Stanford University

# Annual Financial Report

August 31, 2018 and 2017

# Denning House

Denning House, home to the Knight-Hennessy Scholars program, is located in the heart of campus overlooking Lake Lagunita. It features small-group spaces, a lounge, classrooms, meeting, lecture and discussion rooms, and a dining space. The open and airy spaces serve as a convening hub, a shared space that enables the community of scholars to share ideas and experiences. The building is a dedicated space for ongoing interaction with scholars, distinguished visitors, and, eventually, program alumni.

**Photograph:** Eric Koziol / Office of Development

# STANFORD UNIVERSITY
# ANNUAL FINANCIAL REPORT

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# MANAGEMENT'S DISCUSSION AND ANALYSIS

## CONSOLIDATED FINANCIAL HIGHLIGHTS

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

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

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

Below are highlights of Stanford's FY18 financial results.

### Generous Donor Support

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

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

### Investment Performance

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

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

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

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

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

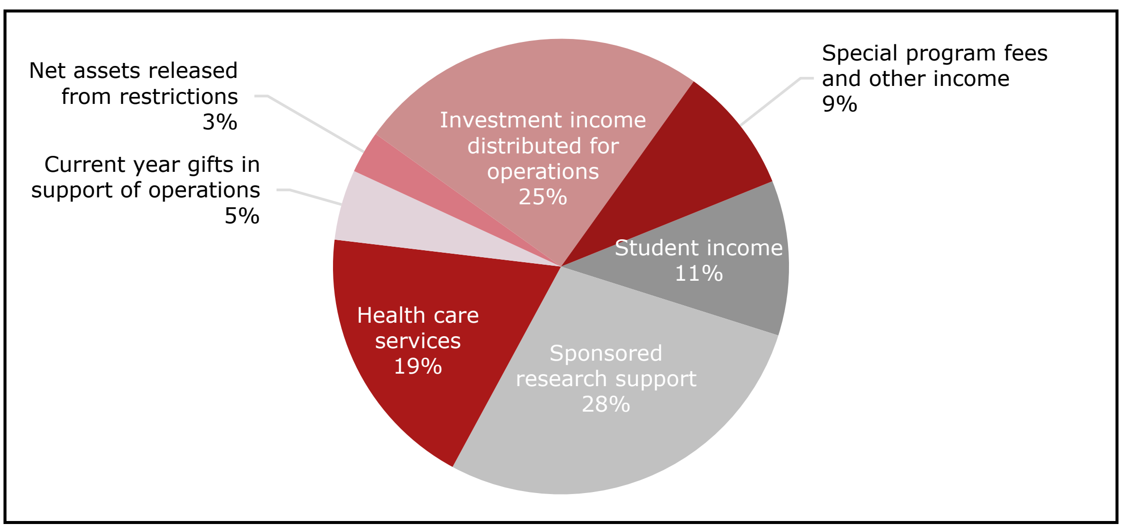
## UNIVERSITY
FY18 net assets increased 6% to $36.9 billion compared to $34.7 billion in the prior year. The endowment grew by $1.7 billion after distributing $1.2 billion to support operations, ending the year at $26.5 billion.

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

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

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

**FIGURE 1**
**UNIVERSITY OPERATING REVENUES**

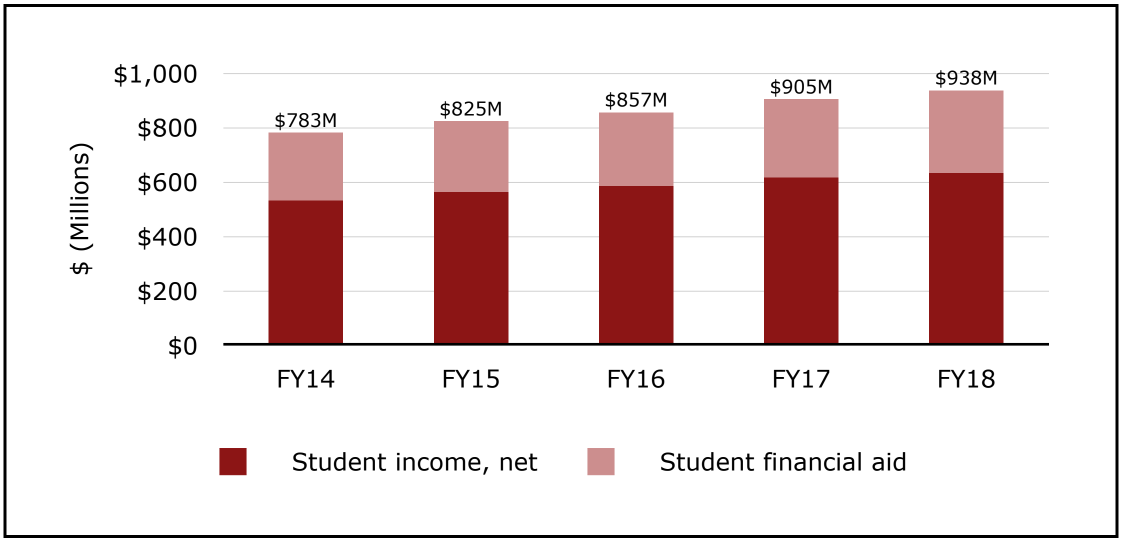


**Student Income**

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

**FIGURE 2**

**UNIVERSITY STUDENT INCOME AND FINANCIAL AID**




*Student Tuition*

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

*Student Room and Board*

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

*Student Financial Aid and Other Graduate Support*

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

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

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

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

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

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

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

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

**Sponsored Research Support**

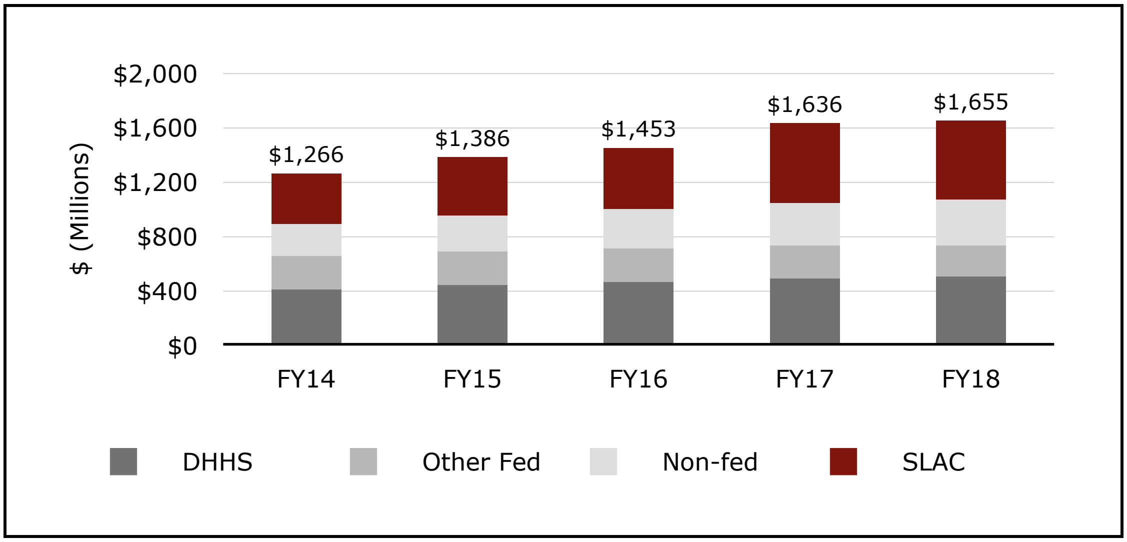
FY18 sponsored research support, including the SLAC National Accelerator Laboratory (SLAC), increased $19 million to $1.7 billion compared to FY17 revenues. Sponsored research support is the largest source of operating revenue, representing 28% of total revenues.

*Sponsored Research Support - University*

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

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

**FIGURE 3**
**UNIVERSITY SPONSORED RESEARCH SUPPORT**




In addition to payment for the direct costs of performing research, the University receives an amount from sponsors for facilities and administrative costs, known as indirect costs. Recovery of facilities and administrative costs associated with federally sponsored awards is recorded at rates negotiated with the University's cognizant federal agency, the Office of Naval Research. For FY18, the total amount of federal and non-federal indirect cost recovery increased by 3% to $274 million.

*Sponsored Research Support - SLAC*

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

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

**Health Care Services**

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

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

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

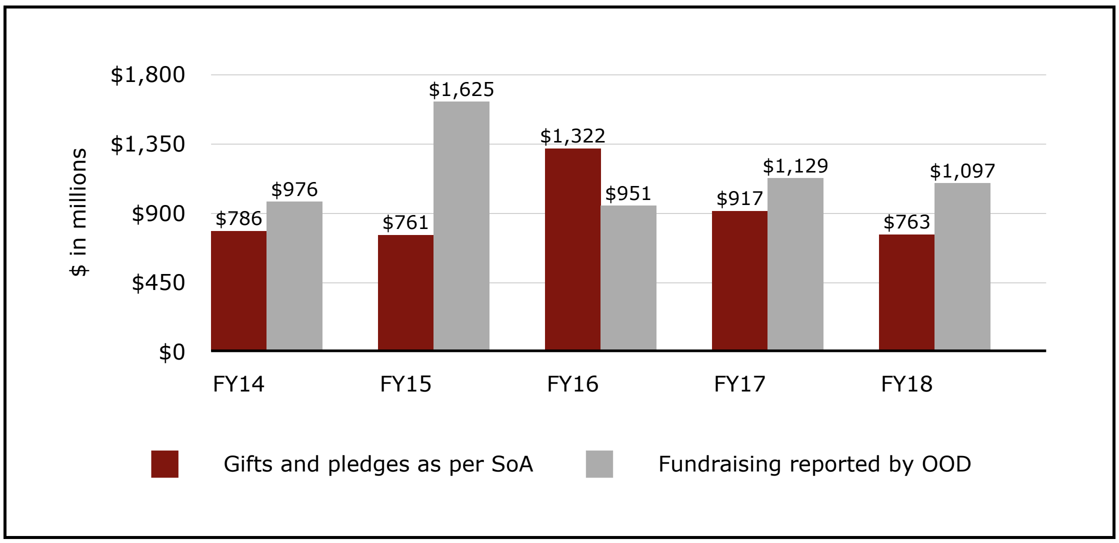
## THE UNIVERSITY'S GIFTS AND PLEDGES

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

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

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

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



**Total Investment Income Distributed for Operations**

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

*Endowment Income Distributed for Operations*

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

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

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

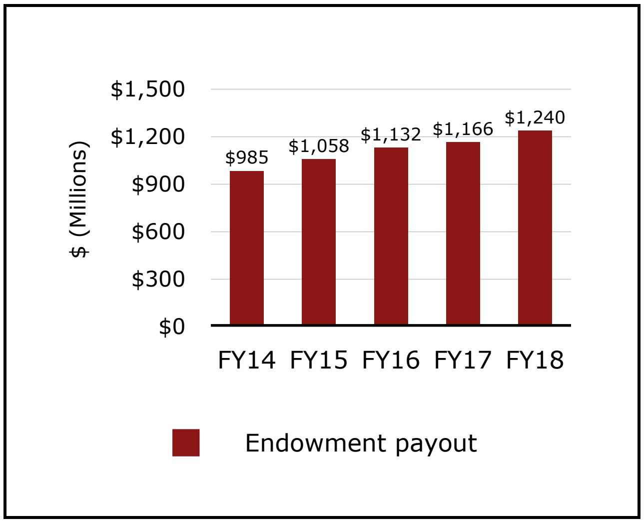
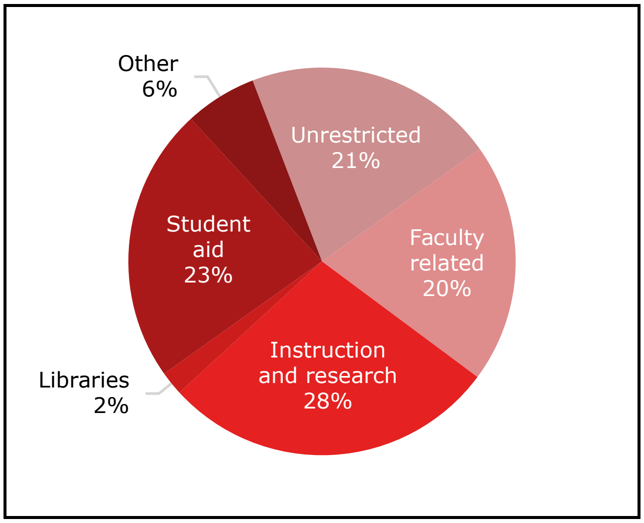



**FIGURE 6**
**UNIVERSITY ENDOWMENT PAYOUT BY PURPOSE**




*Expendable Funds Pool and Other Investment Income Distributed for Operations*

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

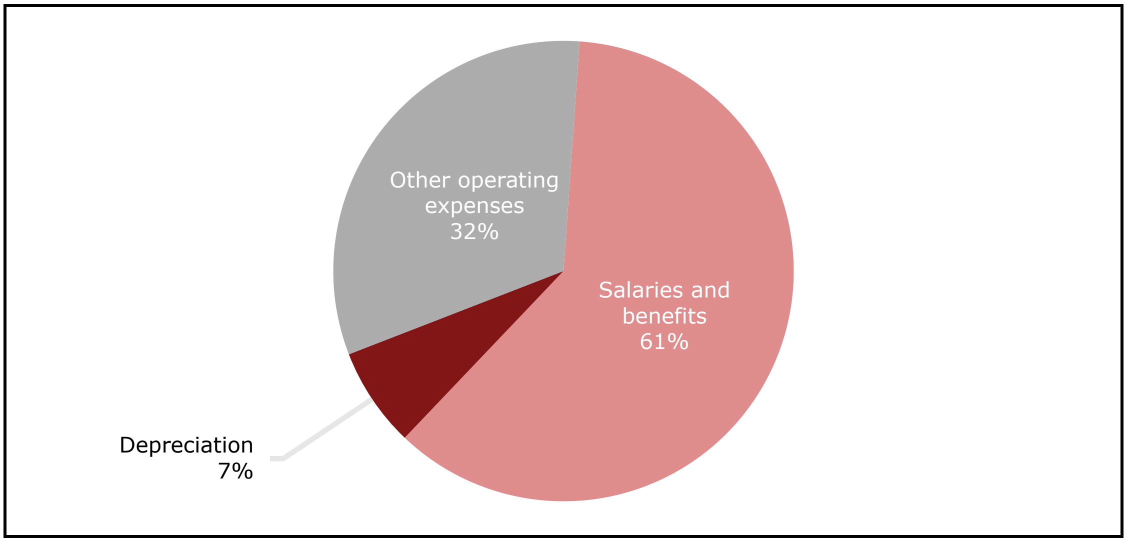
The EFP policy provides a variable payout to operations primarily based on prior year EFP investment returns. Payout on the EFP in FY18 was $102 million more than the prior year due to higher EFP investment returns in FY17 compared to FY16.

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

## UNIVERSITY OPERATING EXPENSES

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

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




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

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

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

## UNIVERSITY FINANCIAL POSITION

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

### Cash and Cash Equivalents

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

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

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

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

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

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

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

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

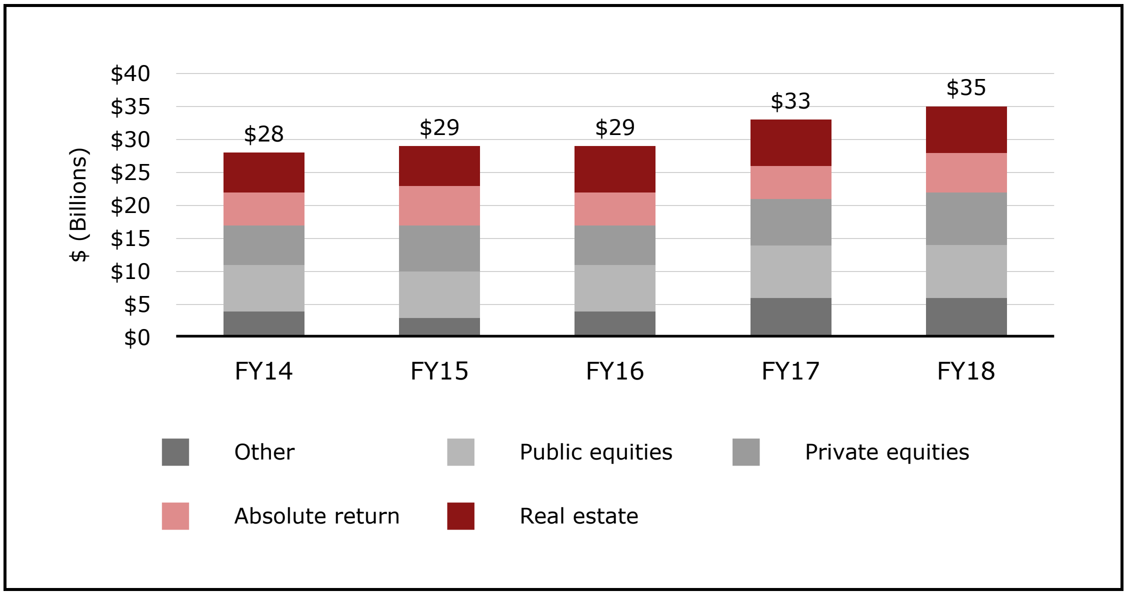
To meet short-term operating needs, cash is managed by matching the timing of cash inflows and outflows as closely as possible. Back-up borrowing facilities of $425 million and a $500 million taxable commercial paper program, if not drawn for capital improvements, are also available.

### Assets Limited as to Use

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

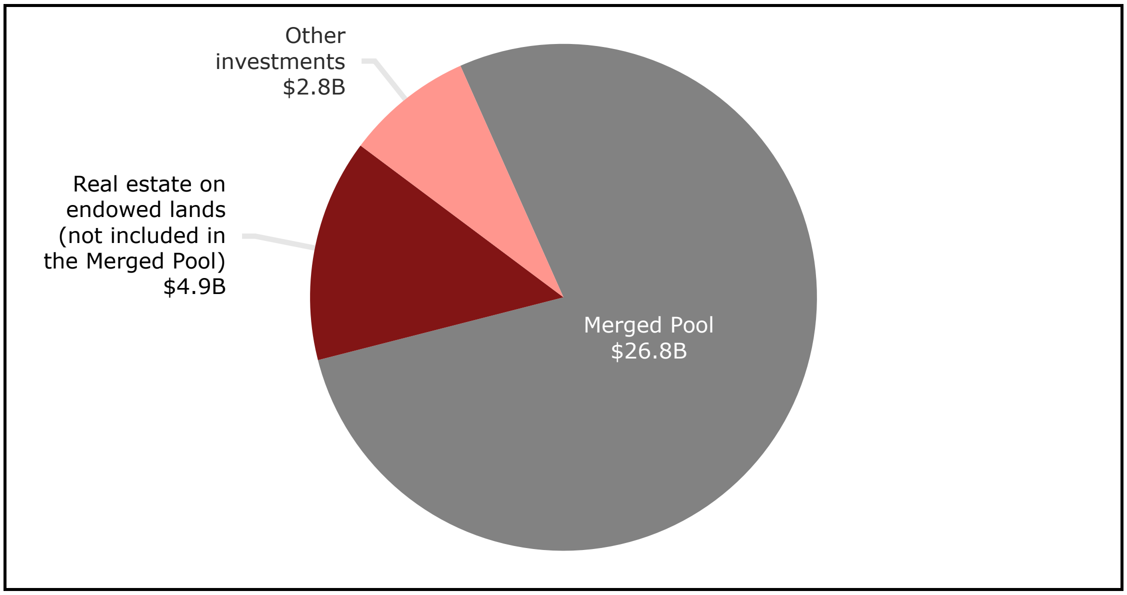
**Investments**
At August 31, 2018, University investments totaled $34.5 billion. Investments by asset class are shown in Figure 8.

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




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

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



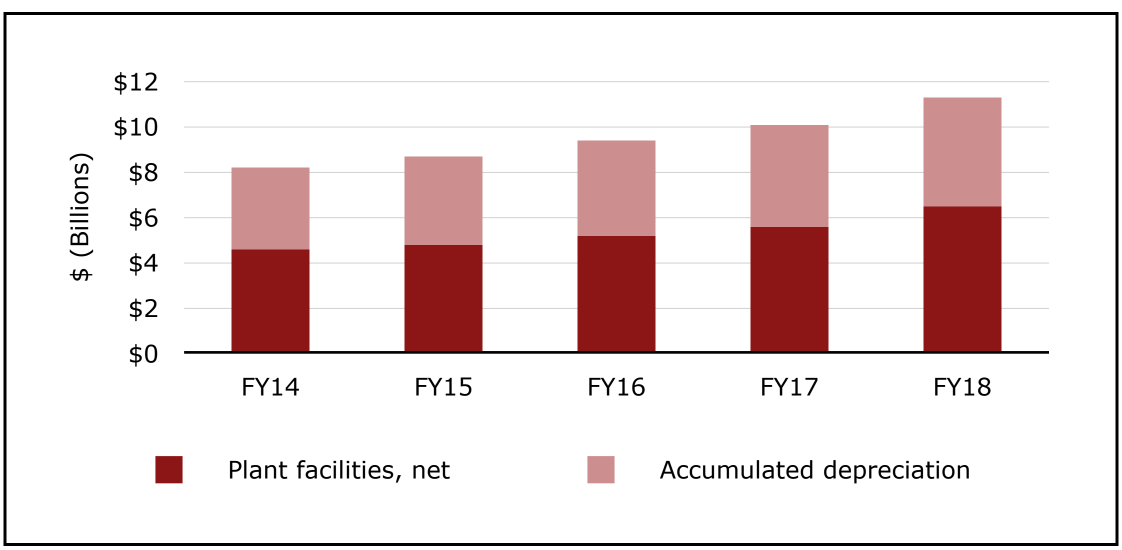
*Investments in MP*
As shown in Figure 9, the majority of the University's endowment assets are invested in the MP, as well as a majority of the EFP and capital reserves from SHC and LPCH. The MP, totaling $26.8 billion at August 31, 2018, is a diversified portfolio of actively managed public and private equity, absolute return, natural resources and real estate assets. The MP is managed by the Stanford Management Company (SMC), a division of the University with oversight by a Board of Directors appointed by the University's BOT. The portfolio is designed to optimize long-term returns, create consistent annual payouts to support the University's operations and preserve purchasing power for future generations of Stanford students and scholars.

*Real Estate on Endowed Lands*
A portion of Stanford's 8,180 acres, including the Stanford Research Park and Stanford Shopping Center, is designated for the production of income by the BOT. As of August 31, 2018, $5.7 billion of real estate investments (including $811 million in the MP) are located on these lands. In FY18, these properties (including MP real estate) generated $144 million in income, net of expenses, and appreciated in value by $337 million. These lands have been developed for various uses, including research, medical and commercial offices, hotels, retail properties and a regional shopping center. The University further diversifies this portfolio by employing a variety of financial structures, including ground leases, direct leases and participation arrangements. In recent years, the value of these properties has benefited from strong dynamics in the regional market including rising investor demand for real estate; high office, hotel and apartment occupancy rates; increased office rents; and strong retail sales.

*Other Specific Investments*
The remaining $2.8 billion of investments consists of the IPool, a portion of the STIP, and other specific investments.

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

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



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

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

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

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

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

**Debt**

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

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

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

**Net Assets**

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

**TAX REFORM**

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

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

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

## THE UNIVERSITY'S ENDOWMENT

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

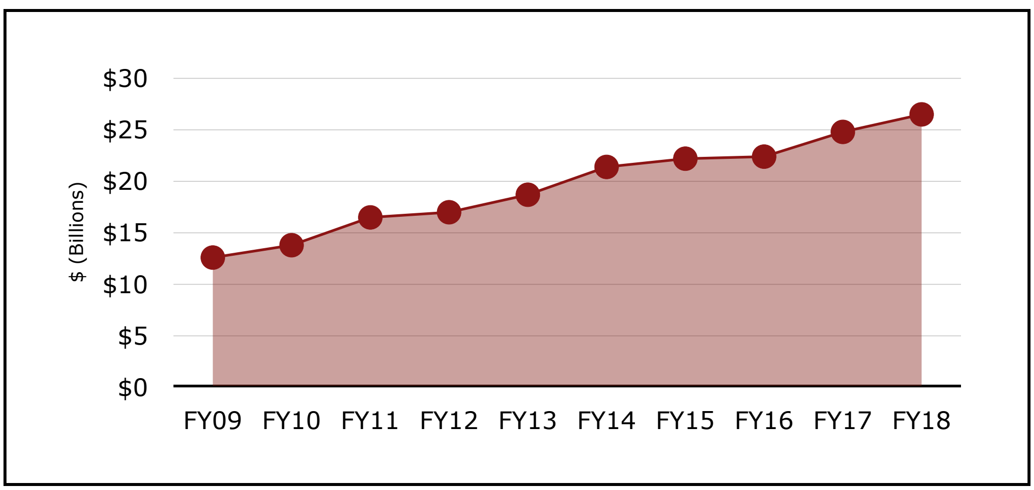
The University's endowment is crucial to providing funding for education and research programs, including increasing the amount spent on student financial aid. As discussed in the *Student Financial Aid and Other Graduate Support* section, a significant portion of the $622 million of student financial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

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

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

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

**FIGURE 11**
**UNIVERSITY ENDOWMENT**



## HOSPITALS

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

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

To improve and expand their services, the Hospitals have established community-based ambulatory clinic organizations — SHC's University HealthCare Alliance (UHA) and LPCH's Packard Children's Health Alliance (PCHA) — that support Stanford Medicine's mission to deliver quality care to the community and conduct research and education. Working collaboratively with their respective hospitals and the SOM faculty, these organizations have acquired general and multi-specialty practices to form a network of coordinated care throughout the Bay Area.

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

The discussion below provides additional detail about SHC's and LPCH's consolidated operations and financial results as derived from their separate consolidated financial statements.

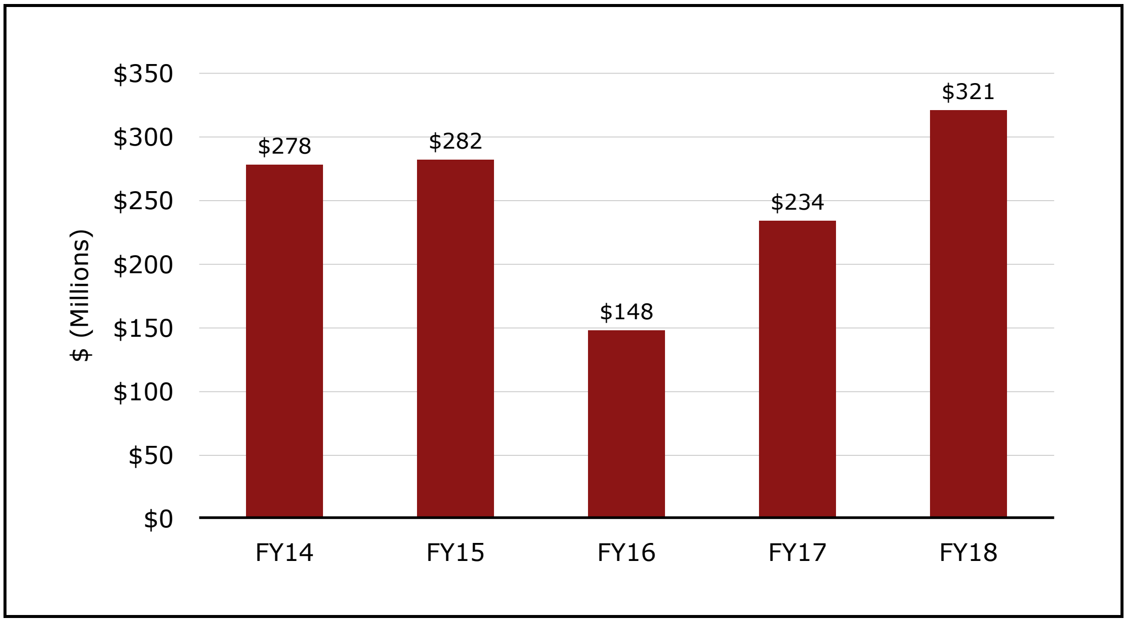
## STANFORD HEALTH CARE

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

### SHC FINANCIAL HIGHLIGHTS

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

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




### SHC OPERATING RESULTS

SHC's *Consolidated Statements of Operations and Changes in Net Assets* include results from both operating and non-operating changes in the net assets of SHC. Operating activities include the revenues earned and expenses incurred in the current year to support SHC's vision of healing humanity through science and compassion, one patient at a time. During FY18, SHC recorded revenues and expenses from the Hospital Fee Program ("HFP") totaling $90 million and $77 million, respectively. The figures discussed throughout this document include these amounts. FY18 operating revenues increased 10% compared to an increase in operating expenses of 9% during the same period. Revenues grew more than expenses mainly due to continued focus on strategic growth while implementing cost reductions. In addition, SHC continues to market two health plans: SHC Advantage, a Medicare health plan offered to Santa Clara and Alameda County residents, and SHC Alliance, a benefit plan that allows faculty and employees of Stanford University, SHC employees, and other employers access to the Stanford network of care.

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

## SHC OPERATING REVENUES

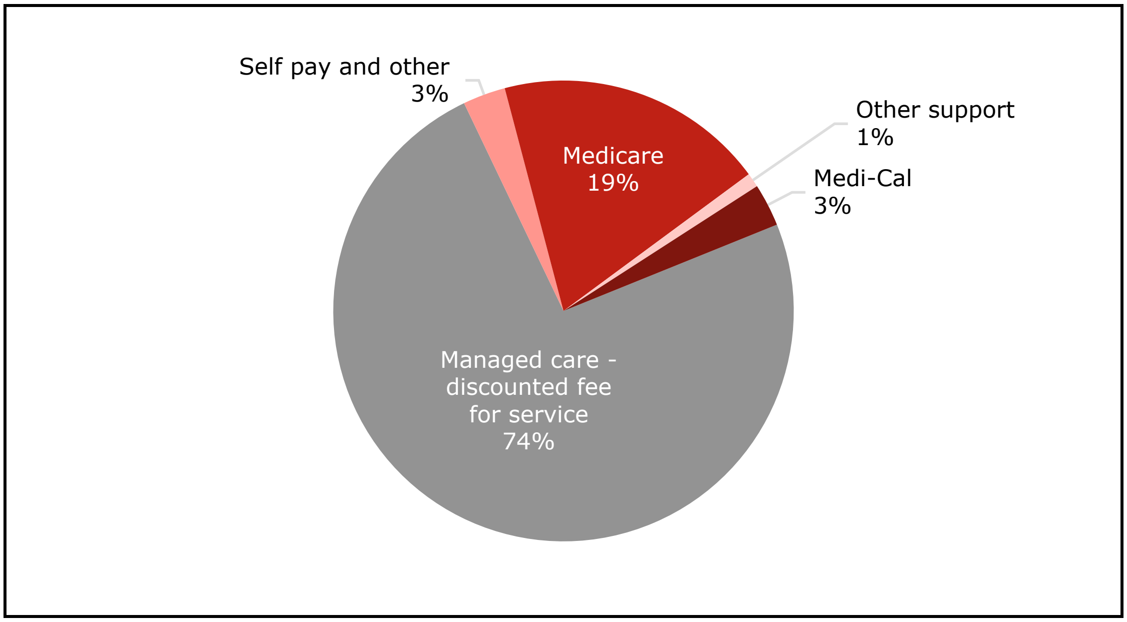
FY18 operating revenues were $4.9 billion, reflecting a 10% increase over FY17.

### Net Patient Service Revenue

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

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

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




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

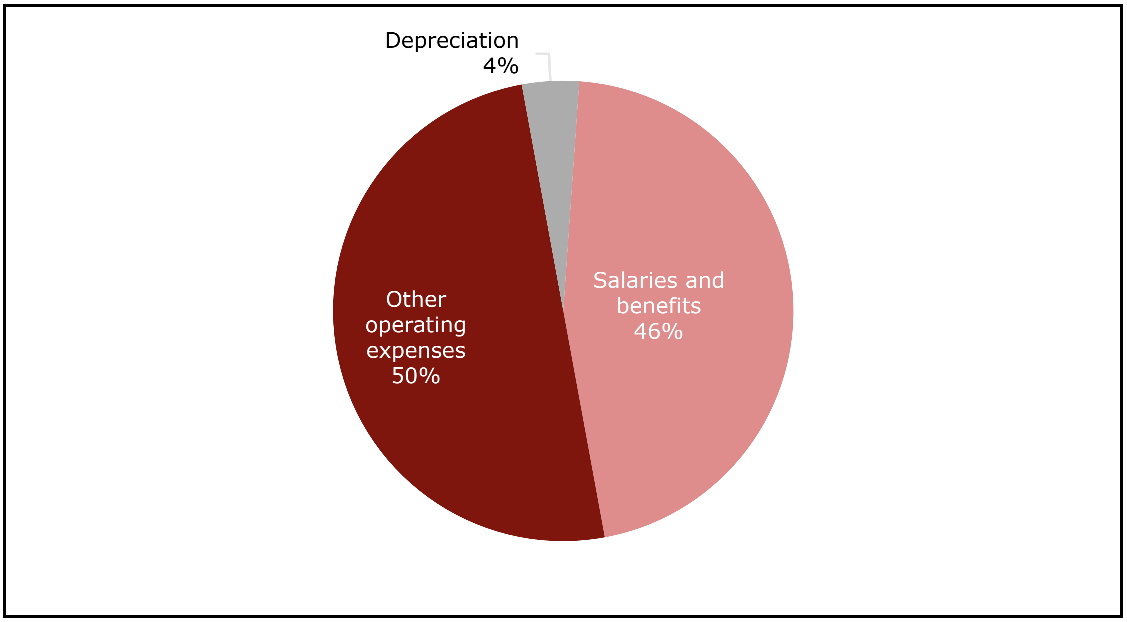
### Other Operating Revenues

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

### SHC OPERATING EXPENSES

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

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




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

- Salaries and benefits increased 5% in FY18 to $2.1 billion (inclusive of UHA and network growth). The increase resulted from expanded headcount to support current growth in patient volumes and future expansion (see the *Capital Projects* section below). The remaining increase was due to annual salary increases necessary to maintain SHC's position in the competitive market for healthcare professionals and higher benefit costs.

- Depreciation expense increased by 14% to $177 million in FY18 from $155 million in FY17. The increase resulted from buildings and equipment recently placed in service, additional asset retirement obligations on existing buildings and a full year of service for SHC's new facilities in Emeryville.

- Other operating expenses increased by 12% to $2.3 billion for FY18 due to a number of factors, notably, increases in purchased services of 7% to $1.2 billion related to payments to the University under its inter-entity agreement with the SOM. Supplies expense also increased by 14% to $667 million in response to patient volume growth and inflation.

### SHC FINANCIAL POSITION

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

#### Unrestricted Cash and Investments

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

**Capital Projects**
SHC continues to invest in facilities and systems required to remain at the forefront of medicine and to be the provider of choice for complex and network care in the communities it serves. During FY18, SHC invested $475 million in capital projects, bringing property and equipment, net of accumulated depreciation, to $3.3 billion, a $410 million increase.

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

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

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

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

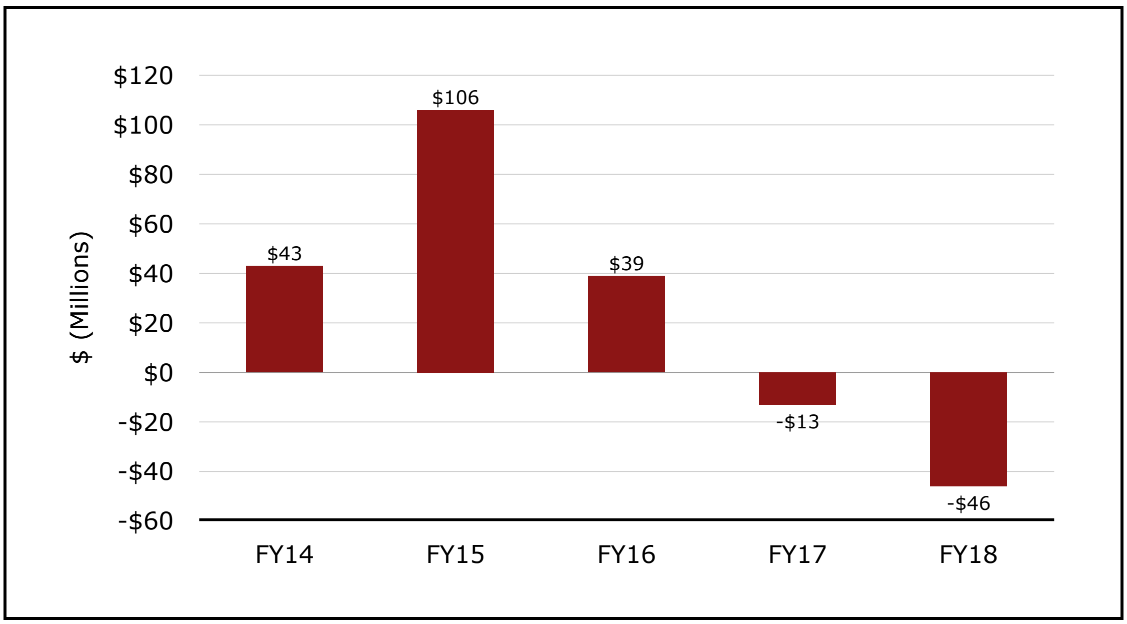
## LUCILE SALTER PACKARD CHILDREN'S HOSPITAL AT STANFORD

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

### LPCH FINANCIAL HIGHLIGHTS

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

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



## LPCH OPERATING RESULTS

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

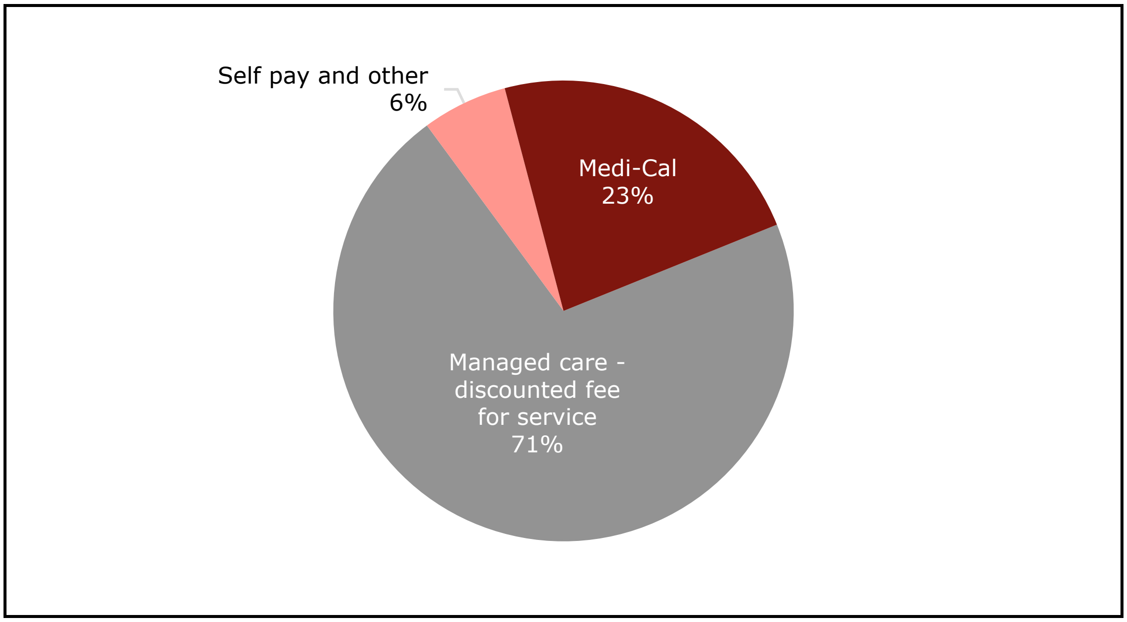
## LPCH OPERATING REVENUES

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

### Net Patient Service Revenue

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

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




LPCH's community benefits, including services to patients under Medi-Cal and other publicly sponsored programs that reimburse at amounts less than the cost of services, were $300 million in FY18 compared with $240 million in FY17. These amounts also include investments LPCH makes in improving the health of children through a range of community-based programs.

### Other Operating Revenues

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

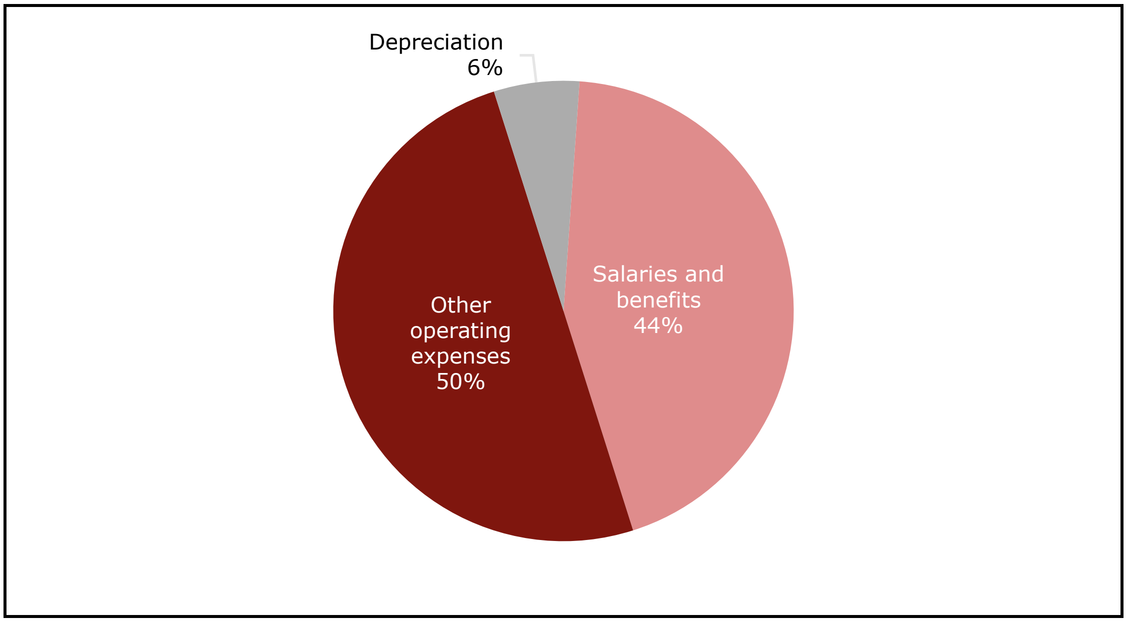
### Net Assets Released from Restrictions

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

**LPCH OPERATING EXPENSES**

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

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




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

**LPCH FINANCIAL POSITION**

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

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

**Unrestricted Cash and Investments**

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

**Capital Projects**

LPCH's *Statements of Financial Position* reflects significant investments in the facilities and systems required to continue to provide the highest quality children's hospital services to the community it serves. The majority of the FY18 spending was for LPCH's portion of the Renewal Project, which represented $216 million of the increase in property and equipment. Property and equipment, net of accumulated depreciation increased $162 million to $1.9 billion as of August 31, 2018.

**Debt**

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

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

**Net Assets**

Total net assets increased by $23 million, or 1%, from August 31, 2017 to August 31, 2018. Unrestricted net assets increased by $328 million to end the year at $1.9 billion. The increase was due to the transfer of net assets from temporarily restricted to unrestricted once the new hospital expansion went into service. Temporarily restricted net assets decreased by $306 million to $345 million in large part due to the aforementioned release from restrictions associated with the Renewal Project and other capital projects. Permanently restricted net assets increased $1 million to $228 million in FY18. The principal value of these assets must be invested in perpetuity to generate endowment income to be used only for the purposes designated by donors.

## LOOKING FORWARD

Stanford enters FY19 with a strong financial foundation, a solid physical infrastructure and an engaged and dedicated community. The University's endowment is projected to generate over $1.3 billion of payout in FY19, providing critical support to education and research programs and student financial aid. Our generous donor support comes from a wide and diverse base, reflecting continued commitment to our mission. New buildings and facilities that opened during the year continue to sustain the excellence of our academic programs and health care services. Planned capital projects will continue to strengthen this infrastructure during FY19 and beyond.

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

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

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

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

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

Linda Hoff
Chief Financial Officer
Stanford Health Care

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

# SELECTED FINANCIAL AND OTHER DATA

*Fiscal Years Ended August 31*

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

*(A) Student income is reported net of financial aid in the Consolidated Statements of Activities.*
*(B) Includes University, SHC and LPCH gifts. The FY15 amount includes $626 million in works of art and special collections which is included with other donations reported by the Office of Development. As stated in Note 1, Stanford does not capitalize works of art and special collections.*
*(C) Fall quarter immediately following fiscal year end.*

# MANAGEMENT RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

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

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

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

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

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

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## Report of Independent Auditors

To the Board of Trustees of the
Leland Stanford Junior University

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

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

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

### *Auditors' Responsibility*

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

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

### *Opinion*

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

PricewaterhouseCoopers LLP

December 4, 2018

*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, 2018 and 2017 (in thousands of dollars)*

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

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

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

# CONSOLIDATED STATEMENTS OF ACTIVITIES

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

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

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

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

# CONSOLIDATED STATEMENTS OF ACTIVITIES, Continued

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

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

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

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

# CONSOLIDATED STATEMENTS OF CASH FLOWS

*For the years ended August 31, 2018 and 2017 (in thousands of dollars)*
*Includes the separate legal entities of The Leland Stanford Junior University, Stanford Health Care and Lucile Salter Packard Children's Hospital at Stanford and other majority-owned or controlled entities of these organizations*

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. Basis of Presentation and Significant Accounting Policies

### BASIS OF PRESENTATION

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

**University**

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

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

**Hospitals**

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

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

## TAX STATUS

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

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

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

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

## BASIS OF ACCOUNTING

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

For financial reporting purposes, net assets and revenues, expenses, gains and losses are classified into one of three categories - unrestricted, temporarily restricted or permanently restricted.

### Unrestricted Net Assets

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

The operating activities of Stanford include the revenues earned and expenses incurred in the current year to support teaching, research, and patient care. The non-operating activities of Stanford include increases in reinvested gains, current year gifts not included in operations, capital and other gifts released from restrictions, pension and other postemployment benefit related changes other than net periodic benefit expense, and certain other non-operating activities.

Transfers from unrestricted net assets to temporarily restricted net assets and permanently restricted net assets are primarily the result of donor redesignations or matching funds that are added to donor gift funds which then take on the same restrictions as the donor gift.

**Temporarily Restricted Net Assets**

Temporarily restricted net assets include gifts and pledges that are subject to donor-imposed restrictions that expire with the passage of time, payment of pledges or specific actions to be undertaken by Stanford, which are then released and reclassified to unrestricted net assets. In addition, appreciation and income on certain donor-restricted endowment funds are classified as temporarily restricted net assets until authorized for spending (see *Note 11*). Donor-restricted resources intended for capital projects are initially recorded as temporarily restricted and then released and reclassified as unrestricted net assets when the asset is placed in service. Also included in this category is Stanford's net equity in split-interest agreements that are expendable at maturity.

**Permanently Restricted Net Assets**

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

### CASH AND CASH EQUIVALENTS

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

### ASSETS LIMITED AS TO USE

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

At August 31, 2017, assets limited as to use consisted of proceeds of tax-exempt bonds issued for the benefit of the University and trustee-held accounts holding proceeds of tax-exempt bonds issued for the benefit of SHC and LPCH. They were limited by the terms of indentures to use for qualified capital projects. These assets consisted of cash and cash equivalents and short-term investments, recorded at cost, which approximated fair value.

### ACCOUNTS AND LOANS RECEIVABLE

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

## PLEDGES RECEIVABLE

Unconditional promises to give are included in the *Consolidated Financial Statements* as pledges receivable and are classified as temporarily restricted or permanently restricted, depending upon donor stipulations. Pledges recognized on or after September 1, 2009 are recorded at an applicable risk-adjusted discount rate commensurate with the duration of the donor's payment plan. Pledges recognized in periods prior to September 1, 2009 were recorded at a discount based on the U.S. Treasury rate. Conditional promises, which depend on the occurrence of a specified future and uncertain event, such as matching gifts from other donors, are recognized when the conditions are substantially met.

## INVESTMENTS

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

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

## PLANT FACILITIES

Plant facilities are recorded at cost or, for donated assets, at fair value at the date of donation. Interest expense for construction financing, net of income earned on unspent proceeds, is capitalized as a cost of construction. Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

The useful lives used in calculating depreciation for the years ended August 31, 2018 and 2017 are as follows:

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

## WORKS OF ART AND SPECIAL COLLECTIONS

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

## DONATED ASSETS

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

## DONOR ADVISED FUNDS

The University receives gifts from donors under donor advised fund (DAF) agreements. These funds are owned and controlled by the University and are separately identified by donor. A significant portion of the gift must be designated to the University. At August 31, 2018 and 2017, approximately $491.7 million and $509.5 million, respectively, of DAFs may be used to support other approved charities; the donors have advisory privileges with respect to the distribution of these funds.

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

## SPLIT-INTEREST AGREEMENTS

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

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

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

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

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

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

## DEFERRED INCOME AND OTHER OBLIGATIONS

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

### Deferred Rental Income

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

### 457(b) Deferred Compensation Plan

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

### Repurchase Obligations

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

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

### Asset Retirement Obligations

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

## SELF-INSURANCE

The University self-insures at varying levels for unemployment, disability, workers' compensation, property losses, certain health care plans and general and professional liability losses. SHC and LPCH self-insure at varying levels for health care plans, workers' compensation and, through their captive insurance company, for professional liability losses. Third-party insurance is purchased to cover liabilities above the self-insurance limits. Estimates of retained exposures are accrued.

## INTEREST RATE EXCHANGE AGREEMENTS

The University and SHC have entered into several interest rate exchange agreements to reduce the effect of interest rate fluctuation on their variable rate revenue bonds and notes. Current accounting guidance for derivatives and hedges requires entities to recognize all derivative instruments at fair value. The University and SHC do not designate and qualify their derivatives for hedge accounting; accordingly, any changes in the fair value (i.e. gains or losses) flow directly to the *Consolidated Statements of Activities* as a non-operating activity in "swap interest and change in value of swap agreements." The settlements (net cash payments less receipts) under the interest rate exchange agreements are recorded in the *Consolidated Statements of Activities* in "swap interest and change in value of swap agreements" for the University and SHC; in fiscal year 2017 SHC recorded the settlements in "other operating expenses."

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

## STUDENT FINANCIAL AID

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

## SPONSORED RESEARCH

The University conducts substantial research for the federal government pursuant to contracts and grants from federal agencies and departments. Sponsored research revenue earned from the Federal government (including SLAC) totaled $1.3 billion for both years ended August 31, 2018 and 2017. The University records reimbursements of direct and indirect costs (facilities and administrative costs) from grants and contracts as operating revenues. The Office of Naval Research is the University's cognizant federal agency for determining indirect cost rates charged to federally sponsored agreements. It is supported by the Defense Contract Audit Agency, which has the responsibility for auditing direct and indirect charges under those agreements.

## PATIENT CARE AND OTHER SERVICES

### Health Care Services

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

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

### Charity Care

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

## RECENT ACCOUNTING PRONOUNCEMENTS

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

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

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

**Cloud computing arrangements** - In August 2018, the FASB issued an ASC update to allow capitalization of implementation costs incurred in a cloud computing arrangement in a manner that is consistent with the capitalization of implementation costs incurred to develop or obtain internal-use software. The new guidance is effective for fiscal year 2022.

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

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

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

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

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

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

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

## 2. Accounts Receivable

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

| | UNIVERSITY | SHC | LPCH | CONSOLIDATED |
|---|---|---|---|---|
| 2018 | | | | |
| U.S. government sponsors | $ 119,245 | $ — | $ — | $ 119,245 |
| Non-federal sponsors and programs | 85,797 | 28,711 | 22,990 | 137,498 |
| Pending trades of securities | 11,318 | — | — | 11,318 |
| Accrued interest on investments | 17,934 | — | — | 17,934 |
| Student | 7,940 | — | — | 7,940 |
| Patient and third-party payers: | | | | |
| Blue Cross | — | 176,858 | 84,585 | 261,443 |
| Blue Shield | — | 76,401 | 29,163 | 105,564 |
| Medicare | — | 114,210 | 1,419 | 115,629 |
| Medi-Cal | — | 17,159 | 43,740 | 60,899 |
| Other managed care and payers | — | 446,731 | 141,985 | 588,716 |
| Other | 44,536 | 18,479 | 32,317 | 95,332 |
| | 286,770 | 878,549 | 356,199 | 1,521,518 |
| Less bad debt allowances | (1,732) | (208,282) | (12,559) | (222,573) |
| **ACCOUNTS RECEIVABLE, NET** | **$ 285,038** | **$ 670,267** | **$ 343,640** | **$ 1,298,945** |
| 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** |

## 3. Health Care Services Revenue

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

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

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

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

Professional services are reimbursed based on a fee schedule.

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

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

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

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

**Uninsured**

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

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

| | UNIVERSITY | SHC | LPCH | ELIMINATIONS | CONSOLIDATED |
|---|---|---|---|---|---|
| 2018 | | | | | |
| Patient care revenue: | | | | | |
| Medicare | $ — | $ 892,195 | $ 5,512 | $ — | $ 897,707 |
| Medi-Cal | — | 140,788 | 362,300 | — | 503,088 |
| Managed care | — | 3,498,434 | 1,103,782 | — | 4,602,216 |
| Self pay and other | — | 160,605 | 80,871 | — | 241,476 |
| Physician services and support (see *Note 1*) | 1,048,749 | 43,344 | — | (1,092,093) | — |
| Total patient care revenue | 1,048,749 | 4,735,366 | 1,552,465 | (1,092,093) | 6,244,487 |
| Premium revenue | — | 92,654 | — | — | 92,654 |
| Other services and support | 40,672 | — | — | (12,438) | 28,234 |
| | 1,089,421 | 4,828,020 | 1,552,465 | (1,104,531) | 6,365,375 |
| Provision for doubtful accounts | — | (57,437) | (5,660) | — | (63,097) |
| **HEALTH CARE SERVICES REVENUE** | **$1,089,421** | **$4,770,583** | **$1,546,805** | **$ (1,104,531)** | **$ 6,302,278** |
| 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** |

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

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

**Charity Care and Uncompensated Costs**

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

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

**Provider Fee**

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

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

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

## 4. Pledges Receivable

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

| | UNIVERSITY | SHC | LPCH | ELIMINATIONS | CONSOLIDATED |
|---|---|---|---|---|---|
| 2018 | | | | | |
| One year or less | $ 217,754 | $ 34,906 | $ 42,720 | $ (2,922) | $ 292,458 |
| Between one year and five years | 968,495 | 52,023 | 81,894 | (22,671) | 1,079,741 |
| More than five years | 295,908 | 7,000 | 39,460 | (8,000) | 334,368 |
| | 1,482,157 | 93,929 | 164,074 | (33,593) | 1,706,567 |
| Less discounts and allowances | (160,989) | (9,394) | (17,698) | — | (188,081) |
| **PLEDGES RECEIVABLE, NET** | **$ 1,321,168** | **$ 84,535** | **$ 146,376** | **$ (33,593)** | **$ 1,518,486** |
| 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** |

## 5. Loans Receivable

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

### STUDENT LOANS RECEIVABLE

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

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

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

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

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

### FACULTY AND STAFF MORTGAGES

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

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

## 6. Investments

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

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

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

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

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

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

## VALUATION METHODOLOGY

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

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

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

### INVESTMENT CATEGORIES

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

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

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

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

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

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

**Real estate** represents directly owned real estate, mutual funds, interests in long-term ground leases and other real estate interests held through limited partnerships. The fair value of real estate directly owned by Stanford, including the Stanford Shopping Center and the Stanford Research Park, is based primarily on discounted cash flows, using estimates from the asset manager or external investment managers, corroborated by appraisals and market data, if available. The fair value of alternative investments in real estate held through limited partnerships is based on the NAV reported by the external investment managers and is adjusted as described under *Valuation Methodology* above. The fair value of real estate held through commingled and mutual funds are based on quoted market prices.

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

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

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

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

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

### FAIR VALUE HIERARCHY

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

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

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

Exchange-traded derivatives such as options, futures contracts and warrants using observable inputs such as the last reportable sale price or the most recent bid price are typically classified as Level 1 (see *Note 8*).

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

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

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

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

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

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

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

## SUMMARY OF LEVEL 3 INVESTMENT ACTIVITIES AND TRANSFERS

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

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

| 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** |

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

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

Transfers in (out) include situations where observable inputs have changed. All transfer amounts are based on the fair value at the beginning of the fiscal year. There were no transfers between Level 1 and Level 2 during the years ended August 31, 2018 and 2017.

## LEVEL 3 INVESTMENT VALUATION TECHNIQUES AND SIGNIFICANT UNOBSERVABLE INPUTS

The following table summarizes the significant unobservable inputs and valuation methodologies for Level 3 investments as of August 31, 2018 and 2017, in thousands of dollars.

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

| INVESTMENT CATEGORIES | FAIR VALUE[1] | VALUATION TECHNIQUE | SIGNIFICANT UNOBSERVABLE INPUTS | RANGE MIN | RANGE MAX | IMPACT TO VALUATION FROM AN INCREASE IN INPUT[2] |
|---|---|---|---|---|---|---|
| 2018 | | | | | | |
| Real estate | $ 5,155,212 | Discounted cash flow | Discount rate | 5.0% | 20.0% | Decrease |
| | | | Capitalization rate | 3.9% | 9.0% | Decrease |
| Assets held by other trustees | 123,993 | Net present value | Discount rate | 3.4% | 3.4% | Decrease |
| Other | 604,585 | Market comparables | Recent transactions | N/A | N/A | N/A |
| **TOTAL AMOUNT WITH SIGNIFICANT UNOBSERVABLE INPUTS** | **$ 5,883,790** | | | | | |
| 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** | | | | | |

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

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

## INVESTMENT-RELATED COMMITMENTS

The University is obligated under certain alternative investment agreements to advance additional funding up to specified levels over a period of several years. The following table presents significant terms of such agreements including redemption terms, notice periods, and remaining life for all related alternative investments at August 31, 2018, in thousands of dollars:

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

## LIABILITIES ASSOCIATED WITH INVESTMENTS

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

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

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

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

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

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

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

## OFFSETS TO INVESTMENT-RELATED ASSETS AND LIABILITIES

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

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

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

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

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

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

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

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

## INVESTMENT RETURNS

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

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

Investment returns are net of investment management expenses, including both external management fees and internal University investment-related salaries, benefits and operating expenses, and the portion of interest expense and amortization related to the April 2009 bond issuance held for liquidity purposes (see *Note 10*).

### FUTURE MINIMUM RENTAL INCOME

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

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

## 7. Investment Pools

Investments are held in various investment pools or in specific investments to comply with donor requirements as indicated in the following table, at August 31, 2018 and 2017, in thousands of dollars:

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

The MP is the primary investment pool in which endowment (see *Note 11*) and other long-term funds are invested. The MP is invested with the objective of optimizing long-term total return while maintaining an appropriate level of risk for the University. It is a unitized investment pool in which the fundholders purchase investments and withdraw funds based on a monthly share value.

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

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

The Expendable Funds Pool (EFP) and Endowment Income Funds Pool (EIFP) are the principal investment vehicles for the University's expendable funds. A substantial portion of the EFP is cross-invested in the MP. For the year ended August 31, 2018, the EFP was also invested in the STIP and the Intermediate Pool (IPool). The EIFP holds income previously distributed to holders of permanently restricted endowment funds that has not yet been expended and the entire balance is invested in the STIP.

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

The Board has established a policy for the distribution of the investment returns of the EFP. The difference between the actual return of this investment pool and the approved payout is deposited in, or withdrawn from, funds functioning as endowment (FFE) (see *Note 11*). For the years ended August 31, 2018 and 2017, the results of the EFP, in thousands of dollars, are as follows:

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

## 8. Derivatives

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

### INVESTMENT-RELATED DERIVATIVES

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

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

*[1] The notional amount is representative of the volume and activity of the respective derivative type during the years ended August 31, 2018 and 2017.*

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

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

## DEBT-RELATED DERIVATIVES

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

At August 31, 2018, the University had interest rate exchange agreements related to $97.0 million of the outstanding balance of the CEFA Series S bonds in variable rate mode (see *Note 10*). The agreements, which have a weighted average interest rate of 3.68%, expire November 1, 2039. The notional amount and the fair value of the exchange agreements are included in the table below. Collateral posted with various counterparties was $13.5 million and $19.8 million at August 31, 2018 and 2017, respectively, and is included in the *Consolidated Statements of Financial Position*. In addition, the University issued an irrevocable standby letter of credit of $15.0 million to support collateral requirements at August 31, 2018 and 2017 (see *Note 10*).

At August 31, 2018, SHC had interest rate exchange agreements expiring through November 2051 (see *Note 10*). The agreements require SHC to pay fixed interest rates to the counterparties varying from 3.37% to 4.08% in exchange for variable rate payments from the counterparties based on a percentage of the One Month London Interbank Offered Rate (LIBOR). The notional amount and the fair value of the exchange agreements are included in the table below. There was no cash collateral required to be posted with counterparties at August 31, 2018 and $10.1 million cash collateral posted at August 31, 2017.

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

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

*[1] The notional amount is representative of the volume and activity of the respective derivative type during the years ended August 31, 2018 and 2017.*

*[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 10.*

*[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, 2018 and 2017, in thousands of dollars, are as follows:

| | UNIVERSITY | SHC | LPCH | CONSOLIDATED |
|---|---|---|---|---|
| 2018 | | | | |
| Land and improvements | $ 595,470 | $ 68,844 | $ 120,519 | $ 784,833 |
| Buildings and building improvements | 6,624,088 | 1,694,056 | 1,736,783 | 10,054,927 |
| Furniture, fixtures and equipment | 1,872,370 | 1,185,244 | 476,025 | 3,533,639 |
| Utilities | 862,810 | — | — | 862,810 |
| Construction in progress | 1,387,188 | 1,969,625 | 108,531 | 3,465,344 |
| | 11,341,926 | 4,917,769 | 2,441,858 | 18,701,553 |
| Less accumulated depreciation | (4,834,389) | (1,638,721) | (550,157) | (7,023,267) |
| **PLANT FACILITIES, NET OF ACCUMULATED DEPRECIATION** | **$ 6,507,537** | **$ 3,279,048** | **$ 1,891,701** | **$ 11,678,286** |
| 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** |

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

## 10. Notes and Bonds Payable

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

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

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

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

| | 2018 | 2017 |
|---|---|---|
| University | $ 3,946,058 | $ 4,298,362 |
| SHC | 1,956,292 | 1,517,350 |
| LPCH | 878,938 | 911,301 |
| **TOTAL** | **$ 6,781,288** | **$ 6,727,013** |

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

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

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

## UNIVERSITY

### Debt issuances and repayment activity

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

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

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

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

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

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

**Letters of credit**
In December 2010, the University entered into a credit agreement and established a letter of credit facility under which the bank agreed to issue standby letters of credit in a principal amount not to exceed $50.0 million. In June 2018, the University increased the facility to $75.0 million. At August 31, 2018, irrevocable standby letters of credit of $53.0 million were outstanding in the following amounts and for the following respective purposes: (1) $15.0 million to support collateral requirements under certain interest rate exchange agreements discussed in *Note 8*; (2) $32.7 million to serve as security for workers' compensation deductible insurance arrangements; and (3) $5.3 million for other purposes. No amounts have been drawn on these letters of credit at August 31, 2018.

## SHC

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

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

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

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

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

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

**Letters of credit**

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

## LPCH

**Debt issuances and repayment activity**

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

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

**Letters of credit**

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

## INTEREST

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

| | UNIVERSITY | SHC | LPCH | CONSOLIDATED |
|---|---|---|---|---|
| 2018 | | | | |
| Interest expense, gross | $ 149,051 | $ 61,191 | $ 36,390 | $ 246,632 |
| Less: | | | | |
| Interest income earned on unspent proceeds | (9,643) | — | — | (9,643) |
| Interest capitalized as a cost of construction | (16,402) | (27,718) | (19,359) | (63,479) |
| Interest expense on Series 2009A bonds which is classified as an investment expense | (14,844) | — | — | (14,844) |
| **INTEREST EXPENSE, NET** | **$ 108,162** | **$ 33,473** | **$ 17,031** | **$ 158,666** |
| 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** |

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

### PRINCIPAL PAYMENTS

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

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

## 11. Endowments

The University classifies a substantial portion of its financial resources as endowment, which is invested to generate income to support operating and strategic initiatives. The endowment, which includes endowed lands, is comprised of pure endowment funds, term endowment funds, and funds functioning as endowment (FFE). Depending on the nature of the donor's stipulation, these resources are recorded as permanently restricted, temporarily restricted or unrestricted net assets. Term endowments are similar to other endowment funds except that, upon the passage of a stated period of time or the occurrence of a particular event, all or part of the principal may be expended. Accordingly, term endowments are classified as temporarily restricted net assets. FFE are University resources designated by the Board as endowment and are invested for long-term appreciation and current income. These assets, however, remain available and may be spent at the Board's discretion. Accordingly, FFE are recorded as unrestricted net assets.

Stanford classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment and (b) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are authorized for expenditure. In the absence of donor stipulations or law to the contrary, net unrealized losses on permanently restricted endowment funds first reduce related appreciation on temporarily restricted net assets and then on unrestricted net assets, as needed, until the fair value of the fund equals or exceeds historic value. The aggregate amount by which fair value was below historic value was $1.4 million and $2.4 million at August 31, 2018 and 2017, respectively.

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

| | UNRESTRICTED | TEMPORARILY RESTRICTED | PERMANENTLY RESTRICTED | TOTAL |
|---|---|---|---|---|
| 2018 | | | | |
| University endowment | | | | |
| Donor-restricted endowment funds | $ (1,448) | $ 7,336,653 | $ 6,777,977 | $ 14,113,182 |
| Funds functioning as endowment | 12,351,730 | — | — | 12,351,730 |
| University endowment | 12,350,282 | 7,336,653 | 6,777,977 | 26,464,912 |
| SHC donor-restricted endowment funds | — | 13,982 | 8,233 | 22,215 |
| LPCH donor-restricted endowment funds | — | 125,386 | 227,988 | 353,374 |
| **TOTAL ENDOWMENT FUNDS** | **$ 12,350,282** | **$ 7,476,021** | **$ 7,014,198** | **$26,840,501** |
| 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** |

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

## UNIVERSITY

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

| | UNRESTRICTED | TEMPORARILY RESTRICTED | PERMANENTLY RESTRICTED | TOTAL |
|---|---|---|---|---|
| 2018 | | | | |
| Endowment, beginning of year | $ 11,482,282 | $ 6,867,393 | $ 6,435,268 | $ 24,784,943 |
| Investment returns: | | | | |
| Earned income | 215,677 | — | — | 215,677 |
| Unrealized and realized gains | 1,684,630 | 459,790 | 27,537 | 2,171,957 |
| Total investment returns | 1,900,307 | 459,790 | 27,537 | 2,387,634 |
| Amounts distributed for operations | (1,239,746) | — | — | (1,239,746) |
| Gifts, transfers and other changes in endowment: | | | | |
| Current year gifts and pledge payments | 4,414 | 16,030 | 211,724 | 232,168 |
| Transfers of prior year gifts | 2,621 | — | 69,816 | 72,437 |
| EFP funds added to the endowment | 155,356 | — | — | 155,356 |
| Other funds invested in (withdrawn from) the endowment, net | 45,048 | (6,560) | 33,632 | 72,120 |
| Total gifts, transfers and other changes in endowment | 207,439 | 9,470 | 315,172 | 532,081 |
| Total net increase in endowment | 868,000 | 469,260 | 342,709 | 1,679,969 |
| **ENDOWMENT, END OF YEAR** | **$ 12,350,282** | **$ 7,336,653** | **$ 6,777,977** | **$ 26,464,912** |
| 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** |

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

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

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

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

**SHC AND LPCH**

The endowments of SHC and LPCH are intended to generate investment income to support their current operating and strategic initiatives. The Hospitals invest the majority of their endowments in the University's MP. The endowments are subject to similar investment and spending strategies that the University employs. The Hospitals' Boards of Directors have approved payout policies which provide for annual amounts to be distributed for current use. "Amounts distributed for operations" in the tables below represents SHC's and LPCH's current year endowment payout spent for designated purposes during fiscal years 2018 and 2017.

**SHC**

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

| | UNRESTRICTED | TEMPORARILY RESTRICTED | PERMANENTLY RESTRICTED | TOTAL |
|---|---|---|---|---|
| 2018 | | | | |
| Endowments, beginning of year | $ — | $ 12,567 | $ 8,144 | $ 20,711 |
| Investment returns: | | | | |
| Earned income | — | 541 | — | 541 |
| Unrealized and realized gains | — | 1,256 | — | 1,256 |
| Total investment returns | — | 1,797 | — | 1,797 |
| Amounts distributed for operations | — | (382) | — | (382) |
| Gifts and pledge payments | — | — | 89 | 89 |
| Total net increase in endowments | — | 1,415 | 89 | 1,504 |
| **ENDOWMENT, END OF YEAR** | **$ —** | **$ 13,982** | **$ 8,233** | **$ 22,215** |
| 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** |

**LPCH**

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

| | UNRESTRICTED | TEMPORARILY RESTRICTED | PERMANENTLY RESTRICTED | TOTAL |
|---|---|---|---|---|
| 2018 | | | | |
| Endowments, beginning of year | $ — | $ 112,153 | $ 227,129 | $ 339,282 |
| Investment returns: | | | | |
| Earned income | — | 17,383 | — | 17,383 |
| Unrealized and realized gains | — | 10,930 | 932 | 11,862 |
| Total investment returns | — | 28,313 | 932 | 29,245 |
| Amounts distributed for operations | — | (14,187) | — | (14,187) |
| Gifts and pledge payments | — | — | 869 | 869 |
| Other | — | (893) | (942) | (1,835) |
| Total net increase in endowments | — | 13,233 | 859 | 14,092 |
| **ENDOWMENT, END OF YEAR** | **$ —** | **$ 125,386** | **$ 227,988** | **$ 353,374** |
| 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** |

## 12. Gifts and Pledges

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

| | UNIVERSITY | SHC | LPCH | CONSOLIDATED |
|---|---|---|---|---|
| 2018 | | | | |
| Current year gifts in support of operations | $ 278,867 | $ 294 | $ 3,951 | $ 283,112 |
| Donor advised funds, net | (6,489) | — | — | (6,489) |
| Current year gifts not included in operations | 3,064 | — | — | 3,064 |
| Temporarily restricted gifts and pledges, net | 248,955 | 44,894 | 41,828 | 335,677 |
| Permanently restricted gifts and pledges, net | 238,568 | 89 | 960 | 239,617 |
| **TOTAL** | **$ 762,965** | **$ 45,277** | **$ 46,739** | **$ 854,981** |
| 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** |

## 13. Functional Expenses

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

| | UNIVERSITY | SHC | LPCH | ELIMINATIONS | CONSOLIDATED |
|---|---|---|---|---|---|
| 2018 | | | | | |
| Instruction and departmental research | $ 1,967,459 | $ — | $ — | $ — | $ 1,967,459 |
| Organized research - direct costs | 1,170,600 | — | — | — | 1,170,600 |
| Patient services | — | 4,119,260 | 1,473,893 | (1,050,187) | 4,542,966 |
| Auxiliary activities | 1,207,516 | — | — | — | 1,207,516 |
| Administration and general | 476,570 | 457,722 | 186,881 | (42,659) | 1,078,514 |
| Student services | 284,183 | — | — | — | 284,183 |
| Libraries | 159,633 | — | — | — | 159,633 |
| Development | 112,511 | 12,905 | 23,029 | (11,685) | 136,760 |
| SLAC construction | 291,477 | — | — | — | 291,477 |
| **TOTAL EXPENSES** | **$ 5,669,949** | **$ 4,589,887** | **$ 1,683,803** | **$ (1,104,531)** | **$ 10,839,108** |
| 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** |

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

## 14. University Retirement Plans

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

### DEFINED CONTRIBUTION PLAN

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

### DEFINED BENEFIT PLANS

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

#### Staff Retirement Annuity Plan

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

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

#### Faculty Retirement Incentive Program

The University provides a retirement incentive bonus for eligible faculty through the University *Faculty Retirement Incentive Program* (FRIP). The University's faculty may become eligible for the FRIP program if they commit to retire within a designated window of time. At August 31, 2018 and 2017, there were no program assets. The University funds benefit payouts as they are incurred.

#### Postretirement Benefit Plan

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

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

| | SRAP | FRIP | PRBP | TOTAL |
|---|---|---|---|---|
| 2018 | | | | |
| Fair value of plan assets, beginning of year | $ 282,461 | $ — | $ 230,081 | $ 512,542 |
| Change in plan assets: | | | | |
| Actual return on plan assets | 8,523 | — | 21,925 | 30,448 |
| Employer contributions | — | 7,236 | 14,753 | 21,989 |
| Plan participants' contributions | — | — | 14,620 | 14,620 |
| Benefits and plan expenses paid | (12,180) | (7,236) | (31,790) * | (51,206) |
| Plan settlements | (29,371) | — | — | (29,371) |
| **FAIR VALUE OF PLAN ASSETS, END OF YEAR** | **249,433** | **—** | **249,589** | **499,022** |
| Benefit obligation, beginning of year | 330,234 | 174,447 | 571,951 | 1,076,632 |
| Change in projected benefit obligation: | | | | |
| Service cost | 3,008 | 10,301 | 16,840 | 30,149 |
| Interest cost | 10,364 | 5,795 | 21,247 | 37,406 |
| Plan participants' contributions | — | — | 14,620 | 14,620 |
| Plan amendments | 4,564 | — | — | 4,564 |
| Plan settlements | (29,371) | — | — | (29,371) |
| Actuarial gain | (18,183) | (10,543) | (36,493) | (65,219) |
| Benefits and plan expenses paid | (12,180) | (7,236) | (31,790) * | (51,206) |
| **BENEFIT OBLIGATION, END OF YEAR** | **288,436** | **172,764** | **556,375** | **1,017,575** |
| **NET LIABILITY RECOGNIZED IN THE *STATEMENTS OF FINANCIAL POSITION*** | **$ (39,003)** | **$(172,764)** | **$(306,786)** | **$ (518,553)** |

** Net of Medicare subsidy of $1.8 million*

| | 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*

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

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

| | SRAP | FRIP | PRBP | TOTAL |
|---|---|---|---|---|
| 2018 | | | | |
| Service cost | $ 3,008 | $ 10,301 | $ 16,840 | $ 30,149 |
| Interest cost | 10,364 | 5,795 | 21,247 | 37,406 |
| Expected return on plan assets | (13,961) | — | (14,955) | (28,916) |
| Amortization of: | | | | |
| Prior service cost | 390 | — | — | 390 |
| Actuarial loss | 916 | 597 | 701 | 2,214 |
| Settlement loss | 4,779 | — | — | 4,779 |
| **NET PERIODIC BENEFIT EXPENSE** | **5,496** | **16,693** | **23,833** | **46,022** |
| New prior service cost | 4,564 | — | — | 4,564 |
| Net actuarial gain | (12,745) | (10,543) | (43,463) | (66,751) |
| Amortization of: | | | | |
| Prior service cost | (390) | — | — | (390) |
| Actuarial loss | (916) | (597) | (701) | (2,214) |
| Settlement loss | (4,779) | — | — | (4,779) |
| **TOTAL AMOUNTS RECOGNIZED IN NON-OPERATING ACTIVITIES** | **(14,266)** | **(11,140)** | **(44,164)** | **(69,570)** |
| **TOTAL AMOUNT RECOGNIZED IN NET PERIODIC BENEFIT EXPENSE AND NON-OPERATING ACTIVITIES** | **$ (8,770)** | **$ 5,553** | **$ (20,331)** | **$ (23,548)** |
| 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** |

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

| | SRAP | FRIP | PRBP | TOTAL |
|---|---|---|---|---|
| 2018 | | | | |
| Prior service cost | $ 4,990 | $ — | $ — | $ 4,990 |
| Net actuarial loss | 44,053 | 16,774 | 22,402 | 83,229 |
| **ACCUMULATED PLAN BENEFIT COSTS NOT YET RECOGNIZED IN NET PERIODIC BENEFIT EXPENSE** | **$ 49,043** | **$ 16,774** | **$ 22,402** | **$ 88,219** |
| 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** |

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

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

## ACTUARIAL ASSUMPTIONS

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

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

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

The expected long-term rate of return on asset assumptions for the SRAP and PRBP plans is 5.00% and 6.50%, respectively. The assumption is used in determining the expected returns on plan assets, a component of net periodic benefit expense (income), representing the expected return for the upcoming fiscal year on plan assets. This assumption is developed based on future expectations for returns in each asset class, as well as the target asset allocation of the portfolios. The use of expected long-term returns on plan assets may result in income that is greater or less than the actual returns of those plan assets in any given year. Over time, however, the expected long-term returns are designed to approximate the actual long-term returns, and therefore result in a pattern of income and cost recognition that more closely matches the pattern of the services provided by the employees. Differences between actual and expected returns are recognized as a component of non-operating activities and amortized as a component of net periodic benefit expense (income) over the service or life expectancy of the plan participants, depending on the plan, provided such amounts exceed the accounting standards threshold.

To determine the accumulated PRBP obligation at August 31, 2018, a 6.50% annual rate of increase in the per capita cost of covered health care was assumed for calendar year 2018, declining gradually to 4.50% by 2038 and remaining at this rate thereafter.

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

| | 1% INCREASE IN HEALTH CARE COST TREND RATE | 1% DECREASE IN HEALTH CARE COST TREND RATE |
|---|---|---|
| Effect on PRBP total service and interest cost | $ 8,848 | $ (6,729) |
| Effect on accumulated PRBP obligation | $ 95,874 | $ (76,375) |

## EXPECTED CONTRIBUTIONS

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

## EXPECTED BENEFIT PAYMENTS

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

| | | | PRBP | |
|---|---|---|---|---|
| YEAR ENDING AUGUST 31 | SRAP | FRIP | EXCLUDING MEDICARE SUBSIDY | EXPECTED MEDICARE PART D SUBSIDY |
| 2019 | $ 28,975 | $ 10,680 | $ 22,818 | $ 2,270 |
| 2020 | 22,678 | 15,663 | 24,129 | 2,455 |
| 2021 | 21,224 | 12,631 | 25,476 | 2,642 |
| 2022 | 21,211 | 12,052 | 26,861 | 2,833 |
| 2023 | 20,861 | 11,557 | 28,301 | 3,026 |
| 2024 - 2028 | 90,066 | 63,354 | 163,698 | 18,232 |

### INVESTMENT STRATEGY

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

### CONCENTRATION OF RISK

The University manages a variety of risks, including market, credit, and liquidity risks, across its plan assets. Concentration of risk is defined as an undiversified exposure to one of the above-mentioned risks that increases the exposure of the loss of plan assets unnecessarily. Risk is minimized by predominately investing in broadly diversified index funds for public equities and fixed income. As of August 31, 2018, the University did not have concentrations of risk in any single entity, counterparty, sector, industry or country.

### PLAN ASSETS AND ALLOCATIONS

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

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

## 15. SHC and LPCH Retirement Plans

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

### DEFINED CONTRIBUTION PLAN

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

### DEFINED BENEFIT PLANS

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

#### Staff Pension Plan

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

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

#### Postretirement Medical Benefit Plan

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

#### Frozen Pension Plan

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

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

| | STAFF PENSION PLAN | PRMB | LPCH FROZEN PENSION PLAN |
|---|---|---|---|
| 2018 | | | |
| Fair value of plan assets, beginning of year | $ 193,476 | $ — | $ 6,086 |
| Change in plan assets: | | | |
| Actual return on plan assets | 7,477 | — | 133 |
| Employer contributions | 34,800 | 5,098 | 400 |
| Plan participants' contributions | — | 860 | — |
| Benefits and plan expenses paid | (13,619) | (5,958) * | (511) |
| Plan settlements | (41,204) | — | |
| **FAIR VALUE OF PLAN ASSETS, END OF YEAR** | **180,930** | **—** | **6,108** |
| Benefit obligation, beginning of year | 245,221 | 84,179 | 8,447 |
| Change in projected benefit obligation: | | | |
| Service cost | 1,611 | 2,501 | — |
| Interest cost | 8,485 | 2,685 | 280 |
| Plan participants' contributions | — | 860 | — |
| Actuarial gain | (12,914) | (6,052) | (263) |
| Benefits and plan expenses paid | (13,619) | (5,958) * | (511) |
| Plan amendments | — | (671) | — |
| Plan settlements | (41,204) | — | — |
| **BENEFIT OBLIGATION, END OF YEAR** | **187,580** | **77,544** | **7,953** |
| **NET LIABILITY RECOGNIZED IN THE *STATEMENTS OF FINANCIAL POSITION*** | **$ (6,650)** | **$ (77,544)** | **$ (1,845)** |
| ** Net of Medicare subsidy of $289 thousand* | | | |
| 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* | | | |

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

| | 2018 | 2017 |
|---|---|---|
| SHC | $ 60,146 | $ 65,823 |
| LPCH | 17,398 | 18,356 |
| **TOTAL** | **$ 77,544** | **$ 84,179** |

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

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

| | STAFF PENSION PLAN | PRMB | LPCH FROZEN PENSION PLAN |
|---|---|---|---|
| 2018 | | | |
| Service cost | $ 1,611 | $ 2,501 | $ — |
| Interest cost | 8,485 | 2,685 | 280 |
| Expected return on plan assets | (12,786) | — | (291) |
| Amortization of: | | | |
| Prior service cost | — | 1,602 | — |
| Actuarial loss (gain) | 2,605 | (580) | 121 |
| Settlement loss | 12,094 | — | — |
| **NET PERIODIC BENEFIT EXPENSE** | **12,009** | **6,208** | **110** |
| Net actuarial gain | (7,604) | (6,052) | (104) |
| New prior service cost | — | (671) | — |
| Amortization of: | | | |
| Prior service cost | — | (1,602) | — |
| Actuarial gain (loss) | (14,699) | 580 | (121) |
| **TOTAL AMOUNTS RECOGNIZED IN NON-OPERATING ACTIVITIES** | **(22,303)** | **(7,745)** | **(225)** |
| **TOTAL AMOUNT RECOGNIZED IN NET PERIODIC BENEFIT EXPENSE AND NON-OPERATING ACTIVITIES** | **$ (10,294)** | **$ (1,537)** | **$ (115)** |
| 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** |

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

| | SHC | LPCH | TOTAL |
|---|---|---|---|
| 2018 | | | |
| Net periodic benefit expense | $ 4,596 | $ 1,612 | $ 6,208 |
| Amounts recognized in non-operating activities | (5,974) | (1,772) | (7,746) |
| **TOTAL AMOUNT RECOGNIZED IN NET PERIODIC BENEFIT EXPENSE AND NON-OPERATING ACTIVITIES** | **$ (1,378)** | **$ (160)** | **$ (1,538)** |
| 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** |

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

| | STAFF PENSION PLAN | PRMB | LPCH FROZEN PENSION PLAN |
|---|---|---|---|
| 2018 | | | |
| Prior service cost | $ — | $ 5,363 | $ — |
| Net actuarial loss (gain) | 55,059 | (14,589) | 2,430 |
| **ACCUMULATED PLAN BENEFIT COSTS NOT YET RECOGNIZED IN NET PERIODIC BENEFIT EXPENSE** | **$ 55,059** | **$ (9,226)** | **$ 2,430** |
| 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** |

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

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

### ACTUARIAL ASSUMPTIONS

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

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

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

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

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

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

### EXPECTED CONTRIBUTIONS

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

### EXPECTED BENEFIT PAYMENTS

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

| YEAR ENDING AUGUST 31 | STAFF PENSION PLAN | PRMB EXCLUDING MEDICARE SUBSIDY | PRMB EXPECTED MEDICARE PART D SUBSIDY | LPCH FROZEN PENSION PLAN |
|---|---|---|---|---|
| 2019 | $ 10,721 | $ 7,337 | $ 144 | $ 766 |
| 2020 | 11,115 | 7,060 | 141 | 733 |
| 2021 | 11,469 | 7,094 | 137 | 643 |
| 2022 | 11,756 | 7,100 | 132 | 594 |
| 2023 | 11,947 | 6,915 | 127 | 576 |
| 2024 - 2028 | 60,731 | 32,297 | 531 | 2,553 |

### INVESTMENT STRATEGY

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

### CONCENTRATION OF RISK

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

### PLAN ASSETS AND ALLOCATIONS

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

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

## 16. Operating Leases

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

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

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

## 17. Related Party Transactions

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

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

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

## 18. Commitments and Contingencies

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

**SPONSORED RESEARCH**

As described in *Note 1*, costs recovered by the University in support of sponsored research are subject to audit and adjustment. Fringe benefit costs for the fiscal years ended August 31, 2010 to 2018 are subject to audit. The University does not anticipate any adjustments material to the *Consolidated Financial Statements*.

**HEALTH CARE**

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

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

**INFORMATION PRIVACY AND SECURITY**

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

**LABOR AGREEMENTS**

Approximately 7% of the University's, 29% of SHC's and 42% of LPCH's employees are covered under union contract arrangements and are, therefore, subject to labor stoppages when contracts expire. There are currently no expired contracts under these union contract arrangements. The University's agreements with the Stanford Deputy Sheriffs' Association and the Service Employees International Union (SEIU) will expire in 2020 and 2019, respectively. SHC's and LPCH's agreements with SEIU and the Committee for Recognition of Nursing Achievement (CRONA) will expire in 2020 and 2019, respectively.

## GUARANTEES AND INDEMNIFICATIONS

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

## LITIGATION

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

## MEDICAL CENTER RENEWAL PROJECT

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

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

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

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

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

## CONTRACTUAL COMMITMENTS

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

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

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

## 19. Subsequent Events

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

## 20. Consolidating Entity Statements

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

## CONSOLIDATING STATEMENTS OF FINANCIAL POSITION

*At August 31, 2018 (in thousands of dollars)*

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

## 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 income and other obligations | 871,729 | — | — | — | 871,729 |
| Notes and bonds payable | 3,954,141 | 1,566,064 | 881,137 | — | 6,401,342 |
| U.S. government refundable loan funds | 53,936 | — | — | — | 53,936 |
| **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 ACTIVITIES

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

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

## CONSOLIDATING STATEMENTS OF ACTIVITIES, Continued

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

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

## 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 CASH FLOWS

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

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

## CONSOLIDATING STATEMENTS OF CASH FLOWS

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

| | UNIVERSITY | SHC | LPCH | ELIMINATIONS | CONSOLIDATED |
|---|---|---|---|---|---|
| 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 of bond premiums and discounts | (15,147) | (1,583) | (2,202) | — | (18,932) |
| Provision for doubtful accounts for health care services | — | 77,004 | 7,657 | — | 84,661 |
| Gains on disposal of plant facilities | (4,247) | — | — | | (4,247) |
| Net gains on investments | (3,377,819) | (162,143) | (68,576) | — | (3,608,538) |
| Change in fair value of interest rate swaps | (13,855) | (85,368) | — | — | (99,223) |
| Change in split-interest agreements | 132,367 | — | — | — | 132,367 |
| Investment income for restricted purposes | (30,733) | — | — | — | (30,733) |
| Gifts restricted for long-term investments | (324,742) | (21,989) | (92,085) | — | (438,816) |
| Equity and fund transfers, net | (87,135) | 66,628 | 20,507 | — | — |
| Gifts of securities and properties | (89,611) | — | — | — | (89,611) |
| Contribution received in acquisition of LPFCH | — | — | (109,794) | — | (109,794) |
| Other | 13,986 | — | — | — | 13,986 |
| Premiums received from bond issuance | — | — | 29,069 | — | 29,069 |
| Changes in operating assets and liabilities: | | | | | |
| Accounts receivable | (35,224) | (128,875) | (115,615) | — | (279,714) |
| Pledges receivable, net | 1,458 | 1,422 | 76,673 | — | 79,553 |
| Prepaid expenses and other assets | 3,030 | (10,919) | (7,376) | — | (15,265) |
| Accounts payable and accrued expenses | 102,974 | 4,108 | (1,378) | — | 105,704 |
| Accrued pension and postretirement benefit obligations | 9,043 | (7,790) | 1,658 | — | 2,911 |
| Deferred income and other obligations | 214,351 | — | — | — | 214,351 |
| **NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES** | **(164,406)** | **335,336** | **32,337** | **(45,710)** | **157,557** |
| CASH FLOW FROM INVESTING ACTIVITIES | | | | | |
| Additions to plant facilities, net | (780,710) | (635,550) | (383,719) | — | (1,799,979) |
| Change in assets limited as to use | 121,513 | 177,654 | (32,643) | — | 266,524 |
| Student, faculty and other loans: | | | | | |
| New loans made | (132,076) | — | — | — | (132,076) |
| Principal collected | 63,187 | — | — | — | 63,187 |
| Purchases of investments | (19,489,991) | (219,338) | (37,148) | 38,663 | (19,707,814) |
| Sales and maturities of investments | 19,164,395 | 248,339 | 37,042 | — | 19,449,776 |
| Change associated with repurchase agreements | (410,116) | — | — | — | (410,116) |
| Cash received in acquisition of LPFCH | — | — | 13,290 | — | 13,290 |
| **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 |
| Repayment of notes and bonds payable | (217,579) | (18,708) | (5,695) | — | (241,982) |
| Bond issuance costs and interest rate swaps | (2,136) | (71) | (2,183) | — | (4,390) |
| Contributions received for split-interest agreements | 15,730 | — | — | — | 15,730 |
| Payments made under split-interest agreements | (39,750) | — | — | — | (39,750) |
| Change in liabilities associated with investments | 134,900 | — | — | — | 134,900 |
| Other | (99) | — | — | — | (99) |
| **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 |
| Change in payables for plant facilities | $ 33,198 | $ (13,356) | $ 17,104 | $ — | $ 36,946 |