2017	2016
BENEFIT OBLIGATIONS						
Discount rate	3.56%	3.32%	3.33%	3.07%	3.46%	3.18%
Covered payroll growth rate	3.00%	3.00%	N/A	N/A	N/A	N/A
NET PERIODIC BENEFIT COST						
Discount rate	3.32%	4.20%	3.07%	4.01%	3.18%	4.03%
Expected return on plan assets	6.00%	6.50%	N/A	N/A	5.00%	5.50%
Covered payroll growth rate	3.00%	3.00%	N/A	N/A	N/A	N/A

The expected long-term rate of return on asset assumptions for the Pension Plan and LPCH Frozen Pension Plan are 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, 2017, a 6.75% annual rate of increase in the per capita cost of covered health care was assumed for calendar year 2017, 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	$ 101	$ (91)
Effect on accumulated PRMB obligation	$ 1,937	$ (1,754)

EXPECTED CONTRIBUTIONS

SHC expects to contribute $34.8 million to the Pension Plan and $5.7 million to the PRMB during the fiscal year ending August 31, 2018. LPCH expects to contribute $200 thousand to the LPCH Frozen Pension Plan during the fiscal year ending August 31, 2018.

EXPECTED BENEFIT PAYMENTS

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

YEAR ENDING AUGUST 31	STAFF PENSION PLAN	PRMB EXCLUDING MEDICARE SUBSIDY	PRMB EXPECTED MEDICARE PART D SUBSIDY	LPCH FROZEN PENSION PLAN
2018	$ 13,748	$ 7,212	$ 149	$ 693
2019	14,133	7,127	147	686
2020	14,463	7,152	143	658
2021	14,758	7,194	139	603
2022	14,986	7,214	135	565
2023 - 2027	75,373	33,554	578	2,563

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 the ERISA. The funds are diversified across asset classes to achieve an optimal balance between risk and return and between income and capital appreciation. Because the liabilities of each of the plans are long-term, the investment horizon is primarily long-term, with adequate liquidity to meet short-term benefit payment obligations.

CONCENTRATION OF RISK

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, 2017, 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, 2017 and 2016, are all categorized as Level 1 investments. The fair value of plan assets by asset category, in thousands of dollars, at August 31, 2017 and 2016 and actual allocations and weighted-average target allocations at August 31, 2017 are as follows:

	2017	2016	2017 ACTUAL ALLOCATION	2017 TARGET ALLOCATION
STAFF PENSION PLAN:				
Cash and cash equivalents	$ 1,247	$ 1,075	<1%	0%
Public equities	96,202	94,079	50%	50%
Fixed income	96,027	95,867	50%	50%
PLAN ASSETS AT FAIR VALUE	**$ 193,476**	**$ 191,021**	**100%**	**100%**
LPCH FROZEN PENSION PLAN:				
Cash and cash equivalents	$ 43	$ 65	1%	0%
Public equities	1,808	1,894	30%	30%
Fixed income	4,235	4,431	69%	70%
PLAN ASSETS AT FAIR VALUE	**$ 6,086**	**$ 6,390**	**100%**	**100%**

17. 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, 2017 and 2016 was $76.4 million and $68.6 million, respectively, for the University, $97.7 million and $90.0 million, respectively, for SHC, and $27.7 million and $27.5 million, respectively, for LPCH.

Net minimum future operating lease payments for periods subsequent to August 31, 2017, in thousands of dollars, are as follows:

	MINIMUM LEASE PAYMENTS			
YEAR ENDING AUGUST 31	UNIVERSITY	SHC	LPCH	CONSOLIDATED
2018	$ 52,109	$ 87,336	$ 24,504	$ 163,949
2019	28,110	84,232	21,013	133,355
2020	22,458	72,137	15,692	110,287
2021	19,068	62,857	5,108	87,033
2022	18,181	59,218	1,642	79,041
Thereafter	60,161	128,886	8,417	197,464
TOTAL	**$ 200,087**	**$ 494,666**	**$ 76,376**	**$ 771,129**

18. Related Party Transactions

Members of the University, SHC, and LPCH boards and senior management may, from time to time, be associated, either directly or indirectly, with companies doing business with Stanford. 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 manage appropriately the actual or perceived conflict in the best interests of the relevant entity. No such associations are considered to be significant.

The University, 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.

19. Commitments and Contingencies

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

SPONSORED 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 2017 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 its financial position.

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 and state governmental agencies. Governmental agencies have the authority to investigate and request further information about an incident or safeguards, to cite the University, SHC or LPCH for a deficiency or regulatory violation, and/or require payment of fines, corrective action, or both. California law also allows a private right to sue for a breach of medical information. To date, the cost of such possible consequences has not been material to the University, SHC or LPCH, and management does not believe that any future consequences of these identified incidents will be material to the consolidated financial statements.

LABOR AGREEMENTS

Approximately 7% of the University's, 31% of SHC's and 41% 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, 2017.

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 also includes replacement of outdated laboratory facilities at the Stanford SOM and remodeling of Hoover Pavilion.

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

SHC's share of the estimated total cost of the Renewal Project is $2.1 billion. The cost of LPCH's share 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. The sources of funding for the Renewal Project include operating surpluses, gifts, government grants, and bond proceeds. Through August 2017, SHC has recorded $1.5 billion in construction in progress, inclusive of $124.0 million in capitalized interest and LPCH has recorded $1.3 billion in construction in progress, inclusive of $34.0 million in capitalized interest, related to this project. Construction of the Renewal Project is currently scheduled to be completed in calendar year 2017 for LPCH and 2019 for SHC.

CONTRACTUAL COMMITMENTS

At August 31, 2017, the University had contractual obligations of approximately $827.3 million in connection with major construction projects. Remaining expenditures on construction in progress are estimated to be $1.5 billion, which will be financed with certain unexpended plant funds, gifts and debt. Commitments on contracts for the construction and remodeling of Hospital facilities were approximately $309.4 million for SHC and $69.6 million for LPCH at August 31, 2017.

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 24 years, undiscounted, is $193.1 million.

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

20. Subsequent Events

Stanford has evaluated subsequent events for the period from August 31, 2017 through December 5, 2017, the date the consolidated financial statements were issued.

21. Consolidating Entity Statements

The pages which follow present consolidating statements of financial position as of August 31, 2017 and 2016, 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, 2017 (in thousands of dollars)

	UNIVERSITY	SHC	LPCH	ELIMINATIONS	CONSOLIDATED
ASSETS					
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 $341,412	33,297,493	1,632,390	904,681	7,047	35,841,611
Plant facilities, net of accumulated depreciation	5,623,283	2,869,346	1,730,108	-	10,222,737
Works of art and special collections	-	-	-	-	-
TOTAL ASSETS	**$ 41,954,222**	**$ 6,229,612**	**$3,641,113**	**$ (176,603)**	**$ 51,648,344**
LIABILITIES AND NET ASSETS					
LIABILITIES:					
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 rental and other income	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
TOTAL LIABILITIES	**7,263,003**	**2,725,044**	**1,217,049**	**(130,893)**	**11,074,203**
NET ASSETS:					
Unrestricted, including non-controlling interest attributable to SHC of $45,710	19,072,619	2,893,173	1,545,390	(45,710)	23,465,472
Temporarily restricted	8,273,483	603,251	651,545	-	9,528,279
Permanently restricted	7,345,117	8,144	227,129	-	7,580,390
TOTAL NET ASSETS	**34,691,219**	**3,504,568**	**2,424,064**	**(45,710)**	**40,574,141**
TOTAL LIABILITIES AND NET ASSETS	**$ 41,954,222**	**$ 6,229,612**	**$3,641,113**	**$ (176,603)**	**$ 51,648,344**

CONSOLIDATING STATEMENTS OF FINANCIAL POSITION

At August 31, 2016 (in thousands of dollars)

	UNIVERSITY	SHC	LPCH	ELIMINATIONS	CONSOLIDATED
ASSETS					
Cash and cash equivalents	$ 640,224	$ 690,460	$ 532,900	$ -	$ 1,863,584
Assets limited as to use	315,889	235,788	219	-	551,896
Accounts receivable, net	316,193	642,369	302,234	-	1,260,796
Receivables (payables) from SHC and LPCH, net	91,468	-	-	(91,468)	-
Prepaid expenses and other assets	103,043	136,698	76,098	2,338	318,177
Pledges receivable, net	1,357,508	97,753	115,651	-	1,570,912
Student loans receivable, net	78,549	-	-	-	78,549
Faculty and staff mortgages and other loans receivable, net	610,026	-	-	-	610,026
Investments at fair value, including securities pledged or on loan of $205,128	29,085,787	1,552,389	694,055	-	31,332,231
Plant facilities, net of accumulated depreciation	5,168,720	2,401,880	1,429,316	-	8,999,916
Works of art and special collections	-	-	-	-	-
TOTAL ASSETS	**$ 37,767,407**	**$ 5,757,337**	**$3,150,473**	**$ (89,130)**	**$ 46,586,087**
LIABILITIES AND NET ASSETS					
LIABILITIES:					
Accounts payable and accrued expenses	$ 742,872	$ 1,115,084	$ 272,364	$ (95,386)	$ 2,034,934
Accrued pension and postretirement benefit obligations	555,047	125,358	19,059	-	699,464
Liabilities associated with investments	768,280	-	-	-	768,280
Deferred rental and other income	657,378	-	-	-	657,378
Notes and bonds payable	3,270,617	1,462,745	662,150	6,256	5,401,768
U.S. government refundable loan funds	54,035	-	-	-	54,035
TOTAL LIABILITIES	**6,048,229**	**2,703,187**	**953,573**	**(89,130)**	**9,615,859**
NET ASSETS:					
Unrestricted	17,255,819	2,469,170	1,411,433	-	21,136,422
Temporarily restricted	7,394,745	577,086	574,119	-	8,545,950
Permanently restricted	7,068,614	7,894	211,348	-	7,287,856
TOTAL NET ASSETS	**31,719,178**	**3,054,150**	**2,196,900**	**-**	**36,970,228**
TOTAL LIABILITIES AND NET ASSETS	**$ 37,767,407**	**$ 5,757,337**	**$3,150,473**	**$ (89,130)**	**$ 46,586,087**

CONSOLIDATING STATEMENTS OF ACTIVITIES

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

	UNIVERSITY	SHC	LPCH	ELIMINATIONS	CONSOLIDATED
UNRESTRICTED NET ASSETS					
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)
TOTAL STUDENT INCOME	**617,813**	**-**	**-**	**-**	**617,813**
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
TOTAL SPONSORED RESEARCH SUPPORT	**1,636,105**	**-**	**-**	**-**	**1,636,105**
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
TOTAL HEALTH CARE SERVICES	**1,023,321**	**4,315,173**	**1,384,829**	**(1,041,458)**	**5,681,865**
CURRENT YEAR GIFTS IN SUPPORT OF OPERATIONS	**324,523**	**160**	**5,667**	**-**	**330,350**
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
TOTAL NET ASSETS RELEASED FROM RESTRICTIONS	**184,084**	**8,676**	**3,027**	**-**	**195,787**
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
TOTAL INVESTMENT INCOME DISTRIBUTED FOR OPERATIONS	**1,309,833**	**1,068**	**15,669**	**-**	**1,326,570**
SPECIAL PROGRAM FEES AND OTHER INCOME	**508,899**	**129,324**	**77,666**	**-**	**715,889**
TOTAL OPERATING REVENUES	**5,604,578**	**4,454,401**	**1,486,858**	**(1,041,458)**	**10,504,379**
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
TOTAL OPERATING EXPENSES	**5,377,530**	**4,220,519**	**1,499,564**	**(1,041,458)**	**10,056,155**
CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES	**$ 227,048**	**$ 233,882**	**$ (12,706)**	**$ -**	**$ 448,224**

CONSOLIDATING STATEMENTS OF ACTIVITIES, Continued

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

	UNIVERSITY	SHC	LPCH	ELIMINATIONS	CONSOLIDATED
UNRESTRICTED NET ASSETS (continued)					
CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES	**$ 227,048**	**$ 233,882**	**$ (12,706)**	**$ -**	**$ 448,224**
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)
NET CHANGE IN UNRESTRICTED NET ASSETS	**1,816,800**	**424,003**	**133,957**	(45,710)	**2,329,050**
TEMPORARILY RESTRICTED NET ASSETS					
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)
NET CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	**878,738**	**26,165**	**77,426**	-	**982,329**
PERMANENTLY RESTRICTED NET ASSETS					
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
NET CHANGE IN PERMANENTLY RESTRICTED NET ASSETS	**276,503**	**250**	**15,781**	-	**292,534**
NET CHANGE IN TOTAL NET ASSETS	**2,972,041**	**450,418**	**227,164**	(45,710)	**3,603,913**
Total net assets, beginning of year	31,719,178	3,054,150	2,196,900	-	36,970,228
TOTAL NET ASSETS, END OF YEAR	**$ 34,691,219**	**$ 3,504,568**	**$ 2,424,064**	**$ (45,710)**	**$ 40,574,141**

CONSOLIDATING STATEMENTS OF ACTIVITIES

For the year ended August 31, 2016 (in thousands of dollars)

	UNIVERSITY	SHC	LPCH	ELIMINATIONS	CONSOLIDATED
UNRESTRICTED NET ASSETS					
OPERATING REVENUES:					
Student income:					
Undergraduate programs	$ 342,309	$ -	$ -	$ -	$ 342,309
Graduate programs	340,537	-	-	-	340,537
Room and board	174,111	-	-	-	174,111
Student financial aid	(269,613)	-	-	-	(269,613)
TOTAL STUDENT INCOME	**587,344**	**-**	**-**	**-**	**587,344**
Sponsored research support:					
Direct costs - University	753,638	-	-	-	753,638
Direct costs - SLAC National Accelerator Laboratory	447,834	-	-	-	447,834
Indirect costs	251,395	-	-	-	251,395
TOTAL SPONSORED RESEARCH SUPPORT	**1,452,867**	**-**	**-**	**-**	**1,452,867**
Health care services:					
Net patient service revenue	-	3,893,005	1,313,384	(47,214)	5,159,175
Premium revenue	-	72,292	-	-	72,292
Physicians' services and support - SHC and LPCH, net	873,520	-	-	(873,520)	-
Physicians' services and support - other facilities, net	32,966	-	-	-	32,966
TOTAL HEALTH CARE SERVICES	**906,486**	**3,965,297**	**1,313,384**	**(920,734)**	**5,264,433**
CURRENT YEAR GIFTS IN SUPPORT OF OPERATIONS	**250,769**	**1,776**	**5,740**	**-**	**258,285**
Net assets released from restrictions:					
Payments received on pledges	104,599	2,703	-	-	107,302
Prior year gifts released from donor restrictions	70,819	3,532	2,627	-	76,978
TOTAL NET ASSETS RELEASED FROM RESTRICTIONS	**175,418**	**6,235**	**2,627**	**-**	**184,280**
Investment income distributed for operations:					
Endowment	1,132,105	413	15,462	-	1,147,980
Expendable funds pools and other investment income	189,564	948	-	-	190,512
TOTAL INVESTMENT INCOME DISTRIBUTED FOR OPERATIONS	**1,321,669**	**1,361**	**15,462**	**-**	**1,338,492**
SPECIAL PROGRAM FEES AND OTHER INCOME	**523,506**	**122,996**	**65,089**	**-**	**711,591**
TOTAL OPERATING REVENUES	**5,218,059**	**4,097,665**	**1,402,302**	**(920,734)**	**9,797,292**
OPERATING EXPENSES:					
Salaries and benefits	3,091,657	1,850,124	585,503	-	5,527,284
Depreciation	345,977	136,166	56,454	-	538,597
Other operating expenses	1,476,976	1,963,329	721,723	(920,734)	3,241,294
TOTAL OPERATING EXPENSES	**4,914,610**	**3,949,619**	**1,363,680**	**(920,734)**	**9,307,175**
CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES	**$ 303,449**	**$ 148,046**	**$ 38,622**	**$ -**	**$ 490,117**

CONSOLIDATING STATEMENTS OF ACTIVITIES, Continued

For the year ended August 31, 2016 (in thousands of dollars)

	UNIVERSITY	SHC	LPCH	ELIMINATIONS	CONSOLIDATED
UNRESTRICTED NET ASSETS (continued)					
CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES	**$ 303,449**	**$ 148,046**	**$ 38,622**	**$ -**	**$ 490,117**
NON-OPERATING ACTIVITIES:					
Increase in reinvested gains	118,270	39,061	10,303	-	167,634
Donor advised funds, net	21,783	-	-	-	21,783
Current year gifts not included in operations	2,381	-	-	-	2,381
Equity and fund transfers, net	104,944	(92,242)	(12,702)	-	-
Capital and other gifts released from restrictions	117,490	973	27	-	118,490
Pension and other postemployment benefit related changes other than net periodic benefit expense	180,708	(80)	1,385	-	182,013
Transfer to permanently restricted net assets, net	(45,651)	-	-	-	(45,651)
Transfer to temporarily restricted net assets, net	(35,082)	-	-	-	(35,082)
Swap interest and change in value of swap agreements	(19,966)	(115,958)	-	-	(135,924)
Other	(131)	(1,002)	(3,245)	-	(4,378)
NET CHANGE IN UNRESTRICTED NET ASSETS	**748,195**	**(21,202)**	**34,390**	-	**761,383**
TEMPORARILY RESTRICTED NET ASSETS					
Gifts and pledges, net	284,923	20,716	129,868	-	435,507
Increase (decrease) in reinvested gains	(349,476)	2,427	9,987	-	(337,062)
Change in value of split-interest agreements, net	14,702	-	164	-	14,866
Net assets released to operations	(175,418)	(9,372)	(23,829)	-	(208,619)
Capital and other gifts released to unrestricted net assets	(117,490)	(973)	(27)	-	(118,490)
Gift transfers, net	(2,927)	2,646	281	-	-
Transfer from unrestricted net assets, net	35,082	-	-	-	35,082
Transfer to permanently restricted net assets, net	(35,551)	-	-	-	(35,551)
Other	(3,151)	-	(564)	-	(3,715)
NET CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	**(349,306)**	**15,444**	**115,880**	-	**(217,982)**
PERMANENTLY RESTRICTED NET ASSETS					
Gifts and pledges, net	761,992	200	7,669	-	769,861
Increase in reinvested gains	25,566	-	-	-	25,566
Change in value of split-interest agreements, net	18,053	-	1,255	-	19,308
Transfer from unrestricted net assets, net	45,651	-	-	-	45,651
Transfer from temporarily restricted net assets, net	35,551	-	-	-	35,551
Other	-	-	(1,981)	-	(1,981)
NET CHANGE IN PERMANENTLY RESTRICTED NET ASSETS	**886,813**	**200**	**6,943**	-	**893,956**
NET CHANGE IN TOTAL NET ASSETS	**1,285,702**	**(5,558)**	**157,213**	-	**1,437,357**
Total net assets, beginning of year	30,433,476	3,059,708	2,039,687	-	35,532,871
TOTAL NET ASSETS, END OF YEAR	**$ 31,719,178**	**$ 3,054,150**	**$ 2,196,900**	**$ -**	**$ 36,970,228**

CONSOLIDATING STATEMENTS OF CASH FLOWS

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

	UNIVERSITY	SHC	LPCH	ELIMINATIONS	CONSOLIDATED
CASH FLOW FROM OPERATING ACTIVITIES					
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, loss on disposal of fixed assets and other adjustments	(5,408)	(1,583)	(2,202)	-	(9,193)
Provision for doubtful accounts for health care services	-	77,004	7,657	-	84,661
Net gains on investments and security agreements	(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)
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 rental and other income	214,351	-	-	-	214,351
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	**(164,406)**	**335,336**	**32,337**	**(45,710)**	**157,557**
CASH FLOW FROM INVESTING ACTIVITIES					
Land, building and equipment purchases	(780,710)	(635,550)	(383,719)	-	(1,799,979)
Student, faculty and other loans:					
New loans made	(132,076)	-	-	-	(132,076)
Principal collected	63,187	-	-	-	63,187
Decrease (increase) in assets limited as to use	121,513	177,654	(32,643)	-	266,524
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
NET CASH USED FOR INVESTING ACTIVITIES	**(1,463,798)**	**(428,895)**	**(403,178)**	**38,663**	**(2,257,208)**
CASH FLOW FROM FINANCING ACTIVITIES					
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
Contributions received for split-interest agreements	15,730	-	-	-	15,730
Payments made under split-interest agreements	(39,750)	-	-	-	(39,750)
Bond issuance costs and interest rate swaps	(2,136)	(71)	(2,183)	-	(4,390)
Repayment of notes and bonds payable	(217,579)	(18,708)	(5,695)	-	(241,982)
Increase in liabilities associated with investments	134,900	-	-	-	134,900
Other	(99)	-	-	-	(99)
NET CASH PROVIDED BY FINANCING ACTIVITIES	**1,248,353**	**113,208**	**244,624**	**-**	**1,606,185**
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(379,851)**	**19,649**	**(126,217)**	**(7,047)**	**(493,466)**
Cash and cash equivalents, beginning of year	640,224	690,460	532,900	-	1,863,584
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 260,373**	**$ 710,109**	**$ 406,683**	**$ (7,047)**	**$ 1,370,118**
SUPPLEMENTAL DATA:					
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
Increase (decrease) in payables for plant facilities	$ 33,198	$ (13,356)	$ 17,104	$ -	$ 36,946

CONSOLIDATING STATEMENTS OF CASH FLOWS

For the year ended August 31, 2016 (in thousands of dollars)

	UNIVERSITY	SHC	LPCH	CONSOLIDATED
CASH FLOW FROM OPERATING ACTIVITIES				
Change in net assets	$ 1,285,702	$ (5,558)	$ 157,213	$ 1,437,357
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:				
Depreciation	345,977	136,166	56,454	538,597
Amortization, loss on disposal of fixed assets and other adjustments	335	(1,664)	(1,453)	(2,782)
Provision for doubtful accounts for health care services	-	126,280	(2,433)	123,847
Net losses (gains) on investments and security agreements	(908,896)	(25,346)	3,814	(930,428)
Change in fair value of interest rate swaps	16,638	115,958	-	132,596
Change in split-interest agreements	10,591	-	(1,419)	9,172
Investment income for restricted purposes	(30,815)	-	-	(30,815)
Gifts restricted for long-term investments	(848,262)	(9,832)	(30,043)	(888,137)
Equity and fund transfers, net	(102,017)	89,599	12,418	-
Gifts of securities and properties	(15,585)	-	-	(15,585)
Premiums received from bond issuance	79,651	-	14,447	94,098
Changes in operating assets and liabilities:				
Accounts receivable	(41,134)	(160,251)	7,431	(193,954)
Pledges receivable, net	(21,036)	(951)	(82,880)	(104,867)
Prepaid expenses and other assets	(28,154)	(6,021)	(14,739)	(48,914)
Accounts payable and accrued expenses	6,123	129,967	7,220	143,310
Accrued pension and postretirement benefit obligations	(130,789)	7,591	(1,527)	(124,725)
Deferred rental and other income	4,528	-	-	4,528
Other	-	-	5,577	5,577
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	**(377,143)**	**395,938**	**130,080**	**148,875**
CASH FLOW FROM INVESTING ACTIVITIES				
Land, building and equipment purchases	(699,868)	(619,570)	(373,743)	(1,693,181)
Student, faculty and other loans:				
New loans made	(117,150)	-	-	(117,150)
Principal collected	50,335	-	-	50,335
Decrease (increase) in assets limited as to use	(155,538)	344,913	89,413	278,788
Purchases of investments	(14,341,974)	(74,446)	-	(14,416,420)
Sales and maturities of investments	14,898,551	217,292	270,000	15,385,843
NET CASH USED FOR INVESTING ACTIVITIES	**(365,644)**	**(131,811)**	**(14,330)**	**(511,785)**
CASH FLOW FROM FINANCING ACTIVITIES				
Gifts and reinvested income for restricted purposes	298,120	44,026	24,280	366,426
Equity and fund transfers from Hospitals	110,829	(77,419)	(33,410)	-
Proceeds from borrowing	486,154	-	100,000	586,154
Contributions received for split-interest agreements	24,422	-	-	24,422
Payments made under split-interest agreements	(40,879)	-	-	(40,879)
Bond issuance costs and interest rate swaps	(966)	-	(1,188)	(2,154)
Repayment of notes and bonds payable	(301,044)	(15,951)	(5,705)	(322,700)
Increase in liabilities associated with investments	98,467	-	-	98,467
Other	(296)	-	(2,728)	(3,024)
NET CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES	**674,807**	**(49,344)**	**81,249**	**706,712**
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(67,980)**	**214,783**	**196,999**	**343,802**
Cash and cash equivalents, beginning of year	708,204	475,677	335,901	1,519,782
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 640,224**	**$ 690,460**	**$ 532,900**	**$ 1,863,584**
SUPPLEMENTAL DATA:				
Interest paid, net of capitalized interest	$ 120,891	$ 41,427	$ 10,950	$ 173,268
Cash collateral received under security lending agreements	$ 213,629	$ -	$ -	$ 213,629
Increase (decrease) in payables for plant facilities	$ 6,485	$ (8,128)	$ 33,071	$ 31,428