Stanford

Annual Financial Report

August 31, 2020 and 2019

COVER: Photos by Andrew Brodhead, 2020

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Purposeful Impact in Unprecedented Times

President Marc Tessier-Lavigne

"While the crisis has forced the university to adjust course, it has also sharpened our focus and illuminated what this community can achieve."

The 2020 fiscal year has been a year of challenge, adaptation and perseverance. Amid the COVID-19 pandemic, the wildfires that have ravaged California and the national reckoning with racial injustice, Stanford's community has rallied, with resolve and determination, to advance the university's mission.

When COVID-19 reached California in the early spring, it quickly became clear that the disruption would be historic. The university rapidly responded to the crisis on a number of fronts: sending undergraduate students home and moving teaching online, closing our campus to all but essential workers and a small number of students, providing round-the-clock clinical care to patients from our surrounding communities, and implementing cost-saving measures to support our continued fiscal stability.

Throughout the pandemic, we have prioritized supporting our community, maintaining our missions of teaching, research and health care, and contributing to the pandemic response through clinical care and discovery.

To support our community, the university increased financial support for our students, created a new grant program for Stanford employees facing financial hardships, ensured pay continuation for regular employees, and provided financial and other support to our vendors.

In education, the university invested in learning technology to support faculty in their efforts to develop creative formats for online coursework and maintain a fulfilling and enriching experience for remote learners in all disciplines.

Our research enterprise has pivoted, launching hundreds of projects to improve our understanding of COVID-19 and its effects on society. Stanford Medicine developed one of the first FDA-approved diagnostic tests to identify the virus. Our researchers are collaborating with the University of California, San Francisco and the Chan Zuckerberg Initiative to better understand the spread of COVID-19 and support policymakers in determining when people can return safely to work, school, and other critical activities. Beyond Stanford Medicine, researchers have been working to mitigate other societal effects of the virus, including efforts to improve remote K-12 education and reduce the spread of the virus across incarcerated populations, among others.

Our hospitals were agile in their response, rapidly increasing COVID-19 testing and capacity to treat patients across the Bay Area and the state, using telehealth tools to reduce in-person visits, and delaying renovations to older buildings in order to address a potential surge in patients.

The generous support and energy of our donors, alumni and community have also enabled us to advance Stanford's Long-Range Vision, including critical university-wide initiatives focused on social justice, diversity and inclusion, and climate and sustainability.

As we close the fiscal year, it is clear that the effects of the virus on Stanford's finances will not be a temporary budget blip, but an ongoing challenge. COVID-19 has forced us to make tough choices as we steer Stanford through an economic downturn, contend with reduced operating revenues, and manage additional expenses related to new measures to keep our community safe.

While the crisis has forced the university to adjust course, it has also sharpened our focus and illuminated what this community can achieve and how essential our core activities of teaching, research, and health care are to the world. As we look ahead, we will continue to take thoughtful steps to position Stanford for a strong recovery as we support the health and safety of our community.

I would like to express my appreciation to our community of students, faculty, staff, alumni and donors for their generosity and support for Stanford during these unprecedented times. I am proud of our many accomplishments and am confident in our collective abilities to make important and effective contributions, both in this moment of great need, and in the years that lie ahead.

Financial Overview

Faced with an unprecedented combination of challenges during Fiscal Year 2020, the Stanford community responded with perseverance to advance our core missions of teaching, research and health care.

This dedicated community of students; faculty, researchers and staff; alumni; doctors and nurses; and business partners led with innovation and resolve through challenges that include the worldwide COVID-19 pandemic, social unrest and political discord across our country and more than 9,000 wildfires in California.

Resilience and decisiveness have been at the forefront of our response, and thoughtful financial decision-making positioned the university and hospitals for a strong near-term response and a recovery that supports Stanford's long-term vision.

Following is a summary of Stanford's financial results, which include the university, and Stanford Health Care (SHC), Lucile Salter Packard Children's Hospital at Stanford (LPCH) and their respective affiliates, collectively "the hospitals."

Health Care

In early FY20, SHC marked a major milestone by opening its doors to the new Stanford Hospital, a little less than two years after LPCH opened its doors to the new Lucile Packard Children's Hospital. A reimagined space for health and healing, this extraordinary new facility doubled our capacity for patient care and modernized our ability to treat and cure.

For the first two quarters of FY20 the hospitals both experienced strong performance. With the onset of the COVID-19 pandemic in the third quarter, both SHC and LPCH suspended non-critical patient visits and procedures, resulting in substantial loss of revenues.

In March 2020, the Coronavirus Aid, Relief and Economic Security (CARES) Act was passed, and the hospitals subsequently received Provider Relief Funds distributed to healthcare providers to help offset some of the pandemic financial impacts.

The hospitals together provided $1.7 billion in charity care and undercompensated care to Medi-Cal and Medicare beneficiaries, representing a $200 million increase over FY19. These services are in addition to supporting other programs and services such as health research, education, training, and other benefits for the communities we serve.

Philanthropy

Alumni and friends continued to provide critical support through these most trying of times. Through their generous gifts and contributions, donors enable Stanford to continue to deliver on Jane and Leland Stanford's vision of creating "a purposeful university that fosters education, research and creativity for the benefit of humanity." These donations fund scholarships and professorships, help construct buildings and turn visions into reality. Over 51,000 donors, including corporations and foundations, demonstrated their commitment to Stanford by providing philanthropic support that was 28% higher than the previous year.

Housing Affordability

In the Bay Area, where local real estate housing prices are high, it is essential to support faculty, staff and students in addressing the affordability challenges. The university's capital plan is heavily influenced by the need to provide opportunities for more students to live where they study and work, as represented by the opening of the Escondido Village Graduate Residences, the university's largest-ever housing development. Stanford's purchase of Cardinal Apartments in Redwood City and construction on Middle Plaza in Menlo Park reflect the university's efforts to address the housing needs of faculty and staff.

COVID-19 Impact

Since the onset of the pandemic in March, Stanford's major financial decisions have reflected a focus on two key themes: **Supporting Our Community** and **Stewarding Our Resources in Uncertain Times**.

Supporting Our Community

Pay Continuation

Stanford actively deployed emergency reserves and other mechanisms for pay continuation to staff, faculty and select contractors and vendors enabling the university, SHC and LPCH to provide critical support to members of our community during these challenging times. This is discussed in more detail in the Operating Expenses section to follow.

Enabling Virtual Learning

As the public health situation and state and local guidance evolved, the university took swift and proactive measures to protect our community. This required quickly deploying tools and resources required to deliver the academic mission virtually. Faculty and staff shifted academic offerings online, leveraging and expanding upon online resources and remote collaboration tools, and developed new models enabling effective remote education.

Student Support

Many Stanford students and their families were impacted by the economic fallout of the pandemic. The university prioritized supporting students by increasing financial aid, assisting travel home and, when necessary, securing IT equipment and services. Also in FY20, 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 aid.

Preparing for the Surge

Our hospitals pivoted quickly in response to the COVID-19 pandemic, which caused major disruptions in our nation's healthcare systems. SHC paused facilities renovations in order to expand space available for treating an increase in patients. Elective procedures at both hospitals were cancelled and acute care facilities were established to prepare for the expected volume of COVID-19 patients and reduce the risk of exposure to COVID-19.

Stewarding Our Resources

The impact of COVID-19 rippled through our FY20 financial results, reducing various revenue sources that, in some cases, were superseded by others.

The negative financial impacts would have been considerably larger without the implementation of a series of actions to control and reduce costs. In early April the university imposed a salary freeze, a hiring pause, a pay reduction for senior leadership, reduction of discretionary spending by departments, and a hold on approvals of all new capital projects. Our hospitals took similar labor and non-labor cost-saving measures and initiatives, including temporary workforce adjustments, reducing non-labor spend, minimizing overtime and contractor spend, continuing to flex hours of staff as operationally appropriate and significantly reducing capital spending to contain costs and retain resources. In anticipation of continuing budget challenges in FY21, the university reduced endowment payout on non-student aid funds by 10% and centrally-allocated general funds by about 7%.

Summary

Stanford ended the fiscal year with consolidated net assets of $47.2 billion, an increase of $2.0 billion over FY19, primarily driven by the generosity of our donors and better than expected investment returns, which helped to mitigate overall financial losses.

This year has been an extraordinary exercise in teamwork and collaboration, thoughtful planning, and persistence across Stanford. We would like to express our gratitude to the front-line finance staff and budget officers, and to all those who serve as financial stewards for the institution, for their fortitude and tireless efforts in supporting Stanford. We are pleased to provide the following report which outlines the financial results for fiscal year 2020 and a look toward the future.

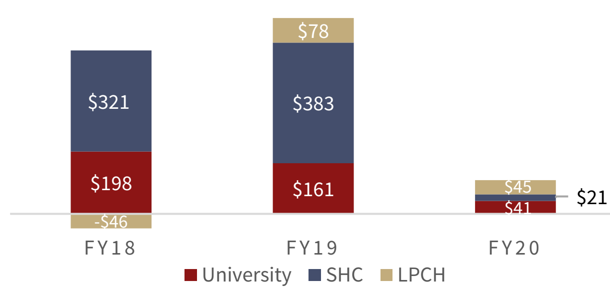
Operating Results

Despite the unprecedented impact of COVID-19, the university, SHC and LPCH each generated modest positive operating results. For the university, the positive operating surplus resulted from increased philanthropic support, steady performance of sponsored support and investment income distributed for operations, and widespread cost saving measures. However, COVID-19 significantly impacted special program fees and other income as well as student income.

Our top priority of caring for our people and our community resulted in early decisions to send our students home, increase financial aid, move all teaching, research and administrative functions to a remote basis, and suspend all but essential personnel from being on campus. For our hospitals, it drove the cancellation of elective procedures and necessary preparation for an anticipated surge in COVID-19 patients. These actions led to reductions in some revenue streams offset by increases in others. Similarly, increasing costs in support of our response efforts were partially offset by cost-saving initiatives.

On a consolidated basis, operating revenues exceeded expenses by $107 million, compared to $623 million in FY19. The university alone experienced a year-over-year decline in operating margin of 74%, from $161 million in FY19 to $41 million in FY20. Student income, special program fees and other declines in income resulting from the COVID-19 pandemic were only partially offset by the increase in investment income distributed for operations and current year gifts in support of operations. In addition, increases in salaries and benefits expenses and depreciation, while partially offset by declines in other operating expenses, further reduced operating margin.

Operating Margin ($ in millions)



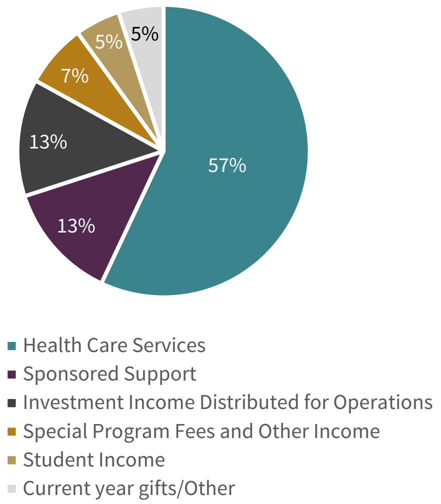
SHC's operating margin also saw a steep decline of $362 million or 95% to end the year at $21 million. The decline was primarily due to cancellation of elective procedures after the onset of COVID-19, $1.4 billion spent in charity care and Medi-Cal and Medicare undercompensated care, offset by $125 million in CARES Act Provider Relief Funds.

LPCH's operating margin declined $33 million or 42% to end the year at $45 million. The decline was primarily due to the cancellation of elective procedures after the onset of COVID-19, while maintaining staffing to support the anticipated surge of COVID-19 patients, and decreased provider fee net revenue. These reductions were offset by higher revenues for children with especially high acuity care, and $79 million in CARES Act Provider Relief Funds. In FY20 LPCH provided $261 million in charity care and Medi-Cal undercompensated care.

Operating Revenues

Total consolidated operating revenues increased $193 million or 2% to $12.5 billion. Health care was the largest source of revenue, while investment income distributed for operations and sponsored support were the second and third largest and, in FY20, the most stable sources of revenues for Stanford. Special program fees and other income increased 8% on a consolidated basis as $200 million of CARES Act Provider Relief Funds received by the hospitals more than offset a $134 million decline for the university. Student income declined 7%, driven by COVID-related drops in room and board revenues and summer quarter tuition.

Consolidated Operating Revenues: $12.5 billion



Special program fees and other income was significantly impacted by the COVID-19 pandemic. While the university experienced significant declines driven by the cancellation of various programs including executive education, travel and study programs, conferences and athletic summer camps, as well as a reduction in residential and dining services, the hospitals experienced an increase due to CARES Act Provider Relief Funds received in FY20.

Student income decreased 7% or $43 million to $610 million primarily due to lower room and board revenues as a result of the majority of students not being housed on campus for the latter part of FY20 and increases in student financial aid as further described under "Teaching and Education" below.

Health care services constituted 57% of consolidated total revenues in FY20 and FY19, accounting for 94% and 91% of total revenues for SHC and LPCH, respectively. Overall, health care revenues grew by a little over 1% to end the year at $7.1 billion. Investment income distributed for operations grew 5% to $1.7 billion. Sponsored Support is the next largest operating revenue stream and comprises 13% of consolidated revenues. Excluding sponsored support from the Department of Energy for SLAC National Accelerator Laboratory (SLAC), sponsored support remained relatively flat in FY20 as increases in federal research support were offset by decreases in non-federal research support.

Operating Expenses

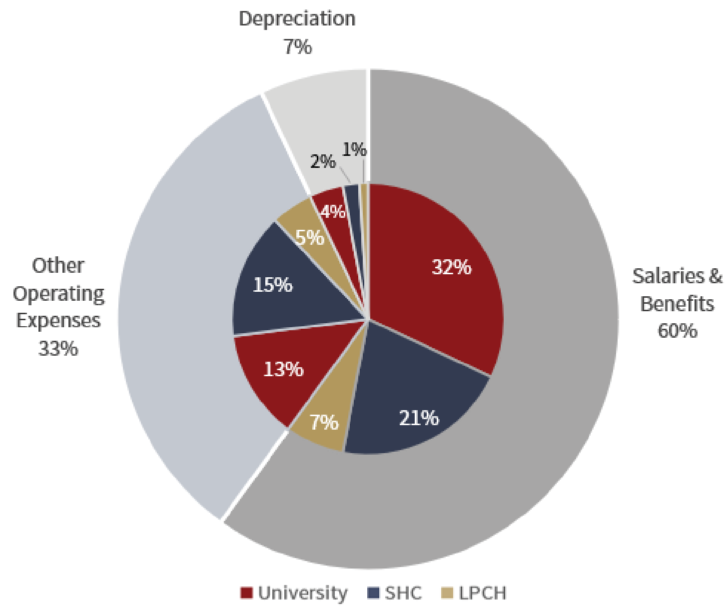
Total consolidated operating expenses increased $709 million or 6% to $12.3 billion. The majority of these expenses are salaries and benefits expense for faculty and staff, which comprise more than 60% of both consolidated operating expenses and university operating expenses. Overall salaries and benefits alone increased $553 million as a result of a combination of continued growth in headcount and annual merit compensation increases at the beginning of FY20. The university's commitment to pay continuation through the pandemic, as well as the hospital's expanded headcount to support patient volumes for future expansion, and anticipation of caring for potential COVID-19 patients also drove the increase.

Additionally, other operating expenses increased $43 million or 1%. The university saw increased operating costs from the implementation of safety measures such as the purchase of personal protective equipment, cleaning and sanitizing services and supplies and COVID-19 testing for staff, faculty and students, as well as development of technology for contact tracing and diagnostic testing. These expense increases were more than offset by expense reductions resulting in an overall net decrease of $135 million. Over half of this decrease was attributable to the decrease in SLAC project costs and the remaining spread across School of Medicine, Residential & Dining Enterprises, School of Engineering, Graduate School of Business, Alumni Association, and Athletics. These costs savings were primarily due to reduced travel and campus activity, as well as expense reductions related to programs and services.

SHC's other operating expenses increased 9% to $2.7 billion in response to COVID-19, patient volume growth prior to COVID-19, new Stanford Hospital activation costs, and inflation.

LPCH's other operating expenses increased 2% to $1.0 billion in response to COVID-19, patient volume growth prior to COVID-19.

Consolidated Operating Expenses: $12.3 billion



Health Care

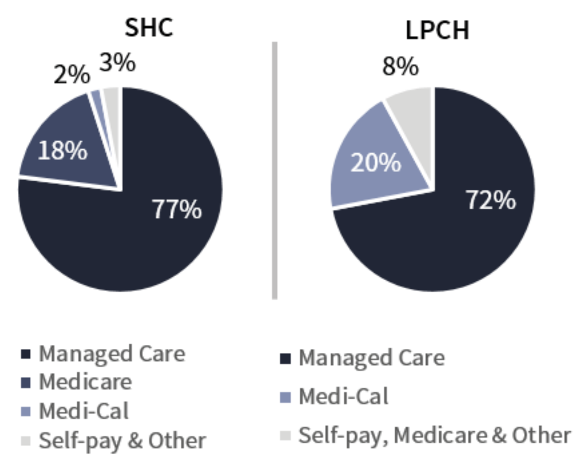
Stanford Medicine, composed of the university's School of Medicine (SOM), Stanford Health Care (SHC) and Lucile Salter Packard Children's Hospital (LPCH), is an academic medical center that integrates a research university with a network of care facilities. The SOM faculty serve as physicians for the hospitals.

The university's FY20 health care services revenue increased $68 million or 6% to $1.3 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 activities.

In FY20, SHC's net patient service revenue including capitation/premium revenue increased $39 million, or 0.7%, from FY19 to $5.3 billion. Inpatient and outpatient procedures, which represented 38% and 62% of net patient revenues, respectively, grew in multiple areas, such as cancer and neurosciences services, pharmacy, imaging, lab, and other ambulatory care services.

LPCH net patient service revenue grew 3% in FY20 to $1.9 billion. LPCH had a strong start in FY20, exceeding volumes and net patient service revenue on a year-over-year basis, driven by busy surgical programs, such as cardiovascular surgery, and busy ICUs. Given the restrictions on elective surgical procedures and outpatient diagnostic and surgical procedures from public health officials in mid-March, LPCH experienced significant declines in both inpatient and outpatient procedures. The public health orders in March also impacted clinical visits, which had to transition from in-person to telehealth, resulting in initial cancellations to deploy the technology for telehealth visits, and rescheduling visits once in place. In May, LPCH started to see volumes slowly recover and, while the last quarter had stronger volumes, they were still lower than the pre-pandemic expectations.

Net Patient Service Revenue



Research

In FY20, total sponsored support from federal and non-federal sponsored sources decreased $61 million compared to FY19.

The majority of the university's sponsored support is received 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.

The DOE provides most of the sponsored support for the SLAC National Accelerator Laboratory (SLAC). In FY20, SLAC's total sponsored support decreased 11%, or $60 million to $485 million, comprised of $369 million for operations and $116 million for construction of new facilities and instruments. SLAC's operations grew 10%, driven by a combination of growth and labor costs being redeployed into operations, offset by a decrease in construction of 45% as major 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 estimated to cost approximately $1 billion and targeted for completion in 2022.

Excluding SLAC, the university's sponsored support was relatively flat, with an increase in federal funding of $26 million, mainly from the DHHS, accompanied by an offsetting decrease in non-federal sponsored support of $27 million. DHHS provided support of $573 million in FY20 compared to $551 million in the prior year, primarily through the National Institutes of Health (NIH). Most of these funds support research within the university's School of Medicine.

While research experienced a slow-down in certain areas due to the pandemic, the overall financial impacts were not significant. Stanford researchers were able to pivot quickly to work in a remote environment and, in some cases, shift their focus to COVID-19 related projects focused on the treatment and spread of the virus. As a result, the university was awarded over $30 million in funding aimed at understanding and preventing the spread of the virus and investigating how immune systems respond.

Stanford is conducting hundreds of COVID-19 related research projects. Collectively referred to as RISE – Respond, Innovate, Scale, Empower – these projects reflect how researchers from all corners of the university are focusing on ways to prevent, diagnose and treat COVID-19, and to better understand how it spreads.

Some pandemic research solutions developed at Stanford had immediate uses, such as 3D printing of ventilators and a COVID-19 test that expanded regional testing capability. Other research such as vaping linked to COVID-19 risk in teens and young adults, long-term mental and emotional impacts of the pandemic, psychological stress associated with remote work and resources for parents, teachers and students went beyond tackling the disease itself to focusing on the pandemic's overall effect on our society.

Philanthropy | Gifts & Pledges

Stanford's pursuit of its missions benefits from a community of engaged donors. Gifts from donors are an important source of funding for current operations as well as for capital projects and new endowment. The majority of 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. Stanford reported total gifts and pledges in FY20 of over $1 billion, with $290 million reflected as current year gifts in support of operations and an additional $749 million recorded in the non-operating section of the *Statements of Activities.* Total gifts and pledge payments reported by the Office of Development were $1.4 billion. This amount reflects contributions received in cash or property and includes $35 million for SHC and $60 million for LPCH, as well as a total of $70 million in gifts of art to the Anderson Collection. Gifts and pledges reported in the *Statements of Activities* are recorded on an accrual basis.

The Stanford Institute for Human-Centered Artificial Intelligence and HAI Research Grant Program, which serve as critical components of the Long-Range Vision, collectively received $100 million in gifts. The university also received a $40 million donation for the new Graduate School of Education building.

In the truest representation of community spirit in these most challenging of times, Stanford received various new gifts and pledges as well as the repurposing of existing gifts totaling $79 million toward COVID-19 related projects.

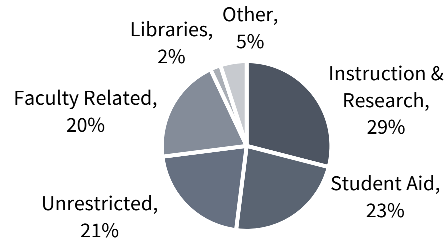
Investment Income Distributed for Operations

Total investment income distributed for operations was $1.6 billion in FY20, $1.4 billion of which came from the university's endowment.

The Board of Trustees 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 monthly payout to support operations, while preserving purchasing power, and ensuring that the endowment can support the university in perpetuity.

Spending from the endowment to support university operations in fiscal year 2019-20 was equal to 4.9% of the endowment's value at the beginning of the fiscal year. The endowment increased 4.5% to $28.9 billion at FY end.

University Endowment Payout by Purpose



As shown in the figure above, almost 80% of the endowment payout is restricted by 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.

Teaching and Education

The global pandemic affected almost every aspect of how the university promotes and delivers its teaching mission.

Safety measures reduced residential occupancy and enrollment, resulting in a decline of $41 million in revenue for room and board. Additionally, some students elected to defer their enrollment in the spring and summer quarters.

One of the university's highest priorities is to remain affordable and accessible to all admitted students, regardless of their financial circumstances. In FY20, 50% of undergraduates were awarded need-based financial aid from Stanford while 83% of graduate students received some form of financial support. Stanford expanded its undergraduate financial aid program in FY21 by increasing the family income threshold from $125,000 to $150,000 below which students will not be required to pay tuition.

In addition to providing over $330 million in financial aid to undergraduates and graduates, the university also provided $362 million of other graduate student support primarily in the form of stipends, teaching and research assistantships and related allowances for tuition.

Sources of the total $692 million of student financial aid and graduate support included approximately $313 million in payout from endowment funds and expendable gifts restricted for student aid, $243 million from unrestricted university funds and $136 million from grants and contracts.

Statements of Financial Position

Total consolidated assets increased $5.2 billion in FY20 to end the year at $63.0 billion, while consolidated liabilities increased $3.2 billion to $15.8 billion. The increase in consolidated assets was mainly due to better than expected investment performance, and continued investment in plant facilities. In FY20, the university and Stanford Health Care separately issued bonds totaling $1.2 billion.

University Investments

At August 31, 2020, university investments totaled $37.6 billion, an increase of $2.3 billion, driven primarily by the generosity of donors and sound investment performance.

The majority of the university's investments, $28.9 billion, are a part of 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 monthly payouts to support the university's operations and preserve purchasing power for future generations of Stanford students and scholars.

In addition, $6.8 billion of the university's investments include real estate located on a portion of Stanford's 8,180 acres which is designated by the Board of Trustees for the production of income.

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.

In FY20, portfolio income was impacted by COVID-19 with the retail and hospitality sectors experiencing larger declines; tempered by a moderate financial impact on the research, medical and commercial office properties. Real estate valuations remained relatively stable, benefitting from the decline in interest rates.

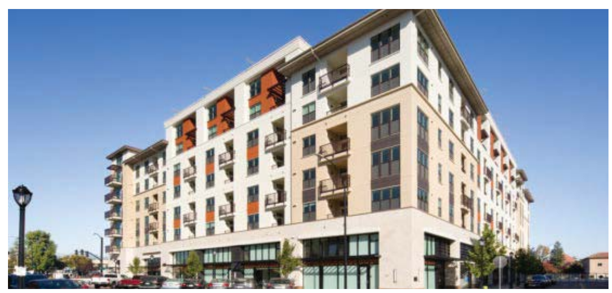
Capital Projects

Stanford continues to make significant investments in its physical facilities, driven by its missions and priorities. Over the past decade, the university 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. Both SHC and LPCH also continue to make investments in facilities and systems required to remain at the forefront of medicine, be the provider of choice for complex care and provide the highest quality of adult and children's clinical care to the communities they serve.

After five years of planning and construction, Stanford marked the 2020-2021 academic year with the opening of Escondido Village Graduate Residences (EVGR), providing a new home for 2,400 graduate students, and raising the percentage of graduate students housed on campus to approximately 75% from just over 50%. While no one could have predicted that EVGR would open during a global pandemic, it has provided the university greater flexibility for student housing while maintaining social distancing. One of the four buildings in the EVGR complex is home to approximately 700 undergraduate students during the 2020-21 academic year and will be transitioned to graduate student housing once public health conditions improve.

Escondido Village Graduate Residences (EVGR)

The Cardinal Apartments in Redwood City were acquired in November 2019 to address affordable housing for staff and faculty. The recently completed Stanford ChEM-H and Wu Tsai Neurosciences Institute offers an interdisciplinary hub where researchers accelerate the pace of discovery in the life sciences.



Stanford Cardinal Apartments

The majority of SHC's FY20 spending was for the new Stanford Hospital, which opened in the fall of 2019. It is a modern, technologically advanced facility that meets California earthquake safety standards and has supported faculty and staff in confronting the challenges driven by the COVID-19 pandemic. The majority of LPCH's FY20 spending was to complete the buildout of the first and fifth floors of the new children's hospital, which opened in 2017.

Stanford Health Care - New Hospital

Debt

During FY20, both the university and SHC issued new debt, driving a combined increase in total debt of $1.2 billion, to end the year at $8.2 billion. The issuances were met with significant demand from investors which, with a low interest rate environment, resulted in historical record-low borrowing rates. In June 2020, the university issued $750 million in taxable bonds for general corporate purposes, capitalizing on favorable rates to bolster liquidity and provide flexibility during uncertain financial conditions.

The university continued to maintain the highest available long- and short-term credit ratings by Moody's, S&P and Fitch rating agencies. The investors' and rating agencies' response re-affirmed their confidence in the university's exceptional strategic position and leadership despite accessing the market during a time of significant near-term ambiguity about the course of the pandemic.

SHC borrows tax-exempt debt through the California Health Facilities Financing Authority (CHFFA), a conduit issuer. In April 2020, CHFFA, on behalf of SHC, issued fixed rate revenue bonds (the "2020A Revenue Bonds") in the aggregate principal amount of $170 million plus an original issue premium of $20 million. Proceeds of the 2020A Bonds were used to 1) finance certain costs of the new Stanford Hospital project and 2) refund the 2012C variable rate revenue bonds previously issued by CHFFA for the benefit of the Corporation. In April 2020, SHC also issued taxable fixed rate bonds in the amount of $300 million for general corporate purposes. In March 2020, SHC's long-term ratings were affirmed by S&P Global Ratings, Moody's Investors Service, and Fitch Ratings at AA-/Aa3/AA, respectively.

While LPCH did not issue any new debt in FY20, LPCH's long-term ratings of A+/A1/AA- were affirmed by S&P Global Ratings and Moody's Investors Service in November 2019 and by Fitch Ratings in October 2020, respectively.

Looking Forward

As we look forward, Stanford confronts a number of challenges but also exciting opportunities for teaching, research and health care.

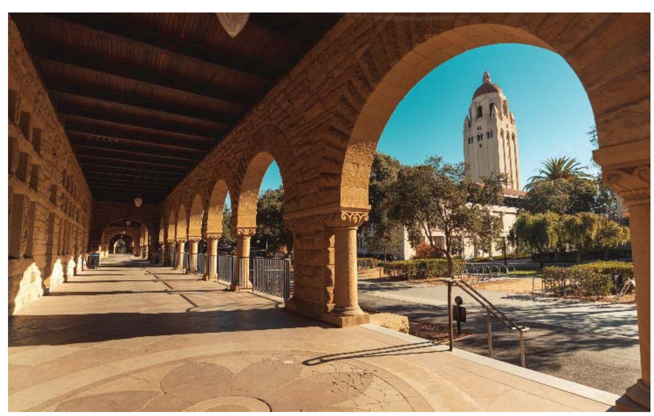
As the COVID-19 pandemic is ongoing, including additional surges of infections in late 2020, and the outlook on the vaccine development is still tentative, it's uncertain when our operations can fully return to pre-pandemic normality.

In addition to the pandemic, our campus also feels the effects of climate change. During the past several summers, Stanford has experienced record heat waves driving us to invest $85 million in doubling chiller capacity to ensure adequate cooling of research and health care facilities. During summer 2020, California had record wildfires including several surrounding the Bay Area in August. The fires caused numerous employees to evacuate their homes and the intense wildfire smoke caused suspension of campus outdoor activities for multiple days.

Notwithstanding these challenges, Stanford will continue to meet them with an eye toward the long term. We benefit from a deep reservoir of leadership and financial resources that will support us as we advance our mission now and into the future.

One certainty is that how we deliver on that mission will continue to evolve. We make daily advancements in how we support teaching and learning from a distance, our health care providers continue to develop our telehealth services, so that Stanford can reach more patients more effectively, and our research activities remain sharply focused on those same challenges that are affecting our local and broader community. Stanford also remains committed to doing all of this work through the lens of our IDEAL initiative (Inclusion, Diversity, Equity in a Learning Environment) and that of culturally competent care to guide our vision for health care in the years to come.

We are confident that, as a united community, Stanford will emerge a stronger institution in delivering education, research and healthcare for the benefit of humanity. Our community can be a force both in addressing COVID-19 and its many implications, and in accelerating the benefits we can bring to the world.



SELECTED FINANCIAL AND OTHER DATA

Fiscal Years Ended August 31

	2020	2019	2018	2017	2016
	(dollars in millions)				
CONSOLIDATED STATEMENTS OF ACTIVITIES HIGHLIGHTS:					
Total operating revenues	$ 12,455	$12,262	$11,311	$10,504	$ 9,797
Student income (A)	610	653	635	618	587
Sponsored support	1,622	1,683	1,656	1,636	1,453
Health care services	7,137	7,051	6,302	5,682	5,264
Investment income distributed for operations	1,661	1,583	1,509	1,327	1,338
Total operating expenses	12,348	11,639	10,839	10,056	9,307
Change in net assets from operating activities	107	623	472	448	490
Other changes in net assets	1,877	1,338	2,181	3,156	947
Net change in total net assets	$ 1,984	$ 1,961	$ 2,653	$ 3,604	$ 1,437
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION HIGHLIGHTS:					
Investments at fair value	$ 40,929	$38,819	$37,784	$35,842	$31,332
Plant facilities, net of accumulated depreciation	13,173	12,863	11,678	10,223	9,000
Notes and bonds payable	8,226	7,075	6,662	6,401	5,402
Total assets	62,970	57,803	54,746	51,648	46,586
Total liabilities	15,797	12,614	11,519	11,074	9,616
Total net assets	47,173	45,189	43,227	40,574	36,970
UNIVERSITY STATEMENTS OF FINANCIAL POSITION HIGHLIGHTS:					
Investments at fair value	$ 37,575	$35,292	$34,517	$33,297	$29,086
Plant facilities, net of accumulated depreciation	7,686	7,270	6,508	5,623	5,169
Notes and bonds payable	5,004	4,247	3,834	3,954	3,271
Total assets	49,934	46,370	44,037	41,954	37,767
Total liabilities	9,628	7,869	7,153	7,263	6,048
Total net assets	40,305	38,501	36,884	34,691	31,719
OTHER FINANCIAL DATA AND METRICS:					
University endowment at year-end	$ 28,948	$27,700	$26,465	$24,785	$22,398
University endowment payout in support of operations	1,355	1,303	1,240	1,166	1,132
As a % of beginning of year University endowment	4.9 %	4.9 %	5.0 %	5.2 %	5.1 %
As a % of University total expenses	22.3 %	21.8 %	21.9 %	21.7 %	23.0 %
Total gifts as reported by the Office of Development (B)	1,363	1,112	1,097	1,129	951
STUDENTS:					
ENROLLMENT: (C)					
Undergraduate	6,366	6,994	7,083	7,056	7,032
Graduate	8,791	9,390	9,437	9,368	9,304
DEGREES CONFERRED:					
Bachelor degrees	1,771	1,893	1,754	1,669	1,744
Advanced degrees	3,422	3,433	3,440	3,429	3,370
FACULTY:					
Total Professoriate (C)	2,279	2,276	2,241	2,219	2,180
ANNUAL UNDERGRADUATE TUITION RATE (IN DOLLARS)	$ 52,857	$50,703	$48,987	$47,331	$45,729

(A) Student income is reported net of financial aid in the Consolidated Statements of Activities.
(B) Includes University, SHC and LPCH gifts.
(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

pwc

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, 2020 and 2019, 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, 2020 and 2019, 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.

December 2, 2020

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP, 405 Howard Street, Suite 600, San Francisco, CA 94105
T: (415) 498 5000, F: (415) 498 7100, www.pwc.com/us

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

At August 31, 2020 and 2019 (in thousands of dollars)

	2020	2019
ASSETS		
Cash and cash equivalents	$ 3,142,981	$ 1,631,568
Assets limited as to use	253,483	291,690
Accounts receivable, net	1,540,076	1,429,451
Prepaid expenses and other assets	479,654	448,772
Pledges receivable, net	1,472,466	1,469,686
Student loans receivable, net	46,089	51,998
Faculty and staff mortgages and other loans receivable, net	829,262	797,088
Investments at fair value	40,929,240	38,819,204
Right-of-use assets	1,104,189	—
Plant facilities, net of accumulated depreciation	13,172,620	12,863,487
Works of art and special collections	—	—
TOTAL ASSETS	**$ 62,970,060**	**$ 57,802,944**
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable and accrued expenses	$ 3,059,141	$ 2,518,600
Liabilities associated with investments	1,002,896	758,161
Lease liabilities	1,140,497	—
Deferred income and other obligations	1,626,449	1,423,315
Accrued pension and postretirement benefit obligations	719,879	799,313
Notes and bonds payable	8,225,671	7,074,844
U.S. government refundable loan funds	22,668	39,745
TOTAL LIABILITIES	**15,797,201**	**12,613,978**
NET ASSETS:		
Without donor restrictions	28,906,775	27,065,691
With donor restrictions	18,266,084	18,123,275
TOTAL NET ASSETS	**47,172,859**	**45,188,966**
TOTAL LIABILITIES AND NET ASSETS	**$ 62,970,060**	**$ 57,802,944**

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

CONSOLIDATED STATEMENTS OF ACTIVITIES

For the years ended August 31, 2020 and 2019 (in thousands of dollars)

	2020	2019
NET ASSETS WITHOUT DONOR RESTRICTIONS		
OPERATING REVENUES:		
TOTAL STUDENT INCOME, NET	**$ 610,172**	**$ 652,853**
Sponsored support:		
Direct costs - University	858,422	850,779
Direct costs - SLAC National Accelerator Laboratory	484,823	545,359
Indirect costs	278,635	286,782
TOTAL SPONSORED SUPPORT	**1,621,880**	**1,682,920**
TOTAL HEALTH CARE SERVICES, primarily net patient service revenue	**7,136,588**	**7,050,672**
TOTAL CURRENT YEAR GIFTS IN SUPPORT OF OPERATIONS	**295,726**	**256,413**
Net assets released from restrictions:		
Payments received on pledges	187,033	153,478
Prior year gifts released from donor restrictions	70,305	75,852
TOTAL NET ASSETS RELEASED FROM RESTRICTIONS	**257,338**	**229,330**
Investment income distributed for operations:		
Endowment	1,372,967	1,319,170
Expendable funds pools and other investment income	288,150	263,641
TOTAL INVESTMENT INCOME DISTRIBUTED FOR OPERATIONS	**1,661,117**	**1,582,811**
TOTAL SPECIAL PROGRAM FEES AND OTHER INCOME	**872,596**	**807,021**
TOTAL OPERATING REVENUES	**12,455,417**	**12,262,020**
OPERATING EXPENSES:		
Salaries and benefits	7,445,729	6,892,410
Depreciation	813,403	701,163
Other operating expenses	4,088,955	4,045,911
TOTAL OPERATING EXPENSES	**12,348,087**	**11,639,484**
CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES	**$ 107,330**	**$ 622,536**

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

CONSOLIDATED STATEMENTS OF ACTIVITIES, Continued

For the years ended August 31, 2020 and 2019 (in thousands of dollars)

	2020	2019
NET ASSETS WITHOUT DONOR RESTRICTIONS (continued)		
CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES	**$ 107,330**	**$ 622,536**
NON-OPERATING ACTIVITIES:		
Increase in reinvested gains	792,130	1,222,273
Donor advised funds, net	61,723	8,518
Current year gifts not included in operations	2,026	3,251
Capital and other gifts released from restrictions	978,866	94,935
Pension and other postemployment benefit related changes other than service cost	91,792	(178,249)
Transfer to net assets with donor restrictions, net	(128,935)	(117,765)
Swap interest and change in value of swap agreements	(62,036)	(169,393)
Other	(1,812)	(11,564)
NET CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	**1,841,084**	**1,474,542**
NET ASSETS WITH DONOR RESTRICTIONS		
Gifts and pledges, net	739,241	590,419
Increase in reinvested gains	519,423	114,253
Change in value of split-interest agreements, net	16,293	3,827
Net assets released to operations	(282,079)	(252,362)
Capital and other gifts released to net assets without donor restrictions	(978,866)	(94,935)
Transfer from net assets without donor restrictions, net	128,935	117,765
Other	(138)	7,894
NET CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS	**142,809**	**486,861**
NET CHANGE IN TOTAL NET ASSETS	**1,983,893**	**1,961,403**
Total net assets, beginning of year	45,188,966	43,227,563
TOTAL NET ASSETS, END OF YEAR	**$47,172,859**	**$45,188,966**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended August 31, 2020 and 2019 (in thousands of dollars)

	2020	2019
CASH FLOW FROM OPERATING ACTIVITIES		
Change in net assets	$ 1,983,893	$ 1,961,403
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	813,403	701,163
Amortization of bond premiums, discounts and other	9,814	(19,000)
Losses (gains) on disposal of plant facilities	981	(3,820)
Net gains on investments	(2,721,023)	(2,594,115)
Change in fair value of interest rate swaps	42,017	154,849
Change in split-interest agreements	43,609	28,549
Change in deferred tax asset and liability	57,219	15,350
Investment income for restricted purposes	(905)	(13,377)
Gifts restricted for long-term investments	(364,763)	(350,161)
Gifts of securities and properties	(27,432)	(28,660)
Other	25,950	8,981
Premiums received from bond issuance	19,885	158,169
Changes in operating assets and liabilities:		
Accounts receivable	(25,996)	(126,210)
Pledges receivable, net	(69,335)	(54,166)
Prepaid expenses and other assets	(107,108)	(66,568)
Accounts payable and accrued expenses	605,492	191,274
Accrued pension and postretirement benefit obligations	(79,434)	194,721
Lease liabilities	5,725	—
Deferred income and other obligations	131,449	156,074
NET CASH PROVIDED BY OPERATING ACTIVITIES	**343,441**	**314,456**
CASH FLOW FROM INVESTING ACTIVITIES		
Additions to plant facilities, net	(1,283,341)	(1,920,325)
Student, faculty and other loans:		
New loans made	(105,086)	(142,331)
Principal collected	65,511	66,276
Purchases of investments	(15,981,319)	(13,673,939)
Sales and maturities of investments	17,663,914	14,940,137
Change associated with short term investments	(684,461)	375,581
Swap settlement payments, net	(16,825)	(12,595)
NET CASH USED FOR INVESTING ACTIVITIES	**(341,607)**	**(367,196)**
CASH FLOW FROM FINANCING ACTIVITIES		
Gifts and reinvested income for restricted purposes	427,189	425,415
Proceeds from borrowing	1,429,662	1,001,445
Repayment of notes and bonds payable	(262,171)	(719,241)
Bond issuance costs and interest rate swaps	(6,115)	(2,135)
Contributions received for split-interest agreements	55,503	27,921
Payments made under split-interest agreements	(46,095)	(42,989)
Securities lending collateral sold, net	(19,468)	(57,215)
Change in liabilities associated with investments	—	(11,237)
Other	(14,319)	16,563
NET CASH PROVIDED BY FINANCING ACTIVITIES	**1,564,186**	**638,527**
INCREASE IN CASH AND CASH EQUIVALENTS	**1,566,020**	**585,787**
Cash and cash equivalents, beginning of year	2,012,835	1,427,048
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 3,578,855**	**$ 2,012,835**
SUPPLEMENTAL DATA:		
Cash and cash equivalents as shown in the *Statements of Financial Position*	$ 3,142,981	$ 1,631,568
Restricted cash and cash equivalents included in assets limited as to use	92	94,907
Restricted cash included in other assets	44,168	49,203
Cash and restricted cash included in investments	391,614	237,157
TOTAL CASH AND CASH EQUIVALENTS AS SHOWN ON THE CONSOLIDATED STATEMENTS OF CASH FLOWS	**$ 3,578,855**	**$ 2,012,835**
Interest paid, net of capitalized interest	$ 251,907	$ 200,064
Change in payables for plant facilities	$ (170,658)	$ (47,135)
Right-of-use assets obtained in exchange for lease liabilities	$ 447,016	$ —

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, a leading community acute care hospital, 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, 2016.

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 10*).

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 10*).

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 11*).

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 service cost, 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* primarily consist of U.S. Treasury bills, certificates of deposit, repurchase agreements, 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*). The University has elected the policy to treat cash equivalents held for investment as short-term investments, therefore, excluded from cash and cash equivalents on the *Consolidated Statements of Cash Flows.*

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, 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 7*) 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, 2020 and 2019 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, 2020 and 2019, approximately $574.3 million and $509.1 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 $909.6 million and $844.4 million at August 31, 2020 and 2019, respectively, and were recorded in specific investment categories. The assets held under split-interest agreements, where LPCH is the trustee, were $11.3 million and $11.4 million at August 31, 2020 and 2019, 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, 2020 and 2019, the University used discount rates of 0.4% and 2.2%, respectively, based on the Charitable Federal Midterm Rate. The LPCH discount rate used during the years ended August 31, 2020 and 2019 was 0.7% and 1.8%, 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 $32.9 million and $27.2 million as of August 31, 2020 and 2019 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 2020 and 2019, the discounted present value of new University gifts subject to split-interest agreements, net of any income beneficiary share, was $12.9 million and $16.9 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, 2020 and 2019, deferred rental income was $797.4 million and $704.3 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 $253.4 million and $196.8 million as of August 31, 2020 and 2019, 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, 2020 and 2019, Stanford has recognized a net repurchase obligation of $101.6 million and $86.5 million, respectively, to repurchase its interests in these residential units, net of home mortgage financing assistance provided by the University of $190.7 million and $167.4 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, 2020 and 2019, interest accretion was $8.7 million and $6.9 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, 2020 and 2019, SHC had asset retirement obligations of $104.1 million and $100.6 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 7*).

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 $28.6 million and $47.0 million for the years ended August 31, 2020 and 2019, 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:

	2020	2019
Student income:		
Undergraduate programs	$ 383,870	$ 383,776
Graduate programs	391,480	385,712
Room and board	164,874	205,422
Student financial aid	(330,052)	(322,057)
TOTAL STUDENT INCOME, NET	**$ 610,172**	**$ 652,853**

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, 2020 and 2019, 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 years ended August 31, 2020 and 2019 was $1.0 billion and $993.6 million, respectively.

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 years ended August 31, 2020 and 2019, the University recognized $122.5 million and $143.9 million in revenue from exchange contracts, respectively.

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 $484.8 million and $545.4 million was recognized for the years ended August 31, 2020 and 2019, respectively.

Deferred income of $179.8 million and $162.8 million was recorded at August 31, 2020 and 2019, respectively, for payments received from sponsors that have not been earned. During the years ended August 31, 2020 and 2019, $107.8 million and $114.3 million of revenue was recognized that was included in the prior year deferred income balance, respectively. In addition, as of August 31, 2020 and 2019, the University had been awarded $1.1 billion and $993.8 million, respectively, 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 12*). 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 12*).

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 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. For the year ended August 31, 2020, other income includes $203.6 million of CARES Act provider relief funds. Provider relief fund revenue was recognized based on information contained in laws and regulations, as well as interpretations issued by the Department of Health and Human Services (see *Note 19*).

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*.

Contributed nonfinancial assets

Accounting Standards Update (ASU) 2020-07, FASB Issue Date: September 2020, Effective Date: Fiscal Year 2022

The ASU provides enhanced presentation and disclosure requirements for contributed nonfinancial assets for not-for-profit entities including additional disclosure requirements for recognized contributed services. Contributed nonfinancial assets should be presented in a separate line item in the *Statement of Activities* apart from cash contributions. Additional disclosures are required about qualitative information, policy (if any) on monetizing rather than utilizing, donor-imposed restrictions and fair value measurement of contributed nonfinancial assets.

Reference rate reform

ASU 2020-04, FASB Issue Date: March 2020, Effective Date: All contracts as of March 12, 2020 through December 31, 2022

The ASU provides optional expedients for applying GAAP to contracts and other transactions that reference LIBOR or other reference rates that are expected to be discontinued because of reference rate reform. The amendments also permits an entity to consider contract modifications due to reference rate reform to be an event that does not require contract remeasurement.

Works of art and special collections

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.

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.

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.

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. The remaining guidance will be adopted in fiscal year 2021.

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) was early adopted in fiscal year 2019. The remaining guidance was adopted in fiscal year 2020 and did not have any impact on the *Consolidated Financial Statements*.

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 has been adopted in fiscal year 2020 and did 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 all cash, cash equivalents, and 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 has been adopted retrospectively in fiscal year 2020 and did 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. The new guidance has been adopted in fiscal year 2020 and did not have a material impact on the *Consolidated Financial Statements*.

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 *Consolidated Statements of Financial Position*. Stanford adopted this standard in fiscal year 2020 using the modified retrospective approach with no impact to the fiscal year 2019 *Consolidated Financial Statements.* Stanford elected the transition relief package of practical expedients to not reassess (i) whether any existing or expired contracts contain leases, (ii) lease classification for any existing or expired leases, and (iii) whether lease origination costs qualified as initial direct costs. Stanford also elected to not recognize on the *Consolidated Statements of Financial Position* leases with a term of less than one year. Stanford has lease agreements with lease and non-lease components for all real estate operating and finance leases and some of the equipment operating and finance leases. Stanford accounts for lease and non-lease components separately. The guidance also requires expanded disclosures (see *Note 17*).

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 9*).

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) is the primary investment pool for endowment and other long-term funds for the University and the Hospitals. Approximately 14% 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. The MP further maintains sufficient liquidity to distribute the monthly endowment payout in support of University operating expenditures, and to meet unfunded commitments associated with certain alternative investments. 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 (see *Note 6)*.

Financial assets and liquid resources available within one year of the balance sheet date at August 31, 2020 and 2019 in thousands of dollars, are as follows:

	UNIVERSITY	SHC	LPCH	CONSOLIDATED
2020				
Financial assets:				
Cash and cash equivalents	$ 1,153,303	$ 1,642,912	$ 346,766	$ 3,142,981
Assets limited as to use	—	—	—	—
Accounts receivable, net	219,349	654,342	513,297	1,386,988
Pledges receivable available for operations	108,345	—	10,733	119,078
Investments available for current use	852,839	709,260	610,407	2,172,506
Endowment payout in support of operations	1,270,000	—	—	1,270,000
Financial assets available to meet cash needs for general expenditure within one year	3,603,836	3,006,514	1,481,203	8,091,553
Liquid resources available for use:				
Taxable commercial paper	500,000	—	—	500,000
Tax-exempt commercial paper	250,000	—	—	250,000
Revolving credit facilities	389,700	200,000	170,000	759,700
TOTAL FINANCIAL ASSETS AND LIQUID RESOURCES AVAILABLE WITHIN ONE YEAR	**$ 4,743,536**	**$ 3,206,514**	**$ 1,651,203**	**$ 9,601,253**
2019				
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
TOTAL FINANCIAL ASSETS AND LIQUID RESOURCES AVAILABLE WITHIN ONE YEAR	**$ 4,186,355**	**$ 2,440,419**	**$ 1,464,610**	**$ 8,091,384**

3. Accounts Receivable

Accounts receivable, net of allowances for doubtful accounts, at August 31, 2020 and 2019, in thousands of dollars, are as follows:

	UNIVERSITY	SHC	LPCH	CONSOLIDATED
2020				
U.S. government sponsors	$ 111,300	$ —	$ —	$ 111,300
Non-federal sponsors and programs	65,184	18,803	23,265	107,252
Accrued interest on investments	13,564	—	—	13,564
Student	5,355	—	—	5,355
Patient and third-party payers	—	654,342	467,612	1,121,954
Other	40,910	119,990	22,420	183,320
	236,313	793,135	513,297	1,542,745
Less allowance for doubtful accounts	(2,669)	—	—	(2,669)
ACCOUNTS RECEIVABLE, NET	**$ 233,644**	**$ 793,135**	**$ 513,297**	**$ 1,540,076**
2019				
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	—	685,425	400,833	1,086,258
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)
ACCOUNTS RECEIVABLE, NET	**$ 249,783**	**$ 751,712**	**$ 427,956**	**$ 1,429,451**

4. Pledges Receivable

Pledges are recorded at discounted rates ranging from 0.7% to 5.7%. At August 31, 2020 and 2019, pledges receivable, net of discounts and allowances, in thousands of dollars, are as follows:

	UNIVERSITY	SHC	LPCH	ELIMINATIONS	CONSOLIDATED
2020					
One year or less	$ 286,750	$ 29,932	$ 40,841	$ (14,227)	$ 343,296
Between one year and five years	879,389	18,116	55,139	(29,316)	923,328
More than five years	338,056	4,687	25,658	(10,250)	358,151
	1,504,195	52,735	121,638	(53,793)	1,624,775
Less discounts and allowances	(134,778)	(5,339)	(12,192)	—	(152,309)
PLEDGES RECEIVABLE, NET	**$ 1,369,417**	**$ 47,396**	**$ 109,446**	**$ (53,793)**	**$ 1,472,466**
2019					
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)
PLEDGES RECEIVABLE, NET	**$ 1,321,657**	**$ 62,396**	**$ 144,393**	**$ (58,760)**	**$ 1,469,686**

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, 2020 and 2019, in thousands of dollars, are as follows:

	2020	2019
Institutional loans	$ 28,975	$ 29,074
Federally-sponsored loans	18,065	23,717
	47,040	52,791
Less allowance for student loan losses	(951)	(793)
STUDENT LOANS RECEIVABLE, NET	**$ 46,089**	**$ 51,998**

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, 2020, the University returned $16.4 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.

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 $812.8 million and $780.2 million at August 31, 2020 and 2019, 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, 2020 and 2019 amounts are net of $190.7 million and $167.4 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 2020 and 2019 are presented below. Investments held by Stanford at August 31, 2020 and 2019, in thousands of dollars, are as follows:

	UNIVERSITY	SHC	LPCH	ELIMINATIONS	CONSOLIDATED
2020					
Investment assets:					
Cash and short-term investments	$ 1,957,811	$ 62,164	$ 2,913	$ —	$ 2,022,888
Collateral held for securities loaned	454	—	—	—	454
Public equities	8,238,932	417,645	54,810	—	8,711,387
Derivatives	(63,415)	—	—	—	(63,415)
Fixed income	2,427,103	207,265	97,433	—	2,731,801
Real estate	8,559,129	—	7,899	—	8,567,028
Natural resources	1,345,084	—	7,184	—	1,352,268
Private equities	10,811,362	—	26,389	—	10,837,751
Absolute return	5,719,253	—	21,967	—	5,741,220
Assets held by other trustees	126,349	—	16,889	—	143,238
Other	874,321	8,454	1,845	—	884,620
Total	39,996,383	695,528	237,329	—	40,929,240
Hospitals' funds invested in the University's investment pools	(2,421,800)	1,604,319	810,090	7,391	—
INVESTMENTS AT FAIR VALUE	**$37,574,583**	**$ 2,299,847**	**$ 1,047,419**	**$ 7,391**	**$ 40,929,240**
Investment liabilities:					
Income beneficiary share of split interest agreements[1]	$ 610,409	$ —	$ —	$ —	$ 610,409
Net investment income excise tax	84,592	—	—	—	84,592
Securities lending[2]	454	—	—	—	454
Securities sold, not yet purchased	277,949	—	—	—	277,949
Accrued management fees	29,492	—	—	—	29,492
LIABILITIES ASSOCIATED WITH INVESTMENTS	**$ 1,002,896**	**$ —**	**$ —**	**$ —**	**$ 1,002,896**

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

[2] *Investments at fair value include $445 thousand of securities pledged or on loan.*

	UNIVERSITY	SHC	LPCH	ELIMINATIONS	CONSOLIDATED
2019					
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
Total	37,524,117	1,063,491	231,596	—	38,819,204
Hospitals' funds invested in the University's investment pools	(2,232,489)	1,472,256	752,917	7,316	—
INVESTMENTS AT FAIR VALUE	**$35,291,628**	**$ 2,535,747**	**$ 984,513**	**$ 7,316**	**$ 38,819,204**
Investment liabilities:					
Income beneficiary share of split interest agreements[1]	$ 560,283	$ —	$ —	$ —	$ 560,283
Net investment income excise tax	42,892	—	—	—	42,892
Securities lending[2]	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
LIABILITIES ASSOCIATED WITH INVESTMENTS	**$ 758,161**	**$ —**	**$ —**	**$ —**	**$ 758,161**

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

[2] *Investments at fair value include $19.3 million of securities pledged or on loan.*

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, 2020 and 2019, 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 original 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 7*).

Collateral held for securities loaned is generally received in the form of cash and cash equivalents and is reinvested for income in cash equivalent vehicles. These investments are recorded at 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 reported by the respective external investment managers using NAV, as a practical expedient, 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 may include swaps and forward currency contracts which are reflected at fair value by using quantitative models that utilize multiple market inputs. The market inputs are actively quoted and can be validated through external sources, including market transactions, brokers and third party pricing sources.

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.

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 - 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. The University has recorded current and deferred tax liabilities based on reasonable estimates.

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, 2020 and 2019 was $445 thousand and $19.3 million, respectively. The University received on loan publicly traded equities of $454 thousand and $19.9 million at August 31, 2020 and 2019, respectively.

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.

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 7*). In instances where quotations received from counterparties or valuation models are used, the value of an OTC derivative depends upon the contractual terms of the instrument as well as the availability and reliability of observable inputs. Such inputs include market prices for reference securities, yield curves, or credit curves.

Level 3 - Investments classified as Level 3 have significant unobservable inputs, as they trade infrequently or not at all. The inputs into the determination of fair value of these investments are based upon the best information 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, 2020 and 2019, in thousands of dollars:

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
2020				
Investment assets:				
Cash and short-term investments	$ 294,757	$ 1,721,489	$ —	$ 2,016,246
Collateral held for securities loaned	—	454	—	454
Public equities	1,921,948	4,499	—	1,926,447
Derivatives	—	(63,415)	—	(63,415)
Fixed income	540,219	2,191,582	—	2,731,801
Real estate	131,495	—	6,796,817	6,928,312
Natural resources	2,932	—	108,561	111,493
Private equities	28,590	—	539	29,129
Absolute return	912	—	22,293	23,205
Assets held by other trustees	—	—	143,238	143,238
Other	140,825	357	731,284	872,466
INVESTMENTS SUBJECT TO FAIR VALUE LEVELING	**$ 3,061,678**	**$ 3,854,966**	**$ 7,802,732**	**14,719,376**
Investments measured using Net Asset Value[1]				26,209,864
TOTAL CONSOLIDATED INVESTMENT ASSETS				**$ 40,929,240**
Investment liabilities:				
Income beneficiary share of split interest agreements	$ —	$ 610,409	$ —	$ 610,409
Net investment income excise tax	84,592	—	—	84,592
Securities lending	—	454	—	454
Securities sold, not yet purchased	277,949	—	—	277,949
Accrued management fees	29,492	—	—	29,492
LIABILITIES ASSOCIATED WITH INVESTMENTS	**$ 392,033**	**$ 610,863**	**$ —**	**$ 1,002,896**

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

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
2019				
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
INVESTMENTS SUBJECT TO FAIR VALUE LEVELING	**$ 4,681,843**	**$ 2,262,416**	**$ 7,790,129**	**14,734,388**
Investments measured using Net Asset Value[1]				24,084,816
TOTAL CONSOLIDATED INVESTMENT ASSETS				**$ 38,819,204**
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
LIABILITIES ASSOCIATED WITH INVESTMENTS	**$ 177,956**	**$ 580,205**	**$ —**	**$ 758,161**

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

SUMMARY OF LEVEL 3 INVESTMENT ACTIVITIES AND TRANSFERS

The following tables present the activities for Level 3 investments for the years ended August 31, 2020 and 2019, in thousands of dollars:

FAIR VALUE MEASUREMENTS USING SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)	BEGINNING BALANCE AS OF SEPTEMBER 1, 2019	PURCHASES AND ADDITIONS	SALES AND MATURITIES	NET REALIZED AND UNREALIZED GAINS (LOSSES)	TRANSFERS IN*	TRANSFERS OUT*	ENDING BALANCE AS OF AUGUST 31, 2020
Real estate	$ 6,748,672	$ 76,462	$ (14,443)	$ (13,874)	$ —	$ —	$ 6,796,817
Natural resources	141,240	594	(2,394)	(30,879)	—	—	108,561
Private equities	1,263	—	(206)	(518)	—	—	539
Absolute return	25,911	—	—	(3,618)	—	—	22,293
Assets held by other trustees	140,011	1,535	(1,613)	3,473	—	(168)	143,238
Other	733,032	54,084	(32,836)	(10,707)	—	(12,289)	731,284
TOTAL	**$ 7,790,129**	**$ 132,675**	**$ (51,492)**	**$ (56,123)**	**$ —**	**$ (12,457)**	**$ 7,802,732**

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
TOTAL	**$ 6,818,273**	**$ 153,244**	**$ (123,722)**	**$ 942,845**	**$ —**	**$ (511)**	**$ 7,790,129**

**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, 2020 and 2019, the change in unrealized gains (losses) for Level 3 investments still held at August 31, 2020 and 2019 was $1.2 million and $936.9 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, 2020 and 2019, 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[1]	VALUATION TECHNIQUE	SIGNIFICANT UNOBSERVABLE INPUTS	RANGE MIN	RANGE MAX	IMPACT TO VALUATION FROM AN INCREASE IN INPUT[2]
2020						
Real estate	$ 6,003,980	Discounted cash flow	Discount rate	4.0 %	20.0 %	Decrease
			Capitalization rate	5.5 %	9.0 %	Decrease
Assets held by other trustees	126,349	Net present value	Discount rate	0.4 %	0.4 %	Decrease
Other	678,484	Market comparables	Recent transactions	N/A	N/A	N/A
TOTAL AMOUNT WITH SIGNIFICANT UNOBSERVABLE INPUTS	**$6,808,813**					
2019						
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
TOTAL AMOUNT WITH SIGNIFICANT UNOBSERVABLE INPUTS	**$6,858,120**					

[1] $968.4 million and $932.0 million of Level 3 investments at August 31, 2020 and 2019, respectively, are valued using third-party valuations, other market comparables or recent transactions as an approximation of fair value.

[2] Unless otherwise noted, this column represents the directional change in the fair value of the Level 3 investments that would 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, 2020, in thousands of dollars:

ASSET CLASS	FAIR VALUE	UNFUNDED COMMITMENT	REMAINING LIFE (YEARS)	REDEMPTION TERMS
Public equities	$ 6,741,959	$ 80,346	0 to 5	Generally, lock-up provisions ranging from 0 to 3 years. After initial lock up expires, redemptions are available on a rolling basis and require 30 to 90 days prior notification.
Real estate	1,668,629	1,360,351	0 to 9	Not eligible for redemption
Natural resources	1,322,001	610,568	0 to 9	Not eligible for redemption
Private equities	10,782,719	4,138,734	0 to 20	Not eligible for redemption
Absolute return	5,719,253	737,820	0 to 3	Generally, lock-up provisions ranging from 0 to 3 years. After initial lock up expires, redemptions are available on a rolling basis and require 30 to 90 days prior notification.
TOTAL	**$26,234,561**	**$ 6,927,819**		

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 7*).

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, 2020 and 2019, in thousands of dollars:

	GROSS AMOUNTS OF ASSETS AND LIABILITIES	OFFSET AMOUNTS	NET AMOUNTS	COLLATERAL RECEIVED (PLEDGED)[2]	NET EXPOSURE
2020					
Assets:					
Derivatives[1]	$ 2,925	$ (66,340)	$ (63,415)	$ (63,415)	$ —
Repurchase agreements[3]	585,945	—	585,945	585,945	—
TOTAL	**588,870**	**(66,340)**	**522,530**	**522,530**	**—**
Liabilities:					
Derivatives[1]	66,340	(66,340)	—	—	—
Securities sold, not yet purchased	277,949	—	277,949	(277,949)	—
Securities lending	454	—	454	(454)	—
TOTAL	**$ 344,743**	**$ (66,340)**	**$ 278,403**	**$ (278,403)**	**$ —**
2019					
Assets:					
Derivatives[1]	$ 18,059	$ (675)	$ 17,384	$ 17,384	$ —
Repurchase agreements[3]	242,618	—	242,618	242,618	—
TOTAL	**260,677**	**(675)**	**260,002**	**260,002**	**—**
Liabilities:					
Derivatives[1]	675	(675)	—	—	—
Securities sold, not yet purchased	77,185	—	77,185	(77,185)	—
Securities lending	19,922	—	19,922	(19,922)	—
TOTAL	**$ 97,782**	**$ (675)**	**$ 97,107**	**$ (97,107)**	**$ —**

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

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

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

INVESTMENT RETURNS

Total investment returns for the years ended August 31, 2020 and 2019, in thousands of dollars, are as follows:

	UNIVERSITY	SHC	LPCH	CONSOLIDATED
2020				
Investment income	$ 265,902	$ 65,873	$ 3,244	$ 335,019
Net realized and unrealized gains	2,442,886	163,510	98,974	2,705,370
TOTAL INVESTMENT RETURNS, NET	**$ 2,708,788**	**$ 229,383**	**$ 102,218**	**$ 3,040,389**
Reconciliation to *Statements of Activities:*				
Total investment income distributed for operations	$ 1,642,193	$ 1,533	$ 17,390	$ 1,661,116
Increase in reinvested gains:				
Without donor restrictions	516,024	224,036	52,070	792,130
With donor restrictions	484,730	3,814	30,879	519,423
Change in value of split-interest agreements, net	14,414	—	1,879	16,293
Adjustments for actuarial re-evaluations and maturities of split-interest agreements	51,427	—	—	51,427
TOTAL INVESTMENT RETURNS, NET	**$ 2,708,788**	**$ 229,383**	**$ 102,218**	**$ 3,040,389**
2019				
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
TOTAL INVESTMENT RETURNS, NET	**$ 2,727,061**	**$ 156,120**	**$ 67,668**	**$ 2,950,849**
Reconciliation to *Statements of Activities:*				
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
TOTAL INVESTMENT RETURNS, NET	**$ 2,727,061**	**$ 156,120**	**$ 67,668**	**$ 2,950,849**

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 9*).

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, 2020, in thousands of dollars, is as follows:

	FUTURE MINIMUM RENTAL INCOME			
YEAR ENDING AUGUST 31	UNIVERSITY	SHC	LPCH	CONSOLIDATED
2021	$ 145,193	$ 7,219	$ 1,275	$ 153,687
2022	146,305	5,229	1,231	152,765
2023	143,532	2,485	592	146,609
2024	125,581	1,706	284	127,571
2025	119,284	590	24	119,898
Thereafter	2,396,787	9,004	—	2,405,791
TOTAL	**$ 3,076,682**	**$ 26,233**	**$ 3,406**	**$ 3,106,321**

7. 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, 2020 and 2019, and gains and losses for the years ended August 31, 2020 and 2019, in thousands of dollars:

	NOTIONAL AMOUNT[1]	GROSS DERIVATIVE ASSETS[2]	GROSS DERIVATIVE LIABILITIES[2]	REALIZED AND UNREALIZED LOSSES[3]
				YEAR ENDED
2020		AS OF AUGUST 31		AUGUST 31
Foreign exchange contracts	$ 11,432	$ 405	$ 13	$ (2,283)
Equity contracts[4]	635,463	2,520	66,327	(58,065)
TOTAL	**$ 646,895**	**$ 2,925**	**$ 66,340**	**$ (60,348)**
2019				
Foreign exchange contracts	$ 26,504	$ —	$ 675	$ (1,473)
Equity contracts[4]	439,942	18,059	—	(67,006)
TOTAL	**$ 466,446**	**$ 18,059**	**$ 675**	**$ (68,479)**

[1] *The notional amount is representative of the volume and activity of the respective derivative type during the years ended August 31, 2020 and 2019.*

[2] *Gross derivative assets less gross derivative liabilities of $(63.4) million and $17.4 million as of August 31, 2020 and 2019, respectively, are presented as "derivatives" on the investment table in Note 6.*

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

[4] *Included in equity contracts are fair value hedging derivatives with a fair value of $(59.2) million and $11.8 million as of August 31, 2020 and 2019, respectively. The realized and unrealized losses related to these equity contracts were $85.0 million and $71.3 million for the years ended August 31, 2020 and 2019, respectively.*

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, 2020, 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 9*). 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 $36.5 million and $28.6 million at August 31, 2020 and 2019, 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, 2020 and 2019 (see *Note 9*).

At August 31, 2020, SHC had interest rate exchange agreements expiring through November 2051 (see *Note 9*). 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, 2020 and 2019 of $52.3 million and $31.6 million, respectively.

The following table presents amounts for debt-related derivatives including the notional amount, the fair values at August 31, 2020 and 2019, and gains and losses for the years ended August 31, 2020 and 2019, in thousands of dollars:

	AS OF AUGUST 31, 2020		YEAR ENDED AUGUST 31, 2020	AS OF AUGUST 31, 2019		YEAR ENDED AUGUST 31, 2019
	NOTIONAL AMOUNT[1]	GROSS DERIVATIVE LIABILITIES[2]	UNREALIZED LOSSES[3]	NOTIONAL AMOUNT[1]	GROSS DERIVATIVE LIABILITIES[2]	UNREALIZED LOSSES[3]
Debt-related interest-rate contracts:						
University	$ 97,000	$ 53,815	$ (5,521)	$ 97,000	$ 48,294	$ (20,580)
SHC	574,700	353,292	(36,496)	574,925	316,796	(134,269)
TOTAL	**$ 671,700**	**$ 407,107**	**$ (42,017)**	**$ 671,925**	**$ 365,090**	**$ (154,849)**

[1] The notional amount is representative of the volume and activity of the respective derivative type during the years ended August 31, 2020 and 2019.

[2] Fair value is measured using Level 2 inputs as defined in Note 6. Amounts are included in the Statements of Financial Position in "accounts payable and accrued expenses" and discussed more fully in Note 9.

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

8. Plant Facilities

Plant facilities, net of accumulated depreciation, at August 31, 2020 and 2019, in thousands of dollars, are as follows:

	UNIVERSITY	SHC	LPCH	CONSOLIDATED
2020				
Land and improvements	$ 678,817	$ 76,495	$ 120,605	$ 875,917
Buildings and building improvements	9,135,323	3,799,636	1,924,900	14,859,859
Furniture, fixtures and equipment	2,056,812	1,546,599	469,868	4,073,279
Utilities	939,849	—	—	939,849
Construction in progress	476,690	293,180	27,558	797,428
	13,287,491	5,715,910	2,542,931	21,546,332
Less accumulated depreciation	(5,601,781)	(2,069,898)	(702,033)	(8,373,712)
PLANT FACILITIES, NET OF ACCUMULATED DEPRECIATION	**$ 7,685,710**	**$ 3,646,012**	**$ 1,840,898**	**$ 13,172,620**
2019				
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)
PLANT FACILITIES, NET OF ACCUMULATED DEPRECIATION	**$ 7,270,282**	**$ 3,691,015**	**$ 1,902,190**	**$ 12,863,487**

At August 31, 2020, $2.4 billion, $1.3 billion, and $232.5 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.

9. Notes and Bonds Payable

Notes and bonds payable for the University, SHC, and LPCH at August 31, 2020 and 2019, 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 * 2020/2019	OUTSTANDING PRINCIPAL 2020	2019
UNIVERSITY:				
Tax-exempt:				
CEFA Fixed Rate Revenue Bonds:				
Series S	2040	3.18%	$ 30,210	$ 30,210
Series T	2023-2039	3.66%-4.30%	188,900	188,900
Series U	2021-2046	1.75%-4.25%	1,167,205	1,167,205
Series V	2029-2049	1.83%-3.12%	441,830	441,830
CEFA Variable Rate Revenue Bonds and Notes:				
Series L	2023	0.07%/1.17%	36,208	36,208
Series S	2040-2051	0.47%-0.9%/1.32%-1.65%	141,200	141,200
Commercial Paper	2021	0.11%-0.21%	50,000	—
Taxable:				
Fixed Rate Notes and Bonds:				
Stanford University Bonds	2024	6.88%	150,000	150,000
Medium Term Note	2026	7.65%	50,000	50,000
Stanford University Series 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	121,000
Stanford University Series 2020	2027-2050	1.29%-2.41%	750,000	—
Other	2020-2031	Various	3,480	3,481
Revolving Credit Facilities	2021	0.43%/2.44%	35,320	55,570
University notes and bonds payable			4,608,703	3,828,954
Unamortized issuance costs, premiums, and discounts, net			394,849	418,381
UNIVERSITY TOTAL			**$ 5,003,552**	**$ 4,247,335**
SHC:				
CHFFA Fixed Rate Revenue Bonds:				
2008 Series A-1	2021	3.84%/3.83%	$ 675	$ 900
2008 Series A-2	2021-2022	3.76%/3.70%	1,450	1,775
2008 Series A-3	2021-2022	3.76%/3.69%	1,175	1,450
2010 Series A	2021	3.84%/3.82%	6,760	13,195
2012 Series A	2028-2051	3.98%	340,000	340,000
2012 Series B	2021-2023	2.48%/2.42%	21,795	28,770
2015 Series A	2052-2054	4.10%	100,000	100,000
2017 Series A	2022-2041	2.84%/2.82%	454,200	454,200
2020 Series A	2050	2.70%	170,120	—
2018 Series Taxable Bonds	2049	3.80%	500,000	500,000
2020 Series Taxable Bonds	2030	3.31%	300,000	—
CHFFA Variable Rate Revenue Bonds:				
2008 Series B	2042-2046	0.19%/1.16%	168,200	168,200
2012 Series C	2020	1.60%	—	60,000
2012 Series D	2021	0.67%/1.89%	100,000	100,000
2015 Series B	2024	0.65%/2.04%	75,000	75,000
SHC notes and bonds payable			2,239,375	1,843,490
Unamortized issuance costs, premiums, and discounts, net			101,533	91,924
SHC TOTAL			**$ 2,340,908**	**$ 1,935,414**
LPCH:				
CHFFA Fixed Rate Revenue Bonds:				
2012 Series A	2044-2051	4.32%	$ 200,000	$ 200,000
2012 Series B	2013-2027	2.91%/2.85%	31,765	34,615
2014 Series A	2025-2043	3.84%	100,000	100,000
2016 Series A	2016-2033	2.36%/2.30%	60,630	63,915
2016 Series B	2052-2055	3.34%	100,000	100,000
2017 Series A	2018-2056	3.06%/3.04%	195,815	197,925
CHFFA Variable Rate Revenue Bonds:				
2014 Series B	2034-2043	0.50%/1.89%	100,000	100,000
Revolving Credit Facilities	2022	0.56%/2.57%	30,000	30,000
LPCH notes and bonds payable			818,210	826,455
Unamortized issuance costs, premiums, and discounts, net			63,001	65,640
LPCH TOTAL			**$ 881,211**	**$ 892,095**
CONSOLIDATED TOTAL			**$ 8,225,671**	**$ 7,074,844**

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

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 May 2020 by S&P Global Ratings, Moody's Investors Service, and Fitch Ratings, respectively. In March 2020, SHC's long-term ratings were affirmed by S&P Global Ratings, Moody's Investors Service, and Fitch Ratings at AA-/Aa3/AA, respectively. LPCH's long-term ratings of A+/A1/AA- were affirmed by S&P Global Ratings and Moody's Investors Service in November 2019 and by Fitch Ratings in October 2020, 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 June 2020, the University issued taxable fixed rate bonds (Series 2020 A) in the amount of $750.0 million. The series was comprised of $300.0 million maturing on June 1, 2027 and $450.0 million maturing on June 1, 2050 and bear interest yields of 1.23% and 2.41%, respectively. Proceeds from the taxable Series 2020 A are to be used for general University purposes.

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 November 2018, the University called and prepaid $137.8 million 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 $35.3 million and $55.6 million at August 31, 2020 and 2019, respectively.

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, 2020 and 2019. Tax-exempt commercial paper of $50.0 million and $0 was outstanding at August 31, 2020 and 2019, 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, 2020. 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 facility was raised to $75.0 million and in June 2020, the University decreased the facility to $65.0 million. At August 31, 2020, irrevocable standby letters of credit of $52.2 million were outstanding in the following amounts and for the following respective purposes: (1) $15.0 million to support collateral requirements under certain interest rate exchange agreements discussed in *Note 7*; (2) $32.7 million to serve as security for workers' compensation deductible insurance arrangements; and (3) $4.5 million for other purposes. No amounts have been drawn on these letters of credit at August 31, 2020.

SHC

Debt issuances and repayment activity

In May 2020, at SHC's request and subsequent to the end of the original index floating rate period, US Bank extended its ownership of the $100.0 million 2012 Series D Bonds at a new index floating rate period.

In May 2020, SHC extended its $200.0 million revolving line of credit facility until May 2021. In November 2020, SHC extended its revolving line of credit facility to November 2021 and reduced its size to $150.0 million. Drawdowns from the revolving credit facility bear interest at a floating rate equal to the applicable LIBOR plus a specified spread. No amounts were outstanding as of August 31, 2020 or August 31, 2019.

In April 2020, CHFFA, on behalf of SHC, issued fixed rate revenue bonds (2020 Series A) in the aggregate principal amount of $170.1 million plus an original issue premium of $19.9 million. Proceeds of the 2020 Series A Bonds were used to finance certain costs of the New Stanford Hospital project and refund the 2012 Series C variable rate revenue bonds.

In April 2020, SHC issued 2020 taxable fixed rate bonds in the amount of $300.0 million. The bonds bear interest at a coupon rate of 3.31% and mature on August 15, 2030. Proceeds are available for general corporate purposes.

Variable rate debt subject to remarketing or tender

At August 31, 2020, SHC had $343.2 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 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, 2021 and June 28, 2024, respectively.

In the event SHC receives notice of any optional tender of the 2008 Series B-1 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, 2020, SHC had irrevocable standby letters of credit in the aggregate amount of $22.6 million posted with certain beneficiaries in the following amounts and for the following respective purposes: (i) $20.4 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. No amounts have been drawn on these letters of credit at August 31, 2020 and 2019.

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 both August 31, 2020 and 2019.

Letters of credit

At August 31, 2020, LPCH had irrevocable standby letters of credit in the aggregate amount of $8.7 million posted with certain beneficiaries in the following amounts and for the following respective purposes: (i) $7.3 million to serve as security for the workers' compensation self-insurance arrangement, and (ii) $1.4 million to serve as security deposits for construction, operation and maintenance of certain utility facilities. No amounts have been drawn on these letters of credit at August 31, 2020 and 2019.

INTEREST

Stanford's interest expense, which includes settlements under the interest rate exchange agreements, amortized bond issuance costs and amortized bond premium or discount is recorded in "other operating expenses". Interest expense for the years ended August 31, 2020 and 2019 , in thousands of dollars, is as follows:

	UNIVERSITY	SHC	LPCH	CONSOLIDATED
2020				
Interest expense, gross	$ 148,563	$ 69,255	$ 33,394	$ 251,212
Less:				
Interest income earned on unspent proceeds	(2,031)	—	—	(2,031)
Interest capitalized as a cost of construction	(24,190)	(4,710)	—	(28,900)
Interest expense which is classified as an investment expense	(5,916)	—	—	(5,916)
INTEREST EXPENSE, NET	**$ 116,426**	**$ 64,545**	**$ 33,394**	**$ 214,365**
2019				
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 which is classified as an investment expense	(8,474)	—	—	(8,474)
INTEREST EXPENSE, NET	**$ 95,937**	**$ 39,060**	**$ 34,083**	**$ 169,080**

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 $2.8 million and $2.0 million for the years ended August 31, 2020 and 2019, respectively. SHC net payments on interest rate exchange agreements were $16.8 million and $12.6 million for the years ended August 31, 2020 and 2019, respectively.

PRINCIPAL PAYMENTS

At August 31, 2020, scheduled principal payments on notes, bonds and capital lease obligations, in thousands of dollars, are as follows:

	PRINCIPAL PAYMENTS			
YEAR ENDING AUGUST 31	UNIVERSITY	SHC	LPCH	CONSOLIDATED
2021 Commercial paper	$ 50,000	$ —	$ —	$ 50,000
2021 Variable debt subject to remarketing	177,408	168,200	—	345,608
2021 Other	162,435	116,045	38,635	317,115
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
2025	—	17,615	10,405	28,020
Thereafter	4,017,095	1,816,470	740,655	6,574,220
TOTAL	**$4,608,703**	**$2,239,375**	**$ 818,210**	**$ 7,666,288**

10. Net Assets

Net assets without donor restrictions include Board-designated funds functioning as endowment *(see Note 11)*, 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 11*). 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, 2020 and 2019, in thousands of dollars, are as follows:

	UNIVERSITY	SHC	LPCH	ELIMINATIONS	CONSOLIDATED
2020					
NET ASSETS WITHOUT DONOR RESTRICTIONS					
Board designated endowment - Funds functioning as endowment	$ 13,707,220	$ —	$ —	$ —	$ 13,707,220
Net investment in plant facilities and other plant funds	4,635,526	2,090,908	989,687	—	7,716,121
Operating funds	4,342,548	2,102,997	1,139,048	(101,159)	7,483,434
Total net assets without donor restrictions	22,685,294	4,193,905	2,128,735	(101,159)	28,906,775
NET ASSETS WITH DONOR RESTRICTIONS					
Subject to expenditure for specified purpose:					
Gifts with undecided purpose restrictions	522,996	—	—	—	522,996
Plant facilities	69,902	5,364	45,197	—	120,463
Total	592,898	5,364	45,197	—	643,459
Subject to passage of time:					
Pledges receivable	677,316	47,396	54,949	—	779,661
Other funds	280,489	49,534	38,501	—	368,524
Total	957,805	96,930	93,450	—	1,148,185
Subject to University's spending policy:					
Accumulated appreciation	7,674,107	16,616	121,883	—	7,812,606
Subject to restrictions in perpetuity:					
Endowment funds	7,435,236	14,633	248,855	—	7,698,724
Pledges receivable	692,101	—	3,068	—	695,169
Other funds	267,941	—	—	—	267,941
Total	8,395,278	14,633	251,923	—	8,661,834
Total net assets with donor restrictions	17,620,088	133,543	512,453	—	18,266,084
TOTAL NET ASSETS	**$40,305,382**	**$4,327,448**	**$2,641,188**	**$ (101,159)**	**$ 47,172,859**

	UNIVERSITY	SHC	LPCH	ELIMINATIONS	CONSOLIDATED
2019					
NET ASSETS WITHOUT DONOR RESTRICTIONS					
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
Total net assets without donor restrictions	21,653,055	3,545,875	1,947,073	(80,312)	27,065,691
NET ASSETS WITH DONOR RESTRICTIONS					
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
Total	665,594	543,577	136,269	—	1,345,440
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
Total	856,128	108,843	116,098	—	1,081,069
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
Total	8,039,814	9,431	234,509	—	8,283,754
Total net assets with donor restrictions	16,847,584	676,773	598,918	—	18,123,275
TOTAL NET ASSETS	**$38,500,639**	**$4,222,648**	**$2,545,991**	**$ (80,312)**	**$ 45,188,966**

11. Endowments

The University classifies a substantial portion of its financial resources as endowment, which is invested to generate income to support operating and strategic initiatives. The endowment, which includes endowed lands, is comprised of pure endowment funds, term endowment funds, and funds functioning as endowment (FFE). Depending on the nature of the donor's stipulation, these resources are recorded as 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 $2.8 million and $487.4 thousand at August 31, 2020 and 2019, respectively.

Endowment funds by net asset classification at August 31, 2020 and 2019, in thousands of dollars, are as follows:

	2020	2019
University endowment		
Endowment funds without donor restrictions:		
Funds functioning as endowment	$ 13,707,220	$ 13,240,533
Endowment funds with donor restrictions:		
Original donor-restricted gift amount and gains maintained in perpetuity	7,435,236	7,058,573
Term endowment and related gains	196,583	176,955
Additional accumulated gains available for expenditure, subject to spending policy	7,609,072	7,223,773
Total endowment funds with donor restrictions	15,240,891	14,459,301
University endowment	28,948,111	27,699,834
SHC endowment funds with donor restrictions	31,249	24,353
LPCH endowment funds with donor restrictions	390,056	362,229
TOTAL ENDOWMENT FUNDS	**$ 29,369,416**	**$ 28,086,416**

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, 2020 and 2019, in thousands of dollars, are as follows:

	NET ASSETS WITHOUT DONOR RESTRICTIONS	NET ASSETS WITH DONOR RESTRICTIONS	TOTAL
2020			
Endowment, beginning of year	$ 13,240,533	$ 14,459,301	$ 27,699,834
Total investment returns, net	874,236	1,237,640	2,111,876
Amounts distributed for operations	(534,497)	(820,561)	(1,355,058)
Gifts, transfers and other changes in endowment:			
Current year gifts and pledge payments	2,017	251,665	253,682
Transfers of prior year gifts	3,331	82,391	85,722
EFP funds added to the endowment	148,692	—	148,692
Other funds added to (withdrawn from) the endowment, net	(27,092)	30,455	3,363
Total gifts, transfers and other changes in endowment	126,948	364,511	491,459
Total net increase in endowment	466,687	781,590	1,248,277
ENDOWMENT, END OF YEAR	**$ 13,707,220**	**$ 15,240,891**	**$28,948,111**
2019			
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
ENDOWMENT, END OF YEAR	**$ 13,240,533**	**$ 14,459,301**	**$27,699,834**

Approximately 17% 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.

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 2020 and 2019.

SHC

All of SHC's endowment is with donor restrictions. Changes in SHC's endowment, excluding pledges, for the years ended August 31, 2020 and 2019, in thousands of dollars, are as follows:

	2020	2019
Endowment, beginning of year	$ 24,353	$ 22,215
Total investment returns, net	2,213	1,301
Amounts distributed for operations	(519)	(361)
Gifts and pledge payments	5,202	1,198
Total net increase in endowment	6,896	2,138
ENDOWMENT, END OF YEAR	**$ 31,249**	**$ 24,353**

LPCH

All of LPCH's endowment is with donor restrictions. Changes in LPCH's endowment, excluding pledges, for the years ended August 31, 2020 and 2019, in thousands of dollars, are as follows:

	2020	2019
Endowment, beginning of year	$ 362,229	$ 353,374
Total investment returns, net	30,789	18,944
Amounts distributed for operations	(17,390)	(15,774)
Gifts and pledge payments	15,159	7,252
Other	(731)	(1,567)
Total net increase in endowment	27,827	8,855
ENDOWMENT, END OF YEAR	**$ 390,056**	**$ 362,229**

12. 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, 2018 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.

Premium Revenue

SHC has capitated agreements with various HMOs to provide medical services to enrollees. Under these agreements, monthly payments are received based on the number of health plan enrollees. Additionally, SHC receives premium revenue from the Centers for Medicare & Medicaid Services ("CMS") to provide Medicare services to members. Premium revenue is recognized in the month in which the member is eligible for Medicare services as "health care services" in the *Consolidated Statements of Activities*. Costs are accrued when services are rendered under these contracts, including cost estimates of incurred but not reported ("IBNR") claims. The IBNR accrual (which is included in "accounts payable and accrued expenses") includes an estimate of the costs of services for which SHC is responsible, including referrals to outside healthcare providers.

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
2020					
Patient care revenue, net:					
Medicare	$ —	$ 921,709	$ 5,399	$ —	$ 927,108
Medi-Cal	—	108,751	375,499	—	484,250
Managed care	—	3,957,801	1,362,432	—	5,320,233
Self pay and other	—	114,470	140,532	—	255,002
Physician services and support (see *Note 1*)	1,235,774	38,207	—	(1,273,981)	—
Total patient care revenue, net	1,235,774	5,140,938	1,883,862	(1,273,981)	6,986,593
Premium revenue	—	116,971	—	—	116,971
Other services and support	42,872	—	—	(9,848)	33,024
HEALTH CARE SERVICES REVENUE, NET	**$1,278,646**	**$5,257,909**	**$1,883,862**	**$ (1,283,829)**	**$ 7,136,588**
2019					
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
HEALTH CARE SERVICES REVENUE, NET	**$1,210,221**	**$5,219,182**	**$1,837,761**	**$ (1,216,492)**	**$ 7,050,672**

For the years ended August 31, 2020 and 2019, SHC recognized net health care services revenue adjustments of $10.8 million and $20.3 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, 2020 and 2019.

Charity Care and Community Benefits
SHC and LPCH provide charity care, free of charge, to vulnerable populations. SHC's estimated cost of providing charity care was $23.4 million and $24.0 million, and LPCH's estimated cost of providing charity care was $1.2 million and $2.7 million for the years ended August 31, 2020 and 2019, 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 $825 thousand and $410 thousand during the years ended August 31, 2020 and 2019, 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, 2020 and 2019 were $1.4 billion and $1.1 billion for SHC, and $259.5 million and $296.2 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 July 1, 2017 to June 30, 2019, and July 1, 2019 to December 31, 2021, have not yet been approved by the Centers for Medicare and Medicaid Services (CMS). Accordingly, any potential activity under unapproved programs related to July 1, 2017 through August 31, 2020 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 $53.5 million and $31.6 million in deferred revenue as of August 31, 2020 and 2019, respectively. LPCH recorded $57.2 million and $23.3 million in deferred revenue as of August 31, 2020 and 2019, respectively.

Provider fee revenue is recorded in "health care services" while provider fee expense is recorded in "other operating expenses" in the *Consolidated Statements of Activities*. Provider fee revenue, net of expense, under the approved portions of the programs for the years ended August 31, in thousands of dollars, is as follows:

	SHC	LPCH	CONSOLIDATED
2020			
Revenue	$ 66,459	$ 80,604	$ 147,063
Expense	(54,914)	(23,845)	(78,759)
TOTAL	**$ 11,545**	**$ 56,759**	**$ 68,304**
2019			
Revenue	$ 93,880	$ 141,585	$ 235,465
Expense	(39,544)	(33,319)	(72,863)
TOTAL	**$ 54,336**	**$ 108,266**	**$ 162,602**

13. Gifts and Pledges

Gifts and pledges reported for financial statement purposes are recorded on the accrual basis. The Office of Development (OOD), which is the primary fundraising agent for the University and SHC, reports total gifts based on contributions received in cash or property during the fiscal year. Lucile Packard Foundation for Children's Health (LPFCH) is the primary community fundraising agent for LPCH and the pediatric faculty and programs at the University's SOM. The following summarizes gifts and pledges reported for the years ended August 31, 2020 and 2019, per the *Consolidated Statements of Activities*, in thousands of dollars:

	UNIVERSITY	SHC	LPCH	CONSOLIDATED
2020				
Current year gifts in support of operations	$ 289,908	$ 1,703	$ 4,115	$ 295,726
Donor advised funds, net	61,723	—	—	61,723
Current year gifts not included in operations	2,026	—	—	2,026
Gifts and pledges, net - with donor restrictions	684,985	22,084	32,172	739,241
TOTAL	**$1,038,642**	**$ 23,787**	**$ 36,287**	**$ 1,098,716**
2019				
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
TOTAL	**$ 788,840**	**$ 31,323**	**$ 38,438**	**$ 858,601**

14. 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** includes teaching and internally funded research expenses.
- **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 expenses are allocated to the functional categories directly or based on the square footage occupancy. Salaries and benefits expenses are allocated to functional categories directly based on time and effort incurred.

Expenses by functional and natural classification for the years ended August 31, 2020 and 2019 , in thousands of dollars, are as follows:

	SALARIES AND BENEFITS	DEPRECIATION	OTHER OPERATING EXPENSES	TOTAL OPERATING EXPENSES
2020				
UNIVERSITY				
Instruction and departmental research	$ 1,468,928	$ 127,916	$ 506,658	$ 2,103,502
Organized research - direct costs	767,919	75,912	457,741	1,301,572
Health care services	842,633	3,342	18,066	864,041
Auxiliary activities	153,498	92,752	252,046	498,296
Administration and general	322,616	56,279	173,809	552,704
Student services	190,326	6,527	132,373	329,226
Libraries	70,592	70,102	53,688	194,382
Development	87,637	4,364	14,569	106,570
SLAC construction	57,991	—	57,641	115,632
TOTAL EXPENSES	**3,962,140**	**437,194**	**1,666,591**	**6,065,925**
SHC				
Health care services	2,312,459	236,553	2,525,025	5,074,037
Administration and general	234,959	18,526	204,940	458,425
Development	841	—	13,229	14,070
TOTAL EXPENSES	**2,548,259**	**255,079**	**2,743,194**	**5,546,532**
LPCH				
Health care services	826,294	111,493	881,231	1,819,018
Administration and general	95,246	8,953	74,618	178,817
Development	13,790	684	7,150	21,624
TOTAL EXPENSES	**935,330**	**121,130**	**962,999**	**2,019,459**
ELIMINATIONS				
Health care services	—	—	(1,220,589)	(1,220,589)
Administration and general	—	—	(50,797)	(50,797)
Development	—	—	(12,443)	(12,443)
TOTAL ELIMINATIONS	**—**	**—**	**(1,283,829)**	**(1,283,829)**
CONSOLIDATED				
Instruction and departmental research	1,468,928	127,916	506,658	2,103,502
Organized research - direct costs	767,919	75,912	457,741	1,301,572
Health care services	3,981,386	351,388	2,203,733	6,536,507
Auxiliary activities	153,498	92,752	252,046	498,296
Administration and general	652,821	83,758	402,570	1,139,149
Student services	190,326	6,527	132,373	329,226
Libraries	70,592	70,102	53,688	194,382
Development	102,268	5,048	22,505	129,821
SLAC construction	57,991	—	57,641	115,632
TOTAL EXPENSES	**$ 7,445,729**	**$ 813,403**	**$ 4,088,955**	**$12,348,087**

	SALARIES AND BENEFITS	DEPRECIATION	OTHER OPERATING EXPENSES	TOTAL EXPENSES
2019				
UNIVERSITY				
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
TOTAL EXPENSES	**3,768,195**	**398,054**	**1,801,818**	**5,968,067**
SHC				
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
TOTAL EXPENSES	**2,302,399**	**190,136**	**2,514,180**	**5,006,715**
LPCH				
Health care services	726,588	103,686	865,620	1,695,894
Administration and general	83,641	9,286	73,898	166,825
Development	11,587	1	6,887	18,475
TOTAL EXPENSES	**821,816**	**112,973**	**946,405**	**1,881,194**
ELIMINATIONS				
Health care services	—	—	(1,159,890)	(1,159,890)
Administration and general	—	—	(43,865)	(43,865)
Development	—	—	(12,737)	(12,737)
TOTAL ELIMINATIONS	**—**	**—**	**(1,216,492)**	**(1,216,492)**
CONSOLIDATED				
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	2,002,664	5,868,552
Auxiliary activities	162,403	93,242	256,256	511,901
Administration and general	600,917	74,076	411,364	1,086,357
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
TOTAL EXPENSES	**$ 6,892,410**	**$ 701,163**	**$ 4,045,911**	**$11,639,484**

15. University Retirement Plans

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

DEFINED CONTRIBUTION PLAN

The University offers a defined contribution plan to eligible faculty and staff through the *Stanford Contributory Retirement Plan* (SCRP). Employer contributions are based on a percentage of participant annual compensation, participant contributions and years of service. University and participant contributions are primarily invested in annuities and mutual funds. University contributions under the SCRP, which are vested immediately to participants, were approximately $191.1 million and $179.3 million for the years ended August 31, 2020 and 2019, 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.

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, 2020 and 2019, 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
2020				
Fair value of plan assets, beginning of year	$ 267,977	$ —	$ 258,016	$ 525,993
Change in plan assets:				
Actual return on plan assets	33,460	—	42,155	75,615
Employer contributions	1,483	9,057	11,611	22,151
Plan participants' contributions	—	—	14,480	14,480
Benefits and plan expenses paid	(20,053)	(9,057)	(35,136) *	(64,246)
FAIR VALUE OF PLAN ASSETS, END OF YEAR	**282,867**	**—**	**291,126**	**573,993**
Benefit obligation, beginning of year	319,422	204,185	682,139	1,205,746
Change in projected benefit obligation:				
Service cost	1,505	12,132	22,999	36,636
Interest cost	8,450	5,562	20,550	34,562
Plan participants' contributions	—	—	14,480	14,480
Plan amendments	1,256	—	—	1,256
Actuarial loss (gain)	7,501	(21,131)	(42,860)	(56,490)
Benefits and plan expenses paid	(20,053)	(9,057)	(35,136) *	(64,246)
BENEFIT OBLIGATION, END OF YEAR	**318,081**	**191,691**	**662,172**	**1,171,944**
NET LIABILITY RECOGNIZED IN THE *STATEMENTS OF FINANCIAL POSITION*	**$ (35,214)**	**$(191,691)**	**$(371,046)**	**$ (597,951)**

** Net of Medicare subsidy of $2.0 million*

	SRAP	FRIP	PRBP	TOTAL
2019				
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)
FAIR VALUE OF PLAN ASSETS, END OF YEAR	**267,977**	**—**	**258,016**	**525,993**
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)
BENEFIT OBLIGATION, END OF YEAR	**319,422**	**204,185**	**682,139**	**1,205,746**
NET LIABILITY RECOGNIZED IN THE *STATEMENTS OF FINANCIAL POSITION*	**$ (51,445)**	**$(204,185)**	**$(424,123)**	**$ (679,753)**

** Net of Medicare subsidy of $1.5 million*

The accumulated benefit obligation for the SRAP was $317.2 million and $318.5 million at August 31, 2020 and 2019, respectively.

Net periodic benefit expense and non-operating activities related to the Plans for the years ended August 31, 2020 and 2019, in thousands of dollars, includes the following components:

	SRAP	FRIP	PRBP	TOTAL
2020				
Service cost	$ 1,505	$ 12,132	$ 22,999	$ 36,636
PERIODIC BENEFIT EXPENSE	**1,505**	**12,132**	**22,999**	**36,636**
Non-operating:				
Interest cost	8,450	5,562	20,550	34,562
Expected return on plan assets	(12,678)	—	(16,771)	(29,449)
Amortization of:				
Prior service cost	606	—	373	979
Actuarial loss	1,239	1,022	4,425	6,686
Non-operating periodic benefit cost	(2,383)	6,584	8,577	12,778
NET PERIODIC BENEFIT COST[1]	**(878)**	**18,716**	**31,576**	**49,414**
Non-operating periodic benefit cost	(2,383)	6,584	8,577	12,778
New prior service cost	1,256	—	—	1,256
Net actuarial gain	(13,281)	(21,131)	(68,244)	(102,656)
Amortization of:				
Prior service cost	(606)	—	(373)	(979)
Actuarial loss	(1,239)	(1,022)	(4,425)	(6,686)
TOTAL AMOUNTS RECOGNIZED IN NON-OPERATING ACTIVITIES	**$ (16,253)**	**$ (15,569)**	**$ (64,465)**	**$ (96,287)**
2019				
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
NET PERIODIC BENEFIT EXPENSE	**2,004**	**16,530**	**22,842**	**41,376**
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)
TOTAL AMOUNTS RECOGNIZED IN NON-OPERATING ACTIVITIES	**16,114**	**21,253**	**107,824**	**145,191**
TOTAL AMOUNT RECOGNIZED IN NET PERIODIC BENEFIT EXPENSE AND NON-OPERATING ACTIVITIES	**$ 18,118**	**$ 37,783**	**$ 130,666**	**$ 186,567**

[1]The components of net periodic benefit cost other than service cost are included in "pension and other postemployment benefit related changes other than service cost" in the Statement of Activities.

Cumulative amounts recognized in non-operating activities, but not yet recognized in net periodic benefit cost in the *Consolidated Statements of Activities*, are presented in the following table for the years ended August 31, 2020 and 2019, in thousands of dollars:

	SRAP	FRIP	PRBP	TOTAL
2020				
Prior service cost	$ 4,680	$ —	$ 2,873	$ 7,553
Net actuarial loss	46,607	15,874	54,311	116,792
ACCUMULATED PLAN BENEFIT COSTS NOT YET RECOGNIZED IN NET PERIODIC BENEFIT COST	**$ 51,287**	**$ 15,874**	**$ 57,184**	**$ 124,345**
2019				
Prior service cost	$ 4,030	$ —	$ 3,246	$ 7,276
Net actuarial loss	61,127	38,027	126,980	226,134
ACCUMULATED PLAN BENEFIT COSTS NOT YET RECOGNIZED IN NET PERIODIC BENEFIT COST	**$ 65,157**	**$ 38,027**	**$ 130,226**	**$ 233,410**

The prior service costs and net actuarial loss expected to be amortized from non-operating activities to net periodic benefit cost in fiscal year 2021, in thousands of dollars, are as follows:

	SRAP	FRIP	PRBP	TOTAL
Prior service cost	$ 850	$ —	$ 373	$ 1,223
Net actuarial loss	$ 654	$ —	$ —	$ 654

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	
	2020	2019	2020	2019	2020	2019
BENEFIT OBLIGATIONS						
Discount rate	2.18%	2.78%	2.26%	2.82%	2.59%	3.06%
Covered payroll growth rate	3.00%	3.00%	4.79%	4.25%	N/A	N/A
NET PERIODIC BENEFIT COST						
Discount rate	2.78%	4.00%	2.82%	4.02%	3.06%	4.16%
Expected returns on plan assets	5.00%	5.00%	N/A	N/A	6.50%	6.50%
Covered payroll growth rate	3.00%	3.00%	4.25%	4.26%	N/A	N/A

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

To determine the accumulated PRBP obligation at August 31, 2020, a 6.00% annual rate of increase in the per capita cost of covered health care was assumed for calendar year 2020, 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	$ 11,128	$ (8,325)
Effect on accumulated PRBP obligation	$ 125,496	$ (98,311)

EXPECTED CONTRIBUTIONS

The University expects to contribute $13.3 million to the FRIP and does not expect to contribute to the SRAP or PRBP during the fiscal year ending August 31, 2021.

EXPECTED BENEFIT PAYMENTS

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

			PRBP	
YEAR ENDING AUGUST 31	SRAP	FRIP	EXCLUDING MEDICARE SUBSIDY	EXPECTED MEDICARE PART D SUBSIDY
2021	$ 29,317	$ 13,309	$ 23,379	$ 2,243
2022	22,902	14,520	24,483	2,387
2023	22,363	11,512	25,614	2,528
2024	20,590	10,507	26,793	2,665
2025	19,650	10,417	28,021	2,801
2026 - 2030	87,862	57,924	159,055	16,286

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, 2020, 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, 2020 and 2019, 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, 2020 and 2019 and actual allocations and weighted-average target allocations at August 31, 2020 are as follows:

	2020	2019	2020 ACTUAL ALLOCATION	2020 TARGET ALLOCATION
SRAP:				
Cash and cash equivalents	$ 1,940	$ 1,144	1%	0%
Public equities	118,761	100,872	42%	41%
Fixed income	162,144	165,902	57%	59%
Private equities	22	59	<1%	0%
TOTAL	**282,867**	**267,977**	**100%**	**100%**
PRBP:				
Public equities	220,145	194,243	76%	75%
Fixed income	70,981	63,773	24%	25%
TOTAL	**291,126**	**258,016**	**100%**	**100%**
TOTAL PLAN ASSETS AT FAIR VALUE	**$ 573,993**	**$ 525,993**		

16. SHC and LPCH Retirement Plans

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

DEFINED CONTRIBUTION PLAN

The Hospitals offer a defined contribution plan to eligible employees. Employer contributions to the defined contribution retirement plan are based on a percentage of participant annual compensation, participant contributions and years of service. SHC and LPCH contributions under the plan, which are vested immediately to participants, were approximately $124.2 million and $112.1 million, and $51.4 million and $44.3 million for the years ended August 31, 2020 and 2019, 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.

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
2020			
Fair value of plan assets, beginning of year	$ 193,642	$ —	$ 6,872
Change in plan assets:			
Actual return on plan assets	26,157	—	1,009
Employer contributions	1,917	4,430	1,109
Plan participants' contributions	—	1,284	—
Benefits and plan expenses paid	(10,964)	(5,714) *	(671)
FAIR VALUE OF PLAN ASSETS, END OF YEAR	**210,752**	**—**	**8,319**
Benefit obligation, beginning of year	210,690	101,093	8,291
Change in projected benefit obligation:			
Service cost	1,546	3,829	—
Interest cost	5,907	2,704	222
Plan participants' contributions	—	1,284	—
Actuarial loss	12,228	4,868	538
Benefits and plan expenses paid	(10,964)	(5,714) *	(671)
Plan amendments	—	5,148	—
BENEFIT OBLIGATION, END OF YEAR	**219,407**	**113,212**	**8,380**
NET LIABILITY RECOGNIZED IN THE *STATEMENTS OF FINANCIAL POSITION*	**$ (8,655)**	**$ (113,212)**	**$ (61)**
** Net of Medicare subsidy of $125 thousand*			
2019			
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)
FAIR VALUE OF PLAN ASSETS, END OF YEAR	**193,642**	**—**	**6,872**
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 gain	25,224	9,652	882
Benefits and plan expenses paid	(10,727)	(6,357) *	(440)
Plan amendments	—	13,767	—
Plan settlements	—	—	(408)
BENEFIT OBLIGATION, END OF YEAR	**210,690**	**101,093**	**8,291**
NET LIABILITY RECOGNIZED IN THE *STATEMENTS OF FINANCIAL POSITION*	**$ (17,048)**	**$ (101,093)**	**$ (1,419)**
** Net of Medicare subsidy of $0*			

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, 2020 and 2019, in thousands of dollars:

	2020	2019
SHC	$ 84,772	$ 76,491
LPCH	28,440	24,602
TOTAL	**$ 113,212**	**$ 101,093**

The accumulated benefit obligation for the Pension Plan and LPCH Frozen Pension Plan was $217.6 million and $208.9 million, and $8.4 million and $8.3 million at August 31, 2020 and 2019, respectively.

Net periodic benefit cost and non-operating activities related to the Plans for the years ended August 31, 2020 and 2019, in thousands of dollars, includes the following components:

	STAFF PENSION PLAN	PRMB	LPCH FROZEN PENSION PLAN
2020			
Service cost	$ 1,546	$ 3,829	$ —
PERIODIC BENEFIT EXPENSE	**1,546**	**3,829**	**—**
Non-operating:			
Interest cost	5,907	2,704	222
Expected return on plan assets	(9,692)	—	(341)
Amortization of:			
Prior service cost	—	2,560	—
Actuarial loss (gain)	2,277	(251)	119
Non-operating net periodic benefit cost	**(1,508)**	**5,013**	**—**
NET PERIODIC BENEFIT COST[1]	**38**	**8,842**	**—**
Non-operating net periodic benefit cost	(1,508)	5,013	—
Net actuarial loss	(4,237)	4,868	(130)
New prior service cost	—	5,148	—
Amortization of:			
Prior service cost	—	(2,560)	—
Actuarial gain (loss)	(2,277)	251	(119)
TOTAL AMOUNTS RECOGNIZED IN NON-OPERATING ACTIVITIES	**$ (8,022)**	**$ 12,720**	**$ (249)**
2019			
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
NET PERIODIC BENEFIT EXPENSE	**232**	**5,665**	**280**
Net actuarial gain	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)
TOTAL AMOUNTS RECOGNIZED IN NON-OPERATING ACTIVITIES	**10,164**	**22,917**	**23**
TOTAL AMOUNT RECOGNIZED IN NET PERIODIC BENEFIT EXPENSE AND NON-OPERATING ACTIVITIES	**$ 10,396**	**$ 28,582**	**$ 303**

[1]The components of net periodic benefit cost other than service cost are included in "pension and other postemployment benefit related changes other than service cost" in the Statement of Activities.

The net periodic benefit cost 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, 2020 and 2019, in thousands of dollars:

	SHC	LPCH	TOTAL
2020			
Net periodic benefit cost	$ 6,325	$ 2,517	$ 8,842
Amounts recognized in non-operating activities	5,472	2,235	7,707
TOTAL AMOUNT RECOGNIZED IN NET PERIODIC BENEFIT COST AND NON-OPERATING ACTIVITIES	**$ 11,797**	**$ 4,752**	**$ 16,549**
2019			
Net periodic benefit cost	$ 4,129	$ 1,536	$ 5,665
Amounts recognized in non-operating activities	16,258	6,659	22,917
TOTAL AMOUNT RECOGNIZED IN NET PERIODIC BENEFIT COST AND NON-OPERATING ACTIVITIES	**$ 20,387**	**$ 8,195**	**$ 28,582**

Cumulative amounts recognized in non-operating activities, but not yet recognized in net periodic benefit cost in the *Consolidated Statements of Activities*, are presented in the following table for the years ended August 31, 2020 and 2019, in thousands of dollars:

	STAFF PENSION PLAN	PRMB	LPCH FROZEN PENSION PLAN
2020			
Prior service cost	$ —	$ 20,292	$ —
Net actuarial loss	58,709	1,106	2,204
ACCUMULATED PLAN BENEFIT COSTS NOT YET RECOGNIZED IN NET PERIODIC BENEFIT COST	**$ 58,709**	**$ 21,398**	**$ 2,204**
2019			
Prior service cost	$ —	$ 17,704	$ —
Net actuarial loss (gain)	65,223	(4,013)	2,453
ACCUMULATED PLAN BENEFIT COSTS NOT YET RECOGNIZED IN NET PERIODIC BENEFIT COST	**$ 65,223**	**$ 13,691**	**$ 2,453**

The prior service cost and net actuarial loss expected to be amortized from non-operating activities to net periodic benefit expense in fiscal year 2021, in thousands of dollars, are as follows:

	STAFF PENSION PLAN	PRMB	LPCH FROZEN PENSION PLAN
Prior service cost	$ —	$ 2,976	$ —
Net actuarial loss	$ 2,408	$ 68	$ 112

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	
	2020	2019	2020	2019	2020	2019
BENEFIT OBLIGATIONS						
Discount rate	2.33%	2.88%	2.18%	2.77%	2.19%	2.80%
Covered payroll growth rate	3.00%	3.00%	N/A	N/A	N/A	N/A
NET PERIODIC BENEFIT COST						
Discount rate	2.88%	4.07%	2.77%	3.96%	2.80%	4.01%
Expected return on plan assets	5.50%	5.50%	N/A	N/A	4.50%	4.50%
Covered payroll growth rate	3.00%	3.00%	N/A	N/A	N/A	N/A

The expected long-term rate of return on asset assumptions for the Pension Plan and LPCH Frozen Pension Plan are 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, 2020, a 6.00% annual rate of increase in the per capita cost of covered health care was assumed for calendar year 2020, 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	$ 102	$ (109)
Effect on accumulated PRMB obligation	$ 1,918	$ (1,912)

EXPECTED CONTRIBUTIONS

SHC expects to contribute $5.6 million to the PRMB and does not expect to contribute to the Pension Plan during the fiscal year ending August 31, 2021. LPCH does not expect to contribute to the LPCH Frozen Pension Plan during the fiscal year ending August 31, 2021.

EXPECTED BENEFIT PAYMENTS

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

YEAR ENDING AUGUST 31	STAFF PENSION PLAN	PRMB EXCLUDING MEDICARE SUBSIDY	PRMB EXPECTED MEDICARE PART D SUBSIDY	LPCH FROZEN PENSION PLAN
2021	$ 11,560	$ 7,537	$ 271	$ 721
2022	11,873	7,756	127	650
2023	12,068	7,830	121	603
2024	12,210	7,778	115	574
2025	12,311	7,740	108	549
2026 - 2030	61,062	39,198	425	2,392

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, 2020, 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, 2020 and 2019, are all categorized as Level 1 investments. The fair value of plan assets by asset category, in thousands of dollars, at August 31, 2020 and 2019 and actual allocations and weighted-average target allocations at August 31, 2020 are as follows:

	2020	2019	2020 ACTUAL ALLOCATION	2020 TARGET ALLOCATION
STAFF PENSION PLAN:				
Cash and cash equivalents	$ 673	$ 483	<1%	—%
Public equities	77,898	77,598	37%	40%
Fixed income	132,181	115,561	63%	60%
PLAN ASSETS AT FAIR VALUE	**$ 210,752**	**$ 193,642**	**100%**	**100%**
LPCH FROZEN PENSION PLAN:				
Cash and cash equivalents	$ 33	$ 30	<1%	—%
Public equities	—	2,058	—%	—%
Fixed income	8,286	4,784	100%	100%
PLAN ASSETS AT FAIR VALUE	**$ 8,319**	**$ 6,872**	**100%**	**100%**

17. Leases

LESSEE

Stanford leases research and development facilities, office spaces, buses, and equipment under operating and finance leases expiring through November 2057. Under the newly adopted accounting standard for leases, a lease conveys the right to control the use of an identified asset for a period of time in exchange for consideration. On the *Consolidated Statements of Financial Position*, "right-of-use assets" represent Stanford's right to use an underlying asset for the lease term and "lease liabilities" represent Stanford's obligation to make lease payments arising from the lease based on the present value of lease payments over the lease term. Lease liabilities do not include lease payments that were not fixed at commencement or lease modification. The lease terms may include options to extend or terminate the lease when it is reasonably certain that Stanford will exercise that option. The exercise of lease renewal options is at Stanford's sole discretion. Stanford uses an incremental borrowing rate for discounting leases, as applicable. Lease costs are included in other operating expense on the *Consolidated Statements of Activities*.

Supplemental information related to leases, in thousands of dollars, except lease term and discount rate, is as follows:

	UNIVERSITY	SHC	LPCH	ELIMINATIONS	CONSOLIDATED
2020					
Operating lease	$ 497,437	$ 341,428	$ 234,215	$ (145,532)	$ 927,548
Finance lease	176,489	152	—	—	176,641
TOTAL LEASE RIGHT-OF-USE ASSETS	**$ 673,926**	**$ 341,580**	**$ 234,215**	**$ (145,532)**	**$ 1,104,189**
Operating lease	$ 503,109	$ 362,955	$ 239,676	$ (145,532)	$ 960,208
Finance lease	180,125	164	—	—	180,289
TOTAL LEASE LIABILITY	**$ 683,234**	**$ 363,119**	**$ 239,676**	**$ (145,532)**	**$ 1,140,497**
Weighted-average remaining lease term:					
Operating lease	21.90 years	5.77 years	9.71 years		
Finance lease	23.23 years	2.17 years	N/A		
Weighted-average discount rate:					
Operating lease	2.47 %	2.08%	2.21%		
Finance lease	2.52 %	1.79%	N/A		

The components of lease expenses, in thousands of dollars, are as follows:

	UNIVERSITY	SHC	LPCH	ELIMINATIONS	CONSOLIDATED
2020					
Operating lease cost	$ 42,396	$ 79,979	$ 32,850	$ —	$ 155,225
Finance lease cost:					
Amortization of leased assets	5,672	70	—	—	5,742
Interest on lease liabilities	1,567	4	—	—	1,571
Variable lease cost	2,915	17,937	5,779		26,631
Short-term lease cost	30,255	9,048	737	—	40,040
Sublease income	(16,440)	(5,732)	(3,895)	—	(26,067)
TOTAL LEASE COST	**$ 66,365**	**$ 101,306**	**$ 35,471**	**$ —**	**$ 203,142**

Supplemental cash flow information related to leases, in thousands of dollars, is as follows:

	UNIVERSITY	SHC	LPCH	CONSOLIDATED
2020				
Cash paid for amounts included in the measurement of lease liabilities:				
Operating cash flows from operating	$ 38,891	$ 82,180	$ 31,218	$ 152,289
Operating cash flows from finance leases	1,516	4	—	1,516
Financing cash flows from finance leases	3,807	73	—	3,807
Obtaining right-of-use assets in exchange for a lease liabilities:				
Operating leases	$ 65,236	$ 96,491	$ 124,323	$ 286,050
Finance leases	160,966	—	—	160,966

Maturities of lease liabilities for periods subsequent to August 31, 2020, in thousands of dollars, are as follows:

	MATURITY OF LEASE LIABILITIES				
YEAR ENDING AUGUST 31	UNIVERSITY	SHC	LPCH	ELIMINATIONS	CONSOLIDATED
2021	$ 67,823	$ 82,974	$ 32,398	$ (16,431)	$ 166,764
2022	63,201	79,604	28,787	(15,015)	156,577
2023	46,562	72,744	28,273	(15,298)	132,281
2024	44,257	48,588	25,504	(15,640)	102,709
2025	43,269	28,612	21,886	(14,970)	78,797
Thereafter	713,589	78,858	132,363	(90,145)	834,665
TOTAL LEASE PAYMENTS	**978,701**	**391,380**	**269,211**	**(167,499)**	**1,471,793**
LESS IMPUTED INTEREST	**(295,467)**	**(28,261)**	**(29,535)**	**21,967**	**(331,296)**
TOTAL	**$ 683,234**	**$ 363,119**	**$ 239,676**	**$ (145,532)**	**$ 1,140,497**

Prior to the adoption of Topic 842, net minimum future operating lease payments for periods subsequent to August 31, 2019, in thousands of dollars, are as follows:

	MINIMUM LEASE PAYMENTS			
YEAR ENDING AUGUST 31	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
TOTAL	**$ 312,637**	**$ 401,086**	**$ 155,832**	**$ 869,555**

LESSOR

Stanford holds investment properties that it leases to external parties under non-cancellable operating leases. Stanford receives minimum rental income over the life of the lease; however, certain of the leases include variable rental payments that are based on a percentage of the tenant sales in excess of contractual amount. Certain leases include options for lessee to extend or terminate the lease. The residual value from the underlying asset following the end of the lease term is based on independent appraisals and internal models that are based on discounted cash flows and market data, if available.

Total rental income under these leases for the year ended August 31, 2020 was $182.5 million for the University, $5.7 million for SHC, and $1.4 million for LPCH.

18. Related Party Transactions

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

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.

19. Commitments and Contingencies

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

SPONSORED 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 2020 are subject to audit. The University does not anticipate any material adjustments to the *Consolidated Financial Statements*.

HEALTH CARE

As described in *Note 12*, 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, 32% 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 2021 and 2024, respectively. SHC's and LPCH's agreements with SEIU and the Committee for Recognition of Nursing Achievement (CRONA) will expire in 2023 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, 2020.

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.

CONTRACTUAL COMMITMENTS

At August 31, 2020, the University had contractual obligations of approximately $384.0 million in connection with major construction projects. Remaining expenditures on construction in progress are estimated to be $765.3 million, 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 $155.6 million for SHC and $22.3 million for LPCH at August 31, 2020.

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 $262.0 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.

COVID-19

The COVID-19 pandemic has caused disruptions to our nation's higher education and healthcare systems, including Stanford. Adversely impacted areas include, but are not limited to, student enrollment, housing and dining revenues, faculty, staff & student travel, increased financial need of students, and health care services.

Patient volumes and the related revenues for most of SHC's and LPCH's health care services were significantly impacted as various policies were implemented by federal, state, and local governments in response to the COVID-19 pandemic, including restrictions on nonessential medical services, travel bans, social distancing, and shelter-in-place orders. These policies required the hospitals to reduce hours and temporarily close certain operations, as well as significantly reduce surgical procedures, outpatient diagnostic and treatment services, and physician patient visits.

On March 27, 2020 the Federal Government passed the Coronavirus Aid, Relief, and Economic Stimulus Act (CARES Act) which made funds available to Stanford through various provisions of the legislation. As of August 31, 2020, SHC and LPCH received CARES Act provider relief funding of $124.6 million, and $79.0 million, respectively, reported as "special program fees and other income" on the *Consolidated Statements of Activities*.

Stanford recognized revenue related to the CARES Act provider relief funding based on information contained in laws and regulations, as well as interpretations issued by the Department of Health and Human Services ("HHS"), governing the funding that was publicly available at August 31, 2020. CARES Provider Relief Funds are subject to future audit adjustments based on compliance audits and potential changes to statutes. Subsequent to year-end, HHS issued new reporting requirements for the CARES Act provider relief funding. The new requirements expanded the Relief Fund Eligibility and Updated Reporting Requirements. This constitutes a change from the terms and conditions previously communicated in March 2020, which indicated that 'any reasonable method' could be utilized to calculate lost revenues attributable to coronavirus. Due to these new reporting requirements and the ongoing changes in the compliance requirements, there is at least a reasonable possibility that amounts recorded under CARES Act provider relief funds may change in future periods.

Furthermore, the CARES Act provides for deferred payment of the employer portion of social security taxes between March 27, 2020 and December 31, 2020, with 50% of the deferred amount due December 31, 2021 and the remaining 50% due December 31, 2022. As of August 31, 2020, the University, SHC, and LPCH deferred payments of $56.0 million, $46.3 million, and $16.1 million, respectively, and are reported as "accounts payable and accrued expenses" on the *Consolidated Statements of Financial Position*.

Under the CARES Act, SHC also received $397.0 million in advanced payments from the Centers for Medicare & Medicaid Services (CMS) in fiscal year 2020 which is on the *Consolidated Statements of Financial Position* as of August 31, 2020. CMS has indicated that it will begin recouping these advance payments against future Medicare claims for services that are provided during the recoupment period.

Stanford is monitoring legislative developments, including future relief funding opportunities, and directives from federal, state, and local officials to determine additional precautions and procedures that may need to be implemented.

20. Subsequent Events

Stanford has evaluated subsequent events for the period from August 31, 2020 through December 2, 2020, the date the *Consolidated Financial Statements* were issued.

21. Consolidating Entity Statements

The pages which follow present consolidating statements of financial position as of August 31, 2020 and 2019, 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, 2020 (in thousands of dollars)

	UNIVERSITY	SHC	LPCH	ELIMINATIONS	CONSOLIDATED
ASSETS					
Cash and cash equivalents	$ 1,153,303	$ 1,642,912	$ 354,157	$ (7,391)	$ 3,142,981
Assets limited as to use	253,391	92	—	—	253,483
Accounts receivable, net	233,644	793,135	513,297	—	1,540,076
Receivables (payables) from SHC and LPCH, net	12,282	—	—	(12,282)	—
Prepaid expenses and other assets	101,999	388,725	93,576	(104,646)	479,654
Pledges receivable, net	1,369,417	47,396	109,446	(53,793)	1,472,466
Student loans receivable, net	46,089	—	—	—	46,089
Faculty and staff mortgages and other loans receivable, net	829,262	—	—	—	829,262
Investments at fair value	37,574,583	2,299,847	1,047,419	7,391	40,929,240
Right-of-use assets	673,926	341,580	234,215	(145,532)	1,104,189
Plant facilities, net of accumulated depreciation	7,685,710	3,646,012	1,840,898	—	13,172,620
Works of art and special collections	—	—	—	—	—
TOTAL ASSETS	**$ 49,933,606**	**$ 9,159,699**	**$ 4,193,008**	**$ (316,253)**	**$ 62,970,060**
LIABILITIES AND NET ASSETS					
LIABILITIES:					
Accounts payable and accrued expenses	$ 931,274	$ 1,864,051	$ 333,378	$ (69,562)	$ 3,059,141
Liabilities associated with investments	1,002,896	—	—	—	1,002,896
Lease liabilities	683,234	363,119	239,676	(145,532)	1,140,497
Deferred income and other obligations	1,386,649	170,746	69,054	—	1,626,449
Accrued pension and postretirement benefit obligations	597,951	93,427	28,501	—	719,879
Notes and bonds payable	5,003,552	2,340,908	881,211	—	8,225,671
U.S. government refundable loan funds	22,668	—	—	—	22,668
TOTAL LIABILITIES	**9,628,224**	**4,832,251**	**1,551,820**	**(215,094)**	**15,797,201**
NET ASSETS:					
Without donor restrictions, including non-controlling interest attributable to SHC of $101,159	22,685,294	4,193,905	2,128,735	(101,159)	28,906,775
With donor restrictions	17,620,088	133,543	512,453	—	18,266,084
TOTAL NET ASSETS	**40,305,382**	**4,327,448**	**2,641,188**	**(101,159)**	**47,172,859**
TOTAL LIABILITIES AND NET ASSETS	**$ 49,933,606**	**$ 9,159,699**	**$ 4,193,008**	**$ (316,253)**	**$ 62,970,060**

CONSOLIDATING STATEMENTS OF FINANCIAL POSITION

At August 31, 2019 (in thousands of dollars)

	UNIVERSITY	SHC	LPCH	ELIMINATIONS	CONSOLIDATED
ASSETS					
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	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	—	—	—	—	—
TOTAL ASSETS	**$ 46,370,111**	**$ 7,841,914**	**$ 3,832,418**	**$ (241,499)**	**$ 57,802,944**
LIABILITIES AND NET ASSETS					
LIABILITIES:					
Accounts payable and accrued expenses	$ 902,563	$ 1,447,709	$ 329,515	$ (161,187)	$ 2,518,600
Liabilities associated with investments	758,161	—	—	—	758,161
Deferred income and other obligations	1,241,915	142,604	38,796	—	1,423,315
Accrued pension and postretirement benefit obligations	679,753	93,539	26,021	—	799,313
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
TOTAL LIABILITIES	**7,869,472**	**3,619,266**	**1,286,427**	**(161,187)**	**12,613,978**
NET ASSETS:					
Without donor restrictions, including non-controlling interest attributable to SHC of $80,312	21,653,055	3,545,875	1,947,073	(80,312)	27,065,691
With donor restrictions	16,847,584	676,773	598,918	—	18,123,275
TOTAL NET ASSETS	**38,500,639**	**4,222,648**	**2,545,991**	**(80,312)**	**45,188,966**
TOTAL LIABILITIES AND NET ASSETS	**$ 46,370,111**	**$ 7,841,914**	**$ 3,832,418**	**$ (241,499)**	**$ 57,802,944**

CONSOLIDATING STATEMENTS OF ACTIVITIES

For the year ended August 31, 2020 (in thousands of dollars)

	UNIVERSITY	SHC	LPCH	ELIMINATIONS	CONSOLIDATED
NET ASSETS WITHOUT DONOR RESTRICTIONS					
OPERATING REVENUES:					
TOTAL STUDENT INCOME, NET	**$ 610,172**	**$ —**	**$ —**	**$ —**	**$ 610,172**
Sponsored support:					
Direct costs - University	858,422	—	—	—	858,422
Direct costs - SLAC National Accelerator Laboratory	484,823	—	—	—	484,823
Indirect costs	278,635	—	—	—	278,635
TOTAL SPONSORED SUPPORT	**1,621,880**	**—**	**—**	**—**	**1,621,880**
Health care services:					
Net patient service revenue	—	5,140,938	1,883,862	(38,207)	6,986,593
Premium revenue	—	116,971	—	—	116,971
Physicians' services and support - SHC and LPCH, net	1,235,774	—	—	(1,235,774)	—
Physicians' services and support - other facilities, net	42,872	—	—	(9,848)	33,024
TOTAL HEALTH CARE SERVICES	**1,278,646**	**5,257,909**	**1,883,862**	**(1,283,829)**	**7,136,588**
TOTAL CURRENT YEAR GIFTS IN SUPPORT OF OPERATIONS	**289,908**	**1,703**	**4,115**	**—**	**295,726**
Net assets released from restrictions:					
Payments received on pledges	184,442	2,591	—	—	187,033
Prior year gifts released from donor restrictions	59,481	4,996	5,828	—	70,305
TOTAL NET ASSETS RELEASED FROM RESTRICTIONS	**243,923**	**7,587**	**5,828**	**—**	**257,338**
Investment income distributed for operations:					
Endowment	1,355,058	519	17,390	—	1,372,967
Expendable funds pools and other investment income	287,136	1,014	—	—	288,150
TOTAL INVESTMENT INCOME DISTRIBUTED FOR OPERATIONS	**1,642,194**	**1,533**	**17,390**	**—**	**1,661,117**
TOTAL SPECIAL PROGRAM FEES AND OTHER INCOME	**420,363**	**298,844**	**153,389**	**—**	**872,596**
TOTAL OPERATING REVENUES	**6,107,086**	**5,567,576**	**2,064,584**	**(1,283,829)**	**12,455,417**
OPERATING EXPENSES:					
Salaries and benefits	3,962,140	2,548,259	935,330	—	7,445,729
Depreciation	437,194	255,079	121,130	—	813,403
Other operating expenses	1,666,591	2,743,194	962,999	(1,283,829)	4,088,955
TOTAL OPERATING EXPENSES	**6,065,925**	**5,546,532**	**2,019,459**	**(1,283,829)**	**12,348,087**
CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES	**$ 41,161**	**$ 21,044**	**$ 45,125**	**$ —**	**$ 107,330**

CONSOLIDATING STATEMENTS OF ACTIVITIES, Continued

For the year ended August 31, 2020 (in thousands of dollars)

	UNIVERSITY	SHC	LPCH	ELIMINATIONS	CONSOLIDATED
NET ASSETS WITHOUT DONOR RESTRICTIONS (continued)					
CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES	**$ 41,161**	**$ 21,044**	**$ 45,125**	**$ —**	**$ 107,330**
NON-OPERATING ACTIVITIES:					
Increase in reinvested gains	516,024	224,036	52,070	—	792,130
Donor advised funds, net	61,723	—	—	—	61,723
Current year gifts not included in operations	2,026	—	—	—	2,026
Equity and fund transfers, net	135,339	(98,745)	(36,594)	—	—
Capital and other gifts released from restrictions	296,492	558,467	123,907	—	978,866
Pension and other postemployment benefit related changes other than service cost	96,287	(1,028)	(3,467)	—	91,792
Transfer to net assets with donor restrictions, net	(128,935)	—	—	—	(128,935)
Swap interest and change in value of swap agreements	(8,314)	(53,722)	—	—	(62,036)
Non-controlling interest attributable to SHC	20,847	—	—	(20,847)	—
Other	(411)	(2,022)	621	—	(1,812)
NET CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	**1,032,239**	**648,030**	**181,662**	**(20,847)**	**1,841,084**
NET ASSETS WITH DONOR RESTRICTIONS					
Gifts and pledges, net	684,985	22,084	32,172	—	739,241
Increase in reinvested gains	484,730	3,814	30,879	—	519,423
Change in value of split-interest agreements, net	14,414	—	1,879	—	16,293
Net assets released to operations	(243,923)	(10,823)	(27,333)	—	(282,079)
Capital and other gifts released to net assets without donor restrictions	(296,492)	(558,467)	(123,907)	—	(978,866)
Gift transfers, net	(334)	314	20	—	—
Transfer from net assets without donor restrictions, net	128,935	—	—	—	128,935
Other	189	(152)	(175)	—	(138)
NET CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS	**772,504**	**(543,230)**	**(86,465)**	**—**	**142,809**
NET CHANGE IN TOTAL NET ASSETS	**1,804,743**	**104,800**	**95,197**	**(20,847)**	**1,983,893**
Total net assets, beginning of year	38,500,639	4,222,648	2,545,991	(80,312)	45,188,966
TOTAL NET ASSETS, END OF YEAR	**$40,305,382**	**$4,327,448**	**$2,641,188**	**$ (101,159)**	**$ 47,172,859**

CONSOLIDATING STATEMENTS OF ACTIVITIES

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

	UNIVERSITY	SHC	LPCH	ELIMINATIONS	CONSOLIDATED
NET ASSETS WITHOUT DONOR RESTRICTIONS					
OPERATING REVENUES:					
TOTAL STUDENT INCOME, NET	**$ 652,853**	**$ —**	**$ —**	**$ —**	**$ 652,853**
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
TOTAL SPONSORED SUPPORT	**1,682,920**	**—**	**—**	**—**	**1,682,920**
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
TOTAL HEALTH CARE SERVICES	**1,210,221**	**5,219,182**	**1,837,761**	**(1,216,492)**	**7,050,672**
TOTAL CURRENT YEAR GIFTS IN SUPPORT OF OPERATIONS	**251,491**	**244**	**4,678**	**—**	**256,413**
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
TOTAL NET ASSETS RELEASED FROM RESTRICTIONS	**212,090**	**10,482**	**6,758**	**—**	**229,330**
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
TOTAL INVESTMENT INCOME DISTRIBUTED FOR OPERATIONS	**1,564,700**	**2,337**	**15,774**	**—**	**1,582,811**
TOTAL SPECIAL PROGRAM FEES AND OTHER INCOME	**554,777**	**157,757**	**94,487**	**—**	**807,021**
TOTAL OPERATING REVENUES	**6,129,052**	**5,390,002**	**1,959,458**	**(1,216,492)**	**12,262,020**
OPERATING EXPENSES:					
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
TOTAL OPERATING EXPENSES	**5,968,067**	**5,006,715**	**1,881,194**	**(1,216,492)**	**11,639,484**
CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES	**$ 160,985**	**$ 383,287**	**$ 78,264**	**$ —**	**$ 622,536**

CONSOLIDATING STATEMENTS OF ACTIVITIES, Continued

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

	UNIVERSITY	SHC	LPCH	ELIMINATIONS	CONSOLIDATED
NET ASSETS WITHOUT DONOR RESTRICTIONS (continued)					
CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES	**$ 160,985**	**$ 383,287**	**$ 78,264**	**$ —**	**$ 622,536**
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)
NET CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	**1,175,650**	**241,750**	**73,651**	**(16,509)**	**1,474,542**
NET ASSETS WITH DONOR RESTRICTIONS					
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
NET CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS	**441,551**	**19,714**	**25,596**	**—**	**486,861**
NET CHANGE IN TOTAL NET ASSETS	**1,617,201**	**261,464**	**99,247**	**(16,509)**	**1,961,403**
Total net assets, beginning of year	36,883,438	3,961,184	2,446,744	(63,803)	43,227,563
TOTAL NET ASSETS, END OF YEAR	**$ 38,500,639**	**$ 4,222,648**	**$ 2,545,991**	**$ (80,312)**	**$ 45,188,966**

CONSOLIDATING STATEMENTS OF CASH FLOWS

For the year ended August 31, 2020 (in thousands of dollars)

	UNIVERSITY	SHC	LPCH	ELIMINATIONS	CONSOLIDATED
CASH FLOW FROM OPERATING ACTIVITIES					
Change in net assets	$ 1,804,743	$ 104,800	$ 95,197	$ (20,847)	$ 1,983,893
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:					
Depreciation	437,194	255,079	121,130	—	813,403
Amortization of bond premiums, discounts and other	12,913	(460)	(2,639)	—	9,814
Losses on disposal of plant facilities	654	—	327	—	981
Net gains on investments	(2,492,562)	(182,720)	(45,741)	—	(2,721,023)
Change in fair value of interest rate swaps	5,521	36,496	—	—	42,017
Change in split-interest agreements	45,222	—	(1,613)	—	43,609
Change in deferred tax asset and liability	57,219	—	—	—	57,219
Investment income for restricted purposes	(12,274)	—	11,369	—	(905)
Gifts restricted for long-term investments	(278,657)	(23,055)	(63,051)	—	(364,763)
Equity and fund transfers, net	(135,005)	98,431	36,574	—	—
Gifts of securities and properties	(27,432)	—	—	—	(27,432)
Other	25,950	—	—	—	25,950
Premiums received from bond issuance	—	19,885	—	—	19,885
Changes in operating assets and liabilities:					
Accounts receivable	58,006	1,339	(85,341)	—	(25,996)
Pledges receivable, net	(97,498)	15,000	13,163	—	(69,335)
Prepaid expenses and other assets	10,455	(108,485)	(9,078)	—	(107,108)
Accounts payable and accrued expenses	69,702	516,324	19,466	—	605,492
Accrued pension and postretirement benefit obligations	(81,802)	(112)	2,480	—	(79,434)
Lease liabilities	(21,174)	21,438	5,461	—	5,725
Deferred income and other obligations	73,049	28,142	30,258	—	131,449
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	**(545,776)**	**782,102**	**127,962**	**(20,847)**	**343,441**
CASH FLOW FROM INVESTING ACTIVITIES					
Additions to plant facilities, net	(896,941)	(310,641)	(75,759)	—	(1,283,341)
Student, faculty and other loans:					
New loans made	(105,086)	—	—	—	(105,086)
Principal collected	65,511	—	—	—	65,511
Purchases of investments	(15,912,497)	(56,991)	(32,603)	20,772	(15,981,319)
Sales and maturities of investments	17,168,829	465,997	29,088	—	17,663,914
Change associated with short term investments	(684,461)	—	—	—	(684,461)
Swap settlement payments, net	—	(16,825)	—	—	(16,825)
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	**(364,645)**	**81,540**	**(79,274)**	**20,772**	**(341,607)**
CASH FLOW FROM FINANCING ACTIVITIES					
Gifts and reinvested income for restricted purposes	329,708	24,015	73,466	—	427,189
Equity and fund transfers from Hospitals	178,727	(142,153)	(36,574)	—	—
Proceeds from borrowing	959,542	470,120	—	—	1,429,662
Repayment of notes and bonds payable	(179,792)	(74,134)	(8,245)	—	(262,171)
Bond issuance costs and interest rate swaps	(2,109)	(4,006)	—	—	(6,115)
Contributions received for split-interest agreements	55,503	—	—	—	55,503
Payments made under split-interest agreements	(46,095)	—	—	—	(46,095)
Securities lending collateral sold, net	(19,468)	—	—	—	(19,468)
Other	(14,319)	—	—	—	(14,319)
NET CASH PROVIDED BY FINANCING ACTIVITIES	**1,261,697**	**273,842**	**28,647**	**—**	**1,564,186**
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**351,276**	**1,137,484**	**77,335**	**(75)**	**1,566,020**
Cash and cash equivalents, beginning of year	1,237,809	505,520	276,822	(7,316)	2,012,835
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 1,589,085**	**$1,643,004**	**$354,157**	**$ (7,391)**	**$ 3,578,855**
SUPPLEMENTAL DATA:					
Cash and cash equivalents as shown in the *Statements of Financial Position*	$ 1,153,303	$1,642,912	$ 354,157	$ (7,391)	$ 3,142,981
Restricted cash included in assets limited as to use	—	92	—	—	92
Restricted cash included in other assets	44,168	—	—	—	44,168
Cash and restricted cash included in investments	391,614	—	—	—	391,614
TOTAL CASH AND CASH EQUIVALENTS AS SHOWN ON THE STATEMENTS OF CASH FLOWS	**$ 1,589,085**	**$1,643,004**	**$354,157**	**$ (7,391)**	**$ 3,578,855**
Interest paid, net of capitalized interest	$ 146,730	$ 69,105	$ 36,072	$ —	$ 251,907
Change in payables for plant facilities	$ (53,799)	$ (100,190)	$ (16,669)	$ —	$ (170,658)
Right-of-use assets obtained in exchange for lease liabilities	$ 226,202	$ 96,491	$ 124,323	$ —	$ 447,016

CONSOLIDATING STATEMENTS OF CASH FLOWS

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

	UNIVERSITY	SHC	LPCH	ELIMINATIONS	CONSOLIDATED
CASH FLOW FROM OPERATING ACTIVITIES					
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	(3,276)	(57,534)	(5,758)	—	(66,568)
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
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	**(378,660)**	**640,833**	**68,792**	**(16,509)**	**314,456**
CASH FLOW FROM INVESTING ACTIVITIES					
Additions to plant facilities, net	(1,218,342)	(553,642)	(148,341)	—	(1,920,325)
Student, faculty and other loans:					
New loans made	(142,331)	—	—	—	(142,331)
Principal collected	66,276	—	—	—	66,276
Purchases of investments	(13,077,316)	(594,575)	(18,394)	16,346	(13,673,939)
Sales and maturities of investments	14,476,601	449,165	14,371	—	14,940,137
Change associated with short term investments	375,581	—	—	—	375,581
Swap settlement payments, net	—	(12,595)	—	—	(12,595)
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	**480,469**	**(711,647)**	**(152,364)**	**16,346**	**(367,196)**
CASH FLOW FROM FINANCING ACTIVITIES					
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, net	(57,215)	—	—	—	(57,215)
Change in liabilities associated with investments	(11,237)	—	—	—	(11,237)
Other	16,563	—	—	—	16,563
NET CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES	**642,524**	**(75,922)**	**71,925**	**—**	**638,527**
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**744,333**	**(146,736)**	**(11,647)**	**(163)**	**585,787**
Cash and cash equivalents, beginning of year	493,476	652,256	288,469	(7,153)	1,427,048
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 1,237,809**	**$ 505,520**	**$ 276,822**	**$ (7,316)**	**$ 2,012,835**
SUPPLEMENTAL DATA:					
Cash and cash equivalents as shown in the *Statements of Financial Position*	$ 856,553	$ 505,509	$ 276,822	$ (7,316)	$ 1,631,568
Restricted cash and cash equivalents included in assets limited as to use	94,896	11	—	—	94,907
Restricted cash included in other assets	49,203	—	—	—	49,203
Cash and restricted cash included in investments	237,157	—	—	—	237,157
TOTAL CASH AND CASH EQUIVALENTS AS SHOWN ON THE STATEMENTS OF CASH FLOWS	**$ 1,237,809**	**$ 505,520**	**$ 276,822**	**$ (7,316)**	**$ 2,012,835**
Interest paid, net of capitalized interest	$ 119,696	$ 43,602	$ 36,766	$ —	$ 200,064
Change in payables for plant facilities	$ (70,706)	$ 48,461	$ (24,890)	$ —	$ (47,135)

Stanford University