



# Stanford University

## Annual Financial Report

August 31, 2019 and 2018



## Annual Financial Report Cover Photos



Lucile Packard Children's Hospital  
Photo by Steve Babuljak



New Stanford Hospital  
Photo by Will Pryce



Stanford Redwood City Campus  
Photo by HR Communications

# STANFORD UNIVERSITY ANNUAL FINANCIAL REPORT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)	1
SELECTED FINANCIAL AND OTHER DATA (UNAUDITED)	11
MANAGEMENT RESPONSIBILITY FOR FINANCIAL STATEMENTS	12
CONSOLIDATED FINANCIAL STATEMENTS	
REPORT OF INDEPENDENT AUDITORS	13
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION	14
CONSOLIDATED STATEMENTS OF ACTIVITIES	15
CONSOLIDATED STATEMENTS OF CASH FLOWS	17
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS	18
1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES	
2. FINANCIAL ASSETS AND LIQUID RESOURCES	
3. ACCOUNTS RECEIVABLE	
4. PLEDGES RECEIVABLE	
5. LOANS RECEIVABLE	
6. INVESTMENTS	
7. INVESTMENT POOLS	
8. DERIVATIVES	
9. PLANT FACILITIES	
10. NOTES AND BONDS PAYABLE	
11. NET ASSETS	
12. ENDOWMENTS	
13. HEALTH CARE SERVICES REVENUE	
14. GIFTS AND PLEDGES	
15. FUNCTIONAL EXPENSES	
16. UNIVERSITY RETIREMENT PLANS	
17. SHC AND LPCH RETIREMENT PLANS	
18. OPERATING LEASES	
19. RELATED PARTY TRANSACTIONS	
20. COMMITMENTS AND CONTINGENCIES	
21. SUBSEQUENT EVENTS	
22. CONSOLIDATING ENTITY STATEMENTS	

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## CONSOLIDATED FINANCIAL HIGHLIGHTS

Stanford's FY19 financial results were solid, providing critical financial resources to help advance our education, research and health care missions. These resources allow for increased student financial aid and support, enhancements to research programs, competitive salary programs for faculty and staff and investments in our community. Stanford's results include the University, Stanford Health Care (SHC) and Lucile Salter Packard Children's Hospital at Stanford (LPCH) and their respective controlled affiliates.

Net assets increased \$2.0 billion to end the year at \$45.2 billion, including the University's endowment, which grew by 4.7% to \$27.7 billion. Stanford achieved these results through the generosity of its donors, sound investment performance and positive operating results from each of its entities. Over 67,000 donors demonstrated their commitment to Stanford by providing philanthropic support of \$859 million as reported in the *Consolidated Financial Statements*. Total gifts and pledge payments reported by the Office of Development were \$1.1 billion. Investment returns were \$3.0 billion, reflecting the strong performance of investment properties on Stanford's endowed lands and moderate returns on other investments.

## SUMMARY

Consolidated Net Assets	\$45.2 billion
Consolidated Investment Returns	\$3.0 billion
Consolidated Gifts and Pledges	\$859 million
University Endowment	\$27.7 billion

In FY19, Stanford invested \$1.9 billion in its physical infrastructure and facilities to meet priorities and address capacity. The Renewal Project to rebuild and expand Stanford's health care facilities recently achieved another milestone with the completion of SHC's New Stanford Hospital in fall 2019. LPCH opened its new children's hospital in FY18, more than doubling its square footage. In addition, in FY19, the University welcomed 2,300 employees to its new administrative campus in Redwood City to enable academic priorities to remain on the historic campus. Over the past decade, the University has replaced aging facilities with new and renovated buildings to support cutting-edge science, engineering and medicine and has expanded the arts district to enable students, faculty, staff and the larger community to experience arts on the campus in new ways. The University's current capital priorities are focused on student, faculty and staff housing to address affordability issues.

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

## UNIVERSITY

FY19 net assets increased 4% to \$38.5 billion compared to \$36.9 billion in the prior year. The FY19 increase is primarily due to a \$161 million surplus from operating activities, \$2.7 billion of investment returns and generous donor contributions of \$789 million.

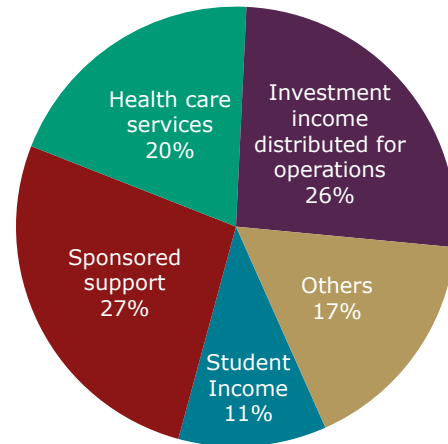
## UNIVERSITY OPERATING REVENUES

FY19 operating revenues of \$6.1 billion grew 4.5% over the prior year. As reflected in Figure 1, operating revenues were derived from a variety of sources, with sponsored support, health care services and investment income distributed for operations being the most significant.

### Total Student Income, net

Total student income, net, increased 3% to \$653 million in FY19, representing 11% of University operating revenues. Increases in FY19 tuition, and room and board rates enabled higher levels of student financial aid.

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



In FY19, 48% of undergraduates were awarded need-based financial aid from Stanford while 81% of graduate students received some form of financial 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 continues to enhance its financial support for both its undergraduate and graduate students. In FY19, the University significantly increased the minimum salary for graduate student assistantships and removed the home equity component of the undergraduate financial aid calculation, enabling more students to qualify for financial aid.

In addition to providing over \$322 million in financial aid to undergraduates and graduates, the University also provided \$335 million of other graduate student support primarily in the form of stipends, teaching and research assistantships and related allowances for tuition.

During FY19, sources of the total \$657 million of student financial aid and graduate support included approximately \$308 million in payout from endowment funds and expendable gifts restricted for student aid, \$225 million from unrestricted University funds and \$124 million from grants and contracts.

### Sponsored Support

FY19 sponsored support, from federal and non-federal sponsored sources, increased \$27 million to \$1.7 billion compared to FY18 revenues. Sponsored support is the largest source of operating revenue, representing 27% of total revenues.

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

DHHS provided support of \$551 million in FY19 compared to \$511 million in the prior year, primarily through the National Institutes of Health (NIH). Stanford is one of the top ten recipients of NIH funding in the nation. Most of these funds support research within the University's School of Medicine.

DOE provides substantially all of the SLAC National Accelerator Laboratory's (SLAC) sponsored support. In FY19, SLAC's total sponsored support decreased 6% to \$545 million, comprised of \$336 million for operations and \$209 million for construction of new facilities and instruments. SLAC's operations grew 13% driven by a combination of growth and labor costs being redeployed into operations as major construction projects near completion. SLAC's most significant construction project is the Linac Coherent Light Source (LCLS) II project, a high powered X-ray free-electron laser, which is expected to be completed in 2022.

## Health Care Services

Stanford Medicine, comprised of the University's School of Medicine (SOM), SHC and LPCH, is an academic medical center that integrates a research university with a network of care facilities. The SOM faculty serve as physicians for SHC and LPCH (the "Hospitals"). The University's FY19 health care services revenue represented 20% of University operating revenues, increasing \$121 million (11%) to \$1.2 billion as a result of growth in the Hospitals' clinical programs. Over 90% of the University's health care revenue is received from SHC and LPCH based on clinician productivity.

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.

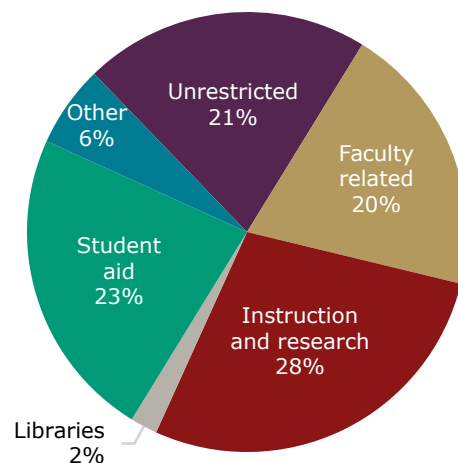
## Gifts and Pledges

The University benefits from a community of engaged donors. Gifts from the University's donors are an important 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 programs and purposes, such as student aid; academic programs which support teaching and research; and new facilities for research, clinical care and housing. The University reported total gifts and pledges in FY19 of \$789 million, with \$251 million reflected as current year gifts in support of operations and an additional \$538 million recorded in the non-operating section of the University's *Statements of Activities*.

## Total Investment Income Distributed for Operations

Total investment income distributed for operations was \$1.6 billion in FY19, \$1.3 billion of which was distributed from the University's endowment. Investment income distributed for operations represented 26% of University operating revenues in FY19, the University's second highest source of revenue. As shown in Figure 2, almost 80% of the endowment payout is restricted as to purpose. Endowment payout is primarily used for instruction and research activities, student aid and faculty salaries and support. Unrestricted endowment payout is also used to support these activities in addition to other critical strategic priorities.

**FIGURE 2**  
**UNIVERSITY ENDOWMENT PAYOUT BY PURPOSE**



## UNIVERSITY OPERATING EXPENSES

Total operating expenses increased \$298 million, or 5%, to \$6.0 billion in FY19. This increase was primarily driven by a \$273 million or 8% increase in salary and benefits totaling \$3.8 billion. These FY19 results reflect a combination of continued growth in headcount, notably in SOM faculty and staff that support clinical programs which continue to expand in the Bay Area, higher annual salary increases for faculty and staff to remain competitive in the marketplace and higher benefit costs.

## UNIVERSITY FINANCIAL POSITION

Total University assets increased \$2.3 billion in FY19 to end the year at \$46.4 billion, while liabilities increased \$716 million to \$7.9 billion.

## Investments

At August 31, 2019, University investments totaled \$35.3 billion.

The majority of the University's investments, \$27.3 billion, are managed in a diversified portfolio of actively managed public and private equity, absolute return, natural resources and real estate assets. The portfolio is designed to optimize long-term returns, create consistent annual payouts to support the University's operations and preserve purchasing power for future generations of Stanford students and scholars.

In addition, \$6.7 billion of the University's investments include real estate located on a portion of Stanford's 8,180 acres which is designated for the production of income by the Board of Trustees (BOT). These lands have been developed for various uses, including research, medical and commercial offices, hotels, retail properties and a regional shopping center and are further diversified in a variety of financial structures. In recent years, the value of these properties has benefited from regional market dynamics including rising investor demand for real estate; high occupancy rates; increased office rents; and strong retail sales.

### **Capital Projects**

The University continues to make significant investments in its physical facilities, driven by the academic priorities for teaching, research, and related activities, as well as the University's commitment to student, faculty and staff housing. During FY19, the University invested \$1.2 billion in capital projects, with over one-third of the expenditures focused on student, faculty and staff housing to address the acute shortage of affordable housing in the region.

Significant projects completed or in process in FY19 include the following:

- The Stanford in Redwood City campus opened and serves as the hub for staff primarily from administrative units, allowing the reallocation of historic campus space for the University's academic needs.
- University Terrace was completed, providing a 180-home faculty community that includes single-family homes and condominiums.
- In recent years, the University has expanded the Arts District on campus to further integrate art into the Stanford education as well as expand its offerings to the larger community. Frost Amphitheater reopened in spring 2019, providing an outdoor venue that hosts student music and arts events as well as other performances. Frost is an important part of the University's Arts District that currently includes Bing Concert Hall, Bing Studio, Pigott Theater, Memorial Auditorium, the Cantor Arts Center and the Anderson Collection, each with its own distinct attributes and contributions to the vibrant creative community.
- Construction continued on a new research complex which serves as the home base for two interdisciplinary institutes: the Wu Tsai Neurosciences Institute and the ChEM-H (Chemistry, Engineering and Medicine for Human Health).
- The Escondido Village Graduate Residences (EVGR) project continues to take shape. When it opens in fall 2020, the EVGR project will address the critical need for additional graduate student housing on campus by adding over 2,000 new beds, raising the percentage of graduate students housed to approximately 75% from just over 50% in 2018.

### **Debt**

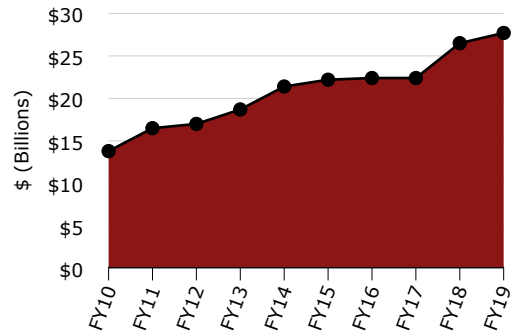
Total debt increased \$413 million in FY19 to \$4.2 billion resulting from issuance of \$563 million of new debt, and a redemption of \$138 million of existing higher interest rate debt. The University's debt policy governs the debt portfolio and is designed to optimize debt capacity, financial flexibility and access to capital markets at competitive rates.

The University's short and long-term debt is rated in the highest categories, which were affirmed by S&P Global Ratings, Moody's Investors Service and Fitch Ratings in March 2019.

### 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, 2019, the endowment totaled \$27.7 billion (see Figure 3) and represented approximately 72% of the University's net assets. The majority of endowment funds are designated by donors for specific purposes including scholarships, fellowships, professorships or other academic initiatives. In FY19, the endowment distributed \$1.3 billion to support operations, providing crucial funding for education and research programs, including increasing the amount spent on student financial aid. See the *Total Investment Income Distributed for Operations* section for more information.

**FIGURE 3**  
**UNIVERSITY ENDOWMENT**



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

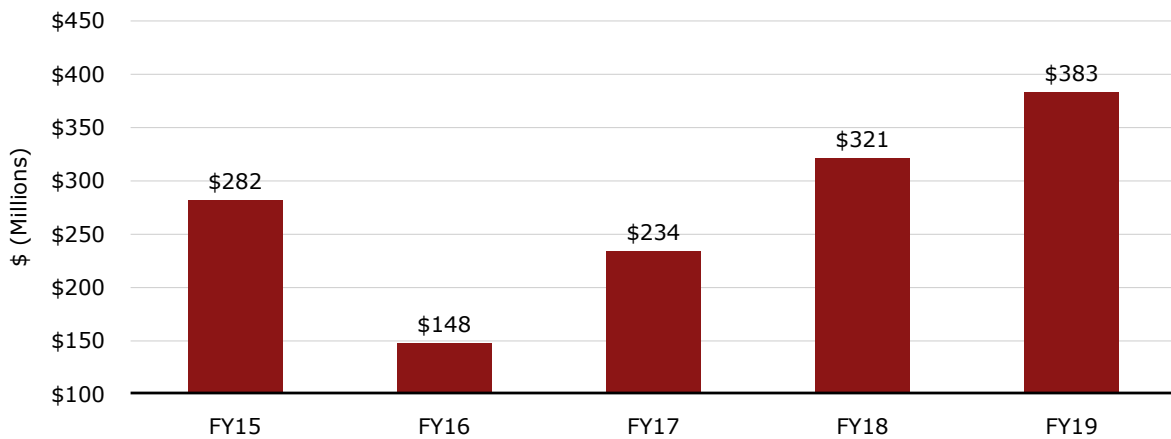


The discussion below provides additional detail about SHC's and LPCH's consolidated operations and financial results as derived from their separate consolidated financial statements.

**STANFORD HEALTH CARE**

SHC's net assets increased \$261 million to end the year at \$4.2 billion. Operating revenues exceeded operating expenses by \$383 million, or 7%, compared to \$321 million in FY18 (see Figure 4). The FY19 operating margin increased primarily due to increased outpatient services and cost saving initiatives. FY19 results include community benefits of \$1.2 billion in charity care and Medi-Cal and Medicare uncompensated care. These community benefits represent a 16% increase from the prior year. Included in SHC's FY19 amounts are Hospital Fee Program (HFP) revenues and expenses of \$94 million and \$40 million, respectively, and \$98 million of new hospital activation costs.

**FIGURE 4  
SHC OPERATING INCOME FY15 THROUGH FY19**



**SHC OPERATING REVENUES**

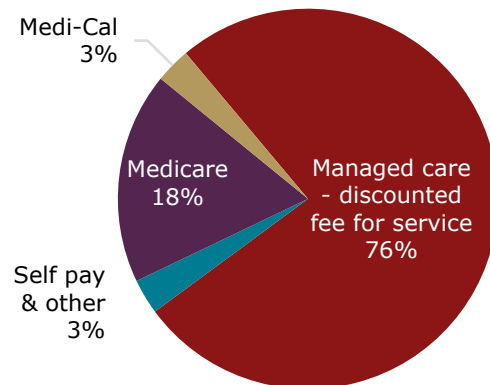
FY19 operating revenues were \$5.4 billion, reflecting a 10% increase over FY18.

**Net Patient Service Revenue**

FY19 net patient service revenue together with premium revenue increased \$449 million, or 9%, from FY18 to \$5.2 billion and represented 97% of operating revenues. Net patient service revenue by major payer is shown in Figure 5.

Inpatient and outpatient, which represented 39% and 61% of net patient revenues, respectively, grew significantly due to strong volume growth in multiple areas, such as pharmacy, imaging, cancer services, operating rooms and other ambulatory care services.

**FIGURE 5  
SHC NET PATIENT SERVICE REVENUE**



## **OPERATING EXPENSES**

Total expenses increased \$417 million, or 9%, to \$5.0 billion in FY19, which was primarily due to salaries and benefits, purchased services, physician services, and supplies. 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 10% in FY19 to \$2.3 billion (inclusive of community-based ambulatory clinics and network growth). The increase resulted from expanded headcount to support current growth in patient volumes and for 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.

Other operating expenses increased by 8% to \$2.5 billion for FY19 due to a number of factors, notably, increases in purchased services of 11% to \$1.4 billion mainly related to new hospital activation costs and payments to the University under its inter-entity agreement with the SOM. Supplies expense also increased by 9% to \$727 million in response to patient volume growth, new hospital activation costs and inflation.

## **SHC FINANCIAL POSITION**

SHC's *Consolidated Balance Sheets* reflect strong operating results and positive investment returns. Total SHC assets increased \$627 million in FY19 to end the year at \$7.8 billion. Total SHC liabilities increased \$366 million in FY19 mainly due to increased accrued liabilities and swap liabilities, and ended the year at \$3.6 billion.

### **Capital Projects**

During FY19, SHC invested \$554 million in capital projects to remain at the forefront of medicine in the communities it serves. The majority of the FY19 spending was for the New Stanford Hospital (to meet State-mandated earthquake safety standards, and provide modern, technologically-advanced hospital facilities). The New Stanford Hospital opened in the fall of 2019.

### **Debt**

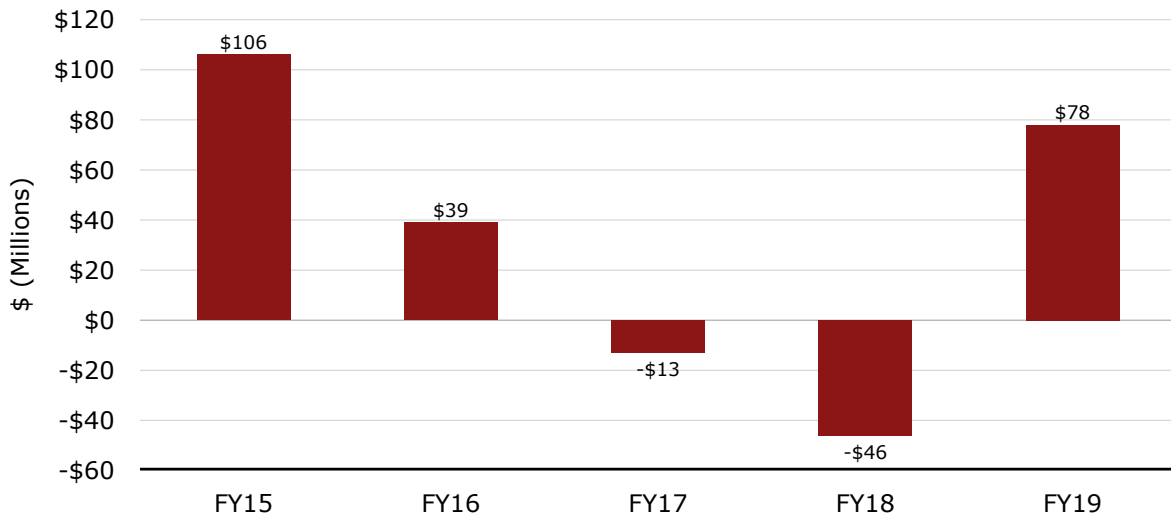
Total debt was \$1.9 billion as of August 31, 2019, a decrease of \$19 million over FY18.

In March and May 2019, SHC's long-term ratings were affirmed by S&P Global Ratings, Moody's Investors Service, and Fitch Ratings at AA-/Aa3/AA, respectively.

**LUCILE SALTER PACKARD CHILDREN’S HOSPITAL AT STANFORD**

LPCH's net assets at August 31, 2019 were \$2.5 billion, reflecting an increase of \$99 million over FY18. LPCH’s FY19 operating revenues exceeded expenses by \$78 million, compared to an operating loss of \$46 million in the prior year (see Figure 6). FY19 results reflect higher volumes and increased net patient revenues rising at a higher rate than costs, even with a full year of facility costs and depreciation for the Hospital Renewal Project. FY18 results include one-time costs to bring the Hospital Renewal Project live and additional facilities costs related to increased square footage. Included in LPCH’s FY19 amounts are Hospital Fee Program (HFP) revenues and expenses of \$142 million and \$33 million, respectively, resulting in net provider fee revenue of \$108 million. The program is set up in 3-year tranches. For FY19 the \$108 million included \$51 million from the program that was in effect between 2014-2016, and \$57 million from the program that was in effect from 2017-2019.

**FIGURE 6  
LPCH OPERATING INCOME/LOSS FY15 THROUGH FY19**



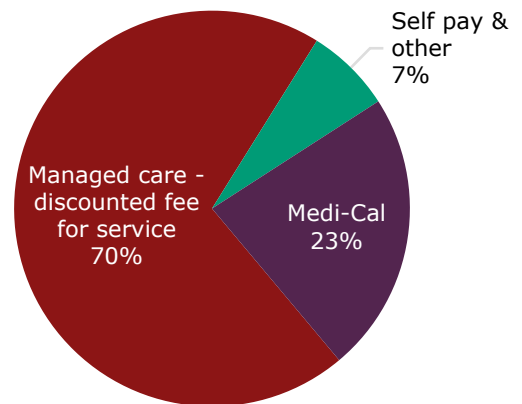
**LPCH OPERATING REVENUES**

FY19 operating revenues increased \$322 million, or 20%, compared to the prior year.

**Net Patient Service Revenue**

Net patient service revenue, including provider fees, increased \$291 million from the prior year, mainly due to increases in inpatient days and outpatient visits, higher commercial managed care contract rates and higher volumes specifically in the intensive care units. Net patient service revenue by major payer is shown in Figure 7.

**FIGURE 7  
LPCH NET PATIENT SERVICE REVENUE**



LPCH's community benefits, including services provided to patients under Medi-Cal and other publicly sponsored programs that reimburse at amounts less than the cost of services, were \$299 million in FY19 compared to \$300 million in FY18.

### **LPCH OPERATING EXPENSES**

Operating expenses increased \$197 million, or 12%, compared to the prior year. This increase was mainly attributable to higher salaries and benefits due to increased headcount to support the increase in volume 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). FY19 operating expenses also include increased facility and depreciation costs for a full year as compared to a partial year in FY18.

Salaries and benefits comprised 44% of LPCH's total expenses, depreciation expense was 6%, and all other operating expenses represented 50%.

### **LPCH FINANCIAL POSITION**

LPCH's *Consolidated Balance Sheet* reflects favorable operating results and investment returns. Total assets increased by \$122 million, or 3%, driven by a combination of cash generated from operations, investment gains, continued support from the donor community and increased accounts receivable. These cash flows were primarily used to fund the construction of the new hospital expansion and other capital needs.

Total liabilities increased by \$23 million, or 2%, primarily due to a drawdown on an existing line of credit of \$30 million in FY19, which was partially offset by a net decrease in other liabilities.

### **Capital Projects**

LPCH's *Consolidated Balance Sheet* 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. Property and equipment, net of accumulated depreciation, increased in FY19 by \$10 million to \$1.9 billion as of August 31, 2019.

### **Debt**

Total debt, including the current portion, increased by \$19 million from the prior year due to a draw down on the line of credit in the current year offset by principal payments on existing debt.

In Fall 2019, S&P upheld its rating of A+ and stable outlook, Fitch affirmed its rating of AA- and stable outlook, and Moody's upheld its rating of A1 and upgraded the outlook to stable.

### **LOOKING FORWARD**

Notwithstanding its positive financial results, Stanford continues to be exposed to challenging global, national and local markets, and these pressures are likely to continue in the years ahead. Higher education has recently been overshadowed by negative publicity related to admissions scandals, acts of intolerance and harassment, and skepticism around the value of a liberal arts education. The healthcare industry continues to experience pressures on costs and quality. Market volatility persists at a global level while Federal funding constraints and increased regulation continue to impose ongoing pressures. Locally, Bay Area affordability issues have created challenges in recruiting faculty and staff and have driven up Stanford's costs. Furthermore, in November, after encountering significant obstacles, the University withdrew its application for a long term land permit which would expand housing and gradually build new facilities while addressing traffic congestion, protecting open space, promoting sustainable development and providing support to the community. The University will be assessing a variety of available options for its continued development of high-priority academic facilities and housing.

Despite these pressures, Stanford continues to be bold in its undertaking of significant efforts to revitalize and renew our vision. In May 2019, President Marc Tessier-Lavigne unveiled "A Vision for Stanford", a long-range plan designed to guide Stanford for the next decade and beyond. The plan is anchored in the University's mission and values and is composed of a set of forward-looking initiatives designed both to advance human welfare in a rapidly changing world and to strengthen the campus community to fulfill that mission. The plan is structured under three overarching themes:

- Advancing and Bridging Disciplines
- Building Pathways to Impact
- Strengthening Communities on Campus and Beyond

Some of the more specific aspects of the long range plan include enhancing shared research platforms; expanding seed funding for innovative programs and research; focusing on affordability and housing for students, faculty and staff; and addressing student health and well-being. Leveraging Stanford Medicine's vision of precision health, the long range plan expands this concept to include population health where access to information about individuals and populations will drive new solutions to health challenges.

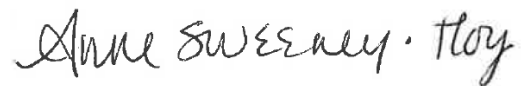
Stanford's financial strength and physical infrastructure are instrumental to continuing to evolve and realize our long range vision, while helping us adapt to the changing landscape in which we operate. Stanford enters FY20 in a strong financial position with a robust physical infrastructure and a dedicated community. The University's endowment is projected to generate over \$1.4 billion of payout in FY20, providing critical support to education and research programs and student financial aid. Health care revenues are anticipated to be bolstered by additional capacity provided by the new facilities. 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 further strengthen this infrastructure and fulfill critical housing needs during FY20 and beyond.

While Stanford has ambitious plans for the future, our long range planning efforts will help us prioritize where we focus our efforts and spend our financial resources. We are aware of the economic pressures that we face, and as stewards of our financial resources, we are cognizant that we must use them wisely to achieve our vision.

We continue to be inspired by the generous and ongoing support of our donors, alumni, faculty, staff, students and community and appreciate the confidence that they demonstrate in our mission. With a solid financial foundation and focused direction for the future, we continue to be optimistic, yet realistic, about our future.



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Linda Hoff  
Chief Financial Officer  
Stanford Health Care



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

## SELECTED FINANCIAL AND OTHER DATA

Fiscal Years Ended August 31

	2019	2018	2017	2016	2015
(dollars in millions)					
<b>CONSOLIDATED STATEMENTS OF ACTIVITIES HIGHLIGHTS:</b>					
Total operating revenues	\$ 12,262	\$ 11,311	\$ 10,504	\$ 9,797	\$ 9,051
Student income (A)	653	635	618	587	564
Sponsored support	1,683	1,656	1,636	1,453	1,387
Health care services	7,051	6,302	5,682	5,264	4,744
Investment income distributed for operations	1,583	1,509	1,327	1,338	1,292
Total operating expenses	11,639	10,839	10,056	9,307	8,351
Change in net assets from operating activities	623	472	448	490	700
Other changes in net assets	1,338	2,181	3,156	947	1,034
Net change in total net assets	\$ 1,961	\$ 2,653	\$ 3,604	\$ 1,437	\$ 1,734
<b>CONSOLIDATED STATEMENTS OF FINANCIAL POSITION HIGHLIGHTS:</b>					
Investments at fair value	\$ 38,819	\$ 37,784	\$ 35,842	\$ 31,332	\$ 31,399
Plant facilities, net of accumulated depreciation	12,863	11,678	10,223	9,000	7,797
Notes and bonds payable	7,075	6,662	6,401	5,402	5,125
Total assets	57,803	54,746	51,648	46,586	44,509
Total liabilities	12,614	11,519	11,074	9,616	8,976
Total net assets	45,189	43,227	40,574	36,970	35,533
<b>UNIVERSITY STATEMENTS OF FINANCIAL POSITION HIGHLIGHTS:</b>					
Investments at fair value	\$ 35,292	\$ 34,517	\$ 33,297	\$ 29,086	\$ 28,766
Plant facilities, net of accumulated depreciation	7,270	6,508	5,623	5,169	4,796
Notes and bonds payable	4,247	3,834	3,954	3,271	3,085
Total assets	46,370	44,037	41,954	37,767	36,214
Total liabilities	7,869	7,153	7,263	6,048	5,780
Total net assets	38,501	36,884	34,691	31,719	30,434
<b>OTHER FINANCIAL DATA AND METRICS:</b>					
University endowment at year end	\$ 27,700	\$ 26,465	\$ 24,785	\$ 22,398	\$ 22,223
University endowment payout in support of operations	1,303	1,240	1,166	1,132	1,058
As a % of beginning of year University endowment	4.9%	5.0%	5.2%	5.1%	4.9%
As a % of University total expenses	21.8%	21.9%	21.7%	23.0%	22.8%
Total gifts as reported by the Office of Development (B)	1,112	1,097	1,129	951	1,625
<b>STUDENTS:</b>					
<b>ENROLLMENT: (C)</b>					
Undergraduate	6,994	7,083	7,056	7,032	6,994
Graduate	9,390	9,437	9,368	9,304	9,196
<b>DEGREES CONFERRED:</b>					
Bachelor degrees	1,893	1,754	1,669	1,744	1,671
Advanced degrees	3,433	3,440	3,429	3,370	3,286
<b>FACULTY:</b>					
Total Professoriate (C)	2,276	2,241	2,219	2,180	2,153
ANNUAL UNDERGRADUATE TUITION RATE (IN DOLLARS)	\$ 50,703	\$ 48,987	\$ 47,331	\$ 45,729	\$ 44,184

(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").

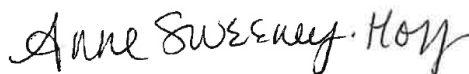
In accumulating and controlling financial data, management of the University, SHC and LPCH maintains separate systems of internal control. Management of the respective entities believes that effective internal control has been designed, implemented and maintained to provide reasonable assurance that 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  
and University Liaison for Stanford Medicine  
Stanford University



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



Linda Hoff  
Chief Financial Officer  
Stanford Health Care



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



## 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, 2019 and 2018, 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, 2019 and 2018, 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.

### ***Emphasis of Matter***

As discussed in Note 1 to the consolidated financial statements, Stanford changed the manner in which it presents net assets and reports certain aspects of its financial statements as a not-for-profit entity in 2019. Our opinion is not modified with respect to this matter.

*PricewaterhouseCoopers LLP*

December 3, 2019



## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

At August 31, 2019 and 2018 (in thousands of dollars)

	2019	2018
<b>ASSETS</b>		
Cash and cash equivalents	\$ 1,631,568	\$ 1,199,367
Assets limited as to use	291,690	165,429
Accounts receivable, net	1,429,451	1,298,945
Prepaid expenses and other assets	448,772	329,700
Pledges receivable, net	1,469,686	1,518,486
Student loans receivable, net	51,998	60,336
Faculty and staff mortgages and other loans receivable, net	797,088	712,161
Investments at fair value, including securities pledged or on loan of \$19,251 and \$75,499 for 2019 and 2018, respectively	38,819,204	37,783,592
Plant facilities, net of accumulated depreciation	12,863,487	11,678,286
Works of art and special collections	—	—
<b>TOTAL ASSETS</b>	<b>\$ 57,802,944</b>	<b>\$ 54,746,302</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES:</b>		
Accounts payable and accrued expenses	\$ 2,518,600	\$ 2,291,677
Accrued pension and postretirement benefit obligations	799,313	604,592
Liabilities associated with investments	758,161	708,629
Deferred income and other obligations	1,423,315	1,212,519
Notes and bonds payable	7,074,844	6,661,644
U.S. government refundable loan funds	39,745	39,678
<b>TOTAL LIABILITIES</b>	<b>12,613,978</b>	<b>11,518,739</b>
<b>NET ASSETS:</b>		
Without donor restrictions	27,065,691	25,591,149
With donor restrictions	18,123,275	17,636,414
<b>TOTAL NET ASSETS</b>	<b>45,188,966</b>	<b>43,227,563</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 57,802,944</b>	<b>\$ 54,746,302</b>

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

## CONSOLIDATED STATEMENTS OF ACTIVITIES

*For the years ended August 31, 2019 and 2018 (in thousands of dollars)*

	2019	2018
<b>NET ASSETS WITHOUT DONOR RESTRICTIONS</b>		
<b>OPERATING REVENUES:</b>		
<b>TOTAL STUDENT INCOME, NET</b>	<b>\$ 652,853</b>	<b>\$ 635,020</b>
Sponsored support:		
Direct costs - University	850,779	801,534
Direct costs - SLAC National Accelerator Laboratory	545,359	580,314
Indirect costs	286,782	273,679
<b>TOTAL SPONSORED SUPPORT</b>	<b>1,682,920</b>	<b>1,655,527</b>
<b>TOTAL HEALTH CARE SERVICES</b> , primarily net patient service revenue	<b>7,050,672</b>	<b>6,302,278</b>
<b>TOTAL CURRENT YEAR GIFTS IN SUPPORT OF OPERATIONS</b>	<b>256,413</b>	<b>283,112</b>
Net assets released from restrictions:		
Payments received on pledges	153,478	142,632
Prior year gifts released from donor restrictions	75,852	55,943
<b>TOTAL NET ASSETS RELEASED FROM RESTRICTIONS</b>	<b>229,330</b>	<b>198,575</b>
Investment income distributed for operations:		
Endowment	1,319,170	1,254,315
Expendable funds pools and other investment income	263,641	254,492
<b>TOTAL INVESTMENT INCOME DISTRIBUTED FOR OPERATIONS</b>	<b>1,582,811</b>	<b>1,508,807</b>
<b>TOTAL SPECIAL PROGRAM FEES AND OTHER INCOME</b>	<b>807,021</b>	<b>728,076</b>
<b>TOTAL OPERATING REVENUES</b>	<b>12,262,020</b>	<b>11,311,395</b>
<b>OPERATING EXPENSES:</b>		
Salaries and benefits	6,892,410	6,328,491
Depreciation	701,163	656,104
Other operating expenses	4,045,911	3,854,513
<b>TOTAL OPERATING EXPENSES</b>	<b>11,639,484</b>	<b>10,839,108</b>
<b>CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES</b>	<b>\$ 622,536</b>	<b>\$ 472,287</b>

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

## CONSOLIDATED STATEMENTS OF ACTIVITIES, Continued

*For the years ended August 31, 2019 and 2018 (in thousands of dollars)*

	2019	2018
<b>NET ASSETS WITHOUT DONOR RESTRICTIONS (continued)</b>		
<b>CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES</b>	<b>\$ 622,536</b>	<b>\$ 472,287</b>
NON-OPERATING ACTIVITIES:		
Increase in reinvested gains	1,222,273	1,159,554
Donor advised funds, net	8,518	(6,489)
Current year gifts not included in operations	3,251	3,064
Capital and other gifts released from restrictions	94,935	515,799
Pension and other postemployment benefit related changes other than net periodic benefit expense	(178,249)	99,844
Transfer to net assets with donor restrictions, net	(117,765)	(114,600)
Swap interest and change in value of swap agreements	(169,393)	56,211
Loss on extinguishment of debt	—	(47,613)
Other	(11,564)	(13,828)
<b>NET CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS</b>	<b>1,474,542</b>	<b>2,124,229</b>
<b>NET ASSETS WITH DONOR RESTRICTIONS</b>		
Gifts and pledges, net	590,419	575,294
Increase in reinvested gains	114,253	552,968
Change in value of split-interest agreements, net	3,827	24,115
Net assets released to operations	(252,362)	(218,239)
Capital and other gifts released to net assets without donor restrictions	(94,935)	(515,799)
Transfer from net assets without donor restrictions, net	117,765	114,600
Other	7,894	(3,746)
<b>NET CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS</b>	<b>486,861</b>	<b>529,193</b>
<b>NET CHANGE IN TOTAL NET ASSETS</b>	<b>1,961,403</b>	<b>2,653,422</b>
Total net assets, beginning of year	43,227,563	40,574,141
<b>TOTAL NET ASSETS, END OF YEAR</b>	<b>\$ 45,188,966</b>	<b>\$ 43,227,563</b>

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

# CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended August 31, 2019 and 2018 (in thousands of dollars)

	2019	2018
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 1,961,403	\$ 2,653,422
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	701,163	656,104
Amortization of bond premiums, discounts and other	(19,000)	(21,581)
Provision for doubtful accounts for health care services	—	63,097
Losses (gains) on disposal of plant facilities	(3,820)	4,350
Net gains on investments	(2,594,115)	(2,845,934)
Change in fair value of interest rate swaps	154,849	(74,093)
Change in split-interest agreements	28,549	44,979
Change in deferred tax asset and liability	15,350	—
Investment income for restricted purposes	(13,377)	(12,413)
Gifts restricted for long-term investments	(350,161)	(341,510)
Gifts of securities and properties	(28,660)	(31,093)
Loss on extinguishment of debt	—	47,613
Other	8,981	34,049
Premiums received from bond issuance	158,169	76,138
Changes in operating assets and liabilities:		
Accounts receivable	(126,210)	(99,051)
Pledges receivable, net	(54,166)	(14,565)
Prepaid expenses and other assets	(81,711)	(31,394)
Accounts payable and accrued expenses	191,274	141,623
Accrued pension and postretirement benefit obligations	194,721	(97,783)
Deferred income and other obligations	156,074	112,186
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>299,313</b>	<b>264,144</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Additions to plant facilities, net	(1,920,325)	(1,879,306)
Change in assets limited as to use	(94,908)	285,606
Student, faculty and other loans:		
New loans made	(142,331)	(121,949)
Principal collected	66,276	69,831
Purchases of investments	(14,020,020)	(12,655,132)
Sales and maturities of investments	15,195,114	13,157,733
Sales (purchases) of investments with securities lending collateral, net	57,215	271,647
Change associated with short term investments	375,581	246,599
Swap settlement payments, net	(12,595)	(15,393)
<b>NET CASH USED FOR INVESTING ACTIVITIES</b>	<b>(495,993)</b>	<b>(640,364)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Gifts and reinvested income for restricted purposes	425,415	391,953
Proceeds from borrowing	1,001,445	1,247,671
Repayment of notes and bonds payable	(719,241)	(1,083,503)
Bond issuance costs and interest rate swaps	(2,135)	(6,783)
Contributions received for split-interest agreements	27,921	29,561
Payments made under split-interest agreements	(42,989)	(42,630)
Securities lending collateral (sold) received, net	(57,215)	(271,647)
Change in liabilities associated with investments	(11,237)	(71,322)
Other	6,917	12,169
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>628,881</b>	<b>205,469</b>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>432,201</b>	<b>(170,751)</b>
Cash and cash equivalents, beginning of year	1,199,367	1,370,118
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 1,631,568</b>	<b>\$ 1,199,367</b>
<b>SUPPLEMENTAL DATA:</b>		
Interest paid, net of capitalized interest	\$ 200,064	\$ 202,437
Cash collateral received under security lending agreements	\$ 19,922	\$ 77,137
Change in payables for plant facilities	\$ (47,135)	\$ 197,208

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. Basis of Presentation and Significant Accounting Policies

### **BASIS OF PRESENTATION**

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

### **University**

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

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

### **Hospitals**

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

### **TAX STATUS**

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

In accordance with the guidance on accounting for uncertainty in income taxes, management regularly evaluates its tax positions and does not believe the University, SHC or LPCH have any uncertain tax positions that require disclosure in or adjustment to the *Consolidated Financial Statements*. The University, SHC and LPCH are subject to routine audits by taxing jurisdictions. Management of each of the consolidated entities believes they are no longer subject to income tax examinations for fiscal years prior to August 31, 2015.

The TCJA was signed into law on December 22, 2017. Under the TCJA, the University is subject to a 1.4% excise tax on its net investment income as defined under the Internal Revenue Code which, among other things, includes net investment income of certain related entities such as the Hospitals. 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. These excise taxes became effective beginning fiscal year 2019. 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.

The University has recorded a current tax liability and a deferred tax asset and liability based on reasonable estimates under the currently available guidance for the year ended August 31, 2019. The University continues to evaluate the impact of the TCJA on current and future tax positions.

## **BASIS OF ACCOUNTING**

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

For financial reporting purposes, net assets and revenues, expenses, gains and losses are classified into one of two categories - net assets without donor restrictions and net assets with donor restrictions based on the existence or absence of legal or donor-imposed restrictions (see *Note 11*).

Net assets without donor restrictions are expendable resources which are not subject to donor-imposed restrictions. These net assets may be designated by Stanford for specific purposes under internal operating and administrative arrangements or be subject to contractual agreements with external parties (see *Note 11*).

Net assets with donor restrictions include gifts, pledges and split-interest agreements (a) which by donor stipulation must be made available in perpetuity for investment or specific purposes, or (b) for which legal or donor imposed restrictions have not yet been met. Such restrictions include purpose restrictions where donors have specified the purpose for which the net assets are to be spent, or time restrictions imposed by donors, or appreciation and income on certain donor-restricted endowment funds that have not yet been appropriated for spending (see *Note 12*).

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

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

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

### **CASH AND CASH EQUIVALENTS**

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

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

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

#### **Deferred compensation plan assets**

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

#### **Tax-exempt bond proceeds**

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

### **ACCOUNTS AND LOANS RECEIVABLE**

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

### **PREPAID EXPENSES AND OTHER ASSETS**

Prepaid expenses consist of amounts paid in advance for goods or services that will be received after the end of the fiscal year including software licenses and travel programs. Other assets include cash collateral held for interest rate swaps (see *Note 8*), deferred tax assets (see *Note 1*), and restricted cash.

### **PLEDGES RECEIVABLE**

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

### **INVESTMENTS**

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

## **PLANT FACILITIES**

Plant facilities are recorded at cost or, for donated assets, at fair value at the date of donation. Interest expense for construction financing, net of income earned on unspent proceeds, is capitalized as a cost of construction. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The useful lives used in calculating depreciation for the years ended August 31, 2019 and 2018 are as follows:

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

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

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

## **DONATED ASSETS**

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

## **DONOR ADVISED FUNDS**

The University receives gifts from donors under donor advised fund (DAF) agreements. These funds are owned and controlled by the University and are separately identified by donor. A significant portion of the gift must be designated to the University. At August 31, 2019 and 2018, approximately \$509.1 million and \$491.7 million, respectively, of DAFs may be used to support other approved charities; the donors have advisory privileges with respect to the distribution of these funds.

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

## **SPLIT-INTEREST AGREEMENTS**

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

The assets held under split-interest agreements, where the University is the trustee, were \$844.4 million and \$823.1 million at August 31, 2019 and 2018, respectively, and were recorded in specific investment categories. The assets held under split-interest agreements, where LPCH is the trustee, were \$11.4 million and \$11.2 million at August 31, 2019 and 2018, 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,



2019 and 2018, the University used discount rates of 2.2% and 3.4%, respectively, based on the Charitable Federal Midterm Rate. The LPCH discount rate used during the years ended August 31, 2019 and 2018 was 1.8% and 2.9%, 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 \$27.2 million and \$26.6 million as of August 31, 2019 and 2018 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 2019 and 2018, the discounted present value of new University gifts subject to split-interest agreements, net of any income beneficiary share, was \$16.9 million and \$20.9 million, respectively, and was included in net assets with donor restrictions as "gifts and pledges, net" in the *Consolidated Statements of Activities*. Actuarial gains or losses were included in "change in value of split-interest agreements, net" in the *Consolidated Statements of Activities*.

## **DEFERRED INCOME AND OTHER OBLIGATIONS**

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

### **Deferred Rental Income**

As part of its investment portfolio, the University holds certain investment properties that it leases to third parties under non-cancellable leases. In some lease transactions with properties in the Stanford Research Park and other properties, including the Stanford Shopping Center, prepaid rent is received, recorded as deferred rental income and amortized over the term of the lease (see also the *Future Minimum Rental Income* section in *Note 6*). As of August 31, 2019 and 2018, deferred rental income was \$704.3 million and \$601.9 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 \$196.8 million and \$165.4 million as of August 31, 2019 and 2018, respectively; the assets are included in "assets limited as to use" in the *Consolidated Statements of Financial Position*.

### **Repurchase Obligations**

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

The University has the obligation to repurchase certain residential units when specified triggering events occur. As of August 31, 2019 and 2018, Stanford has recognized a net repurchase obligation of \$86.5 million and \$63.2 million, respectively, to repurchase its interests in these residential units, net of home mortgage financing assistance provided by the University of \$167.4 million and \$117.9 million, respectively (see *Note 5*). The change in the repurchase obligation and the original purchase price is recorded as interest accretion

and is reflected in "other operating expenses" in the *Consolidated Statements of Activities*. For the years ended August 31, 2019 and 2018, interest accretion was \$6.9 million and \$1.5 million, respectively.

### **Asset Retirement Obligations**

Asset retirement obligations are legal obligations associated with the retirement of long-lived assets. These liabilities are initially recorded at fair value and the related asset retirement costs are capitalized at the same amount as the liability. Asset retirement costs are subsequently amortized over the useful lives of the related assets and the obligations are increased based on an appropriate discount rate. As of August 31, 2019 and 2018, SHC had asset retirement obligations of \$100.6 million and \$97.2 million, respectively.

### **SELF-INSURANCE**

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

### **INTEREST RATE EXCHANGE AGREEMENTS**

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

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

### **REVENUE**

#### **Student income and financial aid**

"Student income, net" reported in the *Consolidated Statements of Activities* consists of tuition, room and board, and other student fees from undergraduate and graduate students which are recognized as revenue ratably during the fiscal year in which the academic services are rendered. The University also provides financial aid in the form of scholarship and fellowship grants that cover a portion of tuition, room and board, and other student fees; this financial assistance is reflected as a reduction of student income. Student payments are due at the beginning of each academic term. Payments received for future academic terms are recorded as deferred income and totaled \$47.0 million and \$55.8 million for the years ended August 31, 2019 and 2018, respectively. These payments are recognized in the subsequent fiscal year. The following table presents student income, net of financial aid, for the years ended August 31, in thousands of dollars:

	2019	2018
Student income:		
Undergraduate programs	\$ 383,776	\$ 368,383
Graduate programs	385,712	374,857
Room and board	205,422	195,225
Student financial aid	(322,057)	(303,445)
<b>TOTAL STUDENT INCOME, NET</b>	<b>\$ 652,853</b>	<b>\$ 635,020</b>

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

### **Sponsored Support**

The University conducts substantial research pursuant to contracts and grants from the federal government, state and local governments, private corporations, foundations and others. Sponsored support earned from the federal government (including SLAC) is the largest segment of sponsored support. For both years ended August 31, 2019 and 2018, federal sponsored support was \$1.3 billion. The Office of Naval Research is the University's cognizant federal agency for determining indirect cost rates charged to federally sponsored agreements. It is supported by the Defense Contract Audit Agency, which has the responsibility for auditing direct and indirect charges under those agreements.

The majority of sponsored support is contribution revenue and is recognized when any sponsor-imposed conditions have been met, typically when qualifying expenditures are incurred. Sponsored contribution revenue for the year ended August 31, 2019 was \$993.6 million.

Other sponsored arrangements are considered exchange transactions and revenue is recognized in accordance with the terms of each contract or grant which are primarily based on costs incurred, completion of milestones, or other obligations as specified in the contracts. For the year ended August 31, 2019, the University recognized \$143.9 million in revenue from exchange contracts.

SLAC is managed and operated by the University for the DOE under a management and operating contract, which is considered to be an exchange transaction. The University operates SLAC and the DOE is obligated to pay for allowable operating costs. The University recognizes revenue from the DOE as costs are incurred in the management and operation of SLAC per the terms of the contract. Revenue of \$545.4 million and \$580.3 million was recognized for the years ended August 31, 2019 and 2018, respectively.

Deferred income of \$162.8 million and \$191.1 million was recorded at August 31, 2019 and 2018, respectively, for payments received from sponsors that have not been spent. During the year ended August 31, 2019, \$114.3 million of revenue was recognized that was included in the prior year deferred income balance. In addition, as of August 31, 2019, the University had been awarded \$993.8 million in sponsored support for which the conditions to recognize revenue have not been met. These are conditional contributions and are not recorded in the *Consolidated Financial Statements*.

### **Health Care Services**

"Total health care services" is reported in the *Consolidated Statements of Activities* at the estimated net realizable amounts from patients, third-party payers, and others for services rendered (collectively, "patient care revenue"). Estimated net realizable amounts represent amounts due, net of price concessions. Price concessions are based on management's assessment of expected net collections considering economic conditions, historical experience, trends in health care coverage and other collection indicators. SHC and LPCH derive a majority of patient care revenues from contractual agreements with Medicare, Medi-Cal and other third-party payers. Payments under these agreements and programs are based on a variety of payment models (see *Note 13*). Health care revenue is recognized as services are rendered either at a point in time or, for inpatient acute care services, over time generally from admission to discharge. Generally, patients and third-party payers are billed several days after services are performed or shortly after discharge. All health care revenue relates to contracts with customers with a duration of less than one year.

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

SHC and LPCH provide care to patients who meet certain criteria under their charity care policies without charge or at amounts less than their established rates. The Hospitals do not record revenue for amounts determined to qualify as charity care (see *Note 13*).

### **Gifts**

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

Gifts are considered conditional if the terms of the agreement require Stanford to return funds if certain specified obligations, or barriers, are not met such as milestones and performance targets. Conditional gifts are not recorded until the obligations or barriers are met.

### **Special Program Fees and Other Income**

Special program fees and other income consists of several other exchange contracts including instruction fees for professional education programs, membership affiliation fees, rental income, conference trip revenue, distributions from the Pac-12 Conference, Stanford Blood Center fees, and various other types of income. Depending on the program, revenue is recognized at a point in time or over time as obligations are met.

### **RECENT ACCOUNTING PRONOUNCEMENTS**

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

#### **Works of art and special collections**

Accounting Standards Update (ASU) 2019-03, FASB Issue Date: March 2019, Effective Date: Fiscal Year 2021  
The ASU modifies the definition of the term "collections" so that they are subject to an organizational policy that stipulates the use of proceeds from collection items that are sold to be for the acquisition of new collection items, the direct care of existing collections, or both.

#### **Fair value**

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

The ASU adds, modifies, and removes certain fair value measurement disclosure requirements. The portion of this guidance that modifies and removes fair value disclosure requirements was early adopted in fiscal year 2019.

ASU 2016-01, FASB Issue Date: January 2016, Effective Date: Fiscal Year 2020

The ASU eliminates the requirement to disclose the fair value of financial instruments measured at cost and requires equity investments (except those accounted for under the equity method of accounting) to be measured at fair value with changes in fair value recognized in net income. The portion of this guidance that eliminates the requirement to disclose the fair value of financial instruments measured at cost (such as the fair value of debt) has been early adopted in fiscal year 2019. The remaining guidance is not expected to have a material impact on the *Consolidated Financial Statements*.

**Defined benefit plan disclosures**

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

The ASU adds, removes, and clarifies disclosure requirements related to defined benefit pension and other postretirement plans. The new guidance was evaluated and will not have a material impact on the *Consolidated Financial Statements*.

**Cloud computing arrangements**

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

The ASU allows 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.

**Pension service costs**

ASU 2017-07, FASB Issue Date: In March 2017, Effective Date: Fiscal Year 2020

The ASU 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 was evaluated and will not have a material impact on the *Consolidated Financial Statements*.

**Statement of cash flows**

ASU 2016-18, FASB Issue Date: November 2016, Effective Date: Fiscal Year 2020

The ASU 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 was evaluated and will not have a material impact on the *Consolidated Financial Statements*.

ASU 2016-15, FASB Issue Date: August 2016, Effective Date: Fiscal Year 2020

The ASU improves consistency of how certain transactions are classified across industries in the statement of cash flows.

## Not-for-profit reporting

ASU 2016-14, FASB Issue Date: August 2016, Effective Date: Fiscal Year 2019

The ASU modifies Not-for Profit (NFP) reporting requirements by changing the way NFPs classify net assets and results in significant changes to financial reporting and disclosures for NFPs. The standard requires Stanford to reclassify its net assets (i.e., unrestricted, temporarily restricted, and permanently restricted) into two categories: net assets without donor restrictions and net assets with donor restrictions, among other requirements. The guidance also enhances disclosures about the composition of net assets, liquidity and expenses by both natural and functional classification. There is no significant impact to total net assets or total expenses from these changes. As a result of adopting this standard, net assets as of August 31, 2018, in thousands of dollars, have been reclassified as follows:

2018	ASU 2016-14 RECLASSIFICATIONS		
	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL NET ASSETS
NET ASSETS CLASSIFICATIONS			
As previously presented:			
Unrestricted	\$ 25,589,701	\$ —	\$ 25,589,701
Temporarily restricted	—	9,701,287	9,701,287
Permanently restricted	—	7,936,575	7,936,575
<b>TOTAL NET ASSETS</b>	<b>\$ 25,589,701</b>	<b>\$ 17,637,862</b>	<b>\$ 43,227,563</b>
Reclassification of underwater endowment	1,448	(1,448)	—
<b>TOTAL NET ASSETS, REVISED</b>	<b>\$ 25,591,149</b>	<b>\$ 17,636,414</b>	<b>\$ 43,227,563</b>

## Leases

ASU 2016-02, FASB Issue Date: February 2016, Effective Date: Fiscal Year 2020

The ASU requires lessees to recognize operating and financing lease liabilities and corresponding right-of use assets in the *Statements of Financial Position*.

## Revenue recognition

ASU 2014-09, FASB Issue Date: May 2014, Effective Date: Fiscal Year 2019

The ASU improves 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 also requires expanded disclosures. Stanford adopted this standard in fiscal year 2019 using the modified retrospective approach. Stanford elected to apply the standard only to contracts that were not completed as of August 31, 2018, therefore, comparative information has not been adjusted and continues to be reported under the previous revenue recognition guidance. The adoption of this guidance did not have a material impact to Stanford's *Consolidated Financial Statements*.

ASU 2018-08, FASB Issue Date: June 2018, Effective Date: Fiscal Year 2019

The ASU assists 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. Stanford adopted this standard in fiscal year 2019 using the modified prospective approach and it did not have a material impact to Stanford's *Consolidated Financial Statements*.

## 2. Financial Assets and Liquid Resources

### OVERVIEW

Stanford closely monitors its liquidity requirements and structures its financial assets to meet its short- and long-term needs and contractual commitments. To meet these needs, Stanford holds investments in various pools or in specific assets with varying degrees of liquidity, as well as having an authorized short-term commercial paper program. Stanford also has access to additional short-term financing facilities such as revolving lines of credit that can be available for unexpected liquidity needs (see *Note 10*).

### OPERATIONS

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

### MERGED POOL

The Merged Pool (MP) (see *Note 7*) is the primary investment pool for endowment and other long-term funds for the University and the Hospitals. Approximately 20% of the MP consists of liquid investments, with the balance representing investments which are generally subject to constraints which either limit Stanford's ability to withdraw such capital or limit the amounts available for withdrawal at given redemption dates (see *Note 6*). The MP further maintains sufficient liquidity to distribute the annual 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 its financial assets without donor restrictions-including board designated endowment funds-that are invested for the long-term for unplanned operating commitments; however, amounts could be made available from these sources if necessary, except for those underlying investments with lock-up provisions as discussed in *Note 6*.

Financial assets and liquid resources available within one year of the balance sheet date at August 31, 2019 in thousands of dollars, are as follows:

	UNIVERSITY	SHC	LPCH	CONSOLIDATED
<b>2019</b>				
Financial assets:				
Cash and cash equivalents	\$ 856,553	\$ 505,509	\$ 269,506	\$ 1,631,568
Assets limited as to use	94,896	—	—	94,896
Accounts receivable, net	235,153	685,425	427,956	1,348,534
Pledges receivable available for operations	82,947	—	8,273	91,220
Investments available for current use	385,376	1,049,485	588,875	2,023,736
Endowment payout in support of operations	1,362,000	—	—	1,362,000
Financial assets available to meet cash needs for general expenditure within one year	3,016,925	2,240,419	1,294,610	6,551,954
Liquid resources available for use:				
Taxable commercial paper	500,000	—	—	500,000
Tax-exempt commercial paper	300,000	—	—	300,000
Revolving credit facilities	369,430	200,000	170,000	739,430
<b>TOTAL FINANCIAL ASSETS AND LIQUID RESOURCES AVAILABLE WITHIN ONE YEAR</b>	<b>\$4,186,355</b>	<b>\$2,440,419</b>	<b>\$1,464,610</b>	<b>\$8,091,384</b>

### 3. Accounts Receivable

Accounts receivable, net of allowances for doubtful accounts, at August 31, 2019 and 2018, in thousands of dollars, are as follows:

	UNIVERSITY	SHC	LPCH	CONSOLIDATED
<b>2019</b>				
U.S. government sponsors	\$ 109,218	\$ —	\$ —	\$ 109,218
Non-federal sponsors and programs	79,871	7,510	—	87,381
Accrued interest on investments	13,669	—	—	13,669
Student	6,882	—	—	6,882
Patient and third-party payers:				
Blue Cross	—	175,161	101,414	276,575
Blue Shield	—	68,255	36,900	105,155
Medicare	—	86,861	2,550	89,411
Aetna	—	77,419	32,521	109,940
United Health	—	67,873	25,543	93,416
Medi-Cal	—	7,774	67,161	74,935
Other managed care and payers	—	202,082	134,744	336,826
Other	41,850	58,777	27,123	127,750
	251,490	751,712	427,956	1,431,158
Less allowance for doubtful accounts	(1,707)	—	—	(1,707)
<b>ACCOUNTS RECEIVABLE, NET</b>	<b>\$ 249,783</b>	<b>\$ 751,712</b>	<b>\$ 427,956</b>	<b>\$ 1,429,451</b>
<b>2018</b>				
U.S. government sponsors	\$ 119,245	\$ —	\$ —	\$ 119,245
Non-federal sponsors and programs	85,797	28,711	22,990	137,498
Pending trades of securities	11,318	—	—	11,318
Accrued interest on investments	17,934	—	—	17,934
Student	7,940	—	—	7,940
Patient and third-party payers:				
Blue Cross	—	176,858	84,585	261,443
Blue Shield	—	76,401	29,163	105,564
Medicare	—	114,210	1,419	115,629
Medi-Cal	—	17,159	43,740	60,899
Other managed care and payers	—	446,731	141,985	588,716
Other	44,536	18,479	32,317	95,332
	286,770	878,549	356,199	1,521,518
Less allowance for doubtful accounts	(1,732)	(208,282)	(12,559)	(222,573)
<b>ACCOUNTS RECEIVABLE, NET</b>	<b>\$ 285,038</b>	<b>\$ 670,267</b>	<b>\$ 343,640</b>	<b>\$ 1,298,945</b>



## 4. Pledges Receivable

Pledges are recorded at discounted rates ranging from 1.2% to 5.7%. At August 31, 2019 and 2018, pledges receivable, net of discounts and allowances, in thousands of dollars, are as follows:

	UNIVERSITY	SHC	LPCH	ELIMINATIONS	CONSOLIDATED
<b>2019</b>					
One year or less	\$ 241,014	\$ 29,691	\$ 27,588	\$ (16,301)	\$ 281,992
Between one year and five years	889,219	33,348	107,009	(34,559)	995,017
More than five years	347,931	6,021	26,976	(7,900)	373,028
	1,478,164	69,060	161,573	(58,760)	1,650,037
Less discounts and allowances	(156,507)	(6,664)	(17,180)	—	(180,351)
<b>PLEDGES RECEIVABLE, NET</b>	<b>\$ 1,321,657</b>	<b>\$ 62,396</b>	<b>\$ 144,393</b>	<b>\$ (58,760)</b>	<b>\$ 1,469,686</b>
<b>2018</b>					
One year or less	\$ 217,754	\$ 34,906	\$ 42,720	\$ (2,922)	\$ 292,458
Between one year and five years	968,495	52,023	81,894	(22,671)	1,079,741
More than five years	295,908	7,000	39,460	(8,000)	334,368
	1,482,157	93,929	164,074	(33,593)	1,706,567
Less discounts and allowances	(160,989)	(9,394)	(17,698)	—	(188,081)
<b>PLEDGES RECEIVABLE, NET</b>	<b>\$ 1,321,168</b>	<b>\$ 84,535</b>	<b>\$ 146,376</b>	<b>\$ (33,593)</b>	<b>\$ 1,518,486</b>

## 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, 2019 and 2018, in thousands of dollars, are as follows:

	2019	2018
Institutional loans	\$ 29,074	\$ 26,714
Federally-sponsored loans	23,717	34,261
	52,791	60,975
Less allowance for student loan losses	(793)	(639)
<b>STUDENT LOANS RECEIVABLE, NET</b>	<b>\$ 51,998</b>	<b>\$ 60,336</b>

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

Federally-sponsored loans are funded by advances to the University primarily under the Federal Perkins Loan Program (the "Program"). During the year ended August 31, 2018, the University returned \$14.3 million of Program funds to the U.S. Department of Education. 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. The U.S. Department of Education is in the process of evaluating procedures to reimburse schools for the federal guaranteed portion of loans in certain non-repayment situations.

### 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 \$780.2 million and \$695.7 million at August 31, 2019 and 2018, respectively, from University faculty and staff are included in "faculty and staff mortgages and other loans receivable, net" in the *Consolidated Statements of Financial Position*. Management has determined that no allowance is necessary.

The August 31, 2019 and 2018 amounts are net of \$167.4 million and \$117.9 million, respectively, offset against the University's recorded obligation to repurchase certain residential units sold under long-term restricted ground leases. See the *Repurchase Obligations* section of *Note 1*.

## 6. Investments

Investments are measured and recorded at fair value. The valuation methodology, investment categories, fair value hierarchy, certain investment activities and related commitments for fiscal years 2019 and 2018 are presented below. Investments held by Stanford at August 31, 2019 and 2018, in thousands of dollars, are as follows:

	UNIVERSITY	SHC	LPCH	ELIMINATIONS	CONSOLIDATED
<b>2019</b>					
Investment assets:					
Cash and short-term investments	\$ 488,132	\$ 468,142	\$ 3,477	\$ —	\$ 959,751
Collateral held for securities loaned	19,922	—	—	—	19,922
Public equities	8,163,632	377,663	51,547	—	8,592,842
Derivatives	17,384	—	—	—	17,384
Fixed income	2,049,289	211,169	98,820	—	2,359,278
Real estate	8,513,314	—	8,911	—	8,522,225
Natural resources	1,789,137	—	8,951	—	1,798,088
Private equities	9,941,833	—	25,144	—	9,966,977
Absolute return	5,565,483	—	19,471	—	5,584,954
Assets held by other trustees	124,736	—	15,275	—	140,011
Other	851,255	6,517	—	—	857,772
<b>Total</b>	<b>37,524,117</b>	<b>1,063,491</b>	<b>231,596</b>	<b>—</b>	<b>38,819,204</b>
Hospitals' funds invested in the University's investment pools	(2,232,489)	1,472,256	752,917	7,316	—
<b>INVESTMENTS AT FAIR VALUE</b>	<b>\$35,291,628</b>	<b>\$ 2,535,747</b>	<b>\$ 984,513</b>	<b>\$ 7,316</b>	<b>\$ 38,819,204</b>
Investment liabilities:					
Income beneficiary share of split interest agreements <sup>1</sup>	\$ 560,283	\$ —	\$ —	\$ —	\$ 560,283
Net investment income excise tax	42,892	—	—	—	42,892
Securities lending	19,922	—	—	—	19,922
Securities sold, not yet purchased	77,185	—	—	—	77,185
Accrued management fees	39,652	—	—	—	39,652
Pending trades of securities	18,227	—	—	—	18,227
<b>LIABILITIES ASSOCIATED WITH INVESTMENTS</b>	<b>\$ 758,161</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 758,161</b>

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

	UNIVERSITY	SHC	LPCH	ELIMINATIONS	CONSOLIDATED
<b>2018</b>					
Investment assets:					
Cash and short-term investments	\$ 1,040,835	\$ 447,307	\$ 3,400	\$ —	\$ 1,491,542
Collateral held for securities loaned	77,137	—	—	—	77,137
Public equities	8,335,690	248,631	52,324	—	8,636,645
Derivatives	(554)	—	—	—	(554)
Fixed income	2,419,741	169,983	96,661	—	2,686,385
Real estate	7,367,786	41,688	8,215	—	7,417,689
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	—	15,477	—	139,470
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	—
<b>INVESTMENTS AT FAIR VALUE</b>	<b>\$ 34,517,436</b>	<b>\$ 2,301,934</b>	<b>\$ 957,069</b>	<b>\$ 7,153</b>	<b>\$ 37,783,592</b>
Investment liabilities:					
Income beneficiary share of split interest agreements <sup>1</sup>	\$ 541,558	\$ —	\$ —	\$ —	\$ 541,558
Securities lending	77,137	—	—	—	77,137
Securities sold, not yet purchased	69,092	—	—	—	69,092
Accrued management fees	6,693	—	—	—	6,693
Pending trades of securities	2,912	—	—	—	2,912
Other	11,237	—	—	—	11,237
<b>LIABILITIES ASSOCIATED WITH INVESTMENTS</b>	<b>\$ 708,629</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 708,629</b>

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

## 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, 2019 and 2018, respectively. These investments are generally less liquid than other investments, and the value reported may differ from the values that would have been reported had a ready market for these investments existed.

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

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

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

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

### **INVESTMENT CATEGORIES**

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

**Cash and short-term investments** include cash, cash equivalents, mutual funds, and fixed income investments with 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. A significant portion of the fair value of real estate directly owned by Stanford and subject to long-term ground leases, including the Stanford Shopping Center and the Stanford Research Park, is based on independent appraisals that use discounted cash flows and market data, if available. The fair value of alternative investments in real estate held through limited

partnerships is based on the NAV reported by the external investment managers and is adjusted as described 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.

**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, 2019 and 2018, in thousands of dollars:

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
<b>2019</b>				
Investment assets:				
Cash and short-term investments	\$ 591,881	\$ 361,572	\$ —	\$ 953,453
Collateral held for securities loaned	—	19,922	—	19,922
Public equities	3,276,709	157	—	3,276,866
Derivatives	—	17,384	—	17,384
Fixed income	495,955	1,863,324	—	2,359,279
Real estate	62,328	—	6,748,672	6,811,000
Natural resources	141,875	—	141,240	283,115
Private equities	1,322	—	1,263	2,585
Absolute return	1,138	—	25,911	27,049
Assets held by other trustees	—	—	140,011	140,011
Other	110,635	57	733,032	843,724
<b>INVESTMENTS SUBJECT TO FAIR VALUE LEVELING</b>	<b>\$ 4,681,843</b>	<b>\$ 2,262,416</b>	<b>\$ 7,790,129</b>	<b>14,734,388</b>
Investments measured using Net Asset Value <sup>1</sup>				24,084,816
<b>TOTAL CONSOLIDATED INVESTMENT ASSETS</b>				<b>\$ 38,819,204</b>
Investment liabilities:				
Income beneficiary share of split interest agreements	\$ —	\$ 560,283	\$ —	\$ 560,283
Net investment income excise tax	42,892	—	—	42,892
Securities lending	—	19,922	—	19,922
Securities sold, not yet purchased	77,185	—	—	77,185
Accrued management fees	39,652	—	—	39,652
Pending trades of securities	18,227	—	—	18,227
<b>LIABILITIES ASSOCIATED WITH INVESTMENTS</b>	<b>\$ 177,956</b>	<b>\$ 580,205</b>	<b>\$ —</b>	<b>\$ 758,161</b>

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

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
<b>2018</b>				
Investment assets:				
Cash and short-term investments	\$ 569,707	\$ 914,425	\$ —	\$ 1,484,132
Collateral held for securities loaned	—	77,137	—	77,137
Public equities	2,996,887	1,417	—	2,998,304
Derivatives	—	(554)	—	(554)
Fixed income	470,099	2,216,286	—	2,686,385
Real estate	98,087	—	5,792,978	5,891,065
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	—	—	139,470	139,470
Other	9,921	—	627,989	637,910
<b>INVESTMENTS SUBJECT TO FAIR VALUE LEVELING</b>	<b>\$ 4,666,667</b>	<b>\$ 3,208,711</b>	<b>\$ 6,818,273</b>	<b>14,693,651</b>
Investments measured using Net Asset Value <sup>1</sup>				23,089,941
<b>TOTAL CONSOLIDATED INVESTMENT ASSETS</b>				<b>\$ 37,783,592</b>
Investment liabilities:				
Income beneficiary share of split interest agreements	\$ —	\$ 541,558	\$ —	\$ 541,558
Securities lending	—	77,137	—	77,137
Securities sold, not yet purchased	69,092	—	—	69,092
Accrued management fees	6,693	—	—	6,693
Pending trades of securities	2,912	—	—	2,912
Other	—	—	11,237	11,237
<b>LIABILITIES ASSOCIATED WITH INVESTMENTS</b>	<b>\$ 78,697</b>	<b>\$ 618,695</b>	<b>\$ 11,237</b>	<b>\$ 708,629</b>

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



### SUMMARY OF LEVEL 3 INVESTMENT ACTIVITIES AND TRANSFERS

The following tables present the activities for Level 3 investments for the years ended August 31, 2019 and 2018, in thousands of dollars:

FAIR VALUE MEASUREMENTS USING SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)	BEGINNING BALANCE AS OF SEPTEMBER 1, 2018	PURCHASES AND ADDITIONS	SALES AND MATURITIES	NET REALIZED AND UNREALIZED GAINS (LOSSES)	TRANSFERS IN*	TRANSFERS OUT*	ENDING BALANCE AS OF AUGUST 31, 2019
Real estate	\$ 5,792,978	\$ 53,953	\$ (15,197)	\$ 916,938	\$ —	\$ —	\$ 6,748,672
Natural resources	210,270	2,346	(16,111)	(55,265)	—	—	141,240
Private equities	20,188	—	(28,181)	9,256	—	—	1,263
Absolute return	27,378	—	—	(1,467)	—	—	25,911
Assets held by other trustees	139,470	1,389	(3,120)	2,272	—	—	140,011
Other	627,989	95,556	(61,113)	71,111	—	(511)	733,032
<b>TOTAL</b>	<b>\$ 6,818,273</b>	<b>\$ 153,244</b>	<b>\$ (123,722)</b>	<b>\$ 942,845</b>	<b>\$ —</b>	<b>\$ (511)</b>	<b>\$ 7,790,129</b>

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

\*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, 2019 and 2018, the change in unrealized gains (losses) for Level 3 investments still held at August 31, 2019 and 2018 was \$936.9 million and \$491.7 million, respectively.

### LEVEL 3 INVESTMENT VALUATION TECHNIQUES AND SIGNIFICANT UNOBSERVABLE INPUTS

The following table summarizes the significant unobservable inputs and valuation methodologies for Level 3 investments as of August 31, 2019 and 2018, in thousands of dollars.

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

INVESTMENT CATEGORIES	FAIR VALUE <sup>1</sup>	VALUATION TECHNIQUE	SIGNIFICANT UNOBSERVABLE INPUTS	RANGE		IMPACT TO VALUATION FROM AN INCREASE IN INPUT <sup>2</sup>
				MIN	MAX	
<b>2019</b>						
Real estate	\$ 6,045,530	Discounted cash flow	Discount rate	5.0%	20.0%	Decrease
			Capitalization rate	3.9%	9.0%	Decrease
Assets held by other trustees	124,736	Net present value	Discount rate	2.2%	2.2%	Decrease
Other	687,854	Market comparables	Recent transactions	N/A	N/A	N/A
<b>TOTAL AMOUNT WITH SIGNIFICANT UNOBSERVABLE</b>	<b>\$ 6,858,120</b>					
<b>2018</b>						
Real estate	\$ 5,155,212	Discounted cash flow	Discount rate	5.0%	20.0%	Decrease
			Capitalization rate	3.9%	9.0%	Decrease
Assets held by other trustees	123,993	Net present value	Discount rate	3.4%	3.4%	Decrease
Other	604,585	Market comparables	Recent transactions	N/A	N/A	N/A
<b>TOTAL AMOUNT WITH SIGNIFICANT UNOBSERVABLE</b>	<b>\$ 5,883,790</b>					

<sup>1</sup> \$932.0 million and \$934.5 million of Level 3 investments at August 31, 2019 and 2018, respectively, are valued using third-party valuations, other market comparables or recent transactions as an approximation of fair value.

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

### INVESTMENT-RELATED COMMITMENTS

The University is obligated under certain alternative investment agreements to advance additional funding up to specified levels over a period of several years. The following table presents significant terms of such agreements including redemption terms, notice periods, and remaining life for all related alternative investments at August 31, 2019, in thousands of dollars:

ASSET CLASS	FAIR VALUE	UNFUNDED COMMITMENT	REMAINING LIFE (YEARS)	REDEMPTION TERMS
Public equities	\$ 5,271,989	\$ 219,848	0 to 5	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	1,749,967	1,507,547	0 to 13	Not eligible for redemption
Natural resources	1,622,674	556,345	0 to 15	Not eligible for redemption
Private equities	9,940,458	3,849,854	0 to 16	Not eligible for redemption
Absolute return	5,565,483	932,158	0 to 7	Generally, lock-up provisions ranging from 0 to 5 years. After initial lock up expires, redemptions are available on a rolling basis and require 30 to 90 days prior notification.
<b>TOTAL</b>	<b>\$ 24,150,571</b>	<b>\$ 7,065,752</b>		

## **LIABILITIES ASSOCIATED WITH INVESTMENTS**

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

**Net investment income excise tax** represents current and deferred tax liabilities (see *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, 2019 and 2018 was \$19.3 million and \$75.5 million, respectively. At August 31, 2019, the University received on loan publicly traded equities of \$19.9 million. 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.

**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 counterparties with high creditworthiness, establishing and monitoring credit limits, and requiring collateral in certain situations.

The University generally maintains master netting agreements and collateral agreements with its counterparties. These agreements provide the University the right to net a counterparty's rights and obligations under the agreement and to liquidate and offset collateral against any net amount owed by the counterparty, in the event of default by the counterparty, such as bankruptcy or a failure to pay or perform. For certain derivatives, a master netting arrangement allows the counterparty to net any of its applicable liabilities or payment obligations to the University against any collateral previously provided or received (see *Note 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, 2019 and 2018, in thousands of dollars:

	GROSS AMOUNTS OF ASSETS AND LIABILITIES	OFFSET AMOUNTS	NET AMOUNTS	COLLATERAL RECEIVED (PLEGGED) <sup>2</sup>	NET EXPOSURE
<b>2019</b>					
Assets:					
Derivatives <sup>1</sup>	\$ 18,059	\$ (675)	\$ 17,384	\$ 17,384	\$ —
Repurchase agreements <sup>3</sup>	242,618	—	242,618	242,618	—
<b>TOTAL</b>	<b>260,677</b>	<b>(675)</b>	<b>260,002</b>	<b>260,002</b>	<b>—</b>
Liabilities:					
Derivatives <sup>1</sup>	675	(675)	—	—	—
Securities sold, not yet purchased	77,185	—	77,185	(77,185)	—
Securities lending	19,922	—	19,922	(19,922)	—
<b>TOTAL</b>	<b>\$ 97,782</b>	<b>\$ (675)</b>	<b>\$ 97,107</b>	<b>\$ (97,107)</b>	<b>\$ —</b>
<b>2018</b>					
Assets:					
Derivatives <sup>1</sup>	\$ 3	\$ (3)	\$ —	\$ —	\$ —
Repurchase agreements <sup>3</sup>	176,539	—	176,539	176,539	—
<b>TOTAL</b>	<b>176,542</b>	<b>(3)</b>	<b>176,539</b>	<b>176,539</b>	<b>—</b>
Liabilities:					
Derivatives <sup>1</sup>	557	(3)	554	(554)	—
Securities sold, not yet purchased	69,092	—	69,092	(69,092)	—
Securities lending	77,137	—	77,137	(77,137)	—
<b>TOTAL</b>	<b>\$ 146,786</b>	<b>\$ (3)</b>	<b>\$ 146,783</b>	<b>\$ (146,783)</b>	<b>\$ —</b>

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

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

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

## INVESTMENT RETURNS

Total investment returns for the years ended August 31, 2019 and 2018, in thousands of dollars, are as follows:

	UNIVERSITY	SHC	LPCH	CONSOLIDATED
<b>2019</b>				
Investment income	\$ 280,892	\$ 53,440	\$ 5,182	\$ 339,514
Net realized and unrealized gains	2,446,169	102,680	62,486	2,611,335
<b>TOTAL INVESTMENT RETURNS, NET</b>	<b>\$ 2,727,061</b>	<b>\$ 156,120</b>	<b>\$ 67,668</b>	<b>\$ 2,950,849</b>
Reconciliation to <i>Statements of Activities</i> :				
Total investment income distributed for operations	\$ 1,564,700	\$ 2,337	\$ 15,774	\$ 1,582,811
Increase in reinvested gains:				
Without donor restrictions	1,040,312	150,792	31,169	1,222,273
With donor restrictions	90,562	2,991	20,700	114,253
Change in value of split-interest agreements, net	3,802	—	25	3,827
Adjustments for actuarial re-evaluations and maturities of split-interest agreements	27,685	—	—	27,685
<b>TOTAL INVESTMENT RETURNS, NET</b>	<b>\$ 2,727,061</b>	<b>\$ 156,120</b>	<b>\$ 67,668</b>	<b>\$ 2,950,849</b>
<b>2018</b>				
Investment income	\$ 349,569	\$ 40,091	\$ 5,072	\$ 394,732
Net realized and unrealized gains	2,689,706	122,912	87,336	2,899,954
<b>TOTAL INVESTMENT RETURNS, NET</b>	<b>\$ 3,039,275</b>	<b>\$ 163,003</b>	<b>\$ 92,408</b>	<b>\$ 3,294,686</b>
Reconciliation to <i>Statements of Activities</i> :				
Total investment income distributed for operations	\$ 1,493,388	\$ 1,232	\$ 14,187	\$ 1,508,807
Increase in reinvested gains:				
Without donor restrictions	951,197	158,592	49,765	1,159,554
With donor restrictions	521,545	3,179	28,244	552,968
Change in value of split-interest agreements, net	23,903	—	212	24,115
Adjustments for actuarial re-evaluations and maturities of split-interest agreements	49,242	—	—	49,242
<b>TOTAL INVESTMENT RETURNS, NET</b>	<b>\$ 3,039,275</b>	<b>\$ 163,003</b>	<b>\$ 92,408</b>	<b>\$ 3,294,686</b>

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

## FUTURE MINIMUM RENTAL INCOME

As part of its investment portfolio, Stanford holds certain investment properties that it leases to third parties. Future minimum rental income due from the Stanford Shopping Center, the Stanford Research Park and other properties under non-cancellable leases in effect with tenants at August 31, 2019, in thousands of dollars, is as follows:

YEAR ENDING AUGUST 31	FUTURE MINIMUM RENTAL INCOME			
	UNIVERSITY	SHC	LPCH	CONSOLIDATED
2020	\$ 140,832	\$ 5,591	\$ 1,278	\$ 147,701
2021	148,762	5,513	1,258	155,533
2022	138,961	4,934	1,215	145,110
2023	119,384	2,449	576	122,409
2024	104,512	1,705	268	106,485
Thereafter	2,235,423	9,594	—	2,245,017
<b>TOTAL</b>	<b>\$ 2,887,874</b>	<b>\$ 29,786</b>	<b>\$ 4,595</b>	<b>\$ 2,922,255</b>

## 7. Investment Pools

Investments are held in various investment pools or in specific investments to comply with donor requirements as indicated in the following table, at August 31, 2019 and 2018, in thousands of dollars:

	2019	2018
Merged Pool (MP)	\$ 29,561,908	\$ 28,882,135
Short-Term Investment Pool (STIP)	918,029	1,086,578
Expendable Funds Pool (EFP)	4,204,205	4,011,294
Endowment Income Funds Pool (EIFP)	386,019	368,194
Intermediate Pool (IPool)	364,862	485,382
Other investment pools	140,965	123,845
Specific investments	7,401,368	6,787,501
	42,977,356	41,744,929
Adjustments:		
Amounts included in "cash and cash equivalents" in the <i>Consolidated Statements of Financial Position</i>	(654,307)	(212,648)
Funds cross-invested in investment pools	(4,798,932)	(4,889,840)
Hospitals' funds not invested in the University's investment pools	1,295,087	1,141,151
<b>TOTAL INVESTMENTS</b>	<b>\$ 38,819,204</b>	<b>\$ 37,783,592</b>

The MP is the primary investment pool in which endowment (see *Note 12*) and other long-term funds are invested. The MP is invested with the objective of optimizing long-term total return while maintaining an appropriate level of risk for the University. It is a unitized investment pool in which the 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 \$1.5 billion and \$1.4 billion at August 31, 2019 and 2018, respectively. LPCH's investments in the MP were \$752.9 million and \$724.4 million at August 31, 2019 and 2018, 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 years ended August 31, 2019 and 2018, the EFP was also invested in the STIP and the Intermediate Pool (IPool). The EIFP holds income previously distributed to holders of endowment funds with restrictions that are perpetual in nature that has not yet been expended and the entire balance is invested in the STIP.

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 12). For the years ended August 31, 2019 and 2018, the results of the EFP, in thousands of dollars, are as follows:

	2019	2018
Total investment return of the EFP	\$ 225,664	\$ 336,767
Less distributions to fund holders and operations	(202,042)	(181,411)
<b>AMOUNTS ADDED TO FFE</b>	<b>\$ 23,622</b>	<b>\$ 155,356</b>

## 8. Derivatives

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

### INVESTMENT-RELATED DERIVATIVES

The following table presents amounts for investment-related derivatives, including the notional amount, the fair values at August 31, 2019 and 2018, and gains and losses for the years ended August 31, 2019 and 2018, in thousands of dollars:

	NOTIONAL AMOUNT <sup>1</sup>	GROSS DERIVATIVE ASSETS <sup>2</sup>	GROSS DERIVATIVE LIABILITIES <sup>2</sup>	REALIZED AND UNREALIZED LOSSES <sup>3</sup>
	AS OF AUGUST 31			YEAR ENDED AUGUST 31
<b>2019</b>				
Foreign exchange contracts	\$ 26,504	\$ —	\$ 675	\$ (1,473)
Equity contracts <sup>4</sup>	439,942	18,059	—	(67,006)
<b>TOTAL</b>	<b>\$ 466,446</b>	<b>\$ 18,059</b>	<b>\$ 675</b>	<b>\$ (68,479)</b>
<b>2018</b>				
Foreign exchange contracts	\$ 8,700	\$ 3	\$ 557	\$ (4,017)
Equity contracts	—	—	—	(2,248)
<b>TOTAL</b>	<b>\$ 8,700</b>	<b>\$ 3</b>	<b>\$ 557</b>	<b>\$ (6,265)</b>

<sup>1</sup> The notional amount is representative of the volume and activity of the respective derivative type during the years ended August 31, 2019 and 2018.

<sup>2</sup> Gross derivative assets less gross derivative liabilities of \$17.4 million and (\$554) thousand as of August 31, 2019 and 2018, respectively, are presented as "derivatives" on the investment table in Note 6.

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

<sup>4</sup> Included in equity contracts are fair value hedging derivatives with a fair value of \$11.8 million as of August 31, 2019. The realized and unrealized losses related to these equity contracts were \$71.3 million for the year ended August 31, 2019.

## 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, 2019, 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 \$28.6 million and \$13.5 million at August 31, 2019 and 2018, 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, 2019 and 2018 (see *Note 10*).

At August 31, 2019, 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 cash collateral required to be posted with counterparties at August 31, 2019 of \$31.6 million and no cash collateral posted at August 31, 2018.

The following table presents amounts for debt-related derivatives including the notional amount, the fair values at August 31, 2019 and 2018, and gains and losses for the years ended August 31, 2019 and 2018, in thousands of dollars:

	AS OF AUGUST 31, 2019		YEAR ENDED AUGUST 31, 2019	AS OF AUGUST 31, 2018		YEAR ENDED AUGUST 31, 2018
	NOTIONAL AMOUNT <sup>1</sup>	GROSS DERIVATIVE LIABILITIES <sup>2</sup>	UNREALIZED LOSSES <sup>3</sup>	NOTIONAL AMOUNT <sup>1</sup>	GROSS DERIVATIVE LIABILITIES <sup>2</sup>	UNREALIZED GAINS <sup>3</sup>
Debt-related interest-rate contracts:						
University	\$ 97,000	\$ 48,294	\$ (20,580)	\$ 97,000	\$ 27,714	\$ 10,653
SHC	574,925	316,796	(134,269)	575,400	182,527	63,439
<b>TOTAL</b>	<b>\$ 671,925</b>	<b>\$ 365,090</b>	<b>\$ (154,849)</b>	<b>\$ 672,400</b>	<b>\$ 210,241</b>	<b>\$ 74,092</b>

<sup>1</sup> The notional amount is representative of the volume and activity of the respective derivative type during the years ended August 31, 2019 and 2018.

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

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



## 9. Plant Facilities

Plant facilities, net of accumulated depreciation, at August 31, 2019 and 2018, in thousands of dollars, are as follows:

	UNIVERSITY	SHC	LPCH	CONSOLIDATED
<b>2019</b>				
Land and improvements	\$ 606,454	\$ 68,844	\$ 120,833	\$ 796,131
Buildings and building improvements	7,427,617	1,773,365	1,792,861	10,993,843
Furniture, fixtures and equipment	1,986,883	1,246,431	494,123	3,727,437
Utilities	888,798	—	—	888,798
Construction in progress	1,567,663	2,426,480	152,991	4,147,134
	12,477,415	5,515,120	2,560,808	20,553,343
Less accumulated depreciation	(5,207,133)	(1,824,105)	(658,618)	(7,689,856)
<b>PLANT FACILITIES, NET OF ACCUMULATED DEPRECIATION</b>	<b>\$ 7,270,282</b>	<b>\$ 3,691,015</b>	<b>\$ 1,902,190</b>	<b>\$ 12,863,487</b>
<b>2018</b>				
Land and improvements	\$ 595,470	\$ 68,844	\$ 120,519	\$ 784,833
Buildings and building improvements	6,624,088	1,694,056	1,736,783	10,054,927
Furniture, fixtures and equipment	1,872,370	1,185,244	476,025	3,533,639
Utilities	862,810	—	—	862,810
Construction in progress	1,387,188	1,969,625	108,531	3,465,344
	11,341,926	4,917,769	2,441,858	18,701,553
Less accumulated depreciation	(4,834,389)	(1,638,721)	(550,157)	(7,023,267)
<b>PLANT FACILITIES, NET OF ACCUMULATED DEPRECIATION</b>	<b>\$ 6,507,537</b>	<b>\$ 3,279,048</b>	<b>\$ 1,891,701</b>	<b>\$ 11,678,286</b>

At August 31, 2019, \$2.1 billion, \$1.1 billion, and \$161.8 million of fully depreciated plant facilities were still in use by the University, SHC, and LPCH, respectively, and are included in plant facilities and accumulated depreciation in the above table.

## 10. Notes and Bonds Payable

Notes and bonds payable for the University, SHC, and LPCH at August 31, 2019 and 2018, in thousands of dollars, are presented in the table below. The University is not an obligor or guarantor with respect to any obligations of SHC or LPCH, nor are SHC or LPCH obligors or guarantors with respect to obligations of the University or each other.

	YEAR OF MATURITY	EFFECTIVE INTEREST RATE *	OUTSTANDING PRINCIPAL	
			2019	2018
<b>UNIVERSITY:</b>				
<b>Tax-exempt:</b>				
CEFA Fixed Rate Revenue Bonds:				
Series S	2040	3.18%	\$ 30,210	\$ 30,210
Series T	2023-2039	3.66%-4.30%	188,900	188,900
Series U	2021-2046	1.75%-4.25%	1,167,205	1,167,205
Series V	2029-2049	1.83%-3.12%	441,830	—
CEFA Variable Rate Revenue Bonds and Notes:				
Series L	2023	1.17%/1.31%	36,208	36,208
Series S	2040-2051	1.32-1.65%/1.53%-1.78%	141,200	141,200
Commercial Paper	2019	0.00%/1.60%-1.63%	—	130,000
<b>Table:</b>				
Fixed Rate Notes and Bonds:				
Stanford University Bonds	2024	6.88%	150,000	150,000
Medium Term Note	2026	7.65%	50,000	50,000
Stanford University Series 2009A	2019	4.75%	—	137,815
Stanford University Series 2012	2042	4.01%	143,235	143,235
Stanford University Series 2013	2044	3.56%	150,115	150,115
Stanford University Series 2014	2054	4.25%	150,000	150,000
Stanford University Series 2015	2047	3.46%	250,000	250,000
Stanford University Series 2017	2048	3.65%	750,000	750,000
Stanford University Series 2019	2029	3.09%	121,000	—
Other	2020-2031	Various	3,481	3,481
Revolving Credit Facilities	2021	2.44%/2.22%-2.27%	55,570	75,850
University notes and bonds payable			3,828,954	3,554,219
Unamortized issuance costs, premiums, and discounts, net			418,381	280,078
<b>UNIVERSITY TOTAL</b>			<b>\$ 4,247,335</b>	<b>\$ 3,834,297</b>
<b>SHC:</b>				
CHFFA Fixed Rate Revenue Bonds:				
2008 Series A-1	2020-2021	3.83%/3.79%	\$ 900	\$ 1,375
2008 Series A-2	2020-2022	3.70%/3.65%	1,775	2,475
2008 Series A-3	2020-2022	3.69%/3.65%	1,450	2,000
2010 Series A	2020-2021	3.82%/3.76%	13,195	19,325
2012 Series A	2028-2051	3.98%	340,000	340,000
2012 Series B	2020-2023	2.42%/2.36%	28,770	35,420
2015 Series A	2052-2054	4.10%	100,000	100,000
2017 Series A	2022-2041	2.82%/2.81%	454,200	454,200
2018 Series Taxable Bonds	2049	3.80%	500,000	500,000
CHFFA Variable Rate Revenue Bonds:				
2008 Series B	2042-2046	1.16%/1.38%	168,200	168,200
2012 Series C	2039-2051	1.60%/1.81%	60,000	60,000
2012 Series D	2020	1.89%/1.79%	100,000	100,000
2015 Series B	2024	2.04%/1.94%	75,000	75,000
SHC notes and bonds payable			1,843,490	1,857,995
Unamortized issuance costs, premiums, and discounts, net			91,924	96,677
<b>SHC TOTAL</b>			<b>\$ 1,935,414</b>	<b>\$ 1,954,672</b>
<b>LPCH:</b>				
CHFFA Fixed Rate Revenue Bonds:				
2012 Series A	2044-2051	4.32%	\$ 200,000	\$ 200,000
2012 Series B	2020-2027	2.85%/2.79%	34,615	37,205
2014 Series A	2025-2043	3.84%	100,000	100,000
2016 Series A	2020-2033	2.30%/2.23%	63,915	67,170
2016 Series B	2052-2055	3.34%	100,000	100,000
2017 Series A	2020-2056	3.04%/3.01%	197,925	200,000
CHFFA Variable Rate Revenue Bonds:				
2014 Series B	2034-2043	1.89%/1.79%	100,000	100,000
Revolving Credit Facilities	2023	2.57%	30,000	—
LPCH notes and bonds payable			826,455	804,375
Unamortized issuance costs, premiums, and discounts, net			65,640	68,300
<b>LPCH TOTAL</b>			<b>\$ 892,095</b>	<b>\$ 872,675</b>
<b>CONSOLIDATED TOTAL</b>			<b>\$ 7,074,844</b>	<b>\$ 6,661,644</b>

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

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

The University's long-term ratings of AAA/Aaa/AAA were affirmed in March 2019 by S&P Global Ratings, Moody's Investors Service, and Fitch Ratings, respectively. In March and May 2019, 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 October and November 2019, LPCH's long-term ratings were affirmed by S&P Global Ratings, Moody's Investors Service, and Fitch Ratings at A+/A1/AA-, 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 April 2019, CEFA Series V-1 bonds were issued in the amount of \$441.8 million plus an original issue premium of \$158.2 million. The bonds bear interest at a coupon rate of 5.00%, with \$41.8 million maturing on May 1, 2029 and \$400 million maturing on May 1, 2049, and have yields of 1.83% and 3.12%, respectively. Proceeds are being used to finance or refinance capital projects of the University.

In March 2019, the University issued taxable fixed rate bonds (Series 2019) in the amount of \$121.0 million. The bonds bear interest yield of 3.09% and mature on May 1, 2029. Proceeds may be used for general corporate purposes, but primarily are for financing and refinancing capital projects.

In August and November 2018, the University called and prepaid \$262.2 million and \$137.8 million, respectively, of the taxable Series 2009A bonds due in May 2019. The Series 2009A bonds totaling \$1.0 billion issued for liquidity purposes in the wake of the 2009 financial crisis, are now fully paid down.

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 \$55.6 million and \$75.9 million at August 31, 2019 and 2018, respectively.

In October 2017, a CEFA Series L tranche in the amount of \$15.2 million matured and was 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, 2019 and 2018. Tax-exempt commercial paper of \$0.0 million and \$130.0 million was outstanding at August 31, 2019 and 2018, respectively.

### **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, 2019. 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, 2019, irrevocable standby letters of credit of \$52.6 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) \$4.9 million for other purposes. No amounts have been drawn on these letters of credit at August 31, 2019.

## **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.

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

At August 31, 2019, 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, 2019, SHC had irrevocable standby letters of credit in the aggregate amount of \$21.2 million posted with certain beneficiaries in the following amounts and for the following respective purposes: (i) \$19.0 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 20*). No amounts have been drawn on these letters of credit at August 31, 2019 and 2018.

### LPCH

#### Debt activity

LPCH has a \$200.0 million revolving credit facility with Bank of America which was set to expire in May 2020. Subsequent to year end, the revolving credit agreement was extended through November 2022. There was \$30.0 million drawn on the line of credit as of August 31, 2019.

### Letters of credit

At August 31, 2019, 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 20*). No amounts have been drawn on these letters of credit at August 31, 2019 and 2018.

### INTEREST

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

	UNIVERSITY	SHC	LPCH	CONSOLIDATED
<b>2019</b>				
Interest expense, gross	\$ 140,231	\$ 67,921	\$ 34,083	\$ 242,235
Less:				
Interest income earned on unspent proceeds	(6,956)	—	—	(6,956)
Interest capitalized as a cost of construction	(28,864)	(28,861)	—	(57,725)
Interest expense on Series 2009A bonds which is classified as an investment expense	(8,474)	—	—	(8,474)
<b>INTEREST EXPENSE, NET</b>	<b>\$ 95,937</b>	<b>\$ 39,060</b>	<b>\$ 34,083</b>	<b>\$ 169,080</b>
<b>2018</b>				
Interest expense, gross	\$ 149,051	\$ 61,191	\$ 36,390	\$ 246,632
Less:				
Interest income earned on unspent proceeds	(9,643)	—	—	(9,643)
Interest capitalized as a cost of construction	(16,402)	(27,718)	(19,359)	(63,479)
Interest expense on Series 2009A bonds which is classified as an investment expense	(14,844)	—	—	(14,844)
<b>INTEREST EXPENSE, NET</b>	<b>\$ 108,162</b>	<b>\$ 33,473</b>	<b>\$ 17,031</b>	<b>\$ 158,666</b>

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 \$2.0 million and \$2.5 million for the years ended August 31, 2019 and 2018, respectively. SHC net payments on interest rate exchange agreements were \$12.6 million and \$15.4 million for the years ended August 31, 2019 and 2018, respectively.

**PRINCIPAL PAYMENTS**

At August 31, 2019, scheduled principal payments on notes, bonds and capital lease obligations, in thousands of dollars, are as follows:

YEAR ENDING AUGUST 31	PRINCIPAL PAYMENTS			
	UNIVERSITY	SHC	LPCH	CONSOLIDATED
2020 Variable debt subject to remarketing	177,408	228,200	—	405,608
2020 Other	3,000	114,235	38,245	155,480
2021	179,685	16,045	8,635	204,365
2022	—	15,505	9,045	24,550
2023	51,765	17,065	9,490	78,320
2024	150,000	88,475	9,980	248,455
Thereafter	3,267,096	1,363,965	751,060	5,382,121
<b>TOTAL</b>	<b>\$ 3,828,954</b>	<b>\$ 1,843,490</b>	<b>\$ 826,455</b>	<b>\$ 6,498,899</b>

## 11. Net Assets

Net assets without donor restrictions include Board-designated funds functioning as endowment (see *Note 12*), net investment in plant facilities and other operating funds.

Net assets with donor restrictions consist primarily of endowment gifts that are limited for long-term investment, and accumulated appreciation that may be appropriated for expenditure by the University (see *Note 12*). Net assets with donor restrictions also include gifts and pledges that are subject to donor-imposed restrictions that expire with the passage of time, payment of pledges, and/or actions of the University, and other funds including Stanford's net equity in split-interest agreements and student loans.

Net assets at August 31, 2019 and 2018, in thousands of dollars, are as follows:

	UNIVERSITY	SHC	LPCH	ELIMINATIONS	CONSOLIDATED
<b>2019</b>					
<b>NET ASSETS WITHOUT DONOR RESTRICTIONS</b>					
Board designated endowment - Funds functioning as endowment	\$ 13,240,533	\$ —	\$ —	\$ —	\$ 13,240,533
Net investment in plant facilities and other plant funds	4,349,360	2,244,135	1,040,095	—	7,633,590
Operating funds	4,063,162	1,301,740	906,978	(80,312)	6,191,568
<b>Total net assets without donor restrictions</b>	<b>21,653,055</b>	<b>3,545,875</b>	<b>1,947,073</b>	<b>(80,312)</b>	<b>27,065,691</b>
<b>NET ASSETS WITH DONOR RESTRICTIONS</b>					
Subject to expenditure for specified purpose:					
Gifts with undecided purpose restrictions	472,781	—	—	—	472,781
Plant facilities	192,813	543,577	136,269	—	872,659
<b>Total</b>	<b>665,594</b>	<b>543,577</b>	<b>136,269</b>	<b>—</b>	<b>1,345,440</b>
Subject to passage of time:					
Pledges receivable	598,899	62,396	77,593	—	738,888
Other funds	257,229	46,447	38,505	—	342,181
<b>Total</b>	<b>856,128</b>	<b>108,843</b>	<b>116,098</b>	<b>—</b>	<b>1,081,069</b>
Subject to University's spending policy:					
Accumulated appreciation	7,286,048	14,922	112,042	—	7,413,012
Subject to restrictions in perpetuity:					
Endowment funds	7,058,573	9,431	234,361	—	7,302,365
Pledges receivable	722,758	—	148	—	722,906
Other funds	258,483	—	—	—	258,483
<b>Total</b>	<b>8,039,814</b>	<b>9,431</b>	<b>234,509</b>	<b>—</b>	<b>8,283,754</b>
<b>Total net assets with donor restrictions</b>	<b>16,847,584</b>	<b>676,773</b>	<b>598,918</b>	<b>—</b>	<b>18,123,275</b>
<b>TOTAL NET ASSETS</b>	<b>\$38,500,639</b>	<b>\$4,222,648</b>	<b>\$2,545,991</b>	<b>\$ (80,312)</b>	<b>\$ 45,188,966</b>

	UNIVERSITY	SHC	LPCH	ELIMINATIONS	CONSOLIDATED
<b>2018</b>					
<b>NET ASSETS WITHOUT DONOR RESTRICTIONS</b>					
Board designated endowment - Funds functioning as endowment	\$ 12,351,730	\$ —	\$ —	\$ —	\$ 12,351,730
Net investment in plant facilities and other plant funds	4,033,876	1,812,163	1,019,026	—	6,865,065
Operating funds	4,091,799	1,491,962	854,396	(63,803)	6,374,354
<b>Total net assets without donor restrictions</b>	<b>20,477,405</b>	<b>3,304,125</b>	<b>1,873,422</b>	<b>(63,803)</b>	<b>25,591,149</b>
<b>NET ASSETS WITH DONOR RESTRICTIONS</b>					
Subject to expenditure for specified purpose:					
Gifts with undecided purpose restrictions	458,109	—	—	—	458,109
Plant facilities	180,574	498,752	96,656	—	775,982
<b>Total</b>	<b>638,683</b>	<b>498,752</b>	<b>96,656</b>	<b>—</b>	<b>1,234,091</b>
Subject to passage of time:					
Pledges receivable	567,527	84,535	110,698	—	762,760
Other funds	226,372	51,557	26,650	—	304,579
<b>Total</b>	<b>793,899</b>	<b>136,092</b>	<b>137,348</b>	<b>—</b>	<b>1,067,339</b>
Subject to University's spending policy:					
Accumulated appreciation	7,273,097	13,982	111,330	—	7,398,409
Subject to restrictions in perpetuity:					
Endowment funds	6,777,977	8,233	227,813	—	7,014,023
Pledges receivable	753,642	—	175	—	753,817
Other funds	168,735	—	—	—	168,735
<b>Total</b>	<b>7,700,354</b>	<b>8,233</b>	<b>227,988</b>	<b>—</b>	<b>7,936,575</b>
<b>Total net assets with donor restrictions</b>	<b>16,406,033</b>	<b>657,059</b>	<b>573,322</b>	<b>—</b>	<b>17,636,414</b>
<b>TOTAL NET ASSETS</b>	<b>\$36,883,438</b>	<b>\$3,961,184</b>	<b>\$2,446,744</b>	<b>\$ (63,803)</b>	<b>\$ 43,227,563</b>



## 12. Endowments

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

Stanford classifies as net assets with donor restrictions (a) the original value of gifts donated to the endowment with donor restrictions and (b) accumulations to the endowment with donor restrictions made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining accumulation to the endowment funds that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument, is classified as net assets with donor restrictions until those amounts are authorized for expenditure. The aggregate amount by which fair value was below historic value was \$487.4 thousand and \$1.4 million at August 31, 2019 and 2018, respectively.

Endowment funds by net asset classification at August 31, 2019 and 2018, in thousands of dollars, are as follows:

	2019	2018
University endowment		
Endowment funds without donor restrictions:		
Funds functioning as endowment	\$ 13,240,533	\$ 12,351,730
Endowment funds with donor restrictions:		
Original donor-restricted gift amount and gains maintained in perpetuity	7,058,573	6,777,977
Term endowment and related gains	176,955	150,800
Additional accumulated gains available for expenditure, subject to spending policy	7,223,773	7,184,405
<b>Total endowment funds with donor restrictions</b>	<b>14,459,301</b>	<b>14,113,182</b>
<b>University endowment</b>	<b>27,699,834</b>	<b>26,464,912</b>
SHC endowment funds with donor restrictions	24,353	22,215
LPCH endowment funds with donor restrictions	362,229	353,374
<b>TOTAL ENDOWMENT FUNDS</b>	<b>\$ 28,086,416</b>	<b>\$ 26,840,501</b>

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

## UNIVERSITY

Changes in the University's endowment, excluding pledges, for the years ended August 31, 2019 and 2018, in thousands of dollars, are as follows:

	NET ASSETS WITHOUT DONOR RESTRICTIONS	NET ASSETS WITH DONOR RESTRICTIONS	TOTAL
<b>2019</b>			
Endowment, beginning of year	\$ 12,351,730	\$ 14,113,182	\$ 26,464,912
Total investment returns, net	1,495,691	830,055	2,325,746
Amounts distributed for operations	(524,564)	(778,471)	(1,303,035)
Gifts, transfers and other changes in endowment:			
Current year gifts and pledge payments	5,301	229,370	234,671
Transfers of prior year gifts	3,864	65,541	69,405
EFP funds added to the endowment	23,622	—	23,622
Other funds withdrawn from the endowment, net	(115,111)	(376)	(115,487)
Total gifts, transfers and other changes in endowment	(82,324)	294,535	212,211
Total net increase in endowment	888,803	346,119	1,234,922
<b>ENDOWMENT, END OF YEAR</b>	<b>\$ 13,240,533</b>	<b>\$ 14,459,301</b>	<b>\$ 27,699,834</b>
<b>2018</b>			
Endowment, beginning of year	\$ 11,484,688	\$ 13,300,255	\$ 24,784,943
Total investment returns, net	1,166,116	1,221,518	2,387,634
Amounts distributed for operations	(506,513)	(733,233)	(1,239,746)
Gifts, transfers and other changes in endowment:			
Current year gifts and pledge payments	4,414	227,754	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 the endowment	45,048	27,072	72,120
Total gifts, transfers and other changes in endowment	207,439	324,642	532,081
Total net increase in endowment	867,042	812,927	1,679,969
<b>ENDOWMENT, END OF YEAR</b>	<b>\$ 12,351,730</b>	<b>\$ 14,113,182</b>	<b>\$ 26,464,912</b>

Approximately 18% of the University's endowment is invested in real estate on Stanford's lands, including the Stanford Research Park. This portion of the endowment includes the present value of ground leases, and rental properties that have been developed on Stanford lands. The net operating income from these properties is distributed each year for University operations.

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

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

The current Board approved targeted spending rate is 5.5%. The payout amount is determined by applying a smoothing rule designed to mitigate the impact of short-term market volatility on the flow of funds to support operations. The Board has the authority to override the smoothing rule and set the payout rate directly. 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.

The previously issued August 31, 2018 *Consolidated Financial Statements* have been revised to reflect "total investment returns, net" and "amounts distributed for operations" from donor restricted endowment funds in the appropriate net asset class. While there were no changes in the total amounts by net asset class, the correction resulted in an increase in "total investment returns, net" and "amounts distributed for operations" of \$733.2 million within the net assets with donor restrictions category and a corresponding decrease of \$733.2 million in "total investment returns, net" and "amounts distributed for operations" within the net assets without donor restrictions category. The corrections to the endowment roll forward are as follows:

	NET ASSETS WITHOUT DONOR RESTRICTIONS	NET ASSETS WITH DONOR RESTRICTIONS <sup>1</sup>	TOTAL
<b>2018 AS PREVIOUSLY REPORTED</b>			
Total investment returns, net	1,899,349	488,285	2,387,634
Amounts distributed for operations	(1,239,746)	—	(1,239,746)
<b>TOTAL</b>	<b>659,603</b>	<b>488,285</b>	<b>1,147,888</b>
<b>2018 AS REVISED</b>			
Total investment returns, net	1,166,116	1,221,518	2,387,634
Amounts distributed for operations	(506,513)	(733,233)	(1,239,746)
<b>TOTAL</b>	<b>659,603</b>	<b>488,285</b>	<b>1,147,888</b>

<sup>1</sup> Reported in FY18 as temporarily restricted net assets and permanently restricted net assets

Management has concluded that these revisions are not material to the *Consolidated Financial Statements* for the year ended August 31, 2018.

#### **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 2019 and 2018.

**SHC**

All of SHC's endowment is with donor restrictions. Changes in SHC's endowment, excluding pledges, for the years ended August 31, 2019 and 2018, in thousands of dollars, are as follows:

	2019	2018
Endowments, beginning of year	\$ 22,215	\$ 20,711
Total investment returns, net	1,301	1,797
Amounts distributed for operations	(361)	(382)
Gifts and pledge payments	1,198	89
Total net increase in endowments	2,138	1,504
<b>ENDOWMENT, END OF YEAR</b>	<b>\$ 24,353</b>	<b>\$ 22,215</b>

**LPCH**

All of LPCH's endowment is with donor restrictions. Changes in LPCH's endowment, excluding pledges, for the years ended August 31, 2019 and 2018, in thousands of dollars, are as follows:

	2019	2018
Endowments, beginning of year	\$ 353,374	\$ 339,282
Total investment returns, net	18,944	29,245
Amounts distributed for operations	(15,774)	(14,187)
Gifts and pledge payments	7,252	869
Other	(1,567)	(1,835)
Total net increase in endowments	8,855	14,092
<b>ENDOWMENT, END OF YEAR</b>	<b>\$ 362,229</b>	<b>\$ 353,374</b>

## 13. 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, 2017 for LPCH.

Professional services are reimbursed based on a fee schedule.

### **Medi-Cal**

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

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

### **Managed Care Organizations**

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

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

## Uninsured

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

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

	UNIVERSITY	SHC	LPCH	ELIMINATIONS	CONSOLIDATED
<b>2019</b>					
Patient care revenue, net:					
Medicare	\$ —	\$ 937,369	\$ 10,924	\$ —	\$ 948,293
Medi-Cal	—	150,184	418,841	—	569,025
Managed care	—	3,871,597	1,290,662	—	5,162,259
Self pay and other	—	115,527	117,334	—	232,861
Physician services and support (see Note 1)	1,166,935	38,375	—	(1,205,310)	—
Total patient care revenue, net	1,166,935	5,113,052	1,837,761	(1,205,310)	6,912,438
Premium revenue	—	106,130	—	—	106,130
Other services and support	43,286	—	—	(11,182)	32,104
<b>HEALTH CARE SERVICES REVENUE, NET</b>	<b>\$1,210,221</b>	<b>\$5,219,182</b>	<b>\$1,837,761</b>	<b>\$ (1,216,492)</b>	<b>\$ 7,050,672</b>
<b>2018</b>					
Patient care revenue, net:					
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, net	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 <sup>1</sup>	—	(57,437)	(5,660)	—	(63,097)
<b>HEALTH CARE SERVICES REVENUE, NET</b>	<b>\$1,089,421</b>	<b>\$4,770,583</b>	<b>\$1,546,805</b>	<b>\$ (1,104,531)</b>	<b>\$ 6,302,278</b>

<sup>1</sup> Beginning in the year ended August 31, 2019, health care services revenue is required to be presented net of explicit and implicit price concessions, contractual allowances and any other adjustments.

For the years ended August 31, 2019 and 2018, SHC recognized net health care services revenue adjustments of \$20.3 million and \$2.4 million, respectively, as a result of prior years' favorable developments related to reimbursement and appeals. LPCH had no significant adjustments to revenue for the years ended August 31, 2019 and 2018.

### Charity Care and Uncompensated Costs

SHC's estimated cost of providing charity care was \$24.0 million and \$24.8 million, and LPCH's estimated cost of providing charity care was \$2.7 million and \$1.8 million for the years ended August 31, 2019 and 2018, 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 \$410 thousand and \$876 thousand during the years ended August 31, 2019 and 2018, 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, 2019 and 2018 were \$1.1 billion and \$976.2 million for SHC, and \$296.2 million and \$298.1 million for LPCH, respectively.

### Provider Fee

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

Deferred revenue associated with unapproved programs will be recognized as revenue upon CMS approval. SHC recorded \$31.6 million and \$49.5 million in deferred revenue as of August 31, 2019 and 2018, respectively. LPCH recorded \$23.3 million and \$63.4 million in deferred revenue as of August 31, 2019 and 2018, respectively.

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

	SHC	LPCH	CONSOLIDATED
<b>2019</b>			
Revenues	\$ 93,880	\$ 141,585	\$ 235,465
Expenses	(39,544)	(33,319)	(72,863)
<b>TOTAL</b>	<b>\$ 54,336</b>	<b>\$ 108,266</b>	<b>\$ 162,602</b>
<b>2018</b>			
Revenues	\$ 89,718	\$ 110,999	\$ 200,717
Expenses	(77,302)	(25,852)	(103,154)
<b>TOTAL</b>	<b>\$ 12,416</b>	<b>\$ 85,147</b>	<b>\$ 97,563</b>

## 14. 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, 2019 and 2018, per the *Consolidated Statements of Activities*, in thousands of dollars:

	UNIVERSITY	SHC	LPCH	CONSOLIDATED
<b>2019</b>				
Current year gifts in support of operations	\$ 251,491	\$ 244	\$ 4,678	\$ 256,413
Donor advised funds, net	8,518	—	—	8,518
Current year gifts not included in operations	3,251	—	—	3,251
Gifts and pledges, net - with donor restrictions	525,580	31,079	33,760	590,419
<b>TOTAL</b>	<b>\$ 788,840</b>	<b>\$ 31,323</b>	<b>\$ 38,438</b>	<b>\$ 858,601</b>
<b>2018</b>				
Current year gifts in support of operations	\$ 278,867	\$ 294	\$ 3,951	\$ 283,112
Donor advised funds, net	(6,489)	—	—	(6,489)
Current year gifts not included in operations	3,064	—	—	3,064
Gifts and pledges, net - with donor restrictions	487,523	44,983	42,788	575,294
<b>TOTAL</b>	<b>\$ 762,965</b>	<b>\$ 45,277</b>	<b>\$ 46,739</b>	<b>\$ 854,981</b>

## 15. Functional Expenses

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

Major functional categories consist of the following:

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

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



Expenses by functional and natural classification for the years ended August 31, 2019 and 2018 , in thousands of dollars, are as follows:

	SALARIES AND BENEFITS	DEPRECIATION	OTHER OPERATING EXPENSES	TOTAL EXPENSES
<b>2019</b>				
<b>UNIVERSITY</b>				
Instruction and departmental research	\$ 1,407,946	\$ 112,357	\$ 568,588	\$ 2,088,891
Organized research - direct costs	716,857	68,312	463,345	1,248,514
Health care services	778,973	3,442	17,719	800,134
Auxiliary activities	162,403	93,242	256,256	511,901
Administration and general	297,661	45,662	159,672	502,995
Student services	182,294	5,926	125,311	313,531
Libraries	70,054	66,156	52,515	188,725
Development	80,681	2,957	20,415	104,053
SLAC construction	71,326	—	137,997	209,323
<b>TOTAL EXPENSES</b>	<b>3,768,195</b>	<b>398,054</b>	<b>1,801,818</b>	<b>5,968,067</b>
<b>SHC</b>				
Health care services	2,082,191	171,008	2,279,215	4,532,414
Administration and general	219,615	19,128	221,659	460,402
Development	593	—	13,306	13,899
<b>TOTAL EXPENSES</b>	<b>2,302,399</b>	<b>190,136</b>	<b>2,514,180</b>	<b>5,006,715</b>
<b>LPCH</b>				
Health care services	726,588	103,686	831,537	1,661,811
Administration and general	83,641	9,286	107,981	200,908
Development	11,587	1	6,887	18,475
<b>TOTAL EXPENSES</b>	<b>821,816</b>	<b>112,973</b>	<b>946,405</b>	<b>1,881,194</b>
<b>ELIMINATIONS</b>				
Health care services	—	—	(1,159,890)	(1,159,890)
Administration and general	—	—	(43,865)	(43,865)
Development	—	—	(12,737)	(12,737)
<b>TOTAL ELIMINATIONS</b>	<b>—</b>	<b>—</b>	<b>(1,216,492)</b>	<b>(1,216,492)</b>
<b>CONSOLIDATED</b>				
Instruction and departmental research	1,407,946	112,357	568,588	2,088,891
Organized research - direct costs	716,857	68,312	463,345	1,248,514
Health care services	3,587,752	278,136	1,968,581	5,834,469
Auxiliary activities	162,403	93,242	256,256	511,901
Administration and general	600,917	74,076	445,447	1,120,440
Student services	182,294	5,926	125,311	313,531
Libraries	70,054	66,156	52,515	188,725
Development	92,861	2,958	27,871	123,690
SLAC construction	71,326	—	137,997	209,323
<b>TOTAL EXPENSES</b>	<b>\$ 6,892,410</b>	<b>\$ 701,163</b>	<b>\$ 4,045,911</b>	<b>\$ 11,639,484</b>

	SALARIES AND BENEFITS	DEPRECIATION	OTHER OPERATING EXPENSES	TOTAL EXPENSES
<b>2018</b>				
<b>UNIVERSITY</b>				
Instruction and departmental research	\$ 1,310,686	\$ 127,810	\$ 528,963	\$ 1,967,459
Organized research - direct costs	677,263	77,713	415,624	1,170,600
Health care services	706,791	2,601	18,262	727,654
Auxiliary activities	148,009	70,441	261,412	479,862
Administration and general	259,018	51,945	165,607	476,570
Student services	167,859	6,742	109,582	284,183
Libraries	69,950	39,528	50,155	159,633
Development	80,479	3,362	28,670	112,511
SLAC construction	75,251	—	216,226	291,477
<b>TOTAL EXPENSES</b>	<b>3,495,306</b>	<b>380,142</b>	<b>1,794,501</b>	<b>5,669,949</b>
<b>SHC</b>				
Health care services	1,884,218	155,181	2,079,861	4,119,260
Administration and general	206,561	21,414	229,747	457,722
Development	481	—	12,424	12,905
<b>TOTAL EXPENSES</b>	<b>2,091,260</b>	<b>176,595</b>	<b>2,322,032</b>	<b>4,589,887</b>
<b>LPCH</b>				
Health care services	640,134	90,586	743,173	1,473,893
Administration and general	90,172	8,748	87,961	186,881
Development	11,619	33	11,377	23,029
<b>TOTAL EXPENSES</b>	<b>741,925</b>	<b>99,367</b>	<b>842,511</b>	<b>1,683,803</b>
<b>ELIMINATIONS</b>				
Health care services	—	—	(1,050,187)	(1,050,187)
Administration and general	—	—	(42,659)	(42,659)
Development	—	—	(11,685)	(11,685)
<b>TOTAL ELIMINATIONS</b>	<b>—</b>	<b>—</b>	<b>(1,104,531)</b>	<b>(1,104,531)</b>
<b>CONSOLIDATED</b>				
Instruction and departmental research	1,310,686	127,810	528,963	1,967,459
Organized research - direct costs	677,263	77,713	415,624	1,170,600
Health care services	3,231,143	248,368	1,791,109	5,270,620
Auxiliary activities	148,009	70,441	261,412	479,862
Administration and general	555,751	82,107	440,656	1,078,514
Student services	167,859	6,742	109,582	284,183
Libraries	69,950	39,528	50,155	159,633
Development	92,579	3,395	40,786	136,760
SLAC construction	75,251	—	216,226	291,477
<b>TOTAL EXPENSES</b>	<b>\$ 6,328,491</b>	<b>\$ 656,104</b>	<b>\$ 3,854,513</b>	<b>\$ 10,839,108</b>

## 16. University Retirement Plans

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

### **DEFINED CONTRIBUTION PLAN**

The University offers a defined contribution plan to eligible faculty and staff through the *Stanford Contributory Retirement Plan* (SCRCP). Employer contributions are based on a percentage of participant annual compensation, participant contributions and years of service. University and participant contributions are primarily invested in annuities and mutual funds. University contributions under the SCRCP, which are vested immediately to participants, were approximately \$179.3 million and \$168.1 million for the years ended August 31, 2019 and 2018, respectively.

### **DEFINED BENEFIT PLANS**

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

#### **Staff Retirement Annuity Plan**

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

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, 2019 and 2018, there were no program assets. The University funds benefit payouts as they are incurred.

#### **Postretirement Benefit Plan**

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

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

	SRAP	FRIP	PRBP	TOTAL
<b>2019</b>				
Fair value of plan assets, beginning of year	\$ 249,433	\$ —	\$ 249,589	\$ 499,022
Change in plan assets:				
Actual return on plan assets	30,969	—	14,192	45,161
Employer contributions	5,676	6,362	13,329	25,367
Plan participants' contributions	—	—	14,834	14,834
Benefits and plan expenses paid	(18,101)	(6,362)	(33,928) *	(58,391)
<b>FAIR VALUE OF PLAN ASSETS, END OF YEAR</b>	<b>267,977</b>	<b>—</b>	<b>258,016</b>	<b>525,993</b>
Benefit obligation, beginning of year	288,436	172,764	556,375	1,017,575
Change in projected benefit obligation:				
Service cost	1,429	9,800	16,347	27,576
Interest cost	10,958	6,730	22,718	40,406
Plan participants' contributions	—	—	14,834	14,834
Plan amendments	—	—	3,246	3,246
Actuarial loss	36,700	21,253	102,547	160,500
Benefits and plan expenses paid	(18,101)	(6,362)	(33,928) *	(58,391)
<b>BENEFIT OBLIGATION, END OF YEAR</b>	<b>319,422</b>	<b>204,185</b>	<b>682,139</b>	<b>1,205,746</b>
<b>NET LIABILITY RECOGNIZED IN THE STATEMENTS OF FINANCIAL POSITION</b>	<b>\$ (51,445)</b>	<b>\$(204,185)</b>	<b>\$(424,123)</b>	<b>\$( 679,753)</b>
<i>* Net of Medicare subsidy of \$1.5 million</i>				
<b>2018</b>				
Fair value of plan assets, beginning of year	\$ 282,461	\$ —	\$ 230,081	\$ 512,542
Change in plan assets:				
Actual return on plan assets	8,523	—	21,925	30,448
Employer contributions	—	7,236	14,753	21,989
Plan participants' contributions	—	—	14,620	14,620
Benefits and plan expenses paid	(12,180)	(7,236)	(31,790) *	(51,206)
Plan settlements	(29,371)	—	—	(29,371)
<b>FAIR VALUE OF PLAN ASSETS, END OF YEAR</b>	<b>249,433</b>	<b>—</b>	<b>249,589</b>	<b>499,022</b>
Benefit obligation, beginning of year	330,234	174,447	571,951	1,076,632
Change in projected benefit obligation:				
Service cost	3,008	10,301	16,840	30,149
Interest cost	10,364	5,795	21,247	37,406
Plan participants' contributions	—	—	14,620	14,620
Plan amendments	4,564	—	—	4,564
Plan settlements	(29,371)	—	—	(29,371)
Actuarial gain	(18,183)	(10,543)	(36,493)	(65,219)
Benefits and plan expenses paid	(12,180)	(7,236)	(31,790) *	(51,206)
<b>BENEFIT OBLIGATION, END OF YEAR</b>	<b>288,436</b>	<b>172,764</b>	<b>556,375</b>	<b>1,017,575</b>
<b>NET LIABILITY RECOGNIZED IN THE STATEMENTS OF FINANCIAL POSITION</b>	<b>\$ (39,003)</b>	<b>\$(172,764)</b>	<b>\$(306,786)</b>	<b>\$( 518,553)</b>
<i>* Net of Medicare subsidy of \$1.8 million</i>				

The accumulated benefit obligation for the SRAP was \$318.5 million and \$287.6 million at August 31, 2019 and 2018, respectively.

Net periodic benefit expense and non-operating activities related to the Plans for the years ended August 31, 2019 and 2018, in thousands of dollars, includes the following components:

	SRAP	FRIP	PRBP	TOTAL
<b>2019</b>				
Service cost	\$ 1,429	\$ 9,800	\$ 16,347	\$ 27,576
Interest cost	10,958	6,730	22,718	40,406
Expected return on plan assets	(11,970)	—	(16,223)	(28,193)
Amortization of:				
Prior service cost	960	—	—	960
Actuarial loss	627	—	—	627
<b>NET PERIODIC BENEFIT EXPENSE</b>	<b>2,004</b>	<b>16,530</b>	<b>22,842</b>	<b>41,376</b>
New prior service cost	—	—	3,246	3,246
Net actuarial loss	17,701	21,253	104,578	143,532
Amortization of:				
Prior service cost	(960)	—	—	(960)
Actuarial loss	(627)	—	—	(627)
<b>TOTAL AMOUNTS RECOGNIZED IN NON-OPERATING ACTIVITIES</b>	<b>16,114</b>	<b>21,253</b>	<b>107,824</b>	<b>145,191</b>
<b>TOTAL AMOUNT RECOGNIZED IN NET PERIODIC BENEFIT EXPENSE AND NON-OPERATING ACTIVITIES</b>	<b>\$ 18,118</b>	<b>\$ 37,783</b>	<b>\$ 130,666</b>	<b>\$ 186,567</b>
<b>2018</b>				
Service cost	\$ 3,008	\$ 10,301	\$ 16,840	\$ 30,149
Interest cost	10,364	5,795	21,247	37,406
Expected return on plan assets	(13,961)	—	(14,955)	(28,916)
Amortization of:				
Prior service cost	390	—	—	390
Actuarial loss	916	597	701	2,214
Settlement loss	4,779	—	—	4,779
<b>NET PERIODIC BENEFIT EXPENSE</b>	<b>5,496</b>	<b>16,693</b>	<b>23,833</b>	<b>46,022</b>
New prior service cost	4,564	—	—	4,564
Net actuarial gain	(12,745)	(10,543)	(43,463)	(66,751)
Amortization of:				
Prior service cost	(390)	—	—	(390)
Actuarial loss	(916)	(597)	(701)	(2,214)
Settlement loss	(4,779)	—	—	(4,779)
<b>TOTAL AMOUNTS RECOGNIZED IN NON-OPERATING ACTIVITIES</b>	<b>(14,266)</b>	<b>(11,140)</b>	<b>(44,164)</b>	<b>(69,570)</b>
<b>TOTAL AMOUNT RECOGNIZED IN NET PERIODIC BENEFIT EXPENSE AND NON-OPERATING ACTIVITIES</b>	<b>\$ (8,770)</b>	<b>\$ 5,553</b>	<b>\$ (20,331)</b>	<b>\$ (23,548)</b>

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, 2019 and 2018, in thousands of dollars:

	SRAP	FRIP	PRBP	TOTAL
<b>2019</b>				
Prior service cost	\$ 4,030	\$ —	\$ 3,246	\$ 7,276
Net actuarial loss	61,127	38,027	126,980	226,134
<b>ACCUMULATED PLAN BENEFIT COSTS NOT YET RECOGNIZED IN NET PERIODIC BENEFIT EXPENSE</b>	<b>\$ 65,157</b>	<b>\$ 38,027</b>	<b>\$ 130,226</b>	<b>\$ 233,410</b>
<b>2018</b>				
Prior service cost	\$ 4,990	\$ —	\$ —	\$ 4,990
Net actuarial loss	44,053	16,774	22,402	83,229
<b>ACCUMULATED PLAN BENEFIT COSTS NOT YET RECOGNIZED IN NET PERIODIC BENEFIT EXPENSE</b>	<b>\$ 49,043</b>	<b>\$ 16,774</b>	<b>\$ 22,402</b>	<b>\$ 88,219</b>

The prior service costs and net actuarial loss expected to be amortized from non-operating activities to net periodic benefit expense in fiscal year 2020, in thousands of dollars, are as follows:

	SRAP	FRIP	PRBP	TOTAL
Prior service cost	\$ 606	\$ —	\$ 373	\$ 979
Net actuarial loss	\$ 1,239	\$ 1,022	\$ 4,425	\$ 6,686

### 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	
	2019	2018	2019	2018	2019	2018
<b>BENEFIT OBLIGATIONS</b>						
Discount rate	2.78%	4.00%	2.82%	4.02%	3.06%	4.16%
Covered payroll growth rate	3.00%	3.00%	4.25%	4.26%	N/A	N/A
<b>NET PERIODIC BENEFIT COST</b>						
Discount rate	4.00%	3.42%/3.53%*	4.02%	3.44%	4.16%	3.78%
Expected returns on plan assets	5.00%	5.50%	N/A	N/A	6.50%	6.50%
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, 2019, a 6.25% annual rate of increase in the per capita cost of covered health care was assumed for calendar year 2019, 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	\$	8,763	\$	(6,706)
Effect on accumulated PRBP obligation	\$	129,855	\$	(101,758)

### EXPECTED CONTRIBUTIONS

The University expects to contribute \$13.9 million to the FRIP, \$1.5 million to the SRAP, and does not expect to contribute to the PRBP during the fiscal year ending August 31, 2020.

### EXPECTED BENEFIT PAYMENTS

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

YEAR ENDING AUGUST 31	SRAP	FRIP	PRBP	
			EXCLUDING MEDICARE SUBSIDY	EXPECTED MEDICARE PART D SUBSIDY
2020	\$ 30,924	\$ 13,926	\$ 23,268	\$ 2,122
2021	23,453	16,348	24,632	2,285
2022	23,012	12,929	26,032	2,449
2023	22,327	11,562	27,445	2,618
2024	20,663	12,471	28,924	2,787
2025 - 2029	89,575	64,956	167,493	16,704

## 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, 2019, 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, 2019 and 2018, 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, 2019 and 2018 and actual allocations and weighted-average target allocations at August 31, 2019 are as follows:

	2019	2018	2019 ACTUAL ALLOCATION	2019 TARGET ALLOCATION
SRAP:				
Cash and cash equivalents	\$ 1,144	\$ 2,039	<1%	0%
Public equities	100,872	99,934	38%	41%
Fixed income	165,902	147,383	62%	59%
Private equities	59	77	<1%	0%
<b>TOTAL</b>	<b>267,977</b>	<b>249,433</b>	<b>100%</b>	<b>100%</b>
PRBP:				
Public equities	194,243	188,310	75%	75%
Fixed income	63,773	61,279	25%	25%
<b>TOTAL</b>	<b>258,016</b>	<b>249,589</b>	<b>100%</b>	<b>100%</b>
<b>TOTAL PLAN ASSETS AT FAIR VALUE</b>	<b>\$ 525,993</b>	<b>\$ 499,022</b>		



## 17. 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 \$112.1 million and \$111.4 million, and \$44.3 million and \$42.7 million for the years ended August 31, 2019 and 2018, respectively.

### **DEFINED BENEFIT PLANS**

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

#### **Staff Pension Plan**

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

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

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

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

#### **Frozen Pension Plan**

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

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

	STAFF PENSION PLAN	PRMB	LPCH FROZEN PENSION PLAN
<b>2019</b>			
Fair value of plan assets, beginning of year	\$ 180,930	\$ —	\$ 6,108
Change in plan assets:			
Actual return on plan assets	23,736	—	883
Employer contributions	—	5,033	729
Plan participants' contributions	—	1,324	—
Benefits and plan expenses paid	(10,727)	(6,357) *	(440)
Plan settlements	(297)	—	(408)
<b>FAIR VALUE OF PLAN ASSETS, END OF YEAR</b>	<b>193,642</b>	<b>—</b>	<b>6,872</b>
Benefit obligation, beginning of year	187,580	77,544	7,953
Change in projected benefit obligation:			
Service cost	1,197	2,235	—
Interest cost	7,416	2,928	304
Plan participants' contributions	—	1,324	—
Actuarial loss	25,224	9,652	882
Benefits and plan expenses paid	(10,727)	(6,357) *	(440)
Plan amendments	—	13,767	—
Plan settlements	—	—	(408)
<b>BENEFIT OBLIGATION, END OF YEAR</b>	<b>210,690</b>	<b>101,093</b>	<b>8,291</b>
<b>NET LIABILITY RECOGNIZED IN THE STATEMENTS OF FINANCIAL POSITION</b>	<b>\$ (17,048)</b>	<b>\$ (101,093)</b>	<b>\$ (1,419)</b>
* Net of Medicare subsidy of \$0			
<b>2018</b>			
Fair value of plan assets, beginning of year	\$ 193,476	\$ —	\$ 6,086
Change in plan assets:			
Actual return on plan assets	7,477	—	133
Employer contributions	34,800	5,098	400
Plan participants' contributions	—	860	—
Benefits and plan expenses paid	(13,619)	(5,958) *	(511)
Plan settlements	(41,204)	—	—
<b>FAIR VALUE OF PLAN ASSETS, END OF YEAR</b>	<b>180,930</b>	<b>—</b>	<b>6,108</b>
Benefit obligation, beginning of year	245,221	84,179	8,447
Change in projected benefit obligation:			
Service cost	1,611	2,501	—
Interest cost	8,485	2,685	280
Plan participants' contributions	—	860	—
Actuarial gain	(12,914)	(6,052)	(263)
Benefits and plan expenses paid	(13,619)	(5,958) *	(511)
Plan amendments	—	(671)	—
Plan settlements	(41,204)	—	—
<b>BENEFIT OBLIGATION, END OF YEAR</b>	<b>187,580</b>	<b>77,544</b>	<b>7,953</b>
<b>NET LIABILITY RECOGNIZED IN THE STATEMENTS OF FINANCIAL POSITION</b>	<b>\$ (6,650)</b>	<b>\$ (77,544)</b>	<b>\$ (1,845)</b>

\* Net of Medicare subsidy of \$289 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, 2019 and 2018, in thousands of dollars:

	2019		2018	
SHC	\$	76,491	\$	60,146
LPCH		24,602		17,398
<b>TOTAL</b>	<b>\$</b>	<b>101,093</b>	<b>\$</b>	<b>77,544</b>

The accumulated benefit obligation for the Pension Plan and LPCH Frozen Pension Plan was \$208.9 million and \$186.2 million, and \$8.3 million and \$8.0 million at August 31, 2019 and 2018, respectively.

Net periodic benefit expense and non-operating activities related to the Plans for the years ended August 31, 2019 and 2018, in thousands of dollars, includes the following components:

	STAFF PENSION PLAN	PRMB	LPCH FROZEN PENSION PLAN
<b>2019</b>			
Service cost	\$ 1,197	\$ 2,235	\$ —
Interest cost	7,416	2,928	304
Expected return on plan assets	(9,742)	—	(258)
Amortization of:			
Prior service cost	—	1,426	—
Actuarial loss (gain)	1,361	(924)	113
Settlement loss	—	—	121
<b>NET PERIODIC BENEFIT EXPENSE</b>	<b>232</b>	<b>5,665</b>	<b>280</b>
Net actuarial loss	11,525	9,652	257
New prior service cost	—	13,767	—
Amortization of:			
Prior service cost	—	(1,426)	—
Actuarial gain (loss)	(1,361)	924	(234)
<b>TOTAL AMOUNTS RECOGNIZED IN NON-OPERATING ACTIVITIES</b>	<b>10,164</b>	<b>22,917</b>	<b>23</b>
<b>TOTAL AMOUNT RECOGNIZED IN NET PERIODIC BENEFIT EXPENSE AND NON-OPERATING ACTIVITIES</b>	<b>\$ 10,396</b>	<b>\$ 28,582</b>	<b>\$ 303</b>
<b>2018</b>			
Service cost	\$ 1,611	\$ 2,501	\$ —
Interest cost	8,485	2,685	280
Expected return on plan assets	(12,786)	—	(291)
Amortization of:			
Prior service cost	—	1,602	—
Actuarial loss (gain)	2,605	(580)	121
Settlement loss	12,094	—	—
<b>NET PERIODIC BENEFIT EXPENSE</b>	<b>12,009</b>	<b>6,208</b>	<b>110</b>
Net actuarial gain	(7,604)	(6,052)	(104)
New prior service cost	—	(671)	—
Amortization of:			
Prior service cost	—	(1,602)	—
Actuarial gain (loss)	(14,699)	580	(121)
<b>TOTAL AMOUNTS RECOGNIZED IN NON-OPERATING ACTIVITIES</b>	<b>(22,303)</b>	<b>(7,745)</b>	<b>(225)</b>
<b>TOTAL AMOUNT RECOGNIZED IN NET PERIODIC BENEFIT EXPENSE AND NON-OPERATING ACTIVITIES</b>	<b>\$ (10,294)</b>	<b>\$ (1,537)</b>	<b>\$ (115)</b>

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, 2019 and 2018, in thousands of dollars:

	SHC	LPCH	TOTAL
<b>2019</b>			
Net periodic benefit expense	\$ 4,129	\$ 1,536	\$ 5,665
Amounts recognized in non-operating activities	16,258	6,659	22,917
<b>TOTAL AMOUNT RECOGNIZED IN NET PERIODIC BENEFIT EXPENSE AND NON-OPERATING ACTIVITIES</b>	<b>\$ 20,387</b>	<b>\$ 8,195</b>	<b>\$ 28,582</b>
<b>2018</b>			
Net periodic benefit expense	\$ 4,596	\$ 1,612	\$ 6,208
Amounts recognized in non-operating activities	(5,974)	(1,772)	(7,746)
<b>TOTAL AMOUNT RECOGNIZED IN NET PERIODIC BENEFIT EXPENSE AND NON-OPERATING ACTIVITIES</b>	<b>\$ (1,378)</b>	<b>\$ (160)</b>	<b>\$ (1,538)</b>

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, 2019 and 2018, in thousands of dollars:

	STAFF PENSION PLAN	PRMB	LPCH FROZEN PENSION PLAN
<b>2019</b>			
Prior service cost	\$ —	\$ 17,704	\$ —
Net actuarial loss (gain)	65,223	(4,013)	2,453
<b>ACCUMULATED PLAN BENEFIT COSTS NOT YET RECOGNIZED IN NET PERIODIC BENEFIT EXPENSE</b>	<b>\$ 65,223</b>	<b>\$ 13,691</b>	<b>\$ 2,453</b>
<b>2018</b>			
Prior service cost	\$ —	\$ 5,363	\$ —
Net actuarial loss (gain)	55,059	(14,589)	2,430
<b>ACCUMULATED PLAN BENEFIT COSTS NOT YET RECOGNIZED IN NET PERIODIC BENEFIT EXPENSE</b>	<b>\$ 55,059</b>	<b>\$ (9,226)</b>	<b>\$ 2,430</b>

The prior service cost and net actuarial loss expected to be amortized from non-operating activities to net periodic benefit expense in fiscal year 2020, in thousands of dollars, are as follows:

	STAFF PENSION PLAN	PRMB	LPCH FROZEN PENSION PLAN
Prior service cost	\$ —	\$ 2,560	\$ —
Net actuarial loss (gain)	\$ 2,277	\$ (251)	\$ 119

## ACTUARIAL ASSUMPTIONS

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

	STAFF PENSION PLAN		PRMB		LPCH FROZEN PENSION PLAN	
	2019	2018	2019	2018	2019	2018
<b>BENEFIT OBLIGATIONS</b>						
Discount rate	2.88%	4.07%	2.77%	3.96%	2.80%	4.01%
Covered payroll growth rate	3.00%	3.00%	N/A	N/A	N/A	N/A
<b>NET PERIODIC BENEFIT COST</b>						
Discount rate	4.07%	3.56%	3.96%	3.33%	4.01%	3.46%
Expected return on plan assets	5.50%	6.00%	N/A	N/A	4.50%	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 5.50% and 4.50%, 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 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, 2019, a 6.25% annual rate of increase in the per capita cost of covered health care was assumed for calendar year 2019, 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	\$ 116	\$ (121)
Effect on accumulated PRMB obligation	\$ 2,131	\$ (2,110)

## EXPECTED CONTRIBUTIONS

SHC expects to contribute \$5.4 million to the PRMB and does not expect to contribute to the Pension Plan during the fiscal year ending August 31, 2020. LPCH expects to contribute \$1.1 million to the LPCH Frozen Pension Plan during the fiscal year ending August 31, 2020.

### EXPECTED BENEFIT PAYMENTS

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

YEAR ENDING AUGUST 31	STAFF PENSION PLAN	PRMB		LPCH FROZEN PENSION PLAN
		EXCLUDING MEDICARE SUBSIDY	EXPECTED MEDICARE PART D SUBSIDY	
2020	\$ 11,141	\$ 7,248	\$ 283	\$ 753
2021	11,512	7,363	134	665
2022	11,801	7,527	130	604
2023	11,989	7,565	124	584
2024	12,120	7,521	118	554
2025 - 2029	60,958	37,335	482	2,440

### 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, 2019, 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, 2019 and 2018, are all categorized as Level 1 investments. The fair value of plan assets by asset category, in thousands of dollars, at August 31, 2019 and 2018 and actual allocations and weighted-average target allocations at August 31, 2019 are as follows:

	2019	2018	2019 ACTUAL ALLOCATION	2019 TARGET ALLOCATION
STAFF PENSION PLAN:				
Cash and cash equivalents	\$ 483	\$ 683	<1%	—%
Public equities	77,598	72,009	40%	40%
Fixed income	115,561	108,238	60%	60%
<b>PLAN ASSETS AT FAIR VALUE</b>	<b>\$ 193,642</b>	<b>\$ 180,930</b>	<b>100%</b>	<b>100%</b>
LPCH FROZEN PENSION PLAN:				
Cash and cash equivalents	\$ 30	\$ 30	<1%	—%
Public equities	2,058	1,828	30%	30%
Fixed income	4,784	4,250	70%	70%
<b>PLAN ASSETS AT FAIR VALUE</b>	<b>\$ 6,872</b>	<b>\$ 6,108</b>	<b>100%</b>	<b>100%</b>

## 18. 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, 2019 and 2018 was \$89.8 million and \$79.7 million, respectively, for the University, \$122.6 million and \$116.3 million, respectively, for SHC, and \$30.7 million and \$28.6 million, respectively, for LPCH.

Net minimum future operating lease payments for periods subsequent to August 31, 2019, in thousands of dollars, are as follows:

YEAR ENDING AUGUST 31	MINIMUM LEASE PAYMENTS			
	UNIVERSITY	SHC	LPCH	CONSOLIDATED
2020	\$ 59,210	\$ 79,271	\$ 25,789	\$ 164,270
2021	37,626	73,406	20,672	131,704
2022	36,109	70,468	16,514	123,091
2023	33,548	64,352	15,992	113,892
2024	30,998	40,570	13,648	85,216
Thereafter	115,146	73,019	63,217	251,382
<b>TOTAL</b>	<b>\$ 312,637</b>	<b>\$ 401,086</b>	<b>\$ 155,832</b>	<b>\$ 869,555</b>

## 19. Related Party Transactions

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

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

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



## 20. Commitments and Contingencies

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

### **SPONSORED SUPPORT**

As described in *Note 1*, costs recovered by the University as sponsored support are subject to audit and adjustment. Fringe benefit costs for the fiscal years ended August 31, 2016 to 2019 are subject to audit. The University does not anticipate any material adjustments to the *Consolidated Financial Statements*.

### **HEALTH CARE**

As described in *Note 13*, 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 43% 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 2024, respectively. SHC's and LPCH's agreements with SEIU and the Committee for Recognition of Nursing Achievement (CRONA) will expire in 2020 and 2022, respectively.

## **GUARANTEES AND INDEMNIFICATIONS**

Stanford enters into indemnification agreements with third parties in the normal course of business. The impact of these agreements, individually or in the aggregate, is not expected to be material to the *Consolidated Financial Statements*. As a result, no liabilities related to guarantees and indemnifications have been recorded at August 31, 2019.

## **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. During the year ended August 31, 2018, 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 2020. SHC's share of the estimated total cost of the Renewal Project is \$2.2 billion and construction was completed in the fall of 2019. Through August 31, 2019, SHC has recorded \$2.1 billion in construction in progress, exclusive of \$180.0 million in capitalized interest.

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, 2019, the University had contractual obligations of approximately \$657.5 million in connection with major construction projects. Remaining expenditures on construction in progress are estimated to be \$1.0 billion, which will be financed with certain unexpended plant funds, gifts and debt. Commitments on construction contracts, including the construction and remodeling of Hospital facilities, were approximately \$227.7 million for SHC and \$61.5 million for LPCH at August 31, 2019.

The University executed two 25-year agreements with two solar electricity developers and operators in 2015 and 2018 to purchase the output from their solar photovoltaic facilities. The first facility was placed in service in December 2016 and the second facility is expected to be placed in service in December 2021. The minimum energy purchase requirements are expected to be well within the University's current consumption. The University's total payment under the agreements over the life of the agreements, undiscounted, is \$270.1 million.

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

## 21. Subsequent Events

Stanford has evaluated subsequent events for the period from August 31, 2019 through December 3, 2019, the date the *Consolidated Financial Statements* were issued.

## 22. Consolidating Entity Statements

The pages which follow present consolidating statements of financial position as of August 31, 2019 and 2018, 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, 2019 (in thousands of dollars)

	UNIVERSITY	SHC	LPCH	ELIMINATIONS	CONSOLIDATED
<b>ASSETS</b>					
Cash and cash equivalents	\$ 856,553	\$ 505,509	\$ 276,822	\$ (7,316)	\$ 1,631,568
Assets limited as to use	291,679	11	—	—	291,690
Accounts receivable, net	249,783	751,712	427,956	—	1,429,451
Receivables (payables) from SHC and LPCH, net	98,832	—	—	(98,832)	—
Prepaid expenses and other assets	140,611	295,524	96,544	(83,907)	448,772
Pledges receivable, net	1,321,657	62,396	144,393	(58,760)	1,469,686
Student loans receivable, net	51,998	—	—	—	51,998
Faculty and staff mortgages and other loans receivable, net	797,088	—	—	—	797,088
Investments at fair value, including securities pledged or on loan of \$19,251	35,291,628	2,535,747	984,513	7,316	38,819,204
Plant facilities, net of accumulated depreciation	7,270,282	3,691,015	1,902,190	—	12,863,487
Works of art and special collections	—	—	—	—	—
<b>TOTAL ASSETS</b>	<b>\$ 46,370,111</b>	<b>\$ 7,841,914</b>	<b>\$ 3,832,418</b>	<b>\$ (241,499)</b>	<b>\$ 57,802,944</b>
<b>LIABILITIES AND NET ASSETS</b>					
<b>LIABILITIES:</b>					
Accounts payable and accrued expenses	\$ 902,563	\$ 1,447,709	\$ 329,515	\$ (161,187)	\$ 2,518,600
Accrued pension and postretirement benefit obligations	679,753	93,539	26,021	—	799,313
Liabilities associated with investments	758,161	—	—	—	758,161
Deferred income and other obligations	1,241,915	142,604	38,796	—	1,423,315
Notes and bonds payable	4,247,335	1,935,414	892,095	—	7,074,844
U.S. government refundable loan funds	39,745	—	—	—	39,745
<b>TOTAL LIABILITIES</b>	<b>7,869,472</b>	<b>3,619,266</b>	<b>1,286,427</b>	<b>(161,187)</b>	<b>12,613,978</b>
<b>NET ASSETS:</b>					
Without donor restrictions, including non-controlling interest attributable to SHC of \$80,312	21,653,055	3,545,875	1,947,073	(80,312)	27,065,691
With donor restrictions	16,847,584	676,773	598,918	—	18,123,275
<b>TOTAL NET ASSETS</b>	<b>38,500,639</b>	<b>4,222,648</b>	<b>2,545,991</b>	<b>(80,312)</b>	<b>45,188,966</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 46,370,111</b>	<b>\$ 7,841,914</b>	<b>\$ 3,832,418</b>	<b>\$ (241,499)</b>	<b>\$ 57,802,944</b>

## CONSOLIDATING STATEMENTS OF FINANCIAL POSITION

At August 31, 2018 (in thousands of dollars)

	UNIVERSITY	SHC	LPCH	ELIMINATIONS	CONSOLIDATED
<b>ASSETS</b>					
Cash and cash equivalents	\$ 265,795	\$ 652,256	\$ 288,469	\$ (7,153)	\$ 1,199,367
Assets limited as to use	165,429	—	—	—	165,429
Accounts receivable, net	285,038	670,267	343,640	—	1,298,945
Receivables (payables) from SHC and LPCH, net	114,219	—	—	(114,219)	—
Prepaid expenses and other assets	87,666	226,809	82,731	(67,506)	329,700
Pledges receivable, net	1,321,168	84,535	146,376	(33,593)	1,518,486
Student loans receivable, net	60,336	—	—	—	60,336
Faculty and staff mortgages and other loans receivable, net	712,161	—	—	—	712,161
Investments at fair value, including securities pledged or on loan of \$75,499	34,517,436	2,301,934	957,069	7,153	37,783,592
Plant facilities, net of accumulated depreciation	6,507,537	3,279,048	1,891,701	—	11,678,286
Works of art and special collections	—	—	—	—	—
<b>TOTAL ASSETS</b>	<b>\$ 44,036,785</b>	<b>\$ 7,214,849</b>	<b>\$ 3,709,986</b>	<b>\$ (215,318)</b>	<b>\$ 54,746,302</b>
<b>LIABILITIES AND NET ASSETS</b>					
<b>LIABILITIES:</b>					
Accounts payable and accrued expenses	\$ 933,291	\$ 1,138,577	\$ 371,324	\$ (151,515)	\$ 2,291,677
Accrued pension and postretirement benefit obligations	518,553	66,796	19,243	—	604,592
Liabilities associated with investments	708,629	—	—	—	708,629
Deferred income and other obligations	1,118,899	93,620	—	—	1,212,519
Notes and bonds payable	3,834,297	1,954,672	872,675	—	6,661,644
U.S. government refundable loan funds	39,678	—	—	—	39,678
<b>TOTAL LIABILITIES</b>	<b>7,153,347</b>	<b>3,253,665</b>	<b>1,263,242</b>	<b>(151,515)</b>	<b>11,518,739</b>
<b>NET ASSETS:</b>					
Without donor restrictions, including non-controlling interest attributable to SHC of \$63,803	20,477,405	3,304,125	1,873,422	(63,803)	25,591,149
With donor restrictions	16,406,033	657,059	573,322	—	17,636,414
<b>TOTAL NET ASSETS</b>	<b>36,883,438</b>	<b>3,961,184</b>	<b>2,446,744</b>	<b>(63,803)</b>	<b>43,227,563</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 44,036,785</b>	<b>\$ 7,214,849</b>	<b>\$ 3,709,986</b>	<b>\$ (215,318)</b>	<b>\$ 54,746,302</b>

## CONSOLIDATING STATEMENTS OF ACTIVITIES

For the year ended August 31, 2019 (in thousands of dollars)

	UNIVERSITY	SHC	LPCH	ELIMINATIONS	CONSOLIDATED
<b>NET ASSETS WITHOUT DONOR RESTRICTIONS</b>					
<b>OPERATING REVENUES:</b>					
<b>TOTAL STUDENT INCOME, NET</b>	<b>\$ 652,853</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 652,853</b>
Sponsored support:					
Direct costs - University	850,779	—	—	—	850,779
Direct costs - SLAC National Accelerator Laboratory	545,359	—	—	—	545,359
Indirect costs	286,782	—	—	—	286,782
<b>TOTAL SPONSORED SUPPORT</b>	<b>1,682,920</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>1,682,920</b>
Health care services:					
Net patient service revenue	—	5,113,052	1,837,761	(38,375)	6,912,438
Premium revenue	—	106,130	—	—	106,130
Physicians' services and support - SHC and LPCH, net	1,166,935	—	—	(1,166,935)	—
Physicians' services and support - other facilities, net	43,286	—	—	(11,182)	32,104
<b>TOTAL HEALTH CARE SERVICES</b>	<b>1,210,221</b>	<b>5,219,182</b>	<b>1,837,761</b>	<b>(1,216,492)</b>	<b>7,050,672</b>
<b>TOTAL CURRENT YEAR GIFTS IN SUPPORT OF OPERATIONS</b>	<b>251,491</b>	<b>244</b>	<b>4,678</b>	<b>—</b>	<b>256,413</b>
Net assets released from restrictions:					
Payments received on pledges	149,950	3,528	—	—	153,478
Prior year gifts released from donor restrictions	62,140	6,954	6,758	—	75,852
<b>TOTAL NET ASSETS RELEASED FROM RESTRICTIONS</b>	<b>212,090</b>	<b>10,482</b>	<b>6,758</b>	<b>—</b>	<b>229,330</b>
Investment income distributed for operations:					
Endowment	1,303,035	361	15,774	—	1,319,170
Expendable funds pools and other investment income	261,665	1,976	—	—	263,641
<b>TOTAL INVESTMENT INCOME DISTRIBUTED FOR OPERATIONS</b>	<b>1,564,700</b>	<b>2,337</b>	<b>15,774</b>	<b>—</b>	<b>1,582,811</b>
<b>TOTAL SPECIAL PROGRAM FEES AND OTHER INCOME</b>	<b>554,777</b>	<b>157,757</b>	<b>94,487</b>	<b>—</b>	<b>807,021</b>
<b>TOTAL OPERATING REVENUES</b>	<b>6,129,052</b>	<b>5,390,002</b>	<b>1,959,458</b>	<b>(1,216,492)</b>	<b>12,262,020</b>
<b>OPERATING EXPENSES:</b>					
Salaries and benefits	3,768,195	2,302,399	821,816	—	6,892,410
Depreciation	398,054	190,136	112,973	—	701,163
Other operating expenses	1,801,818	2,514,180	946,405	(1,216,492)	4,045,911
<b>TOTAL OPERATING EXPENSES</b>	<b>5,968,067</b>	<b>5,006,715</b>	<b>1,881,194</b>	<b>(1,216,492)</b>	<b>11,639,484</b>
<b>CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES</b>	<b>\$ 160,985</b>	<b>\$ 383,287</b>	<b>\$ 78,264</b>	<b>\$ —</b>	<b>\$ 622,536</b>

**CONSOLIDATING STATEMENTS OF ACTIVITIES, Continued**  
For the year ended August 31, 2019 (in thousands of dollars)

	UNIVERSITY	SHC	LPCH	ELIMINATIONS	CONSOLIDATED
<b>NET ASSETS WITHOUT DONOR RESTRICTIONS (continued)</b>					
<b>CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES</b>	<b>\$ 160,985</b>	<b>\$ 383,287</b>	<b>\$ 78,264</b>	<b>\$ —</b>	<b>\$ 622,536</b>
NON-OPERATING ACTIVITIES:					
Increase in reinvested gains	1,040,312	150,792	31,169	—	1,222,273
Donor advised funds, net	8,518	—	—	—	8,518
Current year gifts not included in operations	3,251	—	—	—	3,251
Equity and fund transfers, net	151,774	(121,262)	(30,512)	—	—
Capital and other gifts released from restrictions	91,294	977	2,664	—	94,935
Pension and other postemployment benefit related changes other than net periodic benefit expense	(145,191)	(26,422)	(6,636)	—	(178,249)
Transfer to net assets with donor restrictions, net	(117,765)	—	—	—	(117,765)
Swap interest and change in value of swap agreements	(22,599)	(146,794)	—	—	(169,393)
Non-controlling interest attributable to SHC	16,509	—	—	(16,509)	—
Other	(11,438)	1,172	(1,298)	—	(11,564)
<b>NET CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS</b>	<b>1,175,650</b>	<b>241,750</b>	<b>73,651</b>	<b>(16,509)</b>	<b>1,474,542</b>
<b>NET ASSETS WITH DONOR RESTRICTIONS</b>					
Gifts and pledges, net	525,580	31,079	33,760	—	590,419
Increase in reinvested gains	90,562	2,991	20,700	—	114,253
Change in value of split-interest agreements, net	3,802	—	25	—	3,827
Net assets released to operations	(212,089)	(13,063)	(27,210)	—	(252,362)
Capital and other gifts released to net assets without donor restrictions	(91,294)	(977)	(2,664)	—	(94,935)
Gift transfers, net	(980)	857	123	—	—
Transfer from net assets without donor restrictions, net	117,765	—	—	—	117,765
Other	8,205	(1,173)	862	—	7,894
<b>NET CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS</b>	<b>441,551</b>	<b>19,714</b>	<b>25,596</b>	<b>—</b>	<b>486,861</b>
<b>NET CHANGE IN TOTAL NET ASSETS</b>	<b>1,617,201</b>	<b>261,464</b>	<b>99,247</b>	<b>(16,509)</b>	<b>1,961,403</b>
Total net assets, beginning of year	36,883,438	3,961,184	2,446,744	(63,803)	43,227,563
<b>TOTAL NET ASSETS, END OF YEAR</b>	<b>\$ 38,500,639</b>	<b>\$ 4,222,648</b>	<b>\$ 2,545,991</b>	<b>\$ (80,312)</b>	<b>\$ 45,188,966</b>

## CONSOLIDATING STATEMENTS OF ACTIVITIES

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

	UNIVERSITY	SHC	LPCH	ELIMINATIONS	CONSOLIDATED
<b>NET ASSETS WITHOUT DONOR RESTRICTIONS</b>					
<b>OPERATING REVENUES:</b>					
<b>TOTAL STUDENT INCOME, NET</b>	<b>\$ 635,020</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 635,020</b>
Sponsored support:					
Direct costs - University	801,534	—	—	—	801,534
Direct costs - SLAC National Accelerator Laboratory	580,314	—	—	—	580,314
Indirect costs	273,679	—	—	—	273,679
<b>TOTAL SPONSORED SUPPORT</b>	<b>1,655,527</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>1,655,527</b>
Health care services:					
Net patient service revenue	—	4,677,929	1,546,805	(43,344)	6,181,390
Premium revenue	—	92,654	—	—	92,654
Physicians' services and support - SHC and LPCH, net	1,048,749	—	—	(1,048,749)	—
Physicians' services and support - other facilities, net	40,672	—	—	(12,438)	28,234
<b>TOTAL HEALTH CARE SERVICES</b>	<b>1,089,421</b>	<b>4,770,583</b>	<b>1,546,805</b>	<b>(1,104,531)</b>	<b>6,302,278</b>
<b>TOTAL CURRENT YEAR GIFTS IN SUPPORT OF OPERATIONS</b>	<b>278,867</b>	<b>294</b>	<b>3,951</b>	<b>—</b>	<b>283,112</b>
Net assets released from restrictions:					
Payments received on pledges	138,704	3,928	—	—	142,632
Prior year gifts released from donor restrictions	51,892	(1,088)	5,139	—	55,943
<b>TOTAL NET ASSETS RELEASED FROM RESTRICTIONS</b>	<b>190,596</b>	<b>2,840</b>	<b>5,139</b>	<b>—</b>	<b>198,575</b>
Investment income distributed for operations:					
Endowment	1,239,746	382	14,187	—	1,254,315
Expendable funds pools and other investment income	253,642	850	—	—	254,492
<b>TOTAL INVESTMENT INCOME DISTRIBUTED FOR OPERATIONS</b>	<b>1,493,388</b>	<b>1,232</b>	<b>14,187</b>	<b>—</b>	<b>1,508,807</b>
<b>TOTAL SPECIAL PROGRAM FEES AND OTHER INCOME</b>	<b>524,675</b>	<b>135,597</b>	<b>67,804</b>	<b>—</b>	<b>728,076</b>
<b>TOTAL OPERATING REVENUES</b>	<b>5,867,494</b>	<b>4,910,546</b>	<b>1,637,886</b>	<b>(1,104,531)</b>	<b>11,311,395</b>
<b>OPERATING EXPENSES:</b>					
Salaries and benefits	3,495,306	2,091,260	741,925	—	6,328,491
Depreciation	380,142	176,595	99,367	—	656,104
Other operating expenses	1,794,501	2,322,032	842,511	(1,104,531)	3,854,513
<b>TOTAL OPERATING EXPENSES</b>	<b>5,669,949</b>	<b>4,589,887</b>	<b>1,683,803</b>	<b>(1,104,531)</b>	<b>10,839,108</b>
<b>CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES</b>	<b>\$ 197,545</b>	<b>\$ 320,659</b>	<b>\$ (45,917)</b>	<b>\$ —</b>	<b>\$ 472,287</b>



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

	UNIVERSITY	SHC	LPCH	ELIMINATIONS	CONSOLIDATED
<b>NET ASSETS WITHOUT DONOR RESTRICTIONS (continued)</b>					
<b>CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES</b>	<b>\$ 197,545</b>	<b>\$ 320,659</b>	<b>\$ (45,917)</b>	<b>\$ —</b>	<b>\$ 472,287</b>
NON-OPERATING ACTIVITIES:					
Increase in reinvested gains	951,197	158,592	49,765	—	1,159,554
Donor advised funds, net	(6,489)	—	—	—	(6,489)
Current year gifts not included in operations	3,064	—	—	—	3,064
Equity and fund transfers, net	126,000	(96,157)	(29,843)	—	—
Capital and other gifts released from restrictions	162,511	309	352,979	—	515,799
Pension and other postemployment benefit related changes other than net periodic benefit expense	69,570	28,277	1,997	—	99,844
Transfer to net assets with donor restrictions, net	(114,600)	—	—	—	(114,600)
Swap interest and change in value of swap agreements	8,168	48,043	—	—	56,211
Loss on extinguishment of debt	—	(47,613)	—	—	(47,613)
Non-controlling interest attributable to SHC	18,093	—	—	(18,093)	—
Other	(11,721)	(1,158)	(949)	—	(13,828)
<b>NET CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS</b>	<b>1,403,338</b>	<b>410,952</b>	<b>328,032</b>	<b>(18,093)</b>	<b>2,124,229</b>
<b>NET ASSETS WITH DONOR RESTRICTIONS</b>					
Gifts and pledges, net	487,523	44,983	42,788	—	575,294
Increase in reinvested gains	521,545	3,179	28,244	—	552,968
Change in value of split-interest agreements, net	23,903	—	212	—	24,115
Net assets released to operations	(190,596)	(4,366)	(23,277)	—	(218,239)
Capital and other gifts released to net assets without donor restrictions	(162,511)	(309)	(352,979)	—	(515,799)
Gift transfers, net	(2,381)	2,177	204	—	—
Transfer from net assets without donor restrictions, net	114,600	—	—	—	114,600
Other	(3,202)	—	(544)	—	(3,746)
<b>NET CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS</b>	<b>788,881</b>	<b>45,664</b>	<b>(305,352)</b>	<b>—</b>	<b>529,193</b>
<b>NET CHANGE IN TOTAL NET ASSETS</b>	<b>2,192,219</b>	<b>456,616</b>	<b>22,680</b>	<b>(18,093)</b>	<b>2,653,422</b>
Total net assets, beginning of year	34,691,219	3,504,568	2,424,064	(45,710)	40,574,141
<b>TOTAL NET ASSETS, END OF YEAR</b>	<b>\$ 36,883,438</b>	<b>\$ 3,961,184</b>	<b>\$ 2,446,744</b>	<b>\$ (63,803)</b>	<b>\$ 43,227,563</b>

## CONSOLIDATING STATEMENTS OF CASH FLOWS

For the year ended August 31, 2019 (in thousands of dollars)

	UNIVERSITY	SHC	LPCH	ELIMINATIONS	CONSOLIDATED
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>					
Change in net assets	\$ 1,617,201	\$ 261,464	\$ 99,247	\$ (16,509)	\$ 1,961,403
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:					
Depreciation	398,054	190,136	112,973	—	701,163
Amortization of bond premiums, discounts and other	(17,782)	(1,258)	40	—	(19,000)
Gains on disposal of plant facilities	(3,820)	—	—	—	(3,820)
Net gains on investments	(2,453,967)	(106,380)	(33,768)	—	(2,594,115)
Change in fair value of interest rate swaps	20,580	134,269	—	—	154,849
Change in split-interest agreements	28,347	—	202	—	28,549
Change in deferred tax asset and liability	15,350	—	—	—	15,350
Investment income for restricted purposes	(13,377)	—	—	—	(13,377)
Gifts restricted for long-term investments	(249,734)	(45,967)	(54,460)	—	(350,161)
Equity and fund transfers, net	(150,794)	120,406	30,388	—	—
Gifts of securities and properties	(28,660)	—	—	—	(28,660)
Other	8,981	—	—	—	8,981
Premiums received from bond issuance	158,169	—	—	—	158,169
Changes in operating assets and liabilities:					
Accounts receivable	52,776	(94,670)	(84,316)	—	(126,210)
Pledges receivable, net	(52,721)	22,139	(23,584)	—	(54,166)
Prepaid expenses and other assets	(18,419)	(57,534)	(5,758)	—	(81,711)
Accounts payable and accrued expenses	66,519	142,501	(17,746)	—	191,274
Accrued pension and postretirement benefit obligations	161,200	26,743	6,778	—	194,721
Deferred income and other obligations	68,294	48,984	38,796	—	156,074
<b>NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES</b>	<b>(393,803)</b>	<b>640,833</b>	<b>68,792</b>	<b>(16,509)</b>	<b>299,313</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>					
Additions to plant facilities, net	(1,218,342)	(553,642)	(148,341)	—	(1,920,325)
Change in assets limited as to use	(94,897)	(11)	—	—	(94,908)
Student, faculty and other loans:					
New loans made	(142,331)	—	—	—	(142,331)
Principal collected	66,276	—	—	—	66,276
Purchases of investments	(13,423,397)	(594,575)	(18,394)	16,346	(14,020,020)
Sales and maturities of investments	14,731,578	449,165	14,371	—	15,195,114
Sales (purchases) of investments with securities lending collateral, net	57,215	—	—	—	57,215
Change associated with short term investments	375,581	—	—	—	375,581
Swap settlement payments, net	—	(12,595)	—	—	(12,595)
<b>NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES</b>	<b>351,683</b>	<b>(711,658)</b>	<b>(152,364)</b>	<b>16,346</b>	<b>(495,993)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>					
Gifts and reinvested income for restricted purposes	299,436	45,952	80,027	—	425,415
Equity and fund transfers from Hospitals	137,348	(107,166)	(30,182)	—	—
Proceeds from borrowing	971,445	—	30,000	—	1,001,445
Repayment of notes and bonds payable	(696,711)	(14,610)	(7,920)	—	(719,241)
Bond issuance costs and interest rate swaps	(2,037)	(98)	—	—	(2,135)
Contributions received for split-interest agreements	27,921	—	—	—	27,921
Payments made under split-interest agreements	(42,989)	—	—	—	(42,989)
Securities lending collateral (sold) received, net	(57,215)	—	—	—	(57,215)
Change in liabilities associated with investments	(11,237)	—	—	—	(11,237)
Other	6,917	—	—	—	6,917
<b>NET CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES</b>	<b>632,878</b>	<b>(75,922)</b>	<b>71,925</b>	<b>—</b>	<b>628,881</b>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>590,758</b>	<b>(146,747)</b>	<b>(11,647)</b>	<b>(163)</b>	<b>432,201</b>
Cash and cash equivalents, beginning of year	265,795	652,256	288,469	(7,153)	1,199,367
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 856,553</b>	<b>\$ 505,509</b>	<b>\$ 276,822</b>	<b>\$ (7,316)</b>	<b>\$ 1,631,568</b>
<b>SUPPLEMENTAL DATA:</b>					
Interest paid, net of capitalized interest	\$ 119,696	\$ 43,602	\$ 36,766	\$ —	\$ 200,064
Cash collateral received under security lending agreements	\$ 19,922	\$ —	\$ —	\$ —	\$ 19,922
Change in payables for plant facilities	\$ (70,706)	\$ 48,461	\$ (24,890)	\$ —	\$ (47,135)

## CONSOLIDATING STATEMENTS OF CASH FLOWS

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

	UNIVERSITY	SHC	LPCH	ELIMINATIONS	CONSOLIDATED
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>					
Change in net assets	\$ 2,192,219	\$ 456,616	\$ 22,680	\$ (18,093)	\$ 2,653,422
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:					
Depreciation	380,142	176,595	99,367	—	656,104
Amortization of bond premiums, discounts and other	(14,896)	(3,839)	(2,846)	—	(21,581)
Provision for doubtful accounts for health care services	—	57,437	5,660	—	63,097
Losses on disposal of plant facilities	4,350	—	—	—	4,350
Net gains on investments	(2,683,987)	(123,731)	(38,216)	—	(2,845,934)
Change in fair value of interest rate swaps	(10,654)	(63,439)	—	—	(74,093)
Change in split-interest agreements	44,626	—	353	—	44,979
Investment income for restricted purposes	(12,413)	—	—	—	(12,413)
Gifts restricted for long-term investments	(232,520)	(37,958)	(71,032)	—	(341,510)
Equity and fund transfers, net	(123,619)	93,938	29,681	—	—
Gifts of securities and properties	(31,093)	—	—	—	(31,093)
Loss on extinguishment of debt	—	47,613	—	—	47,613
Other	32,140	1,909	—	—	34,049
Premiums received from bond issuance	—	76,138	—	—	76,138
Changes in operating assets and liabilities:					
Accounts receivable	(9,697)	(82,765)	(6,589)	—	(99,051)
Pledges receivable, net	(31,016)	2,684	13,767	—	(14,565)
Prepaid expenses and other assets	578	(13,877)	(18,095)	—	(31,394)
Accounts payable and accrued expenses	10,345	64,535	66,743	—	141,623
Accrued pension and postretirement benefit obligations	(45,537)	(50,772)	(1,474)	—	(97,783)
Deferred income and other obligations	18,566	93,620	—	—	112,186
<b>NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES</b>	<b>(512,466)</b>	<b>694,704</b>	<b>99,999</b>	<b>(18,093)</b>	<b>264,144</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>					
Additions to plant facilities, net	(1,133,180)	(474,735)	(271,391)	—	(1,879,306)
Change in assets limited as to use	194,376	58,134	33,096	—	285,606
Student, faculty and other loans:					
New loans made	(121,949)	—	—	—	(121,949)
Principal collected	69,831	—	—	—	69,831
Purchases of investments	(12,054,658)	(605,959)	(12,502)	17,987	(12,655,132)
Sales and maturities of investments	13,095,901	47,262	14,570	—	13,157,733
Sales (purchases) of investments with securities lending collateral, net	271,647	—	—	—	271,647
Change associated with short term investments	246,599	—	—	—	246,599
Swap settlement payments, net	—	(15,393)	—	—	(15,393)
<b>NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES</b>	<b>568,567</b>	<b>(990,691)</b>	<b>(236,227)</b>	<b>17,987</b>	<b>(640,364)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>					
Gifts and reinvested income for restricted purposes	297,548	40,747	53,658	—	391,953
Equity and fund transfers from Hospitals	100,718	(70,875)	(29,843)	—	—
Proceeds from borrowing	293,471	954,200	—	—	1,247,671
Repayment of notes and bonds payable	(398,371)	(679,331)	(5,801)	—	(1,083,503)
Bond issuance costs and interest rate swaps	—	(6,783)	—	—	(6,783)
Contributions received for split-interest agreements	29,561	—	—	—	29,561
Payments made under split-interest agreements	(42,630)	—	—	—	(42,630)
Securities lending collateral (sold) received, net	(271,647)	—	—	—	(271,647)
Change in liabilities associated with investments	(71,322)	—	—	—	(71,322)
Other	11,993	176	—	—	12,169
<b>NET CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES</b>	<b>(50,679)</b>	<b>238,134</b>	<b>18,014</b>	<b>—</b>	<b>205,469</b>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>5,422</b>	<b>(57,853)</b>	<b>(118,214)</b>	<b>(106)</b>	<b>(170,751)</b>
Cash and cash equivalents, beginning of year	260,373	710,109	406,683	(7,047)	1,370,118
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 265,795</b>	<b>\$ 652,256</b>	<b>\$ 288,469</b>	<b>\$ (7,153)</b>	<b>\$ 1,199,367</b>
<b>SUPPLEMENTAL DATA:</b>					
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