

**STANFORD UNIVERSITY
Taxable Bonds Series 2015****\$250,000,000 3.46% Bonds due May 1, 2047 Issue price: 100%**

The Stanford University Taxable Bonds Series 2015 (the "Bonds") will be issued pursuant to the terms of an Indenture of Trust, dated as of April 1, 2015 (the "Indenture"), by and between The Board of Trustees of the Leland Stanford Junior University (the "University") and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"). The University plans to use the proceeds of the Bonds for general corporate purposes, including without limitation, financing and refinancing capital projects. See "PLAN OF FINANCE" and "ESTIMATED SOURCES AND USES OF PROCEEDS" herein.

The Bonds will be dated their date of delivery, will be issued in fully registered form in denominations of \$1,000 and any integral multiple thereof and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"). DTC will act as securities depository for the Bonds. Individual purchases will be made in book-entry form only, and purchasers of the Bonds will not receive physical certificates (except under certain circumstances described in the Indenture) representing their ownership interests in the Bonds purchased.

Interest on the Bonds will be payable on May 1 and November 1 of each year, commencing on November 1, 2015. So long as the Bonds are held by DTC, the principal or Make-Whole Redemption Price (as defined herein) of and interest on the Bonds will be payable by wire transfer to DTC, which in turn is required to remit such principal or Make-Whole Redemption Price and interest to the DTC Participants for subsequent disbursement to the Beneficial Owners of the Bonds, as more fully described in "BOOK-ENTRY SYSTEM" herein.

The Bonds are subject to redemption prior to their stated maturity as described herein. See "THE BONDS – Redemption and Make-Whole Redemption Price" herein.

Interest on and profit, if any, on the sale of the Bonds are not excludable from gross income for federal, state or local income tax purposes. See "CERTAIN UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS" herein.

The Bonds constitute unsecured general obligations of the University. The University has other unsecured general obligations outstanding. Moreover, the University is not restricted by the Indenture or otherwise from incurring additional indebtedness. Such additional indebtedness, if issued, may be either secured or unsecured and may be entitled to payment prior to payment on the Bonds. See "SECURITY FOR THE BONDS" herein.

This cover page contains certain information for quick reference only. It is not intended to be a summary of this issue. Investors must read the entire Offering Memorandum to obtain information essential to the making of an informed investment decision.

The Bonds are offered by the Underwriters, when, as and if issued by the University and accepted by the Underwriters, subject to the approval of legality by Ropes & Gray LLP, counsel to the University. In addition, certain other legal matters will be passed upon for the University by Debra Zumwalt, General Counsel to the University, and for the Underwriters by their counsel, Hawkins Delafield & Wood LLP. It is expected that the Bonds will be available for delivery to DTC on or about April 28, 2015.

Barclays**BofA Merrill Lynch****Goldman, Sachs & Co.**

**INFORMATION COVERING OFFERING RESTRICTIONS
IN CERTAIN JURISDICTIONS OUTSIDE THE UNITED STATES**

MINIMUM UNIT SALES

THE BONDS WILL TRADE AND SETTLE ON A UNIT BASIS (ONE UNIT EQUALING ONE BOND OF \$1,000 PRINCIPAL AMOUNT), FOR ANY SALES MADE OUTSIDE THE UNITED STATES, THE MINIMUM PURCHASE AND TRADING AMOUNT IS 150 UNITS (BEING 150 BONDS IN AN AGGREGATE PRINCIPAL AMOUNT OF \$150,000).

EUROPEAN ECONOMIC AREA

IN RELATION TO EACH MEMBER STATE OF THE EUROPEAN ECONOMIC AREA (THE "EEA") THAT HAS IMPLEMENTED THE PROSPECTUS DIRECTIVE (EACH, A "RELEVANT MEMBER STATE"), EACH UNDERWRITER HAS REPRESENTED AND AGREED THAT WITH EFFECT FROM AND INCLUDING THE DATE ON WHICH THE PROSPECTUS DIRECTIVE IS IMPLEMENTED IN THAT RELEVANT MEMBER STATE (THE "RELEVANT IMPLEMENTATION DATE") IT HAS NOT MADE AND WILL NOT MAKE AN OFFER OF ANY BONDS WHICH ARE THE SUBJECT OF THE OFFERING CONTEMPLATED BY THIS PROSPECTUS SUPPLEMENT TO THE PUBLIC IN THAT RELEVANT MEMBER STATE OTHER THAN: (A) TO ANY LEGAL ENTITY WHICH IS A "QUALIFIED INVESTOR" AS DEFINED IN THE PROSPECTUS DIRECTIVE; (B) TO FEWER THAN 100 OR, IF THE RELEVANT MEMBER STATE HAS IMPLEMENTED THE RELEVANT PROVISION OF THE 2010 PD AMENDING DIRECTIVE, 150 NATURAL OR LEGAL PERSONS (OTHER THAN QUALIFIED INVESTORS AS DEFINED IN THE PROSPECTUS DIRECTIVE) AS PERMITTED UNDER THE PROSPECTUS DIRECTIVE; OR (C) IN ANY OTHER CIRCUMSTANCES FALLING WITHIN ARTICLE 3(2) OF THE PROSPECTUS DIRECTIVE; PROVIDED THAT NO SUCH OFFER OF THE BONDS SHALL REQUIRE THE ISSUER OR ANY UNDERWRITER TO PUBLISH A PROSPECTUS PURSUANT TO ARTICLE 3 OF THE PROSPECTUS DIRECTIVE.

FOR THE PURPOSES OF THIS PROVISION, THE EXPRESSION AN "OFFER OF BONDS TO THE PUBLIC" IN RELATION TO THE BONDS IN ANY RELEVANT MEMBER STATE MEANS THE COMMUNICATION IN ANY FORM AND BY ANY MEANS OF SUFFICIENT INFORMATION ON THE TERMS OF THE OFFER AND THE BONDS TO BE OFFERED SO AS TO ENABLE AN INVESTOR TO DECIDE TO PURCHASE OR SUBSCRIBE THE BONDS, AS THE SAME MAY BE VARIED IN THAT MEMBER STATE BY ANY MEASURE IMPLEMENTING THE PROSPECTUS DIRECTIVE IN THAT MEMBER STATE, THE EXPRESSION "PROSPECTUS DIRECTIVE" MEANS DIRECTIVE 2003/71/EC (AND AMENDMENTS THERETO, INCLUDING THE 2010 PD AMENDING DIRECTIVE, TO THE EXTENT IMPLEMENTED IN THE RELEVANT MEMBER STATE), AND INCLUDES ANY RELEVANT IMPLEMENTING MEASURE IN THE RELEVANT MEMBER STATE AND THE EXPRESSION "2010 PD AMENDING DIRECTIVE" MEANS DIRECTIVE 2010/73/EU.

JAPAN

THE BONDS OF EACH SERIES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE FINANCIAL INSTRUMENTS AND EXCHANGE LAW OF JAPAN (THE "FINANCIAL INSTRUMENTS AND EXCHANGE LAW") AND EACH UNDERWRITER HAS AGREED THAT IT WILL NOT OFFER OR SELL ANY SECURITIES, DIRECTLY OR INDIRECTLY, IN JAPAN OR TO, OR FOR THE BENEFIT OF, ANY RESIDENT OF JAPAN (WHICH TERM AS USED HEREIN MEANS ANY PERSON RESIDENT IN JAPAN, INCLUDING ANY CORPORATION OR OTHER

ENTITY ORGANIZED UNDER THE LAWS OF JAPAN) OR TO OTHERS FOR RE-OFFERING OR RE-SALE, DIRECTLY OR INDIRECTLY, IN JAPAN OR TO A RESIDENT OF JAPAN, EXCEPT PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF, AND OTHERWISE IN COMPLIANCE WITH, THE FINANCIAL INSTRUMENTS AND EXCHANGE LAW AND ANY OTHER APPLICABLE LAWS, REGULATIONS AND MINISTERIAL GUIDELINES OF JAPAN.

SINGAPORE

THIS OFFERING MEMORANDUM HAS NOT BEEN REGISTERED AS A PROSPECTUS WITH THE MONETARY AUTHORITY OF SINGAPORE. ACCORDINGLY, THIS OFFERING MEMORANDUM AND ANY OTHER DOCUMENT OR MATERIAL IN CONNECTION WITH THE OFFER OR SALE, OR INVITATION FOR SUBSCRIPTION OR PURCHASE, OF THE BONDS MAY NOT BE CIRCULATED OR DISTRIBUTED, NOR MAY THE BONDS BE OFFERED OR SOLD, OR BE MADE THE SUBJECT OF AN INVITATION FOR SUBSCRIPTION OR PURCHASE, WHETHER DIRECTLY OR INDIRECTLY, TO PERSONS IN SINGAPORE OTHER THAN: (I) TO AN INSTITUTIONAL INVESTOR UNDER SECTION 274 OF THE SECURITIES AND FUTURES ACT, CHAPTER 289 OF SINGAPORE (THE "SFA"); (II) TO A RELEVANT PERSON, OR ANY PERSON PURSUANT TO SECTION 275(1A), AND IN ACCORDANCE WITH THE CONDITIONS, SPECIFIED IN SECTION 275 OF THE SFA; OR (III) OTHERWISE PURSUANT TO, AND IN ACCORDANCE WITH THE CONDITIONS OF, ANY OTHER APPLICABLE PROVISION OF THE SFA.

WHERE THE BONDS ARE SUBSCRIBED OR PURCHASED UNDER SECTION 275 BY A RELEVANT PERSON WHICH IS:

(I) A CORPORATION (WHICH IS NOT AN ACCREDITED INVESTOR) THE SOLE BUSINESS OF WHICH IS TO HOLD INVESTMENTS AND THE ENTIRE SHARE CAPITAL OF WHICH IS OWNED BY ONE OR MORE INDIVIDUALS, EACH OF WHOM IS AN ACCREDITED INVESTOR; OR

(II) A TRUST (WHERE THE TRUSTEE IS NOT AN ACCREDITED INVESTOR) WHOSE SOLE PURPOSE IS TO HOLD INVESTMENTS AND EACH BENEFICIARY IS AN ACCREDITED INVESTOR, SHARES, DEBENTURES AND UNITS OF SHARES AND DEBENTURES OF THAT CORPORATION OR THE BENEFICIARIES' RIGHTS AND INTEREST IN THAT TRUST SHALL NOT BE TRANSFERABLE FOR SIX MONTHS AFTER THAT CORPORATION OR THAT TRUST HAS ACQUIRED THE BONDS UNDER SECTION 275 EXCEPT:

(A) TO AN INSTITUTIONAL INVESTOR UNDER SECTION 274 OF THE SFA OR TO A RELEVANT PERSON, OR TO ANY PERSON PURSUANT TO SECTION 275(1A), AND IN ACCORDANCE WITH THE CONDITIONS, SPECIFIED IN SECTION 275 OF TH SFA;

(B) WHERE NO CONSIDERATION IS GIVEN FOR THE TRANSFER;

(C) BY OPERATION OF LAW.

UNITED KINGDOM

EACH UNDERWRITER HAS REPRESENTED AND AGREED THAT: (I) IT HAS ONLY COMMUNICATED OR CAUSED TO BE COMMUNICATED, AND WILL ONLY COMMUNICATE OR CAUSE TO BE COMMUNICATED, AN INVITATION OR INDUCEMENT TO ENGAGE IN

INVESTMENT ACTIVITY (WITHIN THE MEANING OF SECTION 21 OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (THE "FSMA")) RECEIVED BY IT IN CONNECTION WITH THE ISSUE OR SALE OF ANY NOTES IN CIRCUMSTANCES IN WHICH SECTION 21(1) OF THE FSMA DOES NOT APPLY TO THE ISSUER; AND (II) HAS COMPLIED AND WILL COMPLY WITH ALL APPLICABLE PROVISIONS OF THE FSMA WITH RESPECT TO ANYTHING DONE BY IT IN RELATION TO THE NOTES IN, FROM OR OTHERWISE INVOLVING THE UNITED KINGDOM.

HONG KONG

THE BONDS OF EACH SERIES MAY NOT BE OFFERED OR SOLD BY MEANS OF ANY DOCUMENT OTHER THAN (I) IN CIRCUMSTANCES WHICH DO NOT CONSTITUTE AN OFFER TO THE PUBLIC WITHIN THE MEANING OF THE COMPANIES ORDINANCE (CAP.32, LAWS OF HONG KONG), OR (II) TO "PROFESSIONAL INVESTORS" WITHIN THE MEANING OF THE SECURITIES AND FUTURES ORDINANCE (CAP.571, LAWS OF HONG KONG) AND ANY RULES MADE THEREUNDER, OR (III) IN OTHER CIRCUMSTANCES WHICH DO NOT RESULT IN THE DOCUMENT BEING A "PROSPECTUS" WITHIN THE MEANING OF THE COMPANIES ORDINANCE (CAP.32, LAWS OF HONG KONG), AND NO ADVERTISEMENT, INVITATION OR DOCUMENT RELATING TO THE BONDS MAY BE ISSUED OR MAY BE IN THE POSSESSION OF ANY PERSON FOR THE PURPOSE OF ISSUE (IN EACH CASE WHETHER HONG KONG OR ELSEWHERE), WHICH IS DIRECTED AT, OR THE CONTENTS OF WHICH ARE LIKELY TO BE ACCESSED OR READ BY, THE PUBLIC IN HONG KONG (EXCEPT IF PERMITTED TO DO SO UNDER THE LAWS OF HONG KONG) OTHER THAN WITH RESPECT TO NOTES WHICH ARE OR ARE INTENDED TO BE DISPOSED OF ONLY TO PERSONS OUTSIDE HONG KONG OR ONLY TO "PROFESSIONAL INVESTORS" WITHIN THE MEANING OF THE SECURITIES AND FUTURES ORDINANCE (CAP.571, LAWS OF HONG KONG) AND ANY RULES MADE THEREUNDER.

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GENERAL INFORMATION

This Offering Memorandum does not constitute an offer to sell the Bonds in any jurisdiction in which or to any person to whom it is unlawful to make such an offer. No dealer, salesperson or other person has been authorized by Barclays Capital Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated and Goldman, Sachs & Co. (collectively, the "Underwriters") or the University to give any information or to make any representations, other than those contained herein, in connection with the offering of the Bonds and, if given or made, such information or representations must not be relied upon.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the Bonds, or determined that this Offering Memorandum is accurate or complete. Any representation to the contrary is a criminal offense. The Bonds have not been and will not be registered under the Securities Act of 1933, as amended (the "Securities Act"), and are being issued in reliance on an exemption under Section 3(a)(4) of the Securities Act. The Bonds are not exempt in every jurisdiction in the United States; the securities laws of some jurisdictions (the "blue sky laws") may require a filing and a fee or other actions to secure the exemption of the Bonds from registration.

The distribution of this Offering Memorandum and the offer or sale of Bonds may be restricted by law in certain jurisdictions. Neither the University nor the Underwriters represent that this Offering Memorandum may be lawfully distributed, or that any Bonds may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the University or the Underwriters which would permit a public offering of any of the Bonds or distribution of this Offering Memorandum in any jurisdiction where action for that purpose is required. To be clear, action may be required to secure exemptions from the blue sky registration requirements either for the primary distributions or any secondary sales that may occur. Accordingly, none of the Bonds may be offered or sold, directly or indirectly, and neither this Offering Memorandum nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations.

All information set forth herein has been obtained from the University and other sources. Estimates and opinions are included and should not be interpreted as statements of fact. Summaries of documents do not purport to be complete statements of their provisions. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Offering Memorandum nor any sale made hereunder will, under any circumstances, create any implication that there has been no change in the affairs of the University since the date hereof.

FORWARD-LOOKING STATEMENTS

Certain statements included or incorporated by reference in this Offering Memorandum constitute "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act. Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "budget," "intend," "projection" or other similar words. Such forward-looking statements include, but are not limited to, certain statements contained in the information in Appendix A – "STANFORD UNIVERSITY (INCLUDING FINANCIAL STATEMENTS AND DISCUSSION OF FINANCIAL RESULTS)." A number of important factors, including factors affecting the University's financial condition and factors which are otherwise unrelated thereto, could cause actual results to differ materially from those stated in such forward-looking statements. THE UNIVERSITY DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THOSE FORWARD-LOOKING

STATEMENTS IF OR WHEN ITS EXPECTATIONS CHANGE, OR EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH SUCH STATEMENTS ARE BASED OCCUR. See "CERTAIN INVESTMENT CONSIDERATIONS" herein.

The Underwriters have provided the following sentence for inclusion in this Offering Memorandum. The Underwriters have reviewed the information in this Offering Memorandum in accordance with, and as part of, their responsibility to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

SUMMARY OF THE OFFERING

Issuer	The Board of Trustees of the Leland Stanford Junior University
Securities Offered	\$250,000,000 3.46% Taxable Bonds Series 2015 due May 1, 2047
Interest Payment Dates	May 1 and November 1 of each year, commencing on November 1, 2015
Redemption	The Bonds are subject to redemption by the University prior to maturity, on any Business Day at the Make-Whole Redemption Price, as further described herein. See "THE BONDS – Redemption" herein.
Settlement Date	April 28, 2015
Dated Date	April 28, 2015
Authorized Denominations	\$1,000 and any integral multiple thereof
Form and Depository	The Bonds will be delivered solely in book-entry form through the facilities of DTC.
Use of Proceeds	The University plans to use the proceeds of this offering for general corporate purposes, including without limitation, financing and refinancing capital projects. See "PLAN OF FINANCE" and "ESTIMATED SOURCES AND USES OF PROCEEDS" herein.
Ratings	Moody's: Aaa S&P: AAA Fitch: AAA

OFFERING MEMORANDUM
Relating to
\$250,000,000
STANFORD UNIVERSITY
TAXABLE BONDS SERIES 2015

INTRODUCTION

The purpose of this Offering Memorandum, which includes the cover page, the table of contents and appendices, is to provide certain information concerning the sale and delivery by The Board of Trustees of the Leland Stanford Junior University (the "University") of its \$250,000,000 aggregate principal amount of Stanford University Taxable Bonds Series 2015 (the "Bonds"). This Introduction contains only a brief summary of certain of the terms of the Bonds being offered and a brief description of the Offering Memorandum. All statements contained in this Introduction are qualified in their entirety by reference to the entire Offering Memorandum.

Purpose of the Bonds

The University plans to use the proceeds of the Bonds for general corporate purposes, including without limitation, financing and refinancing capital projects. See "PLAN OF FINANCE" and "ESTIMATED SOURCES AND USES OF PROCEEDS" herein.

The University

Founded in 1885, The Leland Stanford Junior University is one of a select group of universities that has achieved eminence in both undergraduate and graduate education and in a broad range of academic disciplines. It is internationally recognized for the quality of its teaching and research, its distinguished faculty and its outstanding student body.

For additional information concerning the University, see Appendix A – "STANFORD UNIVERSITY (INCLUDING FINANCIAL STATEMENTS AND DISCUSSION OF FINANCIAL RESULTS)."

The Bonds

The Bonds are being issued pursuant to an Indenture of Trust, dated as of April 1, 2015 (the "Indenture"), by and between the University and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"). Pursuant to the Indenture, on each Payment Date, until the principal of and interest on the Bonds shall have been paid or provision for such payment shall have been made as provided in the Indenture, the University will pay the Trustee a sum equal to the amount payable on such Payment Date as principal of or interest on the Bonds. See "THE BONDS" herein.

Security for the Bonds

The Bonds constitute unsecured general obligations of the University. The University has other unsecured general obligations outstanding. Moreover, the University is not restricted by the Indenture or otherwise from incurring additional indebtedness. Such additional indebtedness, if issued, may be either secured or unsecured and may be entitled to payment prior to payment on the Bonds. See "SECURITY FOR THE BONDS" herein.

Miscellaneous

Included in this Offering Memorandum and the Appendices hereto are descriptions of the University, the Bonds and the Indenture. All references herein to the Indenture and other documents relating to the Bonds are qualified in their entirety by reference to such documents, and the description herein of the Bonds is qualified in its entirety by reference to the terms thereof and the information regarding the Bonds included in the Indenture. All descriptions are further qualified in their entirety by reference to laws relating to or affecting the enforcement of creditors' rights. The agreements of the University with the Holders of the Bonds are fully set forth in the Indenture, and neither any advertisement of the Bonds nor this Offering Memorandum is to be construed as constituting an agreement with the Holders of the Bonds. Insofar as any statements are made in this Offering Memorandum involving matters of opinion, regardless of whether expressly so stated, they are intended merely as such and not as representations of fact. The information and expressions of opinion herein speak only as of their date and are subject to change without notice. Neither delivery of this Offering Memorandum nor any sale made hereunder nor any future use of this Offering Memorandum shall, under any circumstances, create any implication that there has been no change in the affairs of the University.

Additional information regarding this Offering Memorandum and copies of the documents referred to herein may be obtained by contacting the Office of the Treasurer, Stanford University, 3145 Porter Drive, Palo Alto, California 94304-8440, or on-line at <http://bondholder-information.stanford.edu/home.html>. The information on the University's website is not a part of this Offering Memorandum.

PLAN OF FINANCE

The University plans to use the proceeds of the Bonds for general corporate purposes, including without limitation, financing and refinancing capital projects. See "ESTIMATED SOURCES AND USES OF PROCEEDS" herein.

The University intends to enter into a revolving credit facility with one or more banks or other financial institutions, providing for aggregate borrowings of up to \$250 million (the "Revolving Credit Facility"). Borrowings under the Revolving Credit Facility will be general unsecured obligations of the University and will be available for working capital and other general corporate purposes. Borrowings under the Revolving Credit Facility are expected to bear interest at a rate per annum equal to either: (1) a base rate (to be defined in the Revolving Credit Facility) or (2) LIBOR (to be defined in the Revolving Credit Facility), in each case, plus an applicable margin. The Revolving Credit Facility is expected to contain representations and warranties, covenants and events of default. If an event of default occurs, the lenders under the Revolving Credit Facility would be entitled to take various actions, including the acceleration of amounts due under the Revolving Credit Facility and all actions permitted to be taken by an unsecured creditor. The Revolving Credit Facility and related documentation are still under discussion and the availability of such facility will be subject to a number of conditions. Accordingly, there can be no assurance as to the specific timing or terms on which the Revolving Credit Facility will be made available, if at all.

ESTIMATED SOURCES AND USES OF PROCEEDS

The University plans to use the proceeds of the Bonds for the purposes described under "PLAN OF FINANCE" herein. The estimated sources and uses of the proceeds of the Bonds are shown below.

SOURCES:

Principal Amount of Bonds	\$250,000,000
University Contribution.....	<u>1,020,240</u>
Total Sources of Funds.....	<u>\$251,020,240</u>

USES:

Finance or Refinance Projects	\$250,000,000
Costs of Issuance ⁽¹⁾	<u>1,020,240</u>
Total Uses of Funds.....	<u>\$251,020,240</u>

- ⁽¹⁾ Costs of issuance will be paid out of the University's contribution and includes fees of the Rating Agencies, the Trustee, Counsel to the University and Underwriters' compensation, as well as certain other costs incurred in connection with the issuance and delivery of the Bonds.

THE BONDS

Description of the Bonds

The Bonds will be dated, will bear interest at the rates and will mature on the dates (subject to prior redemption) as set forth on the cover page to this Offering Memorandum. Interest on the Bonds will be calculated on the basis of a 360-day year consisting of twelve 30-day months.

The Bonds will be delivered in the form of fully registered Bonds in denominations of \$1,000 and any integral multiple thereof. The Bonds will be registered initially in the name of "Cede & Co.," as nominee of the Securities Depository and will be evidenced by one Bond for each maturity in the principal amount of the Bonds of such maturity. Registered ownership of the Bonds, or any portions thereof, may not thereafter be transferred except as set forth in the Indenture. See Appendix B – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE" attached hereto.

The principal or Make-Whole Redemption Price of the Bonds will be payable by check or by wire transfer of immediately available funds in lawful money of the United States of America at the Designated Office of the Trustee.

An "Interest Payment Date" for the Bonds will occur on May 1 and November 1 of each year commencing on November 1, 2015. Interest on the Bonds will be payable from the later of (i) the date of original issuance of the Bonds and (ii) the most recent Interest Payment Date to which interest has been paid or duly provided for. Payment of the interest on each Interest Payment Date will be made to the Person whose name appears on the bond registration books of the Trustee as the Holder thereof as of the close of business on the Record Date for each Interest Payment Date, such interest to be paid by check mailed by first class mail to such Holder at its address as it appears on such registration books, or, upon the written request of any Holder of at least \$1,000,000 in aggregate principal amount of Bonds, submitted to the Trustee at least one Business Day prior to the Record Date, by wire transfer in immediately available funds to an account within the United States designated by such Holder. Notwithstanding the foregoing, as long as Cede & Co. is the Holder of all or part of the Bonds in book-entry form, said principal or Make-

Whole Redemption Price and interest payments will be made to Cede & Co. by wire transfer in immediately available funds.

Redemption and Make-Whole Redemption Price

The Bonds are subject to redemption prior to maturity by written direction of the University, in whole or in part, on any Business Day, in such order of maturity as directed by the University, at the Make-Whole Redemption Price. The "Make-Whole Redemption Price" is the greater of (i) 100% of the principal amount of the Bonds to be redeemed or (ii) the sum of the present value of the remaining scheduled payments of principal and interest to the maturity date of the Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which the Bonds are to be redeemed, discounted to the date on which the Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate (as defined below) plus 15 basis points, plus, in each case, accrued and unpaid interest on the Bonds to be redeemed on the redemption date. The "Treasury Rate" is, as of any redemption date, the yield to maturity as of such redemption date of United States Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) that has become publicly available at least two Business Days prior to the redemption date (excluding inflation indexed securities) (or, if such Statistical Release is no longer published, any publicly available source of similar market data)) most nearly equal to the period from the redemption date to the maturity date of the Bonds to be redeemed; provided, however, that if the period from the redemption date to such maturity date is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year will be used.

Notice of Redemption

Notice of redemption will be mailed by the Trustee by first class mail, not less than 7 days (or, if longer, the minimum number of days necessary to comply with the operational requirements of the Securities Depository then in effect), nor more than 60 days prior to the redemption date, to the respective Holders of any Bonds designated for redemption at their addresses appearing on the bond registration books of the Trustee. If the Bonds are no longer held by the Securities Depository or its successor or substitute, the Trustee shall also give notice of redemption by overnight mail to such securities depositories and/or securities information services as shall be designated in a certificate of the University. Each notice of redemption shall state the date of such notice, the date of issue of the Bonds, the redemption date, the method for determining the Make-Whole Redemption Price, the place or places of redemption (including the name and appropriate address or addresses of the Trustee), the maturity (including CUSIP number, if any), and, in the case of Bonds to be redeemed in part only, the portion of the principal amount thereof to be redeemed. Each such notice will also state that on said date there will become due and payable on each of said Bonds the Make-Whole Redemption Price thereof or of said specified portion of the principal amount thereof in the case of a Bond to be redeemed in part only, and that from and after such redemption date interest thereon shall cease to accrue, and shall require that such Bonds be then surrendered.

Failure by the Trustee to give notice as described above to any one or more of the securities information services or depositories designated by the University, or the insufficiency of any such notice will not affect the sufficiency of the proceedings for redemption. Failure by the Trustee to mail notice of redemption to any one or more of the respective Holders of any Bonds designated for redemption will not affect the sufficiency of the proceedings for redemption with respect to the Holders to whom such notice was mailed.

The University may instruct the Trustee to provide conditional notice of redemption, which may be conditioned upon the receipt of moneys or any other event.

Effect of Redemption

Notice of redemption having been duly given as provided in the Indenture and as described above, and moneys for payment of the Make-Whole Redemption Price of the Bonds (or portion thereof) so called for redemption being held by the Trustee, on the date fixed for redemption designated in such notice, the Bonds (or portion thereof) so called for redemption shall become due and payable at the Make-Whole Redemption Price, interest on the Bonds so called for redemption shall cease to accrue, said Bonds (or portion thereof) will cease to be entitled to any benefit or security under the Indenture, and the Holders of said Bonds will have no rights in respect thereof except to receive payment of said Make-Whole Redemption Price from funds held by the Trustee for such payment.

Selection of Bonds for Redemption

If the Bonds are registered in book-entry only form and so long as DTC or its nominee or a successor securities depository is the sole registered owner of the Bonds, if less than all of the Bonds are called for redemption, the particular Bonds or portions thereof to be redeemed will be selected on a pro rata pass-through distribution of principal basis in accordance with DTC procedures, provided that the selection for redemption of such Bonds will be made in accordance with the operational arrangements of DTC then in effect.

It is the University's intent that redemption allocations made by DTC be made on a pro rata pass-through distribution of principal basis as described above. However, the University can provide no assurance that DTC, DTC's direct and indirect participants or any other intermediary will allocate the redemption of Bonds on such basis. If the DTC operational arrangements do not allow for the redemption of the Bonds on a pro rata pass-through distribution of principal basis, then the Bonds will be selected for redemption, in accordance with DTC procedures, by lot.

If DTC or its nominee or a successor securities depository is no longer the sole registered owner of the Bonds, if less than all of the Bonds are called for redemption, the Trustee will select the Bonds to be redeemed on a pro rata basis.

Cancellation of Bonds

The University may at any time surrender to the Trustee for cancellation by it any Bonds previously issued and delivered, which the University may have acquired in any manner whatsoever, and such Bonds, upon such surrender and cancellation, will be deemed to be paid and retired.

BOOK-ENTRY SYSTEM

The Depository Trust Company ("DTC") will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. Individual purchases of the Bonds will be made in book-entry form only. Principal of, interest on and the Make-Whole Redemption Price of the Bonds will be payable by the Trustee directly to DTC, as the registered owner of the Bonds. Upon receipt of payments of principal, interest and the Make-Whole Redemption Price, DTC is to remit such payments to the DTC Participants for subsequent disbursement to the Beneficial Owners (as defined in Appendix D) of the Bonds. One fully registered Bond certificate will be issued for each maturity of the Bonds, and will be deposited with DTC. Purchasers will not receive certificates representing the Bonds purchased by them. See Appendix D – "DTC BOOK-ENTRY SYSTEM AND GLOBAL CLEARANCE PROCEDURES."

NONE OF THE UNIVERSITY, THE TRUSTEE AND THE UNDERWRITERS WILL HAVE ANY RESPONSIBILITY OR OBLIGATIONS TO DTC PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE PAYMENTS TO OR THE PROVIDING OF NOTICE FOR DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS.

SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE BONDS, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE BONDHOLDERS OR REGISTERED OWNERS OF THE BONDS SHALL MEAN CEDE & CO. AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE BONDS.

SECURITY FOR THE BONDS

General

The Indenture provides that, on or before 11:00 a.m. (Pacific time) on each Payment Date, the University will pay the Trustee a sum equal to the amount payable on such Payment Date as principal of and interest on the Bonds, less the amounts, if any, in the Bond Fund (described below) and available therefor. In addition, the Indenture provides that each such payment made (together with other available amounts, if any, in the Bond Fund) will at all times be sufficient to pay the total amount of interest and principal (whether at maturity or upon acceleration) becoming due and payable on the Bonds on such Payment Date. If on any Payment Date, the amounts held by the Trustee in the Bond Fund are insufficient to make any required payments of principal of (whether at maturity or upon acceleration) and interest on the Bonds as such payments become due, the University is required to pay such deficiency to the Trustee.

The Bonds constitute unsecured general obligations of the University. The Bonds are not secured by a reserve fund, mortgage lien or security interest on or in any funds or other assets of the University, although certain funds and accounts are held from time to time by the Trustee for the benefit of the Holders of the Bonds under the Indenture. Pursuant to the Indenture, proceeds of the Bonds will be held by the University, rather than the Trustee, until expended, and may be commingled with general funds of the University. In addition, as described above, the University is not required to deposit with the Trustee amounts necessary to pay the principal of and interest on the Bonds until the Payment Date on which such amounts become due and payable; therefore, the funds held from time to time by the Trustee for the benefit of the Holders of the Bonds under the Indenture are expected to be minimal. Proceeds of the Bonds held by the University are not subject to any lien or charge in favor of the Holders of the Bonds and do not constitute security for the Bonds.

The Indenture does not contain any financial covenants limiting the ability of the University to incur indebtedness or encumber or dispose of its property or any other similar covenants. Further, the University is not required by the Indenture to produce revenues at any specified level or to obtain any insurance with respect to its property or operations.

The University has other unsecured general obligations outstanding. See Appendix A – "STANFORD UNIVERSITY (INCLUDING FINANCIAL STATEMENTS AND DISCUSSION OF FINANCIAL RESULTS)." Moreover, the University is not restricted by the Indenture or otherwise from incurring additional indebtedness. Such additional indebtedness, if issued, may be either secured or unsecured and may be entitled to payment prior to payment on the Bonds.

Indenture Fund

Under the Indenture, the Trustee has established a master fund for the sole benefit of the Bondholders referred to as the "Indenture Fund," containing the Bond Fund and the Redemption Fund and

each of the funds and accounts contained therein. Upon the receipt thereof, the Trustee will deposit all payments (excluding income or profit from investments) received from the University into the Indenture Fund. The University has pledged, assigned and transferred the Indenture Fund and all amounts held therein to the Trustee for the benefit of the Bondholders to secure the full payment of the principal or Make-Whole Redemption Price of and interest on the Bonds in accordance with the terms and the provisions of the Indenture. The Indenture Fund and all amounts on deposit therein constitute collateral security to secure the full payment of the principal or Make-Whole Redemption Price of and interest on the Bonds in accordance with the terms and provisions of the Indenture. Due to the timing of payments by the University to the Trustee, in general there is not expected to be any money in the Indenture Fund except for a brief period of time on the dates on which payments of principal or Make-Whole Redemption Price of or interest on the Bonds are made.

For information on other funds and accounts established by the Indenture, see Appendix B – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE" attached hereto.

ENFORCEABILITY OF REMEDIES

The remedies available to the Trustee or the Holders of the Bonds upon an Event of Default under the Indenture are in many respects dependent upon judicial actions which are often subject to discretion and delay, and such remedies may not be readily available or may be limited. In particular, under the United States Bankruptcy Code, a bankruptcy case may be filed by or against the University or by or against any of its affiliates. In general, the filing of any such petition operates as a stay against enforcement of the terms of the agreements to which the bankrupt entity is a party and, in the bankruptcy process, executory contracts such as the Indenture may be subject to assumption or rejection by the bankrupt party. In the event of any such rejection, the non-rejecting party or its assigns may become an unsecured claimant of the rejecting party. The various legal opinions to be delivered concurrently with the Bonds (including the opinions of counsel to the University) will be qualified, as to the enforceability of the various legal instruments, by limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally and by general principles of equity applied in the exercise of judicial discretion.

CERTAIN INVESTMENT CONSIDERATIONS

The following are certain investment considerations that have been identified by the University and should be carefully considered by prospective purchasers of the Bonds. The following list should not be considered to be exhaustive. Investors should read the Offering Memorandum in its entirety. Inclusion of certain factors below is not intended to signify that there are no other investment considerations or risks attendant to the Bonds. See Appendix A – "STANFORD UNIVERSITY (INCLUDING FINANCIAL STATEMENTS AND DISCUSSION OF FINANCIAL RESULTS)" for additional information about the University.

The University's stature in the educational community and its consolidated revenues, expenses, assets and liabilities may be affected by events, developments and conditions relating generally to, among other things, the ability of the University to (a) conduct educational and research activities of the types and quality required to maintain its stature, (b) generate sufficient revenues, while controlling expenses, to fund adequately the cost of these activities, (c) attract faculty, staff and management necessary to conduct these activities, (d) attract a student body of commensurate quality and (e) build and maintain the facilities necessary to conduct these activities.

Success in these areas depends upon the ability of the University and its management to respond to substantial challenges in a rapidly changing environment. For example:

(i) Volatility and dislocations in the global financial markets and other economic factors may reduce the value of the University's endowment, impact investment returns, reduce investment income distributable from the endowment for operations, affect the ability of potential donors to pledge resources or meet their pledge obligations, increase demand for financial aid, and increase interest costs on the University's debt. See Notes 5, 6, 7, 12 and 14 to the consolidated financial statements of the University for the years ended August 31, 2014 and 2013 (the "University's FY2014 Audited Financial Statements") included in Part II of Appendix A hereto.

(ii) Liquidity constraints arising from credit events may impact the University's ability to fund its commitments for operating expenses, construction, capital calls and possible tenders of variable rate debt.

(iii) The Federal Government may reduce levels of sponsored research funding and reimbursement for administrative overhead and infrastructure.

(iv) Legislation and regulation by governmental authorities may affect the tax-exempt status of, and associated tax benefits accorded to, educational institutions such as the University, or impose constraints or mandates on tuition levels and endowment payout.

(v) Municipalities in which the University operates may refuse to permit additional facility and infrastructure expansion, or impose undue costs.

(vi) Ability to recruit and retain faculty and staff may be impeded by the high regional cost of living and the limited availability of affordable housing within reasonable commuting distance.

The preservation and growth of the University's endowment are affected not only by the factors noted above but by discretionary changes in the annual payout to operations from endowment earnings, transfers of expendable funds and other distributions, all of which are subject to changes in policies and practices made by the Board of Trustees and University management.

In addition to the challenges noted above, a variety of risks, uncertainties and other factors may affect the financial strength and stature of the University. By its nature, the University is an open environment, potentially vulnerable to disruption of operations, injury and damage notwithstanding its security and public safety programs. It is subject to governmental investigations and enforcement action and private suits, and may incur substantial costs of defense, sanctions, penalties and reputational harm for violation of laws applicable to the University in its routine operations. The University is a large landowner and lessor and as such is subject to numerous environmental laws and regulations; it routinely stores, uses and produces hazardous substances in its operations; it houses several thousand students, faculty and others; it maintains confidential personal information and protected health information, including electronically, subject to information security and privacy laws. The University self-insures the first \$1,500,000 of property losses resulting from fire and other hazards, including terrorism, and carries limited property insurance for losses exceeding this amount. In addition, the University carries limited insurance for damage to facilities sustained from flooding and minimal insurance for damage to facilities due to seismic events. The University is located in a region that is subject to significant seismic activity. In the event of a significant seismic event, the University could suffer substantial damage to its facilities and disruption of its operations.

Because the financial results of the University are reported on a consolidated basis with those of its hospital affiliates (the "Hospitals"), these consolidated financial results will be affected by the financial results of the Hospitals. The Hospitals' financial results, in turn, will be affected not only by the factors set forth above but specifically by demand for the medical services they provide, inadequate third-party payments, limitations on and inadequate governmental reimbursement for medical services and graduate

medical education, increasing costs of providing indigent care, escalating costs of personnel and equipment and inpatient capacity constraints which limit the Hospitals' ability to absorb these increased costs through greater volume. In addition, adverse legislative and regulatory developments and government enforcement actions could negatively impact the Hospitals' results. Among other things, due in part to the Patient Protection and Affordable Care Act (the "ACA") enacted in 2010, the United States health care system has experienced significant changes in recent years affecting the delivery of health care services, the financing of health care costs, reimbursement of health care providers and the legal obligations of health insurers, providers, employers and consumers. These changes are ongoing and could have adverse financial impact on the Hospitals. The ACA, or aspects thereof, continues to be challenged in various venues, the outcome of which and impact on the Hospitals are unknown.

For a discussion of certain financial challenges facing the University, see Appendix A – "STANFORD UNIVERSITY (INCLUDING FINANCIAL STATEMENTS AND DISCUSSION OF FINANCIAL RESULTS) – PART I – GENERAL INFORMATION ABOUT STANFORD UNIVERSITY – Capital Improvement Programs," "– Hospitals," "– Investments" and "– Liquidity," and "– PART II, PORTIONS OF THE UNIVERSITY'S FY2014 ANNUAL FINANCIAL REPORT – Management's Discussion and Analysis – Looking Forward" attached hereto.

The events, developments and conditions described above are, or may be, of a magnitude such that they could have a material adverse effect on the financial results and condition of the University.

CERTAIN UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS

The following discussion summarizes certain U.S. federal tax considerations generally applicable to holders of the Bonds. The discussion below is based upon current provisions of the Internal Revenue Code of 1986, as amended (the "Code"), current final, temporary and proposed Treasury regulations, judicial authority and current administrative rulings and pronouncements of the Internal Revenue Service (the "IRS"). There can be no assurance that the IRS will not take a contrary view, and no ruling from the IRS has been, or is expected to be, sought on the issues discussed herein. Legislative, judicial, or administrative changes or interpretations may occur that could alter or modify the statements and conclusions set forth herein. Any such changes or interpretations may or may not be retroactive and could adversely affect the tax consequences discussed below.

TO ENSURE COMPLIANCE WITH REQUIREMENTS IMPOSED BY THE IRS, YOU ARE HEREBY NOTIFIED THAT ANY DISCUSSION OF FEDERAL TAX ISSUES CONTAINED HEREIN (I) IS WRITTEN IN CONNECTION WITH THE PROMOTION OR MARKETING OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN AND (II) IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED, BY ANY TAXPAYER FOR THE PURPOSE OF AVOIDING PENALTIES UNDER THE CODE. EACH TAXPAYER SHOULD SEEK ADVICE BASED ON THE TAXPAYER'S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

The summary is not a complete analysis or description of all potential U.S. federal tax considerations that may be relevant to, or of the actual tax effect that any of the matters described herein will have on, particular holders of Bonds and does not address U.S. federal gift or estate tax consequences, alternative minimum tax consequences or foreign, state, local or other tax consequences. This summary does not purport to address special classes of taxpayers (such as S corporations, insurance companies, financial institutions, small business investment companies, regulated investment companies, real estate mortgage investment conduits, real estate investment trusts, grantor trusts, former citizens of the United States, U.S. Holders (as defined below) whose functional currency is not the U.S. dollar, broker-dealers, traders in securities and tax-exempt organizations) that are subject to special treatment under the federal income tax laws, or persons that hold Bonds as part of a hedge against currency risk, or that are part of a

hedge, straddle, conversion, constructive ownership, constructive sale or other risk reduction or integrated transaction. This summary also does not address the tax consequences to an owner of Bonds held through a partnership or other pass-through entity treated as a partnership for U.S. federal income tax purposes. In addition, this discussion is limited to persons purchasing the Bonds for cash in this offering at their "issue price" within the meaning of Section 1273 of the Code (i.e., the first price at which a substantial amount of Bonds are sold to the public for cash), and it does not address the tax consequences to holders that purchase the Bonds after their original issuance. This discussion assumes that the Bonds will be held as capital assets within the meaning of Section 1221 of the Code.

As used herein, the term "U.S. Holder" means a beneficial owner of Bonds that is (i) an individual citizen or resident of the United States for U.S. federal income tax purposes, (ii) a corporation (or other entity classified as a corporation for U.S. federal tax purposes) created or organized in or under the laws of the United States or any state thereof or the District of Columbia, (iii) an estate, the income of which is includible in gross income for U.S. federal income tax purposes regardless of its source, or (iv) a trust if (a) a U.S. court can exercise primary supervision over the administration of such trust and one or more United States persons (within the meaning of the Code) have the authority to control all of the substantial decisions of such trust or (b) the trust has made a valid election under applicable Treasury regulations to be treated as a United States person (within the meaning of the Code). As used herein, the term "Non-U.S. Holder" means a beneficial owner of Bonds that is not a U.S. Holder.

If the liability of the University in respect of a Bond ceases as a result of an election by the University to pay and discharge the indebtedness on such Bond by depositing with the Trustee sufficient cash and/or obligations to pay or redeem and discharge the indebtedness on such Bond (a "legal defeasance"), under current tax law a Holder will be deemed to have sold or exchanged such Bond. In the event of such a legal defeasance, a Holder generally will recognize gain or loss on the deemed exchange of the Bond. Ownership of the Bond after a deemed sale or exchange as a result of a legal defeasance may have tax consequences different than those described in this "Tax Matters" section and each Holder should consult its own tax advisor regarding the consequences to such holder of a legal defeasance of a Bond.

BECAUSE INDIVIDUAL CIRCUMSTANCES MAY DIFFER, PROSPECTIVE HOLDERS OF THE BONDS ARE STRONGLY URGED TO CONSULT THEIR OWN TAX ADVISORS WITH RESPECT TO THEIR PARTICULAR TAX SITUATIONS AND AS TO ANY FEDERAL, FOREIGN, STATE, LOCAL OR OTHER TAX CONSIDERATIONS (INCLUDING ANY POSSIBLE CHANGES IN TAX LAW) AFFECTING THE PURCHASE, HOLDING AND DISPOSITION OF THE BONDS.

Certain U.S. Federal Income Tax Consequences to U.S. Holders

This section describes certain U.S. federal income tax consequences to U.S. Holders. Non-U.S. Holders should see the discussion under the heading "Certain U.S. Federal Income Tax Consequences to Non-U.S. Holders" for a discussion of certain tax consequences applicable to them.

Interest. Interest on the Bonds will generally be taxable to a U.S. Holder as ordinary interest income at the time such amounts are accrued or received, in accordance with the U.S. Holder's method of accounting for U.S. federal income tax purposes.

If a Bond is issued at a discount from its stated redemption price at maturity, and the discount is at least the product of one-quarter of one percent (0.25%) of the stated redemption price at maturity of the Bond multiplied by the number of full years to maturity, the Bond will be an "OID Bond." In general, the excess of the stated redemption price at maturity of an OID Bond over its issue price will constitute original issue discount ("OID") for U.S. federal income tax purposes. The stated redemption price at maturity of a Bond is the sum of all scheduled amounts payable on the Bond (other than qualified stated interest). The term "qualified stated interest" generally means stated interest that is unconditionally payable in cash or

property (other than debt instruments of the University), or that is treated as constructively received, at least annually at a single fixed rate or, under certain conditions, at a variable rate. U.S. Holders of OID Bonds will be required to include OID in income for U.S. federal income tax purposes as it accrues, in accordance with a constant yield method based on a compounding of interest (which may be before the receipt of cash payments attributable to such income). Under this method, U.S. Holders generally will be required to include in income increasingly greater amounts of OID in successive accrual periods.

If a Bond is issued at a price greater than the principal amount payable at maturity, a U.S. Holder generally will be considered to have purchased the Bond at a premium, and generally may elect to amortize the premium as an offset to interest income otherwise required to be included in respect of the Bond during a taxable year, using a constant-yield method, over the remaining term of the Bond. If a U.S. Holder makes the election to amortize the premium, it generally will apply to all debt instruments held by such U.S. Holder at the time of the election, as well as any debt instruments that are subsequently acquired by such U.S. Holder. In addition, a U.S. Holder may not revoke the election without the consent of the IRS. If such U.S. Holder elects to amortize the premium, such U.S. Holder will be required to reduce its tax basis in the Bond by the amount of the premium amortized during the holding period of the U.S. Holder. If such U.S. Holder does not elect to amortize premium, the amount of premium will be included in its tax basis in the Bond. Therefore, if a U.S. Holder does not elect to amortize premium and holds the Bond to maturity, the premium will decrease the amount of gain or increase the amount of loss otherwise recognized on the disposition of such Bond. Special rules for determining the amount of amortizable bond premium attributable to a debt instrument may be applicable if the debt instrument may be optionally redeemed. These rules are complex and prospective purchasers are urged to consult their own tax advisors regarding the application of the amortizable bond premium rules to their particular situation.

Disposition of the Bonds. Unless a nonrecognition provision of the Code applies, the sale, exchange, redemption (including pursuant to an offer by the University) or other disposition of a Bond, will be a taxable event for U.S. federal income tax purposes. In such event, in general, a U.S. Holder of Bonds will recognize gain or loss equal to the difference between (i) the amount of cash plus the fair market value of property received (except to the extent attributable to accrued but unpaid interest on the Bonds which will be taxed in the manner described above under "Interest") and (ii) the U.S. Holder's adjusted tax basis in the Bonds. A U.S. Holder's adjusted tax basis in a Bond generally will equal the purchase price paid by the U.S. Holder increased by any original issue discount included in income and decreased by the amount of payments, other than qualified stated interest payments, received and amortizable bond premium taken with respect to Bond. Any such gain or loss generally will be long-term capital gain or loss, provided the Bonds have been held for more than one year at the time of the disposition. The deductibility of capital losses is subject to limitations.

Medicare Tax. An additional 3.8% tax will be imposed on the net investment income (which includes interest, original issue discount and gains from a disposition of a Bond) of certain individuals, trusts and estates. Prospective investors in the Bonds should consult their tax advisors regarding the possible applicability of this tax to an investment in the Bonds.

Information Reporting and Backup Withholding. Payments of interest on the Bonds will be generally subject to IRS information reporting. In addition, under Section 3406 of the Code and applicable Treasury Regulations, a non-corporate U.S. Holder of the Bonds may be subject to backup withholding at the current rate of 28% (subject to future adjustment) with respect to "reportable payments," which include interest paid on the Bonds and the gross proceeds of a sale, exchange, redemption or retirement of the Bonds. The applicable payor will be required to deduct and withhold the prescribed amounts if (i) the payee fails to furnish a taxpayer identification number ("TIN") to the payor in the manner required, (ii) the IRS notifies the payor that the TIN furnished by the payee is incorrect, (iii) there has been a "notified payee underreporting" described in Section 3406(c) of the Code or (iv) there has been a failure of the payee to certify under penalty of perjury that the payee is not subject to withholding under Section 3406(a)(1)(C) of

the Code. Amounts withheld under the backup withholding rules may be refunded or credited against the U.S. Holder's federal income tax liability, if any, provided that the required information is timely furnished to the IRS.

Certain U.S. Federal Income Tax Consequences to Non-U.S. Holders

This section describes certain U.S. federal income tax consequences to Non-U.S. Holders.

Interest. If, under the Code, interest on the Bonds is "effectively connected with the conduct of a trade or business within the United States" by a Non-U.S. Holder, such interest will be subject to U.S. federal income tax in a similar manner as if the Bonds were held by a U.S. Holder, as described above, and in the case of Non-U.S. Holders that are corporations may be subject to U.S. branch profits tax at a rate of up to 30%, unless an applicable tax treaty provides otherwise. Such Non-U.S. Holder will not be subject to withholding taxes, however, if it provides a properly executed Form W-8ECI (subject to the discussion below concerning FATCA withholding).

Interest on the Bonds held by other Non-U.S. Holders may be subject to withholding taxes of up to 30% of each payment made to the Non-U.S. Holders unless the "portfolio interest" exemption applies (subject to the discussion below concerning FATCA withholding). In general, interest paid on the Bonds to a Non-U.S. Holder will qualify for the portfolio interest exemption, and thus will not be subject to U.S. federal withholding tax, if (i) such Non-U.S. Holder is not a "controlled foreign corporation" (within the meaning of Section 957 of the Code) related, directly or indirectly, to the University; (ii) the Non-U.S. Holder is not actually or constructively a "10-percent shareholder" under Section 871(h) of the Code; (iii) the Non-U.S. Holder is not a bank receiving interest described in Section 881(c)(3)(A) of the Code; (iv) the interest is not effectively connected with the conduct by the Non-U.S. Holder of a trade or business in the United States under Section 871(b) or Section 882 of the Code; and (v) either (a) the Non-U.S. Holder who is the beneficial owner of the obligation provides a statement signed by such person under penalties of perjury, on IRS Form W-8BEN or W-8BEN-E (or successor form), certifying that such owner is not a U.S. Holder and providing such owner's name and address or (b) a securities clearing organization, bank or other financial institution that holds the Bonds on behalf of such Non-U.S. Holder in the ordinary course of its trade or business certifies under penalties of perjury that such an IRS Form W-8BEN or W-8BEN-E (or a successor form) has been received from the beneficial owner and furnishes a copy thereof. A certificate (on IRS Form W-8BEN or W-8BEN-E (or successor form)) is effective only with respect to payments of interest made to the certifying Non-U.S. Holder after issuance of the certificate in the calendar year of its issuance and the two immediately succeeding calendar years. Alternative methods may be applicable for satisfying the certification requirement described above. Foreign trusts and their beneficiaries are subject to special rules, and such persons should consult their own tax advisors regarding the certification requirements.

If a Non-U.S. Holder does not claim, or does not qualify for, the benefit of the portfolio interest exemption, the Non-U.S. Holder may be subject to a 30% withholding tax on interest payments on the Bonds. However, the Non-U.S. Holder may be able to claim the benefit of a reduced withholding tax rate under an applicable income tax treaty between the Non-U.S. Holder's country of residence and the U.S. Non-U.S. Holders are urged to consult their own tax advisors regarding their eligibility for treaty benefits. The required information for claiming treaty benefits is generally submitted on Form W-8BEN or W-8BEN-E (or successor form). In addition, a Non-U.S. Holder may under certain circumstances be required to obtain a U.S. taxpayer identification number.

Disposition of the Bonds. Subject to the discussion below concerning FATCA withholding, a Non-U.S. Holder will generally not be subject to U.S. federal income tax or withholding tax on gain recognized on a sale, exchange, redemption, retirement, or other disposition of a Bond. (Such gain does not include proceeds attributable to accrued but unpaid interest on the Bonds, which will be treated as

interest.) A Non-U.S. Holder may, however, be subject to U.S. federal income tax on such gain if: (i) the Non-U.S. Holder is a nonresident alien individual who was present in the United States for 183 days or more in the taxable year of the disposition and certain other conditions are met under Section 871(a)(2) of the Code; or (ii) the gain is effectively connected with the conduct of a U.S. trade or business, as provided by applicable U.S. tax rules (in which case the U.S. branch profits tax may also apply), unless an applicable tax treaty provides otherwise.

Information Reporting and Backup Withholding. Certain payors must report annually to the IRS and to each Non-U.S. Holder any interest that is subject to U.S. withholding taxes or that is exempt from U.S. withholding taxes pursuant to an income tax treaty or certain provisions of the Code. Copies of these information returns may also be made available under the provisions of a specific tax treaty or agreement with the tax authorities of the country in which the Non-U.S. Holder resides.

A Non-U.S. Holder generally will not be subject to backup withholding with respect to payments of interest on the Bonds as long as the Non-U.S. Holder (i) has furnished to the applicable payor, a valid IRS Form W-8BEN or W-8BEN-E (or successor form) certifying, under penalties of perjury, its status as a non-U.S. person, (ii) has furnished to the applicable payor, other documentation upon which it may rely to treat the payments as made to a non-U.S. person in accordance with Treasury regulations, or (iii) otherwise establishes an exemption. A Non-U.S. Holder may be subject to information reporting and/or backup withholding on a sale of the Bonds through the United States office of a broker and may be subject to information reporting (but generally not backup withholding) on a sale of the Bonds through a foreign office of a broker that has certain connections to the United States, unless the Non-U.S. Holder provides the certification described above or otherwise establishes an exemption. Non-U.S. Holders should consult their own tax advisors regarding their qualification for exemption from backup withholding and the procedure for obtaining such an exemption.

Amounts withheld under the backup withholding rules may be refunded or credited against the Non-U.S. Holder's U.S. federal income tax liability, if any, provided that the required information is timely furnished to the IRS.

FATCA Withholding

Under legislation commonly referred to as the "Foreign Account Tax Compliance Act" ("FATCA"), a withholding tax of 30% is generally applied to payments of (i) interest on a debt obligation of a U.S. issuer on or after July 1, 2014, and (ii) gross proceeds from the sale or other disposition of such a debt obligation on or after January 1, 2017, in each case made to (a) a foreign financial institution (as a beneficial owner or as an intermediary), unless such institution enters into an agreement with the U.S. government (or is required by applicable local law) to collect and provide to the United States or other relevant tax authorities certain information regarding U.S. account holders of such institution or unless the institution is otherwise exempt from FATCA; or (b) a foreign entity that is not a financial institution (as a beneficial owner or as an intermediary), unless such entity provides the withholding agent with a certification that it does not have any substantial U.S. owners or identifying its substantial U.S. owners, which generally includes any specified U.S. person that directly or indirectly owns more than a specified percentage of such entity, or unless such entity is otherwise exempt from FATCA. Under applicable regulations, this legislation generally will not apply to a debt obligation outstanding on July 1, 2014, unless such debt obligation undergoes a "significant modification" (within the meaning of the applicable Treasury regulations promulgated under the Code) after such date. Investors are encouraged to consult with their own tax advisors regarding the implications of this legislation and the applicable regulations on their investment in a Bond.

THE FOREGOING SUMMARY IS INCLUDED HEREIN FOR GENERAL INFORMATION ONLY AND DOES NOT DISCUSS ALL ASPECTS OF U.S. FEDERAL INCOME TAXATION THAT

MAY BE RELEVANT TO A PARTICULAR HOLDER OF BONDS IN LIGHT OF THE HOLDER'S PARTICULAR CIRCUMSTANCES AND INCOME TAX SITUATION. PROSPECTIVE INVESTORS ARE URGED TO CONSULT THEIR OWN TAX ADVISORS AS TO ANY TAX CONSEQUENCES TO THEM FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF BONDS, INCLUDING THE APPLICATION AND EFFECT OF STATE, LOCAL, FOREIGN AND OTHER TAX LAWS.

ERISA AND OTHER BENEFIT PLAN CONSIDERATIONS

The Employee Retirement Income Security Act of 1974, as amended ("ERISA"), imposes certain fiduciary obligations and prohibited transaction restrictions on employee pension and welfare benefit plans subject to ERISA ("ERISA Plans") and the fiduciaries of such plans. Section 4975 of the Code imposes similar prohibited transaction restrictions on tax-qualified retirement plans described in Section 401(a) and 403(a) of the Code, which are exempt from tax under Section 501(a) of the Code, other than governmental and church plans as defined herein ("Qualified Retirement Plans"), and on Individual Retirement Accounts/Annuities ("IRAs") described in Section 408(a) and 408(b) of the Code and certain other tax favored accounts (collectively, "Tax-Favored Plans"). Certain employee benefit plans, such as governmental plans (as defined in Section 3(32) of ERISA), and, if no election has been made under Section 410(d) of the Code, church plans (as defined in Section 3(33) of ERISA), are not subject to ERISA requirements. Additionally, such governmental and non-electing church plans are not subject to the requirements of Section 4975 of the Code.

Under ERISA and the Code, any person who exercises any discretionary authority or control over the administration of an ERISA Plan or Tax-Favored Plan and entities whose underlying assets include plan assets by reason of ERISA Plans or Tax-Favored Plans investing in such entities (collectively, "Benefit Plans") or the management or disposition of the assets of a Benefit Plan, or who renders investment advice for a fee or other compensation to an ERISA Plan, is generally considered to be a fiduciary of the Benefit Plan. In considering an investment in the Bonds of a portion of the assets of any Benefit Plan, a fiduciary should determine, particularly in light of the risks and lack of liquidity inherent in an investment in the Bonds, whether the investment is in accordance with the documents and instruments governing the Benefit Plan and the applicable provisions of ERISA, the Code or any similar law relating to a fiduciary's duties to the Benefit Plan including, without limitation, the prudence, diversification, delegation of control and prohibited transaction provisions of ERISA, the Code and any other applicable similar laws.

In addition to the imposition of general fiduciary obligations under ERISA, including those of investment prudence and diversification and the requirement that a plan's investment be made in accordance with the documents governing the plan, Section 406 of ERISA and Section 4975 of the Code prohibit a broad range of transactions involving assets of Benefit Plans and persons who have certain specified relationships to the Benefit Plans ("Parties in Interest" or "Disqualified Persons"), unless a statutory or administrative exemption is available. Certain Parties in Interest or Disqualified Persons that participate in a prohibited transaction may be subject to a penalty or an excise tax imposed pursuant to Section 502(i) of ERISA or Section 4975 of the Code unless a statutory or administrative exemption is available.

Certain transactions involving the purchase, holding or transfer of the Bonds might be deemed to constitute prohibited transactions under ERISA or the Code if assets of the University were deemed to be assets of a Benefit Plan. Under final regulations issued by the United States Department of Labor, as modified by ERISA (the "Plan Assets Regulation"), the assets of the University would be treated as plan assets of a Benefit Plan for the purposes of ERISA and the Code only if the Benefit Plan acquires an "equity interest" in the University and none of the exceptions contained in the Plan Assets Regulation is applicable. An equity interest is defined under the Plan Assets Regulation as an interest in an entity other than an instrument which is treated as indebtedness under applicable local law and which has no substantial equity features. Fiduciaries with respect to Benefit Plans should consult their own advisors as to whether

the Bonds are treated as debt without substantial equity features for purposes of the Plan Assets Regulation. However, without regard to whether the Bonds are treated as an equity interest for such purposes, the acquisition or holding of Bonds by or on behalf of a Benefit Plan could be considered to give rise to a prohibited transaction if the University or the Trustee, or any of their respective affiliates, is or becomes a Party in Interest or a Disqualified Person with respect to such Benefit Plan. In such case, certain exemptions from the prohibited transaction rules could be applicable depending on the type and circumstances of the plan fiduciary making the decision to acquire a Bond.

The Bonds may not be sold or transferred to any person who does not represent and covenant, and each purchaser, by its purchase of the Bonds, shall be deemed to have represented and covenanted, that either (A) it is not acquiring the Bonds for or on behalf of, and will not transfer the Bonds to any Tax-Favored Plan or (B) the purchase and holding of the Bonds for or on behalf of a Tax-Favored Plan, foreign plan, governmental plan or church plan will not constitute a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code, or in the case of a foreign plan, governmental plan or church plan that is subject to laws similar to ERISA, under the provisions of such laws.

Any ERISA Plan fiduciary considering whether to purchase Bonds on behalf of a Benefit Plan should consult with its counsel regarding the applicability of the fiduciary responsibility and prohibited transaction provisions of ERISA and the Code to such investment and the availability of any of the exemptions referred to above. Persons responsible for investing the assets of Tax-Favored Plans that are not ERISA Plans or any plans that are subject to similar laws should seek similar counsel with respect to the prohibited transaction provisions of the Code and the applicability of any similar state, federal, local or foreign law.

UNDERWRITING

The University has entered into a purchase contract with the Underwriters listed on the cover hereof for whom Barclays Capital Inc. is acting as representative, and the Underwriters have agreed to purchase the Bonds from the University at a purchase price of \$250,000,000 (representing the par amount of the Bonds). The Underwriters' compensation is \$640,550, which will be paid by the University from its own funds on the date of issuance of the Bonds. The purchase contract pursuant to which the Bonds are being sold provides that the Underwriters will purchase not less than all of the Bonds. The Underwriters' obligation to make such purchase is subject to certain terms and conditions set forth in the purchase contract, including the approval of certain legal matters by counsel and certain other conditions.

The Underwriters may offer and sell the Bonds to certain dealers and others at a price lower than the initial offering price. The offering price of Bonds may be changed from time to time by the Underwriters.

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include sales and trading, commercial and investment banking, lending, advisory, investment management, investment research, principal investment, hedging, market making, brokerage and other financial and non-financial activities and services. Under certain circumstances, the Underwriters and their affiliates may have certain creditor and/or other rights against the University and its affiliates in connection with such activities.

In the ordinary course of their various business activities, the Underwriters and their respective affiliates, officers, directors and employees may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of their customers, and such investment and trading activities may involve or relate to assets, securities and/or instruments of the University (directly, as collateral securing other obligations or otherwise) and/or persons and entities with

relationships with the University. The Underwriters and their respective affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

CERTAIN RELATIONSHIPS

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

ANNUAL REPORTS

The University routinely posts its annual report containing financial information on its website (<http://bondholder-information.stanford.edu/financials/index.html>). The information contained in the University's website is not a part of this Offering Memorandum and is not incorporated by reference herein.

REGULATORY MATTERS AND LITIGATION

There is no litigation pending concerning the validity of the Bonds. The University is, however, a party to certain other litigation which is described in "Regulatory Matters and Litigation" in Appendix A.

APPROVAL OF LEGALITY

Legal matters incident to validity of the Bonds and certain other matters are subject to the approving opinion of Ropes & Gray LLP, counsel to the University. The proposed form of opinion of counsel to the University relating to the validity of the issuance of the Bonds and certain other matters is attached hereto as Appendix C. In addition, certain other legal matters will be passed upon for the University by the General Counsel to the University, and for the Underwriters by their counsel, Hawkins Delafield & Wood LLP. None of the firms named above undertakes any responsibility to Holders of the Bonds for accuracy, completeness or fairness of this Offering Memorandum.

INDEPENDENT ACCOUNTANTS

The financial statements as of August 31, 2014 and 2013 and for the years then ended included in Part II of Appendix A of this Offering Memorandum have been audited by PricewaterhouseCoopers LLP, independent accountants, as stated in their report appearing herein.

RATINGS

The Bonds have been given an "Aaa" rating by Moody's, an "AAA" rating by S&P and an "AAA" rating by Fitch. An explanation of the significance of the ratings given can be obtained from Moody's at 7 World Trade Center at 250 Greenwich Street, Public Finance Group, 23rd Floor, New York, New York 10007, from S&P at 55 Water Street, New York, New York 10041 and from Fitch at One State Street Plaza, New York, New York, 10004. Such ratings reflect only the views of Moody's, S&P and Fitch, respectively, and there is no assurance that any of the ratings, if received, will continue for any given period of time or that any of the ratings will not be lowered or withdrawn entirely if, in the judgment of Moody's, S&P or Fitch, circumstances so warrant. Neither the University nor the Underwriters have undertaken any responsibility either to bring to the attention of the Holders of the Bonds any proposed change in or withdrawal of the ratings received or to oppose any such proposed revision. Any such change in or withdrawal of the ratings received could have an adverse effect on the market price of the Bonds.

MISCELLANEOUS

All quotations from, and summaries and explanations of, the Indenture and of other statutes and documents contained herein do not purport to be complete, and reference is made to said documents and statutes for full and complete statements of their provisions. Copies in reasonable quantity of the Indenture may be obtained upon request directed to the Underwriters or the University.

Any statements in this Offering Memorandum involving matters of opinion are intended as such and not as representations of fact. This Offering Memorandum is not to be construed as a contract or agreement between the University and Holders of any of the Bonds.

The execution and delivery of this Offering Memorandum has been duly authorized by the University.

THE BOARD OF TRUSTEES OF
THE LELAND STANFORD JUNIOR UNIVERSITY

April 21, 2015

By: /s/ M. Suzanne Calandra
Senior Associate Vice President for Finance

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APPENDIX A

STANFORD UNIVERSITY (INCLUDING FINANCIAL STATEMENTS AND DISCUSSION OF FINANCIAL RESULTS)

Part I of this Appendix A contains general information with respect to Stanford. Part II consists of portions of the University's Annual Financial Report for the fiscal years ended August 31, 2014 and 2013 (the "University's FY2014 Annual Financial Report"), which includes management's discussion and analysis, selected financial and other data, the independent auditor's report, and the University's consolidated financial statements for the years ended August 31, 2014 and 2013 (the "University's FY2014 Audited Financial Statements"). Financial information presented in Part I of this Appendix A with respect to the University relates solely to the University; financial information regarding the University and its affiliates is stated both separately and on a consolidated basis in the University's FY2014 Audited Financial Statements.

PART I

GENERAL INFORMATION ABOUT STANFORD UNIVERSITY

Founded in 1885, The Leland Stanford Junior University ("Stanford" or the "University") is one of a select group of universities that has achieved eminence in both undergraduate and graduate education and in a broad range of academic disciplines. It is internationally recognized for the quality of its teaching and research, its distinguished faculty and its outstanding student body.

Academic and Research Programs

Stanford is a major research and teaching university offering a wide range of undergraduate, graduate and professional degree programs. The Schools of Earth, Energy & Environmental Sciences, Engineering, and Humanities and Sciences (which includes the core humanities, fine arts, languages and literature, the social sciences, mathematics, and the natural sciences) offer undergraduate and graduate degree programs. The Schools of Business, Education, Law and Medicine offer graduate and professional degree programs. Undergraduate students have access to a wide variety of undergraduate majors and to classes and research opportunities in all seven Schools. Degree programs are offered by departments and through interdepartmental programs involving multiple departments in one or more Schools. The University, its Schools and its academic programs hold appropriate accreditations.

Stanford's research enterprise extends throughout the University. Multidisciplinary research is conducted in the schools, independent laboratories, institutes and research centers which engage faculty and students from across the University. The SLAC National Accelerator Laboratory operates advanced X-ray facilities and conducts research in materials, energy, structural biology and particle physics. Extensive library and archival resources are available through the Stanford University Libraries and Academic Information Resources and the Hoover Institution on War, Revolution and Peace.

Governance and Management

Board of Trustees. Stanford is a trust with corporate powers under the laws of the State of California. The Internal Revenue Service has determined the University to be a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. Under the provisions of the founding grant of Senator Leland Stanford and Jane Lathrop Stanford and related organizational documents of the University (the "Founding Grant"), the Board of Trustees is custodian of the endowment and all the properties of the University. The Board administers the invested funds, and has the ultimate authority

over the annual budget and policies for operation and control of the University. The powers and duties of the Board of Trustees derive from a combination of the Founding Grant, amendments to the Founding Grant, and legislation and court decrees specific to Stanford. In addition, the Board operates under its own bylaws and a series of resolutions on major policy. The Board conducts its business through standing committees, currently consisting of the Committees on Academic Policy, Planning and Management; Alumni and External Affairs; Audit and Compliance; Development; Finance; Land and Buildings; Stanford Medicine; and Trusteeship. The Board consists of a minimum of 25 and a maximum of 38 Trustees, including the President of the University as a Trustee *ex officio* and with vote, up to 29 Trustees nominated and elected by the Board, and up to eight Trustees nominated by University alumni and elected by the Board.

The following table lists the members of the Board of Trustees as of April 1, 2015.

Steven A. Denning (<i>Chair</i>)	Frank D. Lee
Fred W. Alvarez	Bernard Liautaud
Robert M. Bass	Susan R. McCaw
Brook H. Byers	Lloyd M. Metz
James E. Canales	Hamid R. Moghadam
Bret E. Cornolli	Kenneth E. Olivier
RoAnn Costin	Paul A. Ormond
James G. Coulter	Ruth M. Porat
Deborah A. DeCotis	Jeffrey S. Raikes
Bruce W. Dunlevie	Mindy B. Rogers
Angela S. Filo	Victoria B. Rogers
Armando Garza	Kavitark Ram Shriram
John A. Gunn	Ronald P. Spogli
Gail B. Harris	Srinija Srinivasan
Christine U. Hazy	Isaac Stein
John L. Hennessy	Thomas F. Steyer
Laurene Powell Jobs	Gene T. Sykes*
Ronald B. Johnson	Vaughn C. Williams
LaTonia G. Karr	Jerry Yang

** Managing Director at Goldman, Sachs & Co., which is serving as underwriter in connection with the issuance of the Bonds. The University believes that the participation of Goldman, Sachs & Co. in this offering is on terms no less favorable than could be obtained from other parties.*

Administration. The Founding Grant prescribes that the Board of Trustees appoints the President of the University. The Board of Trustees delegates the responsibility to the President to prescribe the duties of professors and teachers, to set the course of study and the mode and manner of teaching and to exercise all other necessary powers relating to the educational, research, financial and business affairs of the University, including the operation of the physical plant. The President appoints, subject to confirmation by the Board, the Provost and the other Officers of the University. The Stanford Management Company is the operating division of the University responsible for the management of the University's investment assets.

The following table sets forth in summary form certain members of the principal administration of the University as of April 1, 2015.

University Officers	University Cabinet
John L. Hennessy <i>President</i>	Ann M. Arvin <i>Vice Provost and Dean of Research</i>
John W. Etchemendy <i>Provost</i>	Harry J. Elam Jr. <i>Vice Provost for Undergraduate Education</i>
David F. Demarest <i>Vice President for Public Affairs</i>	Chi-Chang Kao <i>Director, SLAC National Accelerator Laboratory</i>
David A. Jones <i>Vice President for Human Resources</i>	Patricia J. Gumport <i>Vice Provost for Graduate Education</i>
Randall S. Livingston <i>Vice President for Business Affairs and Chief Financial Officer</i>	M. Elizabeth Magill <i>Dean, School of Law</i>
William J. Madia <i>Vice President for SLAC National Accelerator Laboratory</i>	Pamela A. Matson <i>Dean, School of Earth, Energy and Environmental Sciences</i>
Robert C. Reidy <i>Vice President for Land, Buildings and Real Estate</i>	Lloyd Minor <i>Dean, School of Medicine</i>
Martin W. Shell <i>Vice President for Development</i>	John Mitchell <i>Vice Provost for Teaching and Learning</i>
Howard E. Wolf <i>Vice President for Alumni Affairs and President, Stanford Alumni Association</i>	Persis Drell <i>Dean, School of Engineering</i>
Debra L. Zumwalt <i>Vice President and General Counsel</i>	John Raisian** <i>Director, Hoover Institution on War, Revolution and Peace</i>
Stanford Management Company	Richard P. Saller <i>Dean, School of Humanities and Sciences</i>
John F. Powers* <i>President and Chief Executive Officer</i>	Garth Saloner <i>Dean, Graduate School of Business</i>
	Deborah Stipek <i>Dean, Graduate School of Education</i>

* Will step down April 30, 2015, and be succeeded by Robert F. Wallace.

** Will step down August 30, 2015, and be succeeded by Thomas Gilligan.

Faculty and Staff

For the 2014 fall quarter, the Stanford professoriate had 2,118 members. Of those, 54% hold tenure, and more than 99% hold the highest degrees in their respective fields. The Academic Council comprises the main body of the faculty. Of its 1,624 members, 1,474 are tenure-line faculty, and 150 are non-tenure line faculty such as Senior Fellows and those holding teaching, research, clinical or performance titles. The student-Academic Council ratio (including only matriculated undergraduate and graduate students) is approximately 9.9 to 1.

As of August 31, 2014, the University, including the SLAC National Accelerator Laboratory, employed 12,578 non-academic staff members. Of these employees, 1,197 were represented by the Service Employees International Union, and 27 were police officers represented by the Stanford Deputy Sheriffs' Association. Contracts between the University and those unions expire on August 31, 2019 and July 31, 2015, respectively.

Students

For the 2014 fall quarter, the University enrolled 7,018 undergraduate and 9,118 graduate students. During academic year 2013-2014, 1,651 bachelor degrees and 3,292 advanced degrees were conferred. The following table provides a summary for the last five academic years of undergraduate and graduate applications, admissions and enrollment.

Academic Year	Undergraduate ⁽¹⁾⁽²⁾			Graduate ⁽²⁾		
	<u>Applications</u>	<u>Admissions</u>	<u>Enrollment</u>	<u>Applications</u>	<u>Admissions</u>	<u>Enrollment</u>
2010-11	33,275	2,365	1,694	37,983	4,580	2,608
2011-12	35,761	2,495	1,754	38,750	4,570	2,628
2012-13	38,144	2,457	1,796	41,855	4,439	2,582
2013-14	40,491	2,241	1,705	41,539	4,479	2,630
2014-15	43,931	2,178	1,707	43,992	4,399	2,625

⁽¹⁾ Includes both freshman and transfer students.

⁽²⁾ Fall only.

Tuition, Fees and Financial Aid

Stanford is committed to a policy of "need-blind" admission for eligible U.S. citizens and permanent resident undergraduate students. For academic year 2013-14, 47% of undergraduates were awarded need-based scholarships and grants from Stanford. In general, eligible Stanford undergraduates receive other financial assistance in the form of government and private scholarships and grants, student employment and low-interest student loans.

The following table provides a summary of Stanford's undergraduate tuition, average room and board expenses and average financial aid per undergraduate student for the academic years 2010-11 through 2015-16.

<u>Academic Year</u>	<u>Tuition</u>	<u>Room and Board</u>	<u>Total</u>	<u>Average Financial Aid⁽¹⁾</u>
2010-11	\$38,700	\$11,876	\$50,576	\$17,555
2011-12	40,050	12,291	52,341	18,519
2012-13	41,250	12,721	53,971	18,477
2013-14	42,690	13,166	55,856	18,444
2014-15	44,184	13,631	57,815	19,000 ⁽²⁾
2015-16	45,729	14,107	59,836	n/a

⁽¹⁾ Stanford-funded scholarship aid awarded on the basis of financial need divided by the average number of undergraduate students enrolled in the fall, winter and spring quarters.

⁽²⁾ Average Financial Aid amount for 2014-15 is an estimate.

Graduate student financial aid is awarded based on academic merit and the availability of funds and consists of fellowships, stipends, and trainee/assistantships. Stanford participates in the Federal Perkins student loan program, available to undergraduate, graduate and professional students. Stanford also provides a gift funded institutional loan program. Student loan receivables, net of allowances for doubtful accounts, were \$81.4 million and \$78.4 million as of August 31, 2014 and 2013, respectively.

The Stanford Campus and Other Real Property

Stanford's campus consists of approximately 8,200 acres of land owned by the University near Palo Alto, California, much of which was given to the University under the Founding Grant on the condition that the lands subject to the grant may not be sold. The campus includes land located in six different cities and counties. In addition to the lands utilized for educational, research, athletic, patient care and related purposes, a portion of Stanford lands are leaseholds related to commercial, residential, agriculture and other developments that provide rental income for the University. Much of the University's other land remains undeveloped and is used primarily for agricultural purposes.

Stanford also owns real property elsewhere. Some of this property has been acquired for expansion or relocation of programs, including approximately 35 acres in Redwood City, California. The University also owns facilities for use in study programs in Pacific Grove, California, the District of Columbia and Berlin, Germany.

Capital Improvement Programs

The University makes a significant investment in its facilities for teaching, research and related activities. The University's Capital Budget and three-year Capital Plan are based on a projection of major capital projects that the University will pursue in support of the academic mission. The fiscal year 2015 Capital Budget approved by the Board of Trustees is \$655.4 million and represents the anticipated capital expenditures in the first year of the rolling three-year Capital Plan. The fiscal year 2015-2017 Capital Plan includes projects with estimated total costs of \$2.8 billion. Estimated funding sources for projects under the current Capital Plan consist of \$516.9 million of gifts, \$518.7 million of reserves and other funds, \$329.4 million of resources expected to be identified in the course of annual capital planning, and

\$1,471.1 million of debt. Additional debt will be required to bridge timing differences between project expenditures and the receipt of gifts. The Capital Budget and the Capital Plan are both subject to change based on funding availability, budget affordability and university priorities.

In 2000, the Santa Clara County Board of Supervisors approved a General Use Permit (the "2000 GUP") and the Stanford University Community Plan (the "Community Plan"), updating and extending the general use permit and plan previously in force since 1989. These documents govern the use and development of University lands within the County. Any change to either document is subject to the approval of the Santa Clara County Board of Supervisors. The 2000 GUP permits Stanford to develop approximately 2,000,000 square feet of new academic facilities and approximately 3,000 new housing units for students, faculty and staff. The 2000 GUP contains a number of significant restrictions and conditions upon which such developments are contingent. Through August 31, 2014, projects using approximately 1,400,000 gross square feet of the GUP allotment had been completed or were under construction and approximately 1,890 housing units were added.

Hospitals

The University is the sole member of Stanford Health Care ("SHC"), known as Stanford Hospital and Clinics, and Lucile Salter Packard Children's Hospital at Stanford ("LPCH") (collectively, the "Hospitals"). SHC and LPCH are each separate not-for-profit public benefit corporations operating the adult and pediatric hospitals and clinics, respectively, which together with the University's School of Medicine and its clinical faculty, comprise and are known in the marketplace as Stanford Medicine. Each Hospital corporation has its own management with responsibility for its own financial reporting (see Stanford University's FY2014 Annual Financial Report included as Part II of this Appendix A under the caption "Management Responsibility for Financial Statements"). Management of each Hospital reports to the chief executive officer of that Hospital, and the chief executive officer reports to the board of directors appointed for that Hospital. Management of the Hospitals does not report to management of the University. Each Hospital has its own separate liabilities, including bond debt obligations. The University and the Hospitals are not obligated to pay the debt of each other, and the University and the Hospitals receive separate bond ratings from the rating agencies.

The Hospitals obtained approval from local authorities to construct new facilities to address seismic requirements and to meet the health care needs of the community. The facilities had a projected total cost of approximately \$3.2 billion as of August 31, 2014. The Hospitals have informed the University that the sources of funding for such capital requirements include operating surpluses, gifts, government grants and bond proceeds. For this purpose, each of the Hospitals undertook financings in FY2012, LPCH undertook an additional financing in FY2014, and the Hospitals may undertake additional financings in the future. (See also "Certain Investment Considerations" in the forepart of this Offering Memorandum.)

Regulatory Matters and Litigation

The University is subject to various suits, audits, investigations and other legal proceedings in the course of its operations. The University's ultimate liability, if any, for these legal proceedings is not determinable at present. However, no proceedings are pending or threatened that, in management's opinion, would be likely to have a material adverse effect on the University's financial position, except for the claims described in the following paragraph, as to which no determination of materiality has been made.

Environmental Matters. On January 29, 2013, two environmental advocacy groups filed a complaint in the United States District Court for the Northern District of California alleging violations of

the Endangered Species Act (the "ESA"). A second amended complaint, the operative complaint, was filed on May 20, 2013 and it alleges that the University operates and maintains the Searsville Dam and Reservoir located on its campus and diverts water in the San Francisquito Creek watershed in a manner that violates the ESA by "taking" (which in the ESA means killing or injuring, or creating the likelihood of killing or injuring) three protected species—the Central California Coast ("CCC") steelhead, San Francisco garter snake and California red-legged frog—without proper authorization. Trial is currently set for December 2015.

On March 14, 2014, two environmental advocacy groups (the same groups that filed the above complaint) filed a new action in the United States District Court for the Northern District of California against the University. This new complaint alleges violations of both the ESA and the Clean Water Act (the "CWA"). Specifically, it alleges that the University is (1) taking CCC steelhead in violation of the ESA by operating and maintaining certain installations located on the campus and in the San Francisquito watershed without proper authorization; and (2) violating the CWA by discharging sediment and other pollutants into a creek and by placing and maintaining fill materials in a creek without proper authorization. No trial date has been set for this action.

Both complaints seek declaratory and injunctive relief, as well as attorneys' fees and costs. No determination of materiality has been made regarding either complaint because discovery has not been completed in the first action and has not commenced in the second action and because prior to the filing of the complaints the University was already considering measures that would moot substantial portions of the complaints. The University believes that it has not violated the ESA or the CWA and intends to vigorously defend against all of these claims.

Title IX. In February 2015, the University was notified by the Office for Civil Rights, Department of Education, that it had received a complaint from a student alleging that Stanford had not promptly and equitably resolved an allegation of an off-campus incident of sexual violence. The University is among over 100 colleges and universities currently under investigation or monitoring by the Office for Civil Rights relating to Title IX concerns. The University is cooperating in the review.

Investments

At August 31, 2014, the University held investments with a fair value of approximately \$27.8 billion. The following table summarizes the fair value of the University's investments for each of the past five fiscal years. The table below should be read in conjunction with the University's FY2014 Audited Financial Statements and prior years' financial statements.

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

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Total Investments	\$27,828,590	\$24,703,407	\$22,246,700	\$21,189,487	\$17,803,361
Less: Permanently Restricted Investments	<u>6,037,754</u>	<u>5,681,957</u>	<u>5,440,119</u>	<u>5,143,249</u>	<u>4,836,938</u>
Unrestricted and Temporarily Restricted Investments	<u>\$21,790,836</u>	<u>\$19,021,450</u>	<u>\$16,806,581</u>	<u>\$16,046,238</u>	<u>\$12,966,423</u>

Liquidity

Management monitors the University's cash, cash equivalents and investments to maintain adequate liquidity to cover its outstanding commitments. The University has significant contractual commitments outstanding to limited partnership and other investment vehicles and major construction projects (see discussion under the caption "Capital Improvement Programs" above and in Note 5, "Investments," and Note 20, "Commitments and Contingencies," to the University's FY2014 Audited Financial Statements included in Part II of this Appendix A).

Management intends to complement the University's debt and commercial paper portfolio with a \$250 million unsecured revolving credit facility to provide additional support for short-term funding needs (see discussion under "PLAN OF FINANCE" in the forepart of this Offering Memorandum).

PART II

PORTIONS OF THE UNIVERSITY'S FY2014 ANNUAL FINANCIAL REPORT

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MANAGEMENT'S DISCUSSION AND ANALYSIS

FY14 FINANCIAL HIGHLIGHTS

Stanford's consolidated FY14 financial results continue to benefit from excellent investment performance, strong health care services revenues, and generous donor support. Consolidated operating revenues exceeded expenses by \$535 million, compared to \$565 million in FY13. Consolidated net assets increased \$4.1 billion to end the year at \$33.8 billion. These results reflect the combined financial position and results of the University and the Hospitals, including their respective entities.

Excellent investment performance.

Consolidated investment returns in FY14 were \$4.3 billion, equal to 16.1% of beginning of year investment balances. During FY14, U.S. public and private equity markets, particularly venture capital, delivered strong returns, bolstered by the low-interest-rate environment and ongoing economic recovery. Total consolidated investments at August 31, 2014 were \$30.5 billion, up \$3.5 billion over the prior year.

The Merged Pool (MP) held \$25.3 billion of the consolidated investments at August 31, 2014, including \$23.0 billion of the University's endowment and expendable fund assets and \$2.3 billion of the Hospitals' investments. The MP is a diversified portfolio of actively managed public and private equity, absolute return, natural resources and real estate assets. An analysis of the MP investment strategy and performance is included in the Report from the Stanford Management Company.

Strong health care services revenues.

Consolidated health care services revenues represented approximately 50% of consolidated revenues in FY14. Over the last 5 years, health

care services have become a more substantial component of the consolidated enterprise. See additional discussion below.

Generous donor support. Gifts to the University and the Hospitals totaled \$982 million in FY14.

The University's Office of Development reported gifts benefiting the University and Stanford Health Care (SHC) of \$928 million from a record number of donors for the fifth year in a row—over 82,300 alumni, parents, friends, and other supporters. This amount includes \$265 million in support of the School of Medicine and SHC, but does not include \$54 million of gifts raised for Lucile Packard Children's Hospital at Stanford, which raises funds independently. These results are a testament to the direction and vision of the University and an endorsement of Stanford's mission.

Below are additional details about the University's and Hospitals' financial position, financial results and operations.

University

FY14 net assets increased 14% to \$29.2 billion compared to \$25.7 billion in the prior year. The University's endowment ended the year at an all-time high of \$21.4 billion, exceeding last year's \$18.7 billion.

OPERATING RESULTS

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

The University ended the year with a surplus from operations of \$214 million compared to \$165 million in FY13. FY14 operating revenues increased 9% compared to an increase in expenses of 8% during the same period.

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

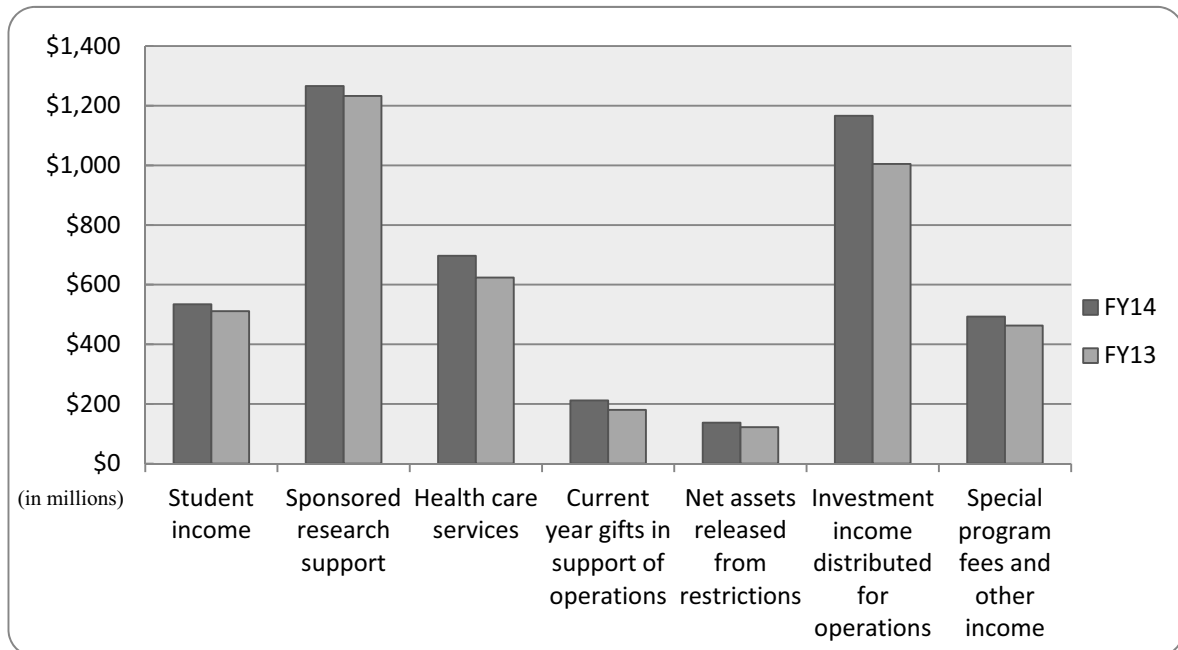
OPERATING REVENUES

FY14 operating revenues were \$4.5 billion, reflecting a 9% increase over FY13. The University's operating revenue categories are shown in Figure 1.

tuition increases ranging from 3.5% to 3.9%. Revenues from room and board increased 4% in FY14 primarily due to an increase in room and board rates and higher graduate student occupancy. Average undergraduate and graduate enrollment was down .5% and up .7%, respectively, from the previous year.

Financial aid increased \$7.3 million or 3% in FY14 to \$249 million, slightly less than the increase in tuition rates and consistent with less need for aid based on current economic conditions. Stanford's commitment to keeping a Stanford education affordable remains unchanged.

**FIGURE 1
OPERATING REVENUES**



Student Income

Total student income, which represents 12% of University operating revenues, increased 4% to \$534 million in FY14. Total student income includes tuition and fees from undergraduate and graduate programs and room and board; this amount is partially offset by financial aid consisting of assistance in the form of scholarship and fellowship grants that cover a portion of tuition, living and other costs. Revenues from student tuition and fees increased nearly 4% in FY14 primarily as a result of undergraduate and graduate

Stanford is committed to a policy of "need-blind" admission for eligible U.S. citizens and permanent resident undergraduate students. In FY14, approximately 50% of undergraduates were awarded need-based scholarships and grants from Stanford. In general, eligible Stanford undergraduates receive additional financial assistance in the form of other scholarships and grants, student employment and low-interest student loans.

Graduate student financial aid is awarded based on academic merit and the availability of aid and consists of fellowships, stipends, and trainee/assistantships. For accounting purposes, fellowships are included in financial aid, stipends in other operating expenses, and trainee/assistantships in salaries and benefits. Over 85% of graduate students receive financial support, including University, federal and privately funded fellowships, and teaching and research assistantships.

Stanford participates in the Federal Perkins student loan program, available to undergraduate, graduate and professional students. Stanford also provides a gift funded institutional loan program. Student loan receivables, net of allowances for doubtful accounts, were \$81 million and \$78 million as of August 31, 2014 and 2013, respectively.

Sponsored Research Support

Sponsored research support represents 28% of the University's operating revenues. FY14 sponsored research support increased to \$1.3 billion, nearly 3% over FY13.

The majority of the University's sponsored research support (81% including the SLAC National Accelerator Laboratory—"SLAC") is received directly or indirectly from the federal government. The largest federal sponsor, the Department of Health and Human Services, provided revenue of \$412 million in FY14 compared to \$414 million in the prior year, primarily through the National Institutes of Health. Most of these funds support research within the University's School of Medicine.

The U.S. Department of Energy provided the majority of the \$369M in federal research support for SLAC in FY14, up 5% from FY13. Annual federal research support for the laboratory varies depending on the size and scope of construction in process. In FY14 SLAC received approximately \$80M for several projects: construction of the new Scientific User Support Building, the Research Support Office Building modernization, the Large Synoptic Survey Telescope (LSST camera) and the LCLS II project, an extension/upgrade of the Linac Coherent Light Source (LCLS), the revolutionary X-ray free-electron laser which has been operational since October of 2009. When complete in 2021,

THE UNIVERSITY'S ENDOWMENT

The University's endowment is a collection of gift funds and reserves which are set aside and invested to support the University's teaching and research missions. At August 31, 2014, the endowment totaled \$21.4 billion and represented approximately 73% of the University's net assets. The endowment, which includes endowed lands, is comprised of pure endowment funds, term endowment funds and funds functioning as endowment.

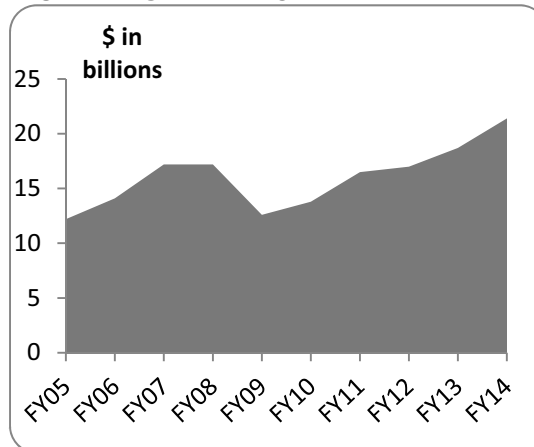
Gifts and pledge payments, investment returns, and other invested funds added \$3.7 billion to the endowment in FY14.

Annual payout to operations from the endowment--\$985 million in FY14--continues to be a significant source of operating revenue for the University, covering approximately 23% of expenses in FY14.

The University's endowment provides funding annually for a wide variety of important purposes. As shown in Figure 2, a significant portion of the endowment (approximately 80%) is restricted as to purpose.

Approximately 29% funds instruction and research activities, 23% goes to student aid, 19% covers faculty salaries and support, 22% is unrestricted and the remainder is split between library support and other purposes.

UNIVERSITY ENDOWMENT BY YEAR



LCLS II will provide additional capacity for X-ray science research.

In addition to payment for the direct costs of performing research, the University receives an amount from sponsors for facilities and administrative costs, known as indirect costs. This amount covers costs related to facilities, utilities and administrative costs incurred in connection with sponsored research. For FY14, the federal and non-federal indirect cost recovery increased slightly to \$227 million.

Health Care Services

FY14 health care services revenue represented 15% of University operating revenues, increasing \$74 million to \$698 million. School of Medicine faculty serve as physicians for the Hospitals. Clinical revenue is billed and collected by the Hospitals, and a portion is remitted to the University as payment for these physician services. In addition, the Hospitals pay the University for other essential services such as medical direction, telecommunication, legal and internal audit services. Health care services revenues of \$670 million represent the net value of services provided by the University to the Hospitals; these amounts are eliminated in consolidation.

Current Year Gifts in Support of Operations and Net Assets Released from Restrictions

Current year gifts in support of operations increased 18% to \$212 million in FY14 due to several significant gifts. Net assets released from restrictions increased 12% to \$137 million.

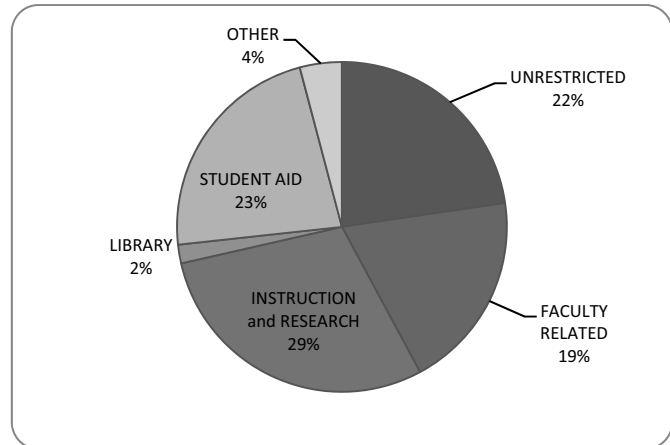
Total Investment Income Distributed for Operations

The University distributes investment income for use in operations according to policies approved by the Board. Total investment income distributed for operations represented 26% of University revenue in FY14, the second highest source of operating revenue for the University.

- Endowment income distributed for operations increased 7% to \$985 million in FY14. This includes payout from the University's Merged Pool (MP) based on the Board-approved formula and income received from real estate investments outside of the MP and other invested assets. The

endowment payout as a percentage of the beginning endowment value was 5.3% for FY14 and 5.4% for FY13.

**FIGURE 2
ENDOWMENT PAYOUT BY PURPOSE**



- Expendable funds pools and other investment income distributed for operations was \$181 million in FY14, compared to \$84 million in FY13. This category primarily includes the payout to operations from the Expendable Funds Pool (EFP) and the Endowment Income Funds Pool (EIFP), the principal investment vehicles for the University's expendable funds.
- The EFP policy provides a variable payout to certain funds that support operations based on the prior year's investment returns. Positive returns in both FY13 and FY12 resulted in the payouts to these funds over the past two years. Higher returns in FY13 over FY12 contributed to the increased payout in FY14. See *Note 6* to the FY14 Consolidated Financial Statements.
- The EIFP holds previously distributed but unspent endowment payouts. These amounts are invested in highly liquid instruments in order to preserve the principal balance. Earnings on these investments are distributed to the fund holders. See *Note 6* to the FY14 Consolidated Financial Statements.

OPERATING EXPENSES

Total expenses increased \$319 million, or 8%, to \$4.3 billion in FY14. Salaries and benefits comprised 62% of the University's total expenses; depreciation expense was 7% and other operating expenses represented 31%.

- Salaries and benefits increased 6% in FY14 to \$2.7 billion. The increase resulted from a combination of salary programs designed to maintain Stanford's competitive position, higher benefit costs, and increases in headcount to support new programs, particularly within the School of Medicine.
- Depreciation expense increased by 7% to \$311 million in FY14 from \$292 million in FY13. The increase in this category resulted from buildings recently placed in service as described in the Capital Projects section below.
- Other operating expenses increased by 12% to \$1.3 billion in FY14 due to additional expenses incurred to support new and existing housing, recreational facilities and infrastructure, and new programs and facilities, particularly within the School of Medicine and SLAC.

FINANCIAL POSITION

The University's *Statements of Financial Position* reflect strong donor support, excellent investment returns and positive operating results over the past four years. Total University assets increased \$3.7 billion in FY14 to end the year at \$35.2 billion. Total University liabilities increased slightly from \$5.8 billion to \$6.0 billion.

Cash and Assets Limited as to Use

The University regularly monitors liquidity required to meet its operating needs and other contractual commitments. At the same time, the University strives to maximize the investment of its available funds. At August 31, 2014, the University's cash and cash equivalents was \$630 million, a decrease of \$154 million compared to the prior year. Assets limited as to use to fund construction expenditures increased \$135 million as a result of the issuance of tax-exempt bonds during FY14. In addition, there were \$1.7 billion in cash and cash equivalents in the University's investments. See *Note 5* to the FY14 Consolidated Financial Statements.

Investments

University investments at August 31, 2014 were \$27.8 billion, an increase of \$3.1 billion or 13% over FY13.

There are three primary categories of investments:

- \$23.0 billion held in the MP (discussed above under FY14 Financial Highlights).
- Over \$3 billion of real estate investments on Stanford's endowed lands which have been designated for the production of income by the Board, and other real estate investments. In FY2014, these properties generated \$85M in income, net of expenses and appreciated \$481 million in value. In recent years, the value of these properties has benefited from strong dynamics in the local real estate market including rising investor demand for real estate; high office, hotel and apartment occupancy rates; increased office market rents; and strong retail sales.
- The remaining investments are specifically invested for a variety of purposes, including donor wishes.

Capital Projects

The University continues to invest heavily in its physical facilities to support key academic initiatives, housing and infrastructure. During FY14, the University invested \$662 million in capital projects, bringing gross plant facilities before accumulated depreciation to \$8.2 billion. Plant facilities, net of accumulated depreciation, increased \$351 million to \$4.6 billion.

During FY14, construction was completed on the Shriram Center for Bioengineering and Chemical Engineering, the Donald Kennedy Graduate Residences, the Anderson Collection building and significant portions of the Stanford Energy System Innovations (SESI) project, including the electrical substation and the majority of the steam-to-hot water piping and building conversions. Completion and activation of the central energy facility is scheduled to occur in the spring of 2015.

SESI demonstrates Stanford's commitment to and investment in environmental sustainability and a major University initiative to reduce energy and water use, apply stringent environmental standards

to all new buildings, encourage sustainable living, conserve natural resources and decrease waste. As part of Stanford's commitment to make the arts integral to a Stanford education, a new arts district is taking shape. Anchored by the Cantor Arts Center, the Memorial Auditorium, the Stanford Art Gallery, the Frost Amphitheater, and the Bing Concert Hall (which opened in 2013), the newest additions include the Anderson Collection at Stanford (which opened to the public in September 2014) and the McMurtry Art and Art History Building (scheduled to open in 2015).

Debt

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

During FY14, the University issued \$553 million in taxable and tax-exempt debt to finance various facilities and infrastructure, including additional portions of the SESI project, to refinance certain tax-exempt bonds and commercial paper notes, and to achieve savings in interest costs. The debt was issued with yields-to-maturity ranging from 1.75%-3.63% on tax-exempt bonds with maturities of 7 and 31 years and 4.25% on taxable bonds with a maturity of 40 years. The University paid down \$350 million of its 2009 taxable debt upon maturity.

Total debt increased \$166 million to \$3.3 billion as of August 31, 2014. During FY14, Standard and Poor's, Moody's and Fitch affirmed the University's debt ratings in the highest rating categories for short and long-term debt.

Unrestricted Net Assets

In total, unrestricted net assets of the University increased \$2.0 billion to \$15.5 billion, with \$214 million resulting from operating activities. The most significant components of non-operating changes in unrestricted net assets in FY14 were the \$1.6 billion increase in realized and unrealized

investment gains and \$168 million from the release of restrictions on capital and other gifts previously included in temporarily restricted net assets.

Temporarily Restricted Net Assets

Temporarily restricted net assets increased \$1.2 billion to \$7.8 billion in FY14. An increase in realized and unrealized investment gains of \$1.1 billion, and new temporarily restricted gifts and pledges of \$373 million were the major factors in this result. The results were partially offset by \$168 million in transfers relating to capital assets placed in service and other gifts released from their restrictions and by \$137 million released for operating activities.

Permanently Restricted Net Assets

Permanently restricted net assets increased \$284 million to \$5.9 billion during FY14. The increase was driven by \$154 million in new gifts and pledges and a \$64 million increase in realized and unrealized investment gains.

Hospitals

The financial results and financial position of Stanford Health Care, formerly named Stanford Hospital and Clinics and its respective entities (SHC), and Lucile Salter Packard Children's Hospital at Stanford and its respective entities (LPCH), are combined in the FY14 Consolidated Financial Statements under the "Hospitals" column. The University is the sole member of each of the Hospitals. The University's School of Medicine and its clinical faculty, together with SHC and LPCH, comprise and are known in the marketplace as Stanford Medicine.

In FY11, the Hospitals received local government approval to rebuild and expand their principal facilities. Construction is now well underway and the facilities are expected to be completed in 2017. These improvements will assure that the Hospitals have adequate inpatient capacity in modern, technologically-advanced and patient-centered facilities, and meet state-mandated earthquake safety standards. The total estimated cost, inclusive of contingencies, is approximately \$2.0 billion for SHC and \$1.2 billion for LPCH.

To improve and expand their services, the Hospitals have established community-based ambulatory

clinic organizations—SHC’s University HealthCare Alliance (UHA) and LPCH’s Packard Children’s Health Alliance (PCHA)—that support Stanford Medicine’s mission to deliver quality care to the community and conduct research and education. Working collaboratively with the Hospitals and School of Medicine faculty, these organizations have acquired multi-specialty practices in outlying communities to form a network of coordinated care throughout the Bay Area.

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

The following discussion summarizes the individual financial results of SHC and LPCH as shown in the FY14 Consolidated Financial Statements.

STANFORD HEALTH CARE

SHC generated solid operating results in FY14, resulting in income from operations of \$278 million compared to \$253 million in FY13. SHC’s positive operating results were due in part to strong volume, improved throughput, cost containment initiatives and growth in the number of new facilities and faculty physicians performing clinical services. Net assets grew by \$432 million, or 19%, to \$2.7 billion mainly due to the favorable results from operations, investment returns and fundraising commitments for the new Stanford Hospital.

In October 2014, Stanford Hospital and Clinics was renamed Stanford Health Care to reflect the range and focus of its organization and commitment to healing patients. SHC encapsulates the entire health system including: Stanford Hospital; Stanford Clinics; Stanford specialty centers such as the cancer, heart and neuroscience health centers; UHA medical groups; virtual care and patient navigation offerings; and the Stanford Health Care Alliance health plan.

In September 2014, ValleyCare Health System (VCHS) and SHC signed an affiliation agreement. VCHS has provided not-for-profit health care to the Tri-Valley and surrounding communities since 1961. VCHS offers a wide range of health care services at three Bay Area medical facilities in Alameda County. Closing of the affiliation is subject to various approvals including regulatory approvals.

Operating Results

Operating revenues increased by 10.5% to \$3.0 billion. Net patient service revenue less doubtful accounts (including capitation/premium revenue) increased \$272 million or 10% from FY13 to \$2.9 billion and represented 97% of operating revenues. Inpatient and outpatient, which represented 47% and 53% of net patient revenues (including capitation/premium revenue), respectively, grew significantly due to overall strong volume growth and physician recruitments, including both Stanford faculty and UHA. Revenues from the QAF and Hospital Fee Programs contributed \$10 million and \$50 million to the FY14 and FY13 total operating revenues, respectively.

Operating expenses, including salaries and benefits, were up 10.5% to \$2.7 billion in FY14, including expenses related to the QAF and Hospital Fee Programs of \$8 million and \$29 million in FY14 and FY13, respectively. Salaries and benefits increased in response to growth in patient volumes (including UHA) and to maintain SHC’s position in the competitive market for health care professionals.

Physicians’ services and support increased 13% to \$482 million. This category includes all payments to the University for services provided by the School of Medicine for its clinical services. Other operating expenses were up by 9% to \$905 million as a result of costs related to increased patient activity (including UHA), enhanced IT infrastructure, and other SHC initiatives.

Statement of Financial Position (Balance Sheet)

SHC’s *Statement of Financial Position* reflected continued investments in the facilities and systems required to remain at the forefront of

medicine and to be the provider of choice for complex care in the communities it serves. Gross property and equipment increased \$359 million to \$2.5 billion during FY14. As of August 31, 2014, capital spending from inception on the new Stanford Hospital was \$556 million, inclusive of \$52 million of capitalized interest. Unrestricted cash and investments were \$2.0 billion at the end of FY14, an increase of \$238 million.

Other SHC Highlights

Costs of charity care and uncompensated costs including those related to services provided to patients under Medi-Cal and Medicare in excess of reimbursement, were \$491 million in FY14, up 20% from FY13.

UHA collaborates with Stanford Medicine and community physicians to provide primary and specialty clinical services throughout the Bay Area. UHA consists of five medical groups comprising over 200 physicians and providers, a management services organization, and an independent practice association of approximately 1,600 physicians.

LUCILE SALTER PACKARD CHILDREN'S HOSPITAL AT STANFORD

FY14 was a year of significant accomplishments and strong operating results for LPCH. Enterprise-wide implementation of a new information system, Epic, which provides electronic medical records and end-to-end revenue capture, billing and collection, was completed. The physician network continued to grow with the addition of six medical practices and 17 providers. At four locations throughout the San Francisco Bay Area, LPCH also opened two new ambulatory care centers and acquired two new outpatient facilities, for which construction design is underway. LPCH's hospital expansion construction continued. In FY14, LPCH issued \$200 million in fixed and variable rate tax-exempt debt as part of the overall funding plan for the hospital expansion construction.

Operating Results

LPCH, together with Packard Children's Health Alliance (PCHA), the Packard Medical Group and the School of Medicine Pediatric and Obstetrics Faculty Practice Organization, comprise and are known in

the marketplace as Stanford Children's Health. However, the legal entity reported in these financial statements, known as LPCH, includes only the operations of LPCH and PCHA.

Operating revenues for LPCH increased by \$47 million or 4% in FY14, excluding revenues from the QAF and Hospital Fee Programs. Revenues from those Programs contributed \$15 million and \$83 million to the FY14 and FY13 total operating revenues, respectively.

Operating expenses increased by 10% in FY14, excluding expenses related to the QAF and Hospital Fee Programs of \$5 million and \$24 million for FY14 and FY13, respectively. The majority of the increase in expenses was caused by costs related to the strategic investments noted previously, including such items as training and depreciation for Epic, increased salaries and benefits and higher supply costs due in part to the mix of patients, and increased payments to the University for purchased services, including physician services.

As a result, LPCH generated income from operations of \$43 million in FY14 compared to \$147 million in FY13, including net revenue from the QAF and Hospital Fee Programs. Net assets at August 31, 2014 were \$1.9 billion, reflecting an increase of \$187 million over FY13. These results reflect solid operating results, positive investment performance and strong donor support.

Statement of Financial Position (Balance Sheet)

LPCH's *Statement of Financial Position* reflects significant donor contributions and investments in the facilities and systems required to continue to provide the highest quality children's hospital services to the community it serves. Gross property and equipment increased \$272 million during FY14, including \$118 million for construction of LPCH's portion of hospital construction.

Other LPCH Highlights

LPCH's community benefits, including services to patients under Medi-Cal and other publicly sponsored programs that reimburse at amounts less than the cost of services, were \$203 million

in FY14 compared with \$169 million in FY13. The increase was primarily due to more Medi-Cal patients in relation to the total hospital patients and higher Medi-Cal charges in relation to applicable costs. These amounts also include investments LPCH makes in improving the health of the children through a range of community-based programs.

Looking Forward

Stanford's strong financial position, together with renewed facilities and continued investment in our physical infrastructure, provide a solid foundation as we look to the future. The generous support of our donors and commitment of the Stanford community have been essential to building our capabilities.

Each of Stanford's principal revenue sources faces challenges looking forward:

The health care system is undergoing substantial change as a result of the Affordable Care Act, consolidation of major health care providers, and increased focus by Medicare and large employers on accountable care. Although Stanford Medicine has achieved outstanding financial performance over the past few years, our future success may be challenged due to these changes. In addition, the new Stanford hospitals scheduled to open in 2017

will significantly increase fixed costs for SHC and LPCH.

We expect Federal funding for sponsored research to decline in the future on an inflation-adjusted basis. Today, this funding supports graduate student education, postdoctoral scholar training, state-of-the-art facilities, and, most importantly, much of the research that has made Silicon Valley and the United States an innovation powerhouse. Stanford is seeking to replace declining Federal funding with non-Federal sponsors and philanthropy, but our historic volume of research will be challenging to sustain.

Investment markets are inherently volatile, and Stanford has adopted a philosophy aimed at maximizing long-term returns with a high tolerance for short-term volatility. As a result, the downturn we experienced in 2008-09 could readily happen again. Although the United States economy is performing well, the global economy continues to be unsettled and a dramatic reversal of recent investment gains could occur at any time.

Stanford addresses these risks and situations proactively, always mindful of the end goal of preserving our mission and the institution for future generations.



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



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



Daniel J. Morissette
Chief Financial Officer
Stanford Health Care



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

SELECTED FINANCIAL AND OTHER DATA

Fiscal Years Ended August 31

	2014	2013	2012	2011	2010
	(dollars in millions)				
CONSOLIDATED STATEMENT OF ACTIVITIES HIGHLIGHTS:					
Total operating revenues	\$ 7,924	\$ 7,359	\$ 6,814	\$ 6,289	\$ 5,707
Student income (A)	534	511	481	458	436
Sponsored research support	1,266	1,233	1,234	1,247	1,143
Health care services	3,942	3,734	3,245	2,902	2,542
Total operating expenses	7,389	6,794	6,298	5,774	5,345
Change in net assets from operating activities	535	565	516	515	362
Other changes in net assets	3,582	2,441	1,043	3,194	1,131
Net change in total net assets	\$ 4,117	\$ 3,006	\$ 1,559	\$ 3,709	\$ 1,493
CONSOLIDATED STATEMENT OF FINANCIAL POSITION HIGHLIGHTS:					
University					
Investments at fair value	\$ 27,829	\$ 24,703	\$ 22,247	\$ 21,189	\$ 17,804
Plant facilities, net of accumulated depreciation	4,559	4,208	3,826	3,674	3,584
Notes and bonds payable	3,265	3,098	2,709	2,727	2,816
Total assets	35,227	31,540	28,981	27,698	24,553
Total liabilities	6,006	5,817	5,476	5,143	5,118
Total net assets	29,221	25,723	23,505	22,555	19,435
Hospitals					
Investments at fair value	2,635	2,271	1,899	1,796	1,359
Plant facilities, net of accumulated depreciation	2,273	1,787	1,494	1,333	1,283
Notes and bonds payable	1,874	1,684	1,700	983	992
Total assets	7,319	6,448	5,803	4,283	3,658
Total liabilities	2,741	2,489	2,633	1,722	1,686
Total net assets	4,578	3,959	3,170	2,561	1,972
OTHER UNIVERSITY FINANCIAL DATA AND METRICS:					
Total endowment at year end	\$ 21,446	\$ 18,689	\$ 17,036	\$ 16,503	\$ 13,851
Endowment payout in support of operations	985	921	871	785	855
As a % of beginning of year endowment	5.3%	5.4%	5.3%	5.7%	6.8%
As a % of total expenses	23.0%	23.2%	23.1%	22.4%	25.9%
Total gifts (B)	928	932	1,035	709	599
STUDENTS:					
ENROLLMENT: (C)					
Undergraduate	7,018	6,980	6,999	6,927	6,887
Graduate (D)	9,118	8,980	8,958	8,883	8,870
DEGREES CONFERRED:					
Bachelor degrees	1,651	1,661	1,715	1,670	1,671
Advanced degrees	3,292	3,365	3,305	3,199	3,046
FACULTY:					
Total Professoriate	2,043	1,995	1,934	1,903	1,910
ANNUAL UNDERGRADUATE TUITION RATE (IN DOLLARS)	\$ 42,690	\$ 41,250	\$ 40,050	\$ 38,700	\$ 37,380

(A) Financial aid is reported as a reduction of student income in the Statements of Activities.

(B) As reported by the Office of Development. Includes SHC gifts (See Note 14).

(C) Enrollment for fall quarter immediately following fiscal year end.

(D) Enrollment for 2010 - 2013 revised to include Master of Liberal Arts online program.

MANAGEMENT RESPONSIBILITY FOR FINANCIAL STATEMENTS

The University is the sole member of Stanford Health Care (formerly known as Stanford Hospital and Clinics) and Lucile Packard Children's Hospital at Stanford (collectively, the "Hospitals"); however, each of the Hospitals has its own separate management with responsibility for its own financial reporting.

Management of the University and the Hospitals is responsible for the integrity and reliability of their respective portions of these financial statements. The University oversees the process of consolidating the Hospitals' 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.

In accumulating and controlling financial data, management of the University and the Hospitals maintains separate systems of internal accounting controls. Management of the respective entities believes that effective internal controls have 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 and Hospitals' independent auditors, PricewaterhouseCoopers LLP. Their report expresses an informed judgment as to whether the consolidated financial statements, considered in their entirety, present fairly, in conformity with accounting principles generally accepted in the United States of America, 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 obtaining an understanding of systems, procedures and internal accounting controls, and performing tests and other audit procedures to provide reasonable assurance that the financial statements are neither materially misleading nor contain material errors.

The Board of Trustees of the University and the separate Boards of Directors of the Hospitals, through their respective Audit and Compliance Committees, comprised of trustees and directors not employed by the University or the Hospitals, are responsible for engaging the independent auditors and meeting with management, internal auditors and the independent auditors 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 auditors have full and free access to the respective Audit and Compliance Committees. Both meet with the respective Audit and Compliance Committees at least annually, with and without each other, and without the presence of management representatives.



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Independent Auditor's Report

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 ("Stanford University" or the "University") and its subsidiaries, which comprise the consolidated statements of financial position as of August 31, 2014 and 2013, 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.

Auditor's 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 the University'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 the University'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 at August 31, 2014 and 2013, and the results of their activities and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in cursive script, reading "PricewaterhouseCoopers LLP".

December 10, 2014

PricewaterhouseCoopers LLP, Three Embarcadero Center, San Francisco, CA 94111-4004
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CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

At August 31, 2014 and 2013 (in thousands of dollars)

	2014			2013
	UNIVERSITY	HOSPITALS	CONSOLIDATED	CONSOLIDATED
ASSETS				
Cash and cash equivalents	\$ 630,214	\$ 641,812	\$ 1,272,026	\$ 1,421,683
Assets limited as to use	300,566	751,066	1,051,632	896,182
Accounts receivable, net	454,990	698,519	1,153,509	1,008,338
Receivables (payables) from SHC and LPCH, net	85,909	(85,909)	-	-
Prepaid expenses and other assets	67,869	151,360	219,229	199,108
Pledges receivable, net	711,795	254,032	965,827	961,734
Student loans receivable, net	81,441	-	81,441	78,437
Faculty and staff mortgages and other loans receivable, net	507,187	-	507,187	453,330
Investments at fair value, including securities pledged or on loan of \$155,758 and \$55,355 for 2014 and 2013, respectively	27,828,590	2,634,974	30,463,564	26,974,475
Plant facilities, net of accumulated depreciation	4,558,913	2,273,399	6,832,312	5,994,616
Works of art and special collections	-	-	-	-
TOTAL ASSETS	\$ 35,227,474	\$ 7,319,253	\$ 42,546,727	\$ 37,987,903
LIABILITIES AND NET ASSETS				
LIABILITIES:				
Accounts payable and accrued expenses	\$ 644,821	\$ 750,246	\$ 1,395,067	\$ 1,332,137
Accrued pension and post retirement benefit cost	566,236	117,339	683,575	669,585
Pending trades of securities	232,893	-	232,893	405,748
Liabilities under security lending agreements	191,011	-	191,011	84,048
Deferred rental and other income	616,575	-	616,575	584,067
Income beneficiary share of split interest agreements	436,166	-	436,166	394,195
Notes and bonds payable	3,264,636	1,873,873	5,138,509	4,782,478
U.S. government refundable loan funds	53,999	-	53,999	54,019
TOTAL LIABILITIES	6,006,337	2,741,458	8,747,795	8,306,277
NET ASSETS:				
Unrestricted	15,467,689	3,451,013	18,918,702	16,429,137
Temporarily restricted	7,844,164	915,748	8,759,912	7,419,222
Permanently restricted	5,909,284	211,034	6,120,318	5,833,267
TOTAL NET ASSETS	29,221,137	4,577,795	33,798,932	29,681,626
TOTAL LIABILITIES AND NET ASSETS	\$ 35,227,474	\$ 7,319,253	\$ 42,546,727	\$ 37,987,903

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

CONSOLIDATED STATEMENTS OF ACTIVITIES

For the years ended August 31, 2014 and 2013 (in thousands of dollars)

	2014			2013
	UNIVERSITY	HOSPITALS	CONSOLIDATED	CONSOLIDATED
UNRESTRICTED NET ASSETS				
OPERATING REVENUES:				
Student income:				
Undergraduate programs	\$ 317,401	\$ -	\$ 317,401	\$ 311,027
Graduate programs	313,824	-	313,824	297,042
Room and board	151,313	-	151,313	144,887
Student financial aid	(248,848)	-	(248,848)	(241,512)
TOTAL STUDENT INCOME	533,690	-	533,690	511,444
Sponsored research support:				
Direct costs - University	669,670	-	669,670	657,296
Direct costs - SLAC National Accelerator Laboratory	369,317	-	369,317	350,406
Indirect costs	227,160	-	227,160	225,500
TOTAL SPONSORED RESEARCH SUPPORT	1,266,147	-	1,266,147	1,233,202
Health care services:				
Patient care, net	-	3,914,973	3,914,973	3,710,326
Physicians' services and support - SHC and LPCH, net	670,023	(670,023)	-	-
Physicians' services and support - other facilities, net	27,482	-	27,482	23,250
TOTAL HEALTH CARE SERVICES	697,505	3,244,950	3,942,455	3,733,576
CURRENT YEAR GIFTS IN SUPPORT OF OPERATIONS	211,841	678	212,519	185,145
Net assets released from restrictions:				
Payments received on pledges	98,630	1,556	100,186	81,781
Prior year gifts released from donor restrictions	38,063	8,148	46,211	45,231
TOTAL NET ASSETS RELEASED FROM RESTRICTIONS	136,693	9,704	146,397	127,012
Investment income distributed for operations:				
Endowment	985,215	14,551	999,766	934,303
Expendable funds pools and other investment income	180,895	735	181,630	84,458
TOTAL INVESTMENT INCOME DISTRIBUTED FOR OPERATIONS	1,166,110	15,286	1,181,396	1,018,761
SPECIAL PROGRAM FEES AND OTHER INCOME	493,446	148,096	641,542	549,428
TOTAL OPERATING REVENUES	4,505,432	3,418,714	7,924,146	7,358,568
OPERATING EXPENSES:				
Salaries and benefits	2,659,610	1,689,502	4,349,112	4,029,022
Depreciation	310,958	148,185	459,143	425,585
Other operating expenses	1,321,272	1,259,750	2,581,022	2,339,137
TOTAL OPERATING EXPENSES	4,291,840	3,097,437	7,389,277	6,793,744
CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES	\$ 213,592	\$ 321,277	\$ 534,869	\$ 564,824

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

CONSOLIDATED STATEMENTS OF ACTIVITIES, Continued

For the years ended August 31, 2014 and 2013 (in thousands of dollars)

	2014			2013
	UNIVERSITY	HOSPITALS	CONSOLIDATED	CONSOLIDATED
UNRESTRICTED NET ASSETS (continued)				
CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES	\$ 213,592	\$ 321,277	\$ 534,869	\$ 564,824
NON-OPERATING ACTIVITIES:				
Increase in reinvested gains	1,561,670	288,009	1,849,679	1,077,779
Donor advised funds, net	29,314	-	29,314	1,930
Current year gifts not included in operations	17,673	-	17,673	2,902
Equity and fund transfers from Hospitals, net	69,018	(69,018)	-	-
Capital and other gifts released from restrictions	167,626	380	168,006	201,483
Pension and other post employment benefit related changes other than net periodic benefit expense	11,952	5,725	17,677	178,080
Transfer to permanently restricted net assets, net	(41,232)	-	(41,232)	(37,010)
Transfer to temporarily restricted net assets, net	(41,028)	-	(41,028)	(19,621)
Swap interest and change in value of swap agreements	(12,072)	(37,532)	(49,604)	120,610
Other	5,765	(1,554)	4,211	(185)
NET CHANGE IN UNRESTRICTED NET ASSETS	1,982,278	507,287	2,489,565	2,090,792
TEMPORARILY RESTRICTED NET ASSETS				
Gifts and pledges, net	372,875	88,179	461,054	441,719
Increase in reinvested gains	1,083,505	44,460	1,127,965	558,697
Change in value of split interest agreements, net	18,470	212	18,682	1,438
Net assets released to operations	(136,693)	(25,668)	(162,361)	(146,327)
Capital and other gifts released to unrestricted net assets	(167,626)	(380)	(168,006)	(201,483)
Gift transfers to Hospitals, net	(2,575)	2,575	-	-
Transfer from unrestricted net assets, net	41,028	-	41,028	19,621
Transfer from permanently restricted net assets, net	25,483	-	25,483	4,744
Other	(3,058)	(97)	(3,155)	(2,149)
NET CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	1,231,409	109,281	1,340,690	676,260
PERMANENTLY RESTRICTED NET ASSETS				
Gifts and pledges, net	154,068	764	154,832	164,860
Increase in reinvested gains	64,256	-	64,256	17,261
Change in value of split interest agreements, net	50,276	1,938	52,214	24,987
Transfer from unrestricted net assets, net	41,232	-	41,232	37,010
Transfer to temporarily restricted net assets, net	(25,483)	-	(25,483)	(4,744)
NET CHANGE IN PERMANENTLY RESTRICTED NET ASSETS	284,349	2,702	287,051	239,374
NET CHANGE IN TOTAL NET ASSETS	3,498,036	619,270	4,117,306	3,006,426
Total net assets, beginning of year	25,723,101	3,958,525	29,681,626	26,675,200
TOTAL NET ASSETS, END OF YEAR	\$ 29,221,137	\$ 4,577,795	\$ 33,798,932	\$ 29,681,626

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended August 31, 2014 and 2013 (in thousands of dollars)

	2014			2013
	UNIVERSITY	HOSPITALS	CONSOLIDATED	CONSOLIDATED
CASH FLOW FROM OPERATING ACTIVITIES				
Change in net assets	\$ 3,498,036	\$ 619,270	\$ 4,117,306	\$ 3,006,426
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:				
Depreciation	310,958	148,185	459,143	425,585
Amortization, loss on disposal of fixed assets and other adjustments	6,272	(2,537)	3,735	12,149
Net gains on investments and security agreements	(3,667,658)	(264,103)	(3,931,761)	(2,365,886)
Net losses (gains) on derivatives	8,616	-	8,616	(34,407)
Changes in split interest agreements	34,672	(2,150)	32,522	27,024
Investment income for restricted purposes	(29,526)	(25,693)	(55,219)	(27,246)
Gifts restricted for long-term investments	(247,716)	(68,508)	(316,224)	(295,605)
Equity and fund transfers from Hospitals	(66,443)	66,443	-	-
Gifts of securities and properties	(11,372)	-	(11,372)	(50,025)
Premiums received from bond issuance	97,359	8,382	105,741	113,731
Changes in operating assets and liabilities:				
Accounts receivable and receivables from SHC and LPCH, net	(12,865)	(42,827)	(55,692)	(49,276)
Pledges receivable	(107,032)	-	(107,032)	(12,999)
Prepaid expenses and other assets	(3,698)	(15,331)	(19,029)	(14,728)
Accounts payable and accrued expenses	17,588	61,857	79,445	(64,911)
Accrued pension and post retirement benefit costs	23,312	(9,322)	13,990	(133,960)
Deferred rental and other income	32,508	-	32,508	27,339
Other	-	(3,780)	(3,780)	(3,126)
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	(116,989)	469,886	352,897	560,085
CASH FLOW FROM INVESTING ACTIVITIES				
Land, building and equipment purchases	(696,511)	(620,333)	(1,316,844)	(1,032,377)
Student, faculty and other loans:				
New loans made	(118,134)	-	(118,134)	(70,684)
Principal collected	56,084	-	56,084	70,077
Increase in assets limited as to use	(135,328)	(20,117)	(155,445)	(167,858)
Purchases of investments	(25,113,421)	(151,650)	(25,265,071)	(20,252,633)
Sales and maturities of investments	25,418,479	104,460	25,522,939	19,892,351
NET CASH USED FOR INVESTING ACTIVITIES	(588,831)	(687,640)	(1,276,471)	(1,561,124)
CASH FLOW FROM FINANCING ACTIVITIES				
Gifts and reinvested income for restricted purposes	312,701	94,782	407,483	477,155
Equity and fund transfers from Hospitals	56,453	(56,453)	-	-
Proceeds from borrowing	623,127	200,000	823,127	496,719
Bond issuance costs and interest rate swaps	(2,423)	(1,284)	(3,707)	(2,229)
Repayment of notes and bonds payable	(545,210)	(14,910)	(560,120)	(226,856)
Increase (decrease) in liabilities under security lending agreements	106,963	-	106,963	(57,151)
Other	(20)	191	171	236
NET CASH PROVIDED BY FINANCING ACTIVITIES	551,591	222,326	773,917	687,874
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(154,229)	4,572	(149,657)	(313,165)
Cash and cash equivalents, beginning of year	784,443	637,240	1,421,683	1,734,848
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 630,214	\$ 641,812	\$ 1,272,026	\$ 1,421,683
SUPPLEMENTAL DATA:				
Interest paid, net of capitalized interest	\$ 111,210	\$ 58,701	\$ 169,911	\$ 201,632
Cash collateral received under security lending agreements	\$ 163,449	\$ -	\$ 163,449	\$ 57,810
Increase (decrease) in payables for plant facilities	\$ (34,797)	\$ 14,416	\$ (20,381)	\$ 67,389

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 Stanford University (the "University"), Stanford Health Care (SHC), formerly known as Stanford Hospital and Clinics, as well as Lucile Salter Packard Children's Hospital at Stanford (LPCH) and other majority-owned or controlled entities of these organizations. All significant inter-entity transactions and balances have been eliminated upon consolidation. Certain prior year amounts have been reclassified to conform to the current year's presentation. These reclassifications had no impact on the change in net assets or 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 category 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 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 University's *Statements of Activities*, but SLAC's assets and liabilities are not included in the University's *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 are California not-for-profit public benefit corporations. 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, these entities comprise Stanford Medicine. They operate two licensed acute care and specialty hospitals on the Stanford campus and numerous physician clinics on the campus, in community settings and in association with regional hospitals in the San Francisco Bay Area and elsewhere in California. The University has partnered with SHC and LPCH, respectively, to establish physician practice management organizations to support Stanford Medicine's mission of delivering quality care to the community and conducting research and education.

The "Hospitals" category presented in the consolidated financial statements comprises all of the accounts of SHC, LPCH, the University HealthCare Alliance and Packard Children's Health Alliance physician practice management organizations, and a captive insurance company which SHC and LPCH jointly control. For purposes of presentation of the Hospitals' balance sheets, statements of operations and changes in net assets and statements of cash flows in these consolidated financial statements, conforming reclassifications have been made to the Hospitals' revenues, expenses, investment income and inter-entity receivables and payables consistent with categories in these consolidated financial statements.

TAX STATUS

The University and the Hospitals 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 taxed at corporate income tax rates.

In accordance with the guidance on accounting for uncertainty in income taxes, management regularly evaluates its tax positions and does not believe the University or Hospitals have any uncertain tax positions that require disclosure or adjustment to the consolidated financial statements. The University and Hospitals are subject to routine audits by taxing jurisdictions. The University and Hospitals believe they are no longer subject to income tax examinations for fiscal years prior to August 31, 2010.

BASIS OF ACCOUNTING

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

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

Unrestricted Net Assets

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

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

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

Temporarily Restricted Net Assets

Temporarily restricted net assets include gifts and pledges that are subject to donor-imposed restrictions that expire with the passage of time, payment of pledges or specific actions to be undertaken by the University or the Hospitals, which are then released and reclassified to unrestricted net assets. In addition, appreciation and income on certain donor-restricted endowment funds are classified as temporarily restricted net assets until authorized for spending (see *Notes 12 and 13*). Donor-restricted resources intended for capital projects are initially recorded as temporarily restricted and released from their temporary restrictions and reclassified as unrestricted net assets when the asset is placed in service.

Also included in this category is the University's net equity in split interest agreements that are expendable at maturity.

Permanently Restricted Net Assets

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

CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the *Statements of Financial Position* consist of U.S. Treasury bills, commercial paper, certificates of deposit, money market funds and all other short-term investments with original maturities of 90 days or less at the time of purchase. These amounts are carried at cost, which approximates fair value. Cash and cash equivalents that are held for investment purposes are classified as investments (see *Note 5*).

ASSETS LIMITED AS TO USE

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

ACCOUNTS AND LOANS RECEIVABLE

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

PLEDGES RECEIVABLE

Unconditional promises to give are included in the consolidated financial statements as pledges receivable and are classified as temporarily restricted or permanently restricted, depending upon donor stipulations. Pledges recognized on or after September 1, 2008 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, 2008 were recorded at a discount based on the U.S. Treasury rate. Conditional promises, which depend on the occurrence of a specified future and uncertain event, such as matching gifts from other donors, are recognized when the conditions are substantially met.

INVESTMENTS

Investments are recorded at fair value. Gains and losses (realized and unrealized) on investments are recognized in the *Statements of Activities* (see *Note 5*).

The investment portfolio may be exposed to various risks, including, but not limited to, interest rate, market, sovereign, concentration, counterparty, liquidity and credit risk. Fair value reporting requires management to make estimates and assumptions about the effects of matters that are inherently uncertain. Estimates developed using methods such as discounted cash flow are subjective, requiring significant judgments such as the amount and timing of future cash flows and the selection of appropriate discount rates that reflects market and credit risks. Management of the University and the Hospitals regularly assess these risks through established policies and procedures. Actual results could differ from these estimates and such differences could have a material impact on the consolidated financial statements.

PLANT FACILITIES

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

The useful lives used in calculating depreciation for the years ended August 31, 2014 and 2013 are as follows:

	UNIVERSITY	HOSPITALS
Land improvements	10-25 years	10-25 years
Buildings and building improvements	4-50 years	7-40 years
Furniture, fixtures and equipment	3-10 years	3-20 years
Utilities	5-40 years	N/A

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 as discussed above, are recorded at fair value at the date of donation. Undeveloped land, including land acquired under the original endowment from Senator Leland and Mrs. Jane Stanford, is reported at fair value at the date of acquisition. Under the terms of the original founding grant, a significant portion of University land may not be sold.

DONOR ADVISED FUNDS

The University receives gifts from donors under donor advised fund (DAF) agreements. These funds are owned and controlled by the University and are separately identified by donor. A significant portion of the gift must be designated to the University. At August 31, 2014 and 2013, approximately \$321.3 million and \$268.1 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 *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 *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 the University and the Hospitals have an interest in assets held by the trustee and receive benefits that are shared with other beneficiaries. Split interest agreements where the University and the Hospitals are not the trustee are recorded in the "assets held by other trustees" category of "investments" in the *Statements of Financial Position* as described in Note 5.

The assets held under split interest agreements where the University is the trustee were \$773.6 million and \$679.7 million at August 31, 2014 and 2013, respectively, and were recorded in various categories in "investments"; the discounted present value of any income beneficiary interest is reported as "income beneficiary share of split interest agreements" in the *Statements of Financial Position*. The discount rates used, which range from 1% to 6%, are established in the year the gift was received and are based on tables established by the Internal Revenue Service.

During fiscal years 2014 and 2013, the discounted present value of new gifts subject to split interest agreements where the University is the trustee, net of the income beneficiary share, were \$17.9 million and \$21.2 million, respectively, and were included in "gifts and pledges, net" in the *Statements of Activities*. Actuarial gains or losses are included in "change in value of split interest agreements, net" in the *Statements of Activities*.

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

SELF-INSURANCE

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

INTEREST RATE EXCHANGE AGREEMENTS

The University and the Hospitals 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 the Hospitals 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 *Statements of Activities* in "swap interest and change in value of swap agreements". The settlements (net cash payments less receipts) under the interest rate exchange agreements are recorded in the *Statements of Activities* in "swap interest and change in value of swap agreements" for the University and in "other operating expenses" for the Hospitals.

The University has entered into interest rate swaps to reduce the effect of interest rate fluctuations of certain investment positions (see Note 7).

STUDENT INCOME

Financial assistance in the form of scholarship and fellowship grants that cover a portion of tuition, living and other costs is reflected as a reduction of student income.

PATIENT CARE AND OTHER SERVICES

Health Care Services

The Hospitals 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. "Patient care, net" is reported in the *Statements of Activities* at the estimated net realizable amounts from patients, third-party payers, and others for services rendered, including estimated retroactive audit adjustments under reimbursement agreements with third-party payers and bad debts. 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. The Hospitals provision for doubtful accounts of \$153.5 million and \$123.5 million, respectively, for the years ended August 31, 2014 and 2013, is based upon management's assessment of expected net collections considering historical experience and other collection indicators.

The University has entered into various operating agreements with the Hospitals for the professional services of SoM faculty members, and for non-physician services such as telecommunications, facilities, and other services.

Charity Care

The Hospitals 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.

The estimated cost of providing charity care was \$17.4 million and \$20.4 million for the years ended August 31, 2014 and 2013, 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. The Hospitals received \$684 thousand and \$652 thousand during the years ended August 31, 2014 and 2013, respectively, from contributions that were restricted for the care of indigent patients.

The Hospitals 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, 2014 and 2013 were \$676.8 million and \$557.3 million, respectively.

Provider Fee

The State of California enacted legislation in 2009 through 2014 which established a Hospital Quality Assurance Fee (QAF) Program and a Hospital Fee Program. These programs imposed a provider fee on certain California general acute care hospitals that, combined with federal matching funds, would be used to provide supplemental payments to certain hospitals and support the State's effort to maintain health care coverage for children. Certain rates under these programs are pending approval from the Centers for Medicare & Medicaid Services.

For the years ended August 31, 2014 and 2013, the Hospitals recorded \$12.9 million and \$52.6 million, respectively, in "other operating expenses" and recognized \$24.1 million and \$133.0 million, respectively, in "patient care, net" revenue under these programs.

RECENT ACCOUNTING PRONOUNCEMENTS

In May 2014, the Financial Accounting Standards Board (FASB) issued an update to the Accounting Standards Codification (ASC) to improve consistency of revenue recognition practices across industries for economically similar transactions. The core principle is that an entity recognizes revenue for goods or services to customers in an amount that reflects the consideration it expects to receive in return. The guidance is effective for periods beginning after December 15, 2016. The University and Hospitals are currently evaluating the impact that this guidance will have on its consolidated financial statements.

In October 2012, the FASB issued an update to the ASC to improve consistency in the classification of cash receipts from the sale of certain donated financial assets, such as securities, in the statement of cash flows. This guidance requires an entity to classify such cash receipts consistently with cash donations received if those receipts were from the sale of donated financial assets that have no entity-imposed limitations for sale and were converted nearly immediately into cash. The guidance is effective for periods beginning after June 15, 2013. The University and Hospitals adopted this guidance in fiscal year 2014 and applied it retroactively. Accordingly, consolidated cash receipts from the sale of donated financial assets of \$128.7 million and \$80.7 million were classified in the operating and financing sections, respectively, in the *Statement of Cash Flows* for the year ended August 31, 2014. For fiscal year 2013, \$158.9 million of consolidated cash receipts were reclassified from the investing section to the operating section (\$52.8 million) and financing section (\$106.1 million) in the *Statement of Cash Flows*.

In December 2011, the FASB issued an update to the ASC which expanded the required disclosures about offsetting and related arrangements of an entity's financial assets and liabilities. The disclosures are intended to provide additional information to assist financial statement users in understanding the effect of those arrangements on the entity's financial position. This guidance is effective for annual periods beginning after January 1, 2013. The University and Hospitals have adopted this guidance for the year ended August 31, 2014 (see *Notes 5 and 7*).

2. Accounts Receivable

Accounts receivable, net of bad debt allowances, at August 31, 2014 and 2013, in thousands of dollars, are as follows:

	2014			2013
	UNIVERSITY	HOSPITALS	CONSOLIDATED	CONSOLIDATED
U.S. government sponsors	\$ 82,388	\$ -	\$ 82,388	\$ 77,613
Non-federal sponsors and programs	41,034	1,581	42,615	75,624
Pending trades of securities	272,243	-	272,243	194,331
Accrued interest on investments	13,059	-	13,059	8,659
Student	6,055	-	6,055	6,808
Patient and third-party payers	-	799,694	799,694	704,409
Other	42,317	33,736	76,053	58,112
	457,096	835,011	1,292,107	1,125,556
Less bad debt allowances	(2,106)	(136,492)	(138,598)	(117,218)
ACCOUNTS RECEIVABLE, NET	\$ 454,990	\$ 698,519	\$ 1,153,509	\$ 1,008,338

Amounts due from Blue Cross and Blue Shield represent 21% and 12%, and 23% and 17%, of the Hospitals' net patient accounts receivable, at August 31, 2014 and 2013, respectively. Each Hospital's management does not believe significant credit risks exist with these payers.

3. Pledges Receivable

Pledges are recorded at applicable risk-adjusted discount rates, ranging from 1.1% to 6.0% for the University and Hospitals, commensurate with the duration of the donor's payment plan. At August 31, 2014 and 2013, pledges receivable, net of discounts and allowances, in thousands of dollars, are as follows:

	2014			2013
	UNIVERSITY	HOSPITALS	CONSOLIDATED	CONSOLIDATED
One year or less	\$ 133,942	\$ 24,937	\$ 158,879	\$ 159,049
Between one year and five years	654,628	231,441	886,069	854,453
More than five years	75,315	25,348	100,663	166,342
	863,885	281,726	1,145,611	1,179,844
Less discounts and allowances	(152,090)	(27,694)	(179,784)	(218,110)
PLEDGES RECEIVABLE, NET	\$ 711,795	\$ 254,032	\$ 965,827	\$ 961,734

Conditional pledges for the University, which depend on the occurrence of a specified future and uncertain event, were \$14.4 million and \$9.0 million at August 31, 2014 and 2013, respectively. The Hospitals had conditional pledges of \$62.6 million and \$119.6 million at August 31, 2014 and 2013, respectively. The majority of these conditional pledges are related to construction or time defined milestones related to the Medical Center Renewal Project. Lucile Packard Foundation for Children's Health is the primary community fundraising agent for LPCH and the pediatric faculty and programs at the University's SoM.

4. Loans Receivable

The University's loans receivable consist primarily of student loans receivable and faculty and staff mortgages. Management regularly assesses the adequacy of the allowance for credit losses of its loans by performing ongoing evaluations, including such factors as 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, 2014 and 2013, in thousands of dollars, are as follows:

	2014	2013
Institutional loans	\$ 22,687	\$ 20,144
Federally-sponsored loans	59,465	58,838
	82,152	78,982
Less allowance for student loan losses	(711)	(545)
STUDENT LOANS RECEIVABLE, NET	\$ 81,441	\$ 78,437

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

Federally-sponsored loans are funded primarily by advances to the University primarily under the Federal Perkins Loan Program (the "Program"). Loans to students under the Program are subject to mandatory interest rates and significant restrictions, and loans issued under the Program 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 *Statements of Financial Position* as "U.S. government refundable loan funds".

FACULTY AND STAFF MORTGAGES

In a program to attract and retain excellent faculty and senior staff, the University provides home mortgage financing assistance, primarily in the form of subordinated loans. Notes receivable amounting to \$504.6 million and \$450.6 million at August 31, 2014 and 2013, respectively, from University faculty and staff are included in "faculty and staff mortgages and other loans receivable, net" in the *Statements of Financial Position*. These loans and mortgages are collateralized by deeds of trust on properties concentrated in the region surrounding the University. Management has determined that no allowance is necessary.

5. Investments

Investments held by the University and the Hospitals are measured and recorded at fair value. The valuation methodology, investment categories, fair value hierarchy, certain investment activities and related commitments for fiscal years 2014 and 2013 are discussed below.

Investments held by the University and the Hospitals at August 31, 2014 and 2013, in thousands of dollars, are as follows:

	2014			2013
	UNIVERSITY	HOSPITALS	CONSOLIDATED	CONSOLIDATED
Cash and cash equivalents	\$ 1,693,240	\$ 61,785	\$ 1,755,025	\$ 1,386,414
Collateral held for securities loaned	163,449	-	163,449	57,810
Public equities	7,118,193	23,891	7,142,084	5,659,192
Derivatives	14,922	-	14,922	5,942
Fixed income	1,436,008	228,014	1,664,022	1,323,161
Real estate	5,926,195	-	5,926,195	5,337,236
Natural resources	2,010,161	-	2,010,161	1,796,786
Private equities	6,057,505	-	6,057,505	5,361,599
Absolute return	5,304,605	-	5,304,605	5,579,275
Assets held by other trustees	185,102	17,028	202,130	187,463
Other	217,640	5,826	223,466	279,597
	30,127,020	336,544	30,463,564	26,974,475
Hospital funds invested in the University's Merged Pool	(2,298,430)	2,298,430	-	-
INVESTMENTS AT FAIR VALUE	\$ 27,828,590	\$ 2,634,974	\$ 30,463,564	\$ 26,974,475

VALUATION METHODOLOGY

To the extent available, the University's investments are recorded at fair value based on quoted prices in active markets on a trade-date basis. The University'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 limited partnership investments in private equity, real estate, natural resources and hedge funds, the value is primarily based on the Net Asset Value (NAV) of the underlying investments. The NAV is reported by the external investment managers, including general partners, in accordance with their policies as described in their respective financial statements and offering memoranda. The most recent NAV reported is adjusted for capital calls, distributions and significant known valuation changes, if any, of its related portfolio through August 31, 2014 and 2013, 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 the University's 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 the external investment managers as well as review of performance. In conjunction with these procedures, estimated fair value is determined by consideration of a wide range of factors, such as market conditions, redemption terms and restrictions, and risks inherent in the inputs of the external investment managers' valuation.

For alternative investments which are direct investments, the University considers various factors to estimate fair value, such as 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, the University may review the investment's underlying portfolio as well as engage external appraisers, depending on the nature of the investment.

INVESTMENT CATEGORIES

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

Cash and cash equivalents categorized as investments include money market funds, overnight receivables on repurchase agreements and restricted cash. Overnight receivables on repurchase agreements are valued based on cost, which approximates fair value. Money market funds are valued based on reported unit values. Restricted cash includes collateral provided to or received from counterparties related to 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 cost, which approximates fair value (see *Note 9*).

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

Derivatives are used by the University to manage its exposure to certain risks relating to ongoing business and investment operations. Derivatives such as forward currency contracts, options, interest rate swaps and credit default swaps (CDS) are valued using models based on market verifiable inputs, or by using independent broker quotes.

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

Real estate represents directly owned real estate and other real estate interests held through limited partnerships. The fair value of real estate directly owned by the University, including the Stanford Shopping Center and the Stanford Research Park, is based primarily on discounted cash flows, using estimates from the asset manager or external investment managers, corroborated by appraisals and market data, if available. The fair value of real estate held through limited partnerships is based on NAV as reported by the external investment managers and is adjusted as described under *Valuation Methodology* above.

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

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

Assets held by other trustees generally represent the University's and the Hospitals' residual interest in split interest agreements where the University or the Hospitals are not the trustee. The residual (or beneficial) 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.

FAIR VALUE HIERARCHY

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

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

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

Exchange-traded derivatives such as options, futures contracts and warrants using observable inputs such as the last reportable sale price or the most recent bid price are typically classified as Level 1 (see *Note 7*).

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 marketability securities.

Privately negotiated over-the-counter (OTC) derivatives such as forward currency contracts, CDS, 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, and credit curves.

Level 3 – Investments classified as Level 3 have significant unobservable inputs, as they trade infrequently or not at all. The inputs into the determination of fair value of these investments are based upon the best information in the circumstance and may require significant management judgment. These investments primarily consist of the University's alternative investments and are classified as Level 3 as the inputs are not observable. Certain alternative investments may be reclassified to Level 2 when the University has the ability to redeem them at NAV in the near term without significant restrictions on redemption.

The following tables summarize the University's and the Hospitals' investments and other assets within the fair value hierarchy and asset categories at August 31, 2014 and 2013, in thousands of dollars:

	AS OF			
	AUGUST 31, 2014	LEVEL 1	LEVEL 2	LEVEL 3
UNIVERSITY*				
Cash and cash equivalents	\$ 1,693,240	\$ 1,646,141	\$ 47,099	\$ -
Collateral held for securities loaned	163,449	-	163,449	-
Public equities	7,118,193	3,009,485	1,160,289	2,948,419
Derivatives	14,922	(45)	14,967	-
Fixed income	1,436,008	837,535	594,513	3,960
Real estate	5,926,195	144,450	49,554	5,732,191
Natural resources	2,010,161	157,691	-	1,852,470
Private equities	6,057,505	17,569	-	6,039,936
Absolute return	5,304,605	-	2,242,156	3,062,449
Assets held by other trustees	185,102	-	-	185,102
Other	217,640	493	-	217,147
TOTAL	30,127,020	5,813,319	4,272,027	20,041,674
HOSPITALS				
Cash and cash equivalents	61,785	56,826	4,959	-
Public equities	23,891	23,891	-	-
Fixed income	228,014	68,830	159,184	-
Assets held by other trustees	17,028	-	-	17,028
Other	5,826	-	-	5,826
TOTAL	336,544	149,547	164,143	22,854
CONSOLIDATED TOTAL	\$ 30,463,564	\$ 5,962,866	\$ 4,436,170	\$ 20,064,528

* Amounts include the Hospitals' cross investment in the University's investment pools of \$2.3 billion.

	AS OF			
	AUGUST 31, 2013	LEVEL 1	LEVEL 2	LEVEL 3
UNIVERSITY*				
Cash and cash equivalents	\$ 1,303,199	\$ 1,225,411	\$ 77,788	\$ -
Collateral held for securities loaned	57,810	-	57,810	-
Public equities	5,545,012	2,545,284	1,166,840	1,832,888
Derivatives	5,942	4,677	1,265	-
Fixed income	1,273,525	691,323	582,202	-
Real estate	5,337,236	66,910	-	5,270,326
Natural resources	1,796,786	249,617	-	1,547,169
Private equities	5,361,599	4,139	-	5,357,460
Absolute return	5,579,275	166,121	2,236,941	3,176,213
Assets held by other trustees	172,605	-	-	172,605
Other	279,597	804	103	278,690
TOTAL	26,712,586	4,954,286	4,122,949	17,635,351
HOSPITALS				
Cash and cash equivalents	83,215	78,607	4,608	-
Public equities	114,180	67,407	46,773	-
Fixed income	49,636	-	49,636	-
Assets held by other trustees	14,858	-	-	14,858
TOTAL	261,889	146,014	101,017	14,858
CONSOLIDATED TOTAL	\$ 26,974,475	\$ 5,100,300	\$ 4,223,966	\$ 17,650,209

* Amounts include the Hospitals' cross investment in the University's investment pools of \$2.0 billion.

The University manages the majority of the Hospitals' investments, including the Hospitals' investment in the Merged Pool (MP), with a combined fair value of \$2.3 billion and \$2.0 billion at August 31, 2014 and 2013, respectively.

SUMMARY OF LEVEL 3 INVESTMENT ACTIVITIES AND TRANSFERS

The following tables present the activities for Level 3 investments for the years ended August 31, 2014 and 2013, in thousands of dollars:

FAIR VALUE MEASUREMENTS USING SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)	BEGINNING BALANCE AS OF SEPTEMBER 1, 2013	PURCHASES	SALES AND MATURITIES	NET REALIZED AND UNREALIZED GAINS (LOSSES)	TRANSFERS IN	TRANSFERS OUT	ENDING BALANCE AS OF AUGUST 31, 2014
UNIVERSITY*							
Public equities	\$ 1,832,888	\$ 596,883	\$ (125,266)	\$ 417,400	\$ 354,641	\$ (128,127)	\$ 2,948,419
Fixed income	-	3,990	-	(30)	-	-	3,960
Real estate	5,270,326	383,085	(622,261)	743,756	-	(42,715)	5,732,191
Natural resources	1,547,169	453,478	(435,136)	286,959	-	-	1,852,470
Private equities	5,357,460	599,357	(1,164,518)	1,247,637	-	-	6,039,936
Absolute return	3,176,213	241,530	(595,390)	253,090	-	(12,994)	3,062,449
Assets held by other trustees	172,605	-	-	12,497	-	-	185,102
Other	278,690	204,457	(278,335)	18,112	-	(5,777)	217,147
TOTAL	17,635,351	2,482,780	(3,220,906)	2,979,421	354,641	(189,613)	20,041,674
HOSPITALS							
Assets held by other trustees	14,858	-	-	2,170	-	-	17,028
Other	-	5,826	-	-	-	-	5,826
TOTAL	14,858	5,826	-	2,170	-	-	22,854
CONSOLIDATED TOTAL	\$ 17,650,209	\$ 2,488,606	\$ (3,220,906)	\$ 2,981,591	\$ 354,641	\$ (189,613)	\$ 20,064,528

* Amounts include the Hospitals' cross investment in the University's investment pools.

FAIR VALUE MEASUREMENTS USING SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)	BEGINNING BALANCE AS OF SEPTEMBER 1, 2012	PURCHASES	SALES AND MATURITIES	NET REALIZED AND UNREALIZED GAINS	TRANSFERS IN	TRANSFERS OUT	ENDING BALANCE AS OF AUGUST 31, 2013
UNIVERSITY*							
Public equities	\$ 2,105,804	\$ 245,686	\$ (195,168)	\$ 303,566	\$ 13,183	\$ (640,183)	\$ 1,832,888
Real estate	4,988,534	444,838	(556,464)	403,383	-	(9,965)	5,270,326
Natural resources	1,406,981	268,981	(236,580)	100,212	9,965	(2,390)	1,547,169
Private equities	5,163,154	608,796	(775,787)	533,168	-	(171,871)	5,357,460
Absolute return	3,210,949	249,629	(590,059)	441,710	87,030	(223,046)	3,176,213
Assets held by other trustees	154,462	8,485	(9,363)	19,021	-	-	172,605
Other	204,045	44,393	(324,178)	354,430	-	-	278,690
TOTAL	17,233,929	1,870,808	(2,687,599)	2,155,490	110,178	(1,047,455)	17,635,351
HOSPITALS							
Assets held by other trustees	13,604	-	-	1,254	-	-	14,858
TOTAL	13,604	-	-	1,254	-	-	14,858
CONSOLIDATED TOTAL	\$ 17,247,533	\$ 1,870,808	\$ (2,687,599)	\$ 2,156,744	\$ 110,178	\$ (1,047,455)	\$ 17,650,209

* Amounts include the Hospitals' cross investment in the University's investment pools.

Net realized and unrealized gains (losses) in the tables above are included in the *Statements of Activities* primarily as "increase in reinvested gains" by level of restriction. For the years ended August 31, 2014 and 2013, the change in unrealized gains (losses) for Level 3 investments still held at August 31, 2014 and 2013 was \$2.7 billion and \$1.8 billion, respectively.

Transfers in (out) include investments which have been reclassified to Level 2 as the University has the ability to redeem these at NAV in the near term. Transfers in (out) also include situations where observable inputs have changed, such as when Level 3 investments make distributions from an underlying asset with a fair value based on quoted market prices. All transfer amounts are based on the fair value at the beginning of the fiscal year. There were no transfers between Level 1 and Level 2 during the years ended August 31, 2014 and 2013.

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, 2014 and 2013.

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

INVESTMENT CATEGORIES	FAIR VALUE ¹	VALUATION TECHNIQUE	SIGNIFICANT UNOBSERVABLE INPUTS	RANGE		IMPACT TO VALUATION FROM AN INCREASE IN INPUT ²
				MIN.	MAX	
2014						
Real estate	\$ 3,484,984	Discounted cash flow	Discount rate	4.0%	11.0%	Decrease
			Capitalization rate	5.0%	9.0%	Decrease
Natural resources	127,077	Market comparables	Weights ascribed to market comparables	20.0%	50.0%	N/A
Other	217,147	Market comparables	Recent transactions	N/A	N/A	N/A
TOTAL AMOUNT WITH SIGNIFICANT UNOBSERVABLE INPUTS	3,829,208					
2013						
Real estate	2,984,011	Discounted cash flow	Discount rate	5.8%	14.0%	Decrease
			Capitalization rate	5.0%	8.0%	Decrease
Natural resources	78,285	Market comparables	Weights ascribed to market comparables	20.0%	60.0%	N/A
Other	278,690	Market comparables	Recent transactions	N/A	N/A	N/A
TOTAL AMOUNT WITH SIGNIFICANT UNOBSERVABLE INPUTS	\$ 3,340,986					

¹ Level 3 investments assets of \$16.2 billion and \$14.3 billion at August 31, 2014 and 2013, respectively, were excluded from the above quantitative disclosure as their fair value was primarily based on the NAV reported by external investment managers as described in the Valuation Methodology section above.

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

INVESTMENT-RELATED COMMITMENTS

The University is obligated under certain alternative investment agreements to advance additional funding up to specified levels over a period of several years. The following table presents significant terms of such agreements for all related alternative investments at August 31, 2014, in thousands of dollars:

ASSET CLASS	FAIR VALUE	UNFUNDED COMMITMENT	REMAINING LIFE (YEARS)	REDEMPTION TERMS AND RESTRICTIONS
Public equities	\$ 4,105,972	\$ 145,502	0 to 5	Generally, lock-up provisions ranging from 0 to 5 years. After initial lock up expires, redemptions are available on a rolling basis and require 3 to 180 days prior notification.
Real estate	2,011,107	944,653	0 to 13	Not eligible for redemption
Natural resources	1,842,172	1,208,016	0 to 15	Not eligible for redemption
Private equities	6,039,932	1,815,518	0 to 16	Not eligible for redemption
Absolute return	5,304,605	1,110,148	0 to 7	Generally, lock-up provisions ranging from 0 to 6 years. After initial lock up expires, redemptions are available on a rolling basis and require 2 to 180 days prior notification.
TOTAL	\$19,303,788	\$ 5,223,837		

OFFSETS TO INVESTMENT-RELATED ASSETS AND LIABILITIES

Financial instruments with off-balance sheet risk such as derivatives, securities lending agreements, and repurchase agreements ("repo") are subject to counterparty credit risk. The University seeks to control this risk in various ways, such as entering into transactions with quality counterparties, establishing and monitoring credit limits, and requiring collateral in certain situations.

For certain derivatives, a master netting arrangement allows the counterparty to net applicable collateral held on behalf of the University against applicable liabilities or payment obligations of the University to the counterparty. These arrangements also allow the counterparty to net any of its applicable liabilities or payment obligations to the University against any collateral previously received.

The University may also enter into repo or reverse repo arrangements. When the University enters into a repo, it "sells" securities to a broker-dealer or financial institution, and agrees to purchase such securities for a predetermined price, including interest, from the broker-dealer or financial institution. Conversely, when the University enters into a reverse repo, it "buys" securities from a broker-dealer or financial institution, and agrees to sell such securities for a predetermined price, including interest, subject to the obligation of the broker-dealer or financial institution.

For financial statement purposes, the University nets investment-related derivative assets and liabilities on the *Statements of Financial Position*. For disclosure purposes, the University does not offset assets and liabilities relating to the financial and derivative instruments that are subject to an enforceable master netting arrangement or similar agreement, or that meet the right of setoff criteria in the accounting guidance. The potential effect of offset and related arrangements associated with these financial and derivative instruments as of August 31, 2014 and 2013, in thousands of dollars, is presented in the following table:

	AS PRESENTED IN CONSOLIDATED STATEMENTS OF FINANCIAL POSITION			GROSS AMOUNTS NOT OFFSET IN CONSOLIDATED STATEMENTS OF FINANCIAL POSITION		
	GROSS AMOUNTS OF ASSETS AND LIABILITIES	GROSS AMOUNTS OFFSET	NET AMOUNTS OF ASSETS AND LIABILITIES	FINANCIAL INSTRUMENTS ⁴	CASH COLLATERAL RECEIVED (PLEDGED) ⁴	NET AMOUNT
2014						
Assets:						
Derivatives ¹	\$ 46,522	\$ (31,600)	\$ 14,922	\$ -	\$ 14,922	\$ -
Reverse repurchase agreements ²	-	-	-	-	-	-
TOTAL	46,522	(31,600)	14,922	-	14,922	-
Liabilities:						
Derivatives ¹	31,600	(31,600)	-	-	-	-
Securities lending ³	163,449	-	163,449	163,449	-	-
TOTAL	195,049	(31,600)	163,449	163,449	-	-
2013						
Assets:						
Derivatives ¹	19,254	(13,312)	5,942	-	-	5,942
Reverse repurchase agreements ²	82,900	-	82,900	-	-	82,900
TOTAL	102,154	(13,312)	88,842	-	-	88,842
Liabilities:						
Derivatives ¹	13,312	(13,312)	-	-	-	-
Securities lending ³	57,810	-	57,810	57,810	-	-
TOTAL	\$ 71,122	\$ (13,312)	\$ 57,810	\$ 57,810	\$ -	\$ -

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

² Reverse repurchase agreements are included in "Cash and cash equivalents" in the investment table above.

³ Refer to Note 9 for details.

⁴ These amounts are limited to the derivative asset balance and accordingly, do not include any excess collateral received.

INVESTMENT RETURNS

Total investment returns for the years ended August 31, 2014 and 2013, in thousands of dollars, are as follows:

	2014			2013
	UNIVERSITY	HOSPITALS	CONSOLIDATED	CONSOLIDATED
Investment income	\$ 312,167	\$ 17,940	\$ 330,107	\$ 309,476
Net realized and unrealized gains	3,671,302	331,965	4,003,267	2,426,165
TOTAL INVESTMENT RETURNS	3,983,469	349,905	4,333,374	2,735,641
<i>Reconciliation to Statements of Activities:</i>				
Total investment income distributed for operations	\$ 1,166,110	\$ 15,286	\$ 1,181,396	\$ 1,018,761
Increase in reinvested gains - unrestricted	1,561,670	288,009	1,849,679	1,077,779
Increase in reinvested gains - temporarily restricted	1,083,505	44,460	1,127,965	558,697
Change in value of split interest agreements, net - temporarily restricted	18,470	212	18,682	1,438
Increase in reinvested gains - permanently restricted	64,256	-	64,256	17,261
Change in value of split interest agreements, net - permanently restricted	50,276	1,938	52,214	24,987
Adjusted for:				
Returns on split interest agreements paid to beneficiaries - temporarily restricted	12,323	-	12,323	11,031
Returns on split interest agreements paid to beneficiaries - permanently restricted	26,859	-	26,859	25,687
TOTAL INVESTMENT RETURNS	\$ 3,983,469	\$ 349,905	\$ 4,333,374	\$ 2,735,641

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

FUTURE MINIMUM RENTAL INCOME

As part of its investment portfolio, the University holds certain investment properties that it leases to third parties. Future minimum rental income due from the Stanford Shopping Center, the Stanford Research Park and other properties under non-cancelable leases in effect with tenants at August 31, 2014, in thousands of dollars, is as follows:

YEAR ENDING AUGUST 31	FUTURE MINIMUM RENTAL INCOME
2015	\$ 93,639
2016	91,114
2017	87,249
2018	78,276
2019	73,952
Thereafter	1,648,022
TOTAL	\$ 2,072,252

6. Investment Pools

The University's investments are held in various investment pools or in specific investments to comply with donor requirements as indicated in the following table, at August 31, 2014 and 2013, in thousands of dollars:

	2014	2013
UNIVERSITY		
Merged Pool	\$ 25,330,910	\$ 22,600,862
Expendable Funds Pool	3,259,707	3,181,451
Endowment Income Funds Pool	360,867	342,622
Other investment pools	99,710	86,525
Specific investments	4,696,400	4,025,199
	33,747,594	30,236,659
Less:		
Amounts included in "cash and cash equivalents" in the <i>Statements of Financial Position</i>	(460,888)	(450,202)
Funds cross-invested in investment pools	(3,154,731)	(3,069,263)
Hospital funds invested in the University's investment pools	(2,303,385)	(2,013,787)
TOTAL	27,828,590	24,703,407
HOSPITALS		
Investments	2,634,974	2,271,068
TOTAL	2,634,974	2,271,068
CONSOLIDATED TOTAL	\$ 30,463,564	\$ 26,974,475

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

The Expendable Funds Pool (EFP) and Endowment Income Funds Pool (EIFP) are the principal investment vehicles for the University's expendable funds. A substantial portion of the EFP is cross-invested in the MP; the remainder is included in "cash and cash equivalents" in the *Statements of Financial Position*. The EIFP holds income previously distributed to holders of permanently restricted endowment funds that has not yet been expended. The EIFP is invested in highly liquid instruments and is included in the *Statements of Financial Position* as "cash and cash equivalents".

The Board has established a policy for the distribution of the investment returns of the EFP. The difference between the actual return of this investment pool and the approved payout is deposited in, or withdrawn from, funds functioning as endowment (FFE) (see *Note 12*). For the years ended August 31, 2014 and 2013, the results of the EFP, in thousands of dollars, are as follows:

	2014	2013
Total investment return of the EFP	\$ 494,121	\$ 336,148
Less distributions to fund holders and operations	(126,473)	(60,927)
AMOUNTS ADDED TO FFE	\$ 367,648	\$ 275,221

7. Derivatives

The University, directly or through external investment managers on the University'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 the University's 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, the University 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, 2014 and 2013, and gains and losses for the years ended August 31, 2014 and 2013, in thousands of dollars:

	AS OF AUGUST 31, 2014			YEAR ENDED AUGUST 31, 2014
	NOTIONAL AMOUNT ¹	GROSS DERIVATIVE ASSETS ²	GROSS DERIVATIVE LIABILITIES ²	REALIZED AND UNREALIZED GAINS (LOSSES) ³
Interest-rate contracts	\$ 3,623,678	\$ 31,942	\$ 21,618	\$ (12,255)
Foreign exchange contracts	705,701	6,697	1,957	17,440
Equity contracts	1,605,379	6,409	7,836	(17,138)
Credit contracts	77,345	1,474	189	199
TOTAL	\$ 6,012,103	\$ 46,522	\$ 31,600	\$ (11,754)

	AS OF AUGUST 31, 2013			YEAR ENDED AUGUST 31, 2013
	NOTIONAL AMOUNT ¹	GROSS DERIVATIVE ASSETS ²	GROSS DERIVATIVE LIABILITIES ²	REALIZED AND UNREALIZED GAINS (LOSSES) ³
Interest-rate contracts	\$ 1,644,761	\$ 9,394	\$ 8,950	\$ 3,164
Foreign exchange contracts	371,433	4,546	3,483	26,521
Equity contracts	283,100	4,677	-	40,652
Credit contracts	149,454	637	879	(2,820)
TOTAL	\$ 2,448,748	\$ 19,254	\$ 13,312	\$ 67,517

¹ The notional amount is representative of the volume and activity of the respective derivative type during the years ended August 31, 2014 and 2013.

² Gross derivative assets less gross derivative liabilities of \$14.9 million and \$5.9 million as of August 31, 2014 and 2013, respectively, are presented as "derivatives" on the investment table in Note 5.

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

Credit Default Swaps

Credit contracts in the previous table consist of both the purchases and sales of CDS. CDS are contracts under which counterparties are provided protection against the risk of default on a set of debt obligations issued by specific companies (or group of companies combined in an index). The buyer of the CDS will make payment to the seller and in return receive payment if the underlying instrument goes into default or is triggered by some other credit event. The University's CDS transactions include both single name entities as well as index CDS. Under the index CDS, the credit events that would trigger settlement of the CDS and require the University to remit payment are generally bankruptcy and failure to pay.

The table below summarizes certain information regarding the sale of CDS at August 31, 2014 and 2013, in thousands of dollars:

CREDIT RATINGS OF THE REFERENCE OBLIGATION ²	MAXIMUM POTENTIAL PAYOUT (NOTIONAL AMOUNT ¹) / YEARS TO MATURITY			FAIR VALUE ASSET/ (LIABILITY)
	LESS THAN 3	OVER 3	TOTAL	
2014				
Single name credit default swaps:				
A- to AA+	\$ 6,900	\$ 26,200	\$ 33,100	\$ 431
BBB- to BBB+	575	30,474	31,049	599
Total single name credit default swaps	7,475	56,674	64,149	1,030
Index credit default swaps ³	-	4,900	4,900	(14)
TOTAL CREDIT DEFAULT SWAPS SOLD	\$ 7,475	\$ 61,574	\$ 69,049	\$ 1,016
2013				
Single name credit default swaps:				
A- to AA+	\$ 7,900	\$ 1,500	\$ 9,400	\$ 188
BBB- to BBB+	300	5,512	5,812	(431)
Total single name credit default swaps	8,200	7,012	15,212	(243)
Index credit default swaps ³	-	500	500	(2)
TOTAL CREDIT DEFAULT SWAPS SOLD	\$ 8,200	\$ 7,512	\$ 15,712	\$ (245)

¹ The notional amount is representative of the volume and activity of the respective derivative type during the years ended August 31, 2014 and 2013.

² The credit rating is according to Standard & Poor's and represents the current performance risk of the swap.

³ Index credit default swaps are linked to a basket of credit derivatives that include entities that have a Standard & Poor's rating of BBB- or higher.

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, 2014, the University had interest rate exchange agreements related to \$97.0 million of the outstanding balance of the CEFA Series S bonds in variable rate mode (see *Note 10*). The agreements, which have a weighted average interest rate of 3.68%, expire November 1, 2039. The notional amount and the fair value of the exchange agreements are included in the table below. Collateral posted with various counterparties was \$11.0 million at August 31, 2014 and 2013, and is included in the *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, 2014 and 2013 (see *Note 10*). In December 2012, the University terminated certain interest rate exchange agreements and recognized a loss of \$13.0 million in "non-operating activities" in the *Statements of Activities* for the year ended August 31, 2013.

At August 31, 2014, SHC had interest rate exchange agreements expiring through November 2051 (see *Note 11*). The agreements require SHC to pay fixed interest rates to the counterparties varying from 3.37% to 4.08% in exchange for variable rate payments from the counterparties based on a percentage of the One Month London Interbank Offered Rate (LIBOR). The notional amount and the fair value of the exchange agreements are included in the table below. There was no collateral required to be posted with counterparties at August 31, 2014 and 2013. In February 2014, SHC terminated certain interest rate exchange agreements and recognized a loss of \$71 thousand in "non-operating activities" in the *Statements of Activities* for the year ended August 31, 2014.

The following table presents amounts for debt-related derivatives including the notional amount, the fair values at August 31, 2014 and 2013, and gains and losses for the years ended August 31, 2014 and 2013, in thousands of dollars:

	AS OF AUGUST 31, 2014		YEAR ENDED AUGUST 31, 2014	AS OF AUGUST 31, 2013		YEAR ENDED AUGUST 31, 2013
	NOTIONAL AMOUNT ¹	GROSS DERIVATIVE LIABILITIES ²	REALIZED AND UNREALIZED LOSSES ³	NOTIONAL AMOUNT ¹	GROSS DERIVATIVE LIABILITIES ²	REALIZED AND UNREALIZED GAINS ³
Debt-related interest- rate contracts:						
University	\$ 97,000	\$ 30,457	\$ (8,617)	\$ 97,000	\$ 21,840	\$ 34,407
Hospitals	577,200	155,984	(37,532)	746,100	133,255	102,928
TOTAL	\$ 674,200	\$ 186,441	\$ (46,149)	\$ 843,100	\$ 155,095	\$ 137,335

¹ The notional amount is representative of the volume and activity of the respective derivative type during the years ended August 31, 2014 and 2013.

² Fair value is measured using Level 2 inputs as defined in Note 5. Amounts are included in the *Statements of Financial Position* in "accounts payable and accrued expenses" and discussed more fully in Notes 10 and 11.

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

8. Plant Facilities

Plant facilities, net of accumulated depreciation, at August 31, 2014 and 2013, in thousands of dollars, are as follows:

	2014			2013
	UNIVERSITY	HOSPITALS	CONSOLIDATED	CONSOLIDATED
Land and improvements	\$ 503,521	\$ 119,075	\$ 622,596	\$ 602,222
Buildings and building improvements	5,148,947	1,429,522	6,578,469	5,925,451
Furniture, fixtures and equipment	1,531,679	1,096,230	2,627,909	2,424,358
Utilities	483,272	-	483,272	382,102
Construction in progress	486,935	1,072,877	1,559,812	1,323,225
	8,154,354	3,717,704	11,872,058	10,657,358
Less accumulated depreciation	(3,595,441)	(1,444,305)	(5,039,746)	(4,662,742)
PLANT FACILITIES, NET OF ACCUMULATED DEPRECIATION	\$ 4,558,913	\$ 2,273,399	\$ 6,832,312	\$ 5,994,616

At August 31, 2014, \$1.4 billion and \$841.3 million of fully depreciated plant facilities were still in use by the University and the Hospitals, respectively, and were included in plant facilities and accumulated depreciation.

9. Liabilities Under Security Lending Agreements

The University receives short-term U.S. government obligations or cash and cash equivalents as collateral deposits for certain securities loaned temporarily to brokers. It is the University's policy to require receipt of collateral on securities lending contracts and repurchase agreements equal to a minimum of 102% of the fair market value of the security loaned. In addition, the University is party to certain forward sale and purchase agreements. At August 31, 2014 and 2013, these amounts, in thousands of dollars, are as follows:

	2014	2013
Collateral deposits for certain securities loaned temporarily to brokers ^{1,2}	\$ 163,449	\$ 57,810
Forward sale and purchase agreements ¹	27,562	26,238
LIABILITIES UNDER SECURITY LENDING AGREEMENTS	\$ 191,011	\$ 84,048

¹ The corresponding investments are included as "investments" in the Statements of Financial Position (see Note 5).

² The estimated fair value of securities loaned to brokers at August 31, 2014 and 2013 was \$155.8 million and \$55.4 million, respectively.

10. University Notes and Bonds Payable

Notes and bonds payable for the University at August 31, 2014 and 2013, in thousands of dollars, are as follows:

	YEAR OF MATURITY	INTEREST RATE * 2014/2013	OUTSTANDING PRINCIPAL	
			2014	2013
Tax-exempt:				
CEFA Fixed Rate Revenue Bonds:				
Series S	2039	5.00%	\$ 30,210	\$ 30,210
Series T	2014-2039	4.00% - 5.00%	188,900	361,310
Series U	2021-2045	5.00% - 5.25%	996,855	593,760
CEFA Variable Rate Revenue Bonds and Notes:				
Series L	2015-2022	0.03%/0.06%	83,818	83,818
Series S	2039-2050	0.10%-0.13%/0.17%-0.20%	141,200	141,200
Commercial Paper	2015	0.06%/0.08%	50,994	72,070
Taxable:				
Fixed Rate Notes and Bonds:				
Stanford University Bonds	2024	6.88%	150,000	150,000
Medium Term Note	2026	7.65%	50,000	50,000
Stanford University Series 2009A	2014-2019	3.63% - 4.75%	650,000	1,000,000
Stanford University Series 2012A	2042	4.01%	143,235	143,235
Stanford University Series 2013A	2044	3.56%	150,115	150,115
Stanford University Series 2014A	2054	4.25%	150,000	-
Other	2014-2015	Various	67,364	68,347
Variable Rate Notes:				
Commercial Paper	2015	0.15%/0.13%	140,715	70,656
University notes and bonds payable			2,993,406	2,914,721
Unamortized original issue premiums/discounts, net			271,230	183,712
TOTAL			\$ 3,264,636	\$ 3,098,433

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

At August 31, 2014 and 2013, the fair value of these debt instruments was approximately \$3.5 billion and \$3.1 billion, respectively. All bonds held at August 31, 2014 and 2013 are considered to be Level 2 fair value measurements.

The University borrows at tax-exempt rates through the California Educational Facilities Authority (CEFA). 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. The University's long-term ratings of AAA/Aaa/AAA were affirmed in April 2014 by Standard & Poor's, Moody's Investors Service and Fitch Ratings, respectively.

In May 2014, CEFA Series U-5 bonds were issued in the amount of \$124.1 million plus an original issue premium of \$26.3 million. The bonds bear interest at a rate of 5.00% and mature on May 1, 2021. Proceeds were used to (1) refinance commercial paper notes which were previously used to refinance CEFA Series T-4 bonds which matured in March 2014; (2) finance facilities and infrastructure; and (3) pay bond issuance costs.

In May 2014, CEFA Series U-6 bonds were issued in the amount of \$279.0 million plus an original issue premium of \$71.0 million. The bonds bear interest at a rate of 5.00% and mature on May 1, 2045. Proceeds were used to (1) refinance commercial paper notes; and (2) finance facilities and infrastructure.

In May 2014, the University issued taxable fixed rate Series 2014 bonds in the amount of \$150.0 million plus an original issue discount of \$27 thousand. The bonds bear interest at a rate of 4.249% and mature on May 1, 2054. Proceeds were used to (1) refinance commercial paper notes; and (2) finance facilities and infrastructure.

In May 2014, the taxable Series 2009A (first tranche) in the amount of \$350.0 million matured and was paid off.

In May 2013, CEFA Series U-3 bonds were issued in the amount of \$261.4 million plus an original issue premium of \$90.4 million. The bonds bear interest at a rate of 5.00% and mature on June 1, 2043. Proceeds were used to (1) refinance commercial paper notes; (2) finance facilities and infrastructure; and (3) pay bond issuance costs.

In May 2013, CEFA Series U-4 bonds were issued in the amount of \$39.2 million plus an original issue premium of \$13.6 million. The bonds bear interest at a rate of 5.00% and mature on June 1, 2043. Proceeds were used to (1) legally defease \$51.3 million of CEFA Series P bonds; and (2) pay bond issuance costs.

In May 2013, CEFA Series S-2 bonds of \$40.0M were converted from a commercial paper rate mode to a fixed rate bond issued in the amount of \$30.2 million plus an original issue premium of \$9.8 million. The bonds bear interest at a rate of 5.00% and mature on November 1, 2039.

In May 2013, the University issued taxable fixed rate Series 2013 bonds in the amount of \$150.1 million. The bonds bear interest at a rate of 3.563% and mature on June 1, 2044. Proceeds were used to (1) refinance commercial paper notes; (2) finance facilities and infrastructure; and (3) pay bond issuance costs.

In December 2010, the University entered into a \$50.0 million line of credit agreement to issue irrevocable standby letters of credit to support various collateral posting obligations. At August 31, 2014, irrevocable standby letters of credit of \$36.5 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*; and (2) \$21.5 million to serve as security for workers' compensation deductible insurance arrangements. No amounts have been drawn on these letters of credit at August 31, 2014.

Stanford holds controlling interests in several investment entities which were consolidated in the financial statements in fiscal years 2014 and 2013. At August 31, 2014 and 2013, taxable debt included \$66.8 million and \$67.8 million, respectively, of debt where Stanford is ultimately liable for principal should the investees default.

The University's taxable and tax-exempt commercial paper facilities and related information at August 31, 2014 and 2013, in thousands of dollars, are as follows:

COMMERCIAL PAPER	POTENTIAL BORROWINGS	OUTSTANDING BALANCE AT AUGUST 31	WEIGHTED AVERAGE DAYS TO MATURITY	WEIGHTED AVERAGE EFFECTIVE INTEREST RATE
2014				
Taxable	\$ 500,000	\$ 140,715	34.6	0.14%
Tax-exempt	\$ 300,000	\$ 50,994	49.6	0.07%
2013				
Taxable	\$ 500,000	\$ 70,656	93.1	0.22%
Tax-exempt	\$ 300,000	\$ 72,070	65.0	0.13%

The University had \$225.0 million of revenue bonds in variable rate mode outstanding in addition to commercial paper notes at August 31, 2014. CEFA Series L bonds bear interest at a weekly rate and CEFA Series S bonds bear interest at a commercial paper municipal rate and are outstanding for various interest periods of 270 days or less. In the event the University receives notice of any optional tender of these bonds, or if the bonds become subject to mandatory tender, the purchase price of the bonds will be paid from the remarketing of such bonds. However, if the remarketing proceeds are insufficient, the University will have a current obligation to purchase the bonds tendered. The University has identified several sources of funding including cash, money market funds, U.S. treasury securities and agencies' discount notes to provide for the full and timely purchase price of any bonds tendered in the event of a failed remarketing.

The University's interest expense, which includes amortized bond issuance costs and amortized bond premium or discount, in thousands of dollars, is as follows:

	2014	2013
Interest expense, gross	\$ 109,360	\$ 101,016
Less:		
Interest income earned on unspent proceeds	(198)	(253)
Interest capitalized as a cost of construction	(8,324)	(3,845)
Interest expense on Series 2009A bonds which is classified as an investment expense	(29,602)	(31,665)
Interest expense, net	\$ 71,236	\$ 65,253

The University uses interest rate exchange agreements to manage the interest rate exposure of its debt portfolio. Net payments on interest rate exchange agreements, which are included in "swap interest and change in value of swap agreements" in the *Statements of Activities*, were \$3.5 million and \$16.7 million for the years ended August 31, 2014 and 2013, respectively, including the loss on the termination of certain interest rate exchange agreements in 2013 (see *Note 7*).

At August 31, 2014, scheduled principal payments on notes and bonds, in thousands of dollars, are as follows:

YEAR ENDING AUGUST 31	PRINCIPAL PAYMENTS
2015 Commercial paper	\$ 191,709
2015 Variable debt subject to remarketing	225,018
2015 Other	1,334
2016	315,550
2017	-
2018	-
2019	400,000
Thereafter	1,859,795
TOTAL	\$ 2,993,406

11. Hospitals Notes and Bonds Payable

Notes, bonds and capital lease obligations for the Hospitals at August 31, 2014 and 2013, in thousands of dollars, are as follows:

	YEAR OF MATURITY	INTEREST RATE* 2014/2013	OUTSTANDING PRINCIPAL	
			2014	2013
SHC:				
CHFFA Fixed Rate Revenue Bonds:				
2008 Series A-1	2040	2.25%-5.15%	\$ 68,785	\$ 69,485
2008 Series A-2	2040	1.00%-5.25%	101,750	102,775
2008 Series A-3	2040	1.00%-5.50%	82,240	83,065
2010 Series A	2031	4.00%-5.75%	135,305	140,200
2010 Series B	2036	4.50%-5.75%	146,710	146,710
2012 Series A	2051	5.00%	340,000	340,000
2012 Series B	2023	2.00%-5.00%	58,520	63,555
Promissory Note	2014	7.03%	-	174
CHFFA Variable Rate Revenue Bonds:				
2008 Series B	2045	0.08%/0.11%	168,200	168,200
2012 Series C	2051	0.13%/0.14%	60,000	60,000
2012 Series D	2051	0.71%/0.74%	100,000	100,000
LPCH:				
CHFFA Fixed Rate Revenue Bonds:				
2008 Series A	2027-2033	1.45%	30,340	30,340
2008 Series B	2027-2033	1.45%	30,340	30,340
2008 Series C	2015-2023	1.45%	32,770	32,770
2012 Series A	2044-2051	5.00%	200,000	200,000
2012 Series B	2015-2027	4.00%/3.00%	46,815	49,015
2014 Series A	2025-2043	5.00%	100,000	-
CHFFA Variable Rate Revenue Bonds:				
2014 Series B	2034-2043	0.51%	100,000	-
Hospitals notes, bonds and capital lease obligations			1,801,775	1,616,629
Unamortized original issue premiums/discounts, net			72,098	67,416
TOTAL			\$ 1,873,873	\$ 1,684,045

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

At August 31, 2014 and 2013, the fair value of these debt instruments was approximately \$2.0 billion and \$1.6 billion, respectively. All bonds held at August 31, 2014 and 2013 are considered to be Level 2 fair value measurements.

The Hospitals borrow at tax-exempt rates through the California Health Facilities Financing Authority (CHFFA). CHFFA debt is a general obligation of the Hospitals. Payments of principal and interest on the Hospitals' bonds are collateralized by a pledge of the revenues of the respective hospitals. Although CHFFA is the issuer, the Hospitals are responsible for the repayment of the tax-exempt debt. 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.

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, the Hospitals may cause the redemption of the bonds, in whole or in part, prior to the stated maturities.

SHC

At August 31, 2014, SHC had \$328.2 million revenue bonds in variable rate mode outstanding. The 2008 Series B-1 bonds bear interest at a weekly rate, and bondholders have the option to tender their bonds on a weekly basis. The 2008 Series B-2 bonds bear interest at the commercial paper rate for each commercial paper period of 270 days or less. Bondholders in commercial paper mode have the option to tender their bonds only at the end of the commercial paper rate period.

The 2012 Series C bonds are in a windows weekly floating index mode and cannot be tendered for 180 days after a 30 day notice and remarketing period. The 2012 Series D bonds are also in a floating index mode with monthly interest rate resets. The 2012 Series D bonds are not subject to remarketing or tender until May 23, 2019.

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

At August 31, 2014, SHC had irrevocable standby letters of credit in the aggregate amount of \$26.8 million posted with certain beneficiaries in the following amounts and for the following respective purposes: (i) \$16.7 million to serve as security for the workers' compensation self-insurance arrangement and (ii) \$10.1 million to serve as security deposits for certain construction projects being undertaken by SHC including the Renewal Project. No amounts have been drawn on these letters of credit at August 31, 2014 and 2013.

LPCH

In May 2014, CHFFA, on behalf of LPCH, issued 2014 Series A bonds and 2014 Series B bonds in the aggregate principal amount of \$200.0 million. Proceeds of the 2014 bonds will be used to finance a portion of the Renewal Project and to pay a portion of bond issuance costs. The 2014 Series A bonds were issued as fixed rate bonds with interest rates ranging from 4-5% over the life of the bonds. The 2014 Series B bonds were issued in a floating index mode with monthly interest rate resets. The 2014 Series B bonds are not subject to remarketing or tender until May 8, 2024.

At August 31, 2014, LPCH had irrevocable standby letters of credit in the aggregate amount of \$13.8 million posted with certain beneficiaries in the following amounts and for the following respective purposes: (i) \$7.2 million to serve as security for the workers' compensation self-insurance arrangement and (ii) \$6.6 million to serve as security deposits for certain construction projects being undertaken by LPCH including the Renewal Project. No amounts have been drawn on these letters of credit at August 31, 2014 and 2013.

INTEREST

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

	2014	2013
Interest expense, gross, excluding settlements under the interest rate exchange agreements	\$ 60,623	\$ 59,614
Settlements under the interest rate exchange agreements	16,982	19,674
Less:		
Interest capitalized as a cost of construction	(21,648)	(19,074)
Interest expense, net	\$ 55,957	\$ 60,214

PRINCIPAL PAYMENTS

At August 31, 2014, scheduled principal payments on notes, bonds and capital lease obligations, in thousands of dollars, are as follows:

YEAR ENDING AUGUST 31	PRINCIPAL PAYMENTS
2015 Variable debt subject to remarketing	\$ 228,200
2015 Other	17,075
2016	18,930
2017	19,065
2018	19,395
2019	20,720
Thereafter	1,478,390
TOTAL	\$ 1,801,775

12. University Endowment

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

The University classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment and (b) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are authorized for expenditure. In the absence of donor stipulations or law to the contrary, net unrealized losses on permanently restricted endowment funds first reduce related appreciation on temporarily restricted net assets and then on unrestricted net assets, as needed, until the fair value of the fund equals or exceeds historic value. The aggregate amount by which fair value was below historic value was \$4.9 million and \$20.3 million at August 31, 2014 and 2013, respectively.

Endowment funds by net asset classification at August 31, 2014 and 2013, in thousands of dollars, are as follows:

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
2014				
Donor-restricted endowment funds	\$ (4,882)	\$ 6,574,426	\$ 5,465,939	\$ 12,035,483
Funds functioning as endowment	9,410,523	-	-	9,410,523
TOTAL ENDOWMENT FUNDS	\$ 9,405,641	\$ 6,574,426	\$ 5,465,939	\$ 21,446,006
2013				
Donor-restricted endowment funds	\$ (20,278)	\$ 5,528,171	\$ 5,174,848	\$ 10,682,741
Funds functioning as endowment	8,006,127	-	-	8,006,127
TOTAL ENDOWMENT FUNDS	\$ 7,985,849	\$ 5,528,171	\$ 5,174,848	\$ 18,688,868

Most of the University'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 for the University. 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 annually by Stanford Management Company.

Approximately 12% of the 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 is striving 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 sources of payout are earned income on endowment assets (interest, dividends, rents and royalties), realized capital gains and FFE, as needed and as available.

Changes in the University's endowment, excluding pledges, for the years ended August 31, 2014 and 2013, in thousands of dollars, are as follows:

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
2014				
Endowment, beginning of year	\$ 7,985,849	\$ 5,528,171	\$ 5,174,848	\$ 18,688,868
Investment returns:				
Earned income	228,278	-	-	228,278
Unrealized and realized gains	1,758,273	1,037,250	58,934	2,854,457
Total investment returns	1,986,551	1,037,250	58,934	3,082,735
Amounts distributed for operations	(985,215)	-	-	(985,215)
Gifts, transfers and other changes in endowment:				
Current year gifts and pledge payments	17,673	8,025	163,700	189,398
Transfers of prior year gifts	5,557	-	24,724	30,281
EFP funds invested in the endowment	367,648	-	-	367,648
Other funds invested in the endowment, net	27,578	980	43,733	72,291
Total gifts, transfers and other changes in endowment	418,456	9,005	232,157	659,618
Total net increase in endowment	1,419,792	1,046,255	291,091	2,757,138
ENDOWMENT, END OF YEAR	\$ 9,405,641	\$ 6,574,426	\$ 5,465,939	\$ 21,446,006
2013				
Endowment, beginning of year	\$ 7,067,439	\$ 5,016,796	\$ 4,951,569	\$ 17,035,804
Investment returns:				
Earned income	232,016	-	-	232,016
Unrealized and realized gains	729,859	1,006,324	17,099	1,753,282
Total investment returns	961,875	1,006,324	17,099	1,985,298
Amounts distributed for operations	(413,429)	(507,243)	-	(920,672)
Gifts, transfers and other changes in endowment:				
Current year gifts and pledge payments	2,902	2,441	165,232	170,575
Transfers of prior year gifts	3,732	354	28,002	32,088
EFP funds invested in the endowment	275,221	-	-	275,221
Other funds invested in the endowment, net	88,109	9,499	12,946	110,554
Total gifts, transfers and other changes in endowment	369,964	12,294	206,180	588,438
Total net increase in endowment	918,410	511,375	223,279	1,653,064
ENDOWMENT, END OF YEAR	\$ 7,985,849	\$ 5,528,171	\$ 5,174,848	\$ 18,688,868

13. Hospitals Endowments

The endowments of SHC and LPCH are intended to generate investment income to support their current operating and strategic initiatives. The following table summarizes each hospital's share of the Hospitals endowments at August 31, 2014 and 2013, in thousands of dollars:

	2014	2013
LPCH	\$ 308,872	\$ 280,799
SHC	17,985	16,133
TOTAL ENDOWMENT FUNDS	\$ 326,857	\$ 296,932

The Hospitals invest the majority of their endowments in the University's MP. Their endowments are subject to the same investment and spending strategies that the University employs as described in *Note 12*. 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 table below represents the Hospitals' current year endowment payout spent for designated purposes during fiscal years 2014 and 2013.

The Hospitals classify as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment and (b) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are authorized for expenditure. In the absence of donor stipulations or law to the contrary, net unrealized losses on permanently restricted endowment funds first reduce related appreciation on temporarily restricted net assets and then on unrestricted net assets, as needed, until the fair value of the fund equals or exceeds historic value. The aggregate amount by which fair value was below historic value was approximately \$0 and \$12 thousand at August 31, 2014 and 2013, respectively.

Changes in Hospitals endowments, for the years ended August 31, 2014 and 2013, in thousands of dollars, are as follows:

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
2014				
Endowments, beginning of year	\$ (12)	\$ 88,612	\$ 208,332	\$ 296,932
Investment returns:				
Earned income	-	14,957	-	14,957
Unrealized and realized gains	12	27,579	1,938	29,529
Total investment returns	12	42,536	1,938	44,486
Amounts distributed for operations	-	(14,551)	-	(14,551)
Gifts and pledge payments	-	-	744	744
Other	-	(774)	20	(754)
Total net increase in endowments	12	27,211	2,702	29,925
ENDOWMENTS, END OF YEAR	\$ -	\$ 115,823	\$ 211,034	\$ 326,857
2013				
Endowments, beginning of year	\$ (216)	\$ 74,081	\$ 207,350	\$ 281,215
Investment returns:				
Earned income	-	14,694	-	14,694
Unrealized and realized gains	204	14,812	1,364	16,380
Total investment returns	204	29,506	1,364	31,074
Amounts distributed for operations	-	(13,631)	-	(13,631)
Gifts and pledge payments	-	-	1,185	1,185
Other	-	(1,344)	(1,567)	(2,911)
Total net increase in endowments	204	14,531	982	15,717
ENDOWMENTS, END OF YEAR	\$ (12)	\$ 88,612	\$ 208,332	\$ 296,932

All of the Hospitals endowments are classified as donor-restricted.

14. University Gifts and Pledges

The University's Office of Development (OOD) reports total gifts based on contributions received in cash or property during the fiscal year. Gifts and pledges reported for financial statement purposes are recorded on the accrual basis. The following summarizes gifts and pledges reported for the years ended August 31, 2014 and 2013, per the *Statements of Activities* reconciled to the cash basis reported by OOD, in thousands of dollars:

	2014	2013
Current year gifts in support of operations	\$ 211,841	\$ 180,071
Donor advised funds, net	29,314	1,930
Current year gifts not included in operations	17,673	2,902
Temporarily restricted gifts and pledges, net	372,875	345,526
Permanently restricted gifts and pledges, net	154,068	164,102
TOTAL PER STATEMENTS OF ACTIVITIES	785,771	694,531
Adjustments to arrive at gift total as reported by OOD:		
New pledges	(368,759)	(247,611)
Payments made on pledges	269,958	282,948
Pledge discounts and other adjustments	31,842	27,225
Donor advised funds not designated for Stanford	(12,003)	10,669
Non-cash gifts	11,683	2,962
Non-government grants, recorded as sponsored research support when earned	110,535	85,098
SHC gifts	87,425	73,673
Other	12,007	2,072
TOTAL AS REPORTED BY OOD	\$ 928,459	\$ 931,567

15. Functional Expenses

Expenses for the years ended August 31, 2014 and 2013 are categorized on a functional basis as follows, in thousands of dollars:

	2014			2013
	UNIVERSITY	HOSPITALS	CONSOLIDATED	CONSOLIDATED
Instruction and departmental research	\$ 1,492,360	\$ -	\$ 1,492,360	\$ 1,400,573
Organized research - direct costs	1,075,577	-	1,075,577	1,040,952
Patient services	-	2,753,321	2,753,321	2,593,116
Auxiliary activities	896,359	-	896,359	790,917
Administration and general	353,680	322,453	676,133	538,030
Student services	188,268	-	188,268	167,551
Libraries	160,182	-	160,182	148,334
Development	82,678	21,663	104,341	90,744
SLAC construction	42,736	-	42,736	23,527
TOTAL EXPENSES	\$ 4,291,840	\$ 3,097,437	\$ 7,389,277	\$ 6,793,744

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

16. University Retirement Plans

The University provides retirement benefits through both contributory and noncontributory retirement plans for substantially all of its employees.

DEFINED CONTRIBUTION PLAN

The University offers a defined contribution plan to eligible faculty and staff through the *Stanford Contributory Retirement Plan* (SCRCP). University and participant contributions are primarily invested in annuities and mutual funds. University contributions under the SCRCP, which are vested immediately to participants, were approximately \$129.0 million and \$117.6 million for the years ended August 31, 2014 and 2013, respectively.

DEFINED BENEFIT PLANS

The University provides retirement and postretirement medical and other benefits through three defined benefit plans: 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 *Statements of Financial Position* as "accrued pension and post retirement benefit cost". These are described more fully below.

Staff Retirement Annuity Plan

Retirement benefits for certain employees are provided through the *Staff Retirement Annuity Plan* (SRAP), a noncontributory plan. While the SRAP is closed to new participants, certain employees continue to accrue benefits. The University's policy is to fund pension costs in accordance with the Employee Retirement Income Security Act (ERISA)'s requirements.

Faculty Retirement Incentive Program

The University also 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, 2014 and 2013, there were no program assets. The University funds benefit payouts as they are incurred.

Postretirement Benefit Plan

The University also provides certain 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. Retiree health plans are paid for, in part, by retiree contributions, which are adjusted annually. Health benefits provided and the gross premiums charged (before University subsidies) to retirees under age 65 are the same as those provided to active employees. The University 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:

	STAFF RETIREMENT ANNUITY PLAN (SRAP)	FACULTY RETIREMENT INCENTIVE PROGRAM (FRIP)	POST RETIREMENT BENEFIT PLAN (PRBP)	TOTAL
2014				
Change in plan assets:				
Fair value of plan assets, beginning of year	\$ 276,536	\$ -	\$ 170,537	\$ 447,073
Actual return on plan assets	49,934	-	29,678	79,612
Employer contributions	-	3,694	18,373	22,067
Plan participants' contributions	-	-	9,146	9,146
Benefits and plan expenses paid	(25,156)	(3,694)	(24,625) *	(53,475)
FAIR VALUE OF PLAN ASSETS, END OF YEAR	301,314	-	203,109	504,423
Change in projected benefit obligation:				
Benefit obligation, beginning of year	310,424	175,558	504,015	989,997
Service cost	3,253	10,827	15,577	29,657
Interest cost	12,798	7,373	23,606	43,777
Plan participants' contributions	-	-	9,146	9,146
Actuarial loss	14,846	7,532	29,179	51,557
Benefits and plan expenses paid	(25,156)	(3,694)	(24,625) *	(53,475)
BENEFIT OBLIGATION, END OF YEAR	316,165	197,596	556,898	1,070,659
NET LIABILITY RECOGNIZED IN THE STATEMENTS OF FINANCIAL POSITION	\$ (14,851)	\$ (197,596)	\$ (353,789)	\$(566,236)

* Net of Medicare subsidy

2013				
Change in plan assets:				
Fair value of plan assets, beginning of year	\$ 290,257	\$ -	\$ 149,798	\$ 440,055
Actual return on plan assets	5,082	-	18,216	23,298
Employer contributions	4,720	3,995	18,323	27,038
Plan participants' contributions	-	-	7,298	7,298
Benefits and plan expenses paid	(23,523)	(3,995)	(23,098) *	(50,616)
FAIR VALUE OF PLAN ASSETS, END OF YEAR	276,536	-	170,537	447,073
Change in projected benefit obligation:				
Benefit obligation, beginning of year	349,126	179,669	560,578	1,089,373
Service cost	3,831	11,734	18,349	33,914
Interest cost	11,256	5,867	20,861	37,984
Plan participants' contributions	-	-	7,298	7,298
Actuarial gain	(30,266)	(17,717)	(79,973)	(127,956)
Benefits and plan expenses paid	(23,523)	(3,995)	(23,098) *	(50,616)
BENEFIT OBLIGATION, END OF YEAR	310,424	175,558	504,015	989,997
NET LIABILITY RECOGNIZED IN THE STATEMENTS OF FINANCIAL POSITION	\$ (33,888)	\$ (175,558)	\$ (333,478)	\$(542,924)

* Net of Medicare subsidy

The accumulated benefit obligation for the SRAP was \$313.9 million and \$307.8 million at August 31, 2014 and 2013, respectively.

Net periodic benefit expense and non-operating activities related to the Plans for the years ended August 31, 2014 and 2013, in thousands of dollars, includes the following components:

	STAFF RETIREMENT ANNUITY PLAN (SRAP)	FACULTY RETIREMENT INCENTIVE PROGRAM (FRIP)	POST RETIREMENT BENEFIT PLAN (PRBP)	TOTAL
2014				
Service cost	\$ 3,253	\$ 10,827	\$ 15,577	\$ 29,657
Interest cost	12,798	7,373	23,606	43,777
Expected return on plan assets	(18,389)	-	(11,938)	(30,327)
Amortization of:				
Prior service cost	540	-	2,545	3,085
Actuarial loss	349	5,679	5,111	11,139
NET PERIODIC BENEFIT EXPENSE (INCOME)	(1,449)	23,879	34,901	57,331
Net actuarial gain during period	(16,699)	7,532	11,439	2,272
Amortization of:				
Prior service cost	(540)	-	(2,545)	(3,085)
Actuarial loss	(349)	(5,679)	(5,111)	(11,139)
TOTAL AMOUNTS RECOGNIZED IN NON-OPERATING ACTIVITIES	(17,588)	1,853	3,783	(11,952)
TOTAL AMOUNT RECOGNIZED IN NET PERIODIC BENEFIT EXPENSE AND NON-OPERATING ACTIVITIES	\$ (19,037)	\$ 25,732	\$ 38,684	\$ 45,379
2013				
Service cost	\$ 3,831	\$ 11,734	\$ 18,349	\$ 33,914
Interest cost	11,256	5,867	20,861	37,984
Expected return on plan assets	(19,478)	-	(10,530)	(30,008)
Amortization of:				
Prior service cost	540	-	2,569	3,109
Actuarial loss	2,970	7,464	11,165	21,599
NET PERIODIC BENEFIT EXPENSE (INCOME)	(881)	25,065	42,414	66,598
Net actuarial gain during period	(15,870)	(17,717)	(87,632)	(121,219)
Amortization of:				
Prior service cost	(540)	-	(2,569)	(3,109)
Actuarial loss	(2,970)	(7,464)	(11,165)	(21,599)
TOTAL AMOUNTS RECOGNIZED IN NON-OPERATING ACTIVITIES	(19,380)	(25,181)	(101,366)	(145,927)
TOTAL AMOUNT RECOGNIZED IN NET PERIODIC BENEFIT EXPENSE AND NON-OPERATING ACTIVITIES	\$ (20,261)	\$ (116)	\$ (58,952)	\$ (79,329)

Cumulative amounts recognized in non-operating activities, but not yet recognized in net periodic benefit expense in the *Statements of Activities*, are presented in the following table for the years ended August 31, 2014 and 2013, in thousands of dollars:

	STAFF RETIREMENT ANNUITY PLAN (SRAP)	FACULTY RETIREMENT INCENTIVE PROGRAM (FRIP)	POST RETIREMENT BENEFIT PLAN (PRBP)	TOTAL
2014				
Prior service cost	\$ 314	\$ -	\$ 3,394	\$ 3,708
Net actuarial loss	21,838	98,690	135,025	255,553
ACCUMULATED PLAN BENEFIT COSTS NOT YET RECOGNIZED IN NET PERIODIC BENEFIT EXPENSE	\$ 22,152	\$ 98,690	\$ 138,419	\$ 259,261
2013				
Prior service cost	\$ 854	\$ -	\$ 5,939	\$ 6,793
Net actuarial loss	38,886	96,837	128,697	264,420
ACCUMULATED PLAN BENEFIT COSTS NOT YET RECOGNIZED IN NET PERIODIC BENEFIT EXPENSE	\$ 39,740	\$ 96,837	\$ 134,636	\$ 271,213

The prior service costs and net actuarial loss expected to be amortized from non-operating activities to net periodic benefit expense in fiscal year 2015, in thousands of dollars, are as follows:

	STAFF RETIREMENT ANNUITY PLAN (SRAP)	FACULTY RETIREMENT INCENTIVE PROGRAM (FRIP)	POST RETIREMENT BENEFIT PLAN (PRBP)	Total
Prior service cost	\$ 277	\$ -	\$ 2,545	\$ 2,822
Net actuarial loss	\$ -	\$ 5,570	\$ 5,192	\$ 10,762

ACTUARIAL ASSUMPTIONS

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

	STAFF RETIREMENT ANNUITY PLAN (SRAP)		FACULTY RETIREMENT INCENTIVE PROGRAM (FRIP)		POST RETIREMENT BENEFIT PLAN (PRBP)	
	2014	2013	2014	2013	2014	2013
BENEFIT OBLIGATIONS						
Discount rate	3.64%	4.31%	3.59%	4.30%	4.10%	4.77%
Covered payroll growth rate	3.00%	3.50%	4.45%	4.41%	N/A	N/A
NET PERIODIC BENEFIT COST						
Discount rate	4.31%	3.36%	4.30%	3.33%	4.77%	3.78%
Expected returns on plan assets	7.00%	7.00%	N/A	N/A	7.00%	7.00%
Covered payroll growth rate	3.50%	3.54%	4.41%	4.42%	N/A	N/A

The expected long-term rate of return on asset assumptions for both the SRAP and PRBP plans is 7%. Expected returns on plan assets, a component of net periodic benefit expense (income), represent the long-term return on plan assets based on the calculated market-related value of plan assets. These rates of return are developed using an arithmetic average and are tested for reasonableness against historical returns, and the 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 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, 2014, a 7.25% annual rate of increase in the per capita costs of covered health care was assumed for calendar year 2014, declining gradually to 4.75% by 2024 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. Increasing the health care cost trend rate by 1% in each future year would increase the accumulated PRBP obligation by \$99.5 million and the aggregate annual service and interest cost by \$8.3 million. Decreasing the health care cost trend rate by 1% in each future year would decrease the accumulated PRBP obligation by \$78.4 million and the aggregate annual service and interest cost by \$6.3 million.

EXPECTED CONTRIBUTIONS

The University expects to contribute \$9.5 million to the FRIP and does not expect to contribute to the SRAP or PRBP during the year ending August 31, 2015.

EXPECTED BENEFIT PAYMENTS

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

YEAR ENDING AUGUST 31	STAFF RETIREMENT ANNUITY PLAN (SRAP)	FACULTY RETIREMENT INCENTIVE PROGRAM (FRIP)	POST RETIREMENT BENEFIT PLAN (PRBP)	
			EXCLUDING MEDICARE SUBSIDY	EXPECTED MEDICARE PART D SUBSIDY
2015	\$ 27,784	\$ 9,488	\$ 17,661	\$ 2,921
2016	23,774	12,457	18,782	3,209
2017	23,547	14,875	20,143	3,501
2018	23,375	15,007	21,599	3,810
2019	22,925	15,483	23,013	4,146
2020 - 2024	106,949	82,940	137,695	26,566

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, 2014, the University did not have concentrations of risk in any single entity, counterparty, sector, industry or country.

PLAN ASSET ALLOCATIONS

Actual allocations and weighted-average target allocations by asset category at August 31, 2014 are as follows:

ASSET CATEGORY	STAFF RETIREMENT ANNUITY PLAN (SRAP)		POST RETIREMENT BENEFIT PLAN (PRBP)	
	ACTUAL	TARGET	ACTUAL	TARGET
2014				
Cash and cash equivalents	<1%	0%	0%	0%
Public equities	40%	45%	75%	75%
Fixed income	60%	55%	25%	25%
Private equities	<1%	<1%	0%	0%
TOTAL PORTFOLIO	100%	100%	100%	100%

FAIR VALUE OF PLAN ASSETS

Current U.S GAAP defines a hierarchy of valuation inputs for the determination of the fair value of plan assets as described in *Note 5*. The plan assets measured at fair value at August 31, 2014 and 2013, in thousands of dollars, are as follows:

	AS OF AUGUST 31, 2014	LEVEL 1	LEVEL 2	LEVEL 3
SRAP:				
Cash and cash equivalents	\$ 1,308	\$ 1,308	\$ -	\$ -
Public equities	119,908	119,908	-	-
Fixed income	179,842	176,061	3,781	-
Private equities	256	-	-	256
TOTAL	301,314	297,277	3,781	256
PRBP:				
Public equities	152,150	152,150	-	-
Fixed income	50,959	50,959	-	-
TOTAL	203,109	203,109	-	-
TOTAL FAIR VALUE OF PLAN ASSETS	\$ 504,423	\$ 500,386	\$ 3,781	\$ 256

	AS OF AUGUST 31, 2013	LEVEL 1	LEVEL 2	LEVEL 3
SRAP:				
Cash and cash equivalents	\$ 1,156	\$ 1,156	\$ -	\$ -
Public equities	119,714	119,714	-	-
Fixed income	155,379	151,511	3,868	-
Private equities	287	-	-	287
TOTAL	276,536	272,381	3,868	287
PRBP:				
Public equities	127,182	127,182	-	-
Fixed income	43,355	43,355	-	-
TOTAL	170,537	170,537	-	-
TOTAL FAIR VALUE OF PLAN ASSETS	\$ 447,073	\$ 442,918	\$ 3,868	\$ 287

17. Hospitals Retirement Plans

The Hospitals provide retirement benefits through defined benefit and defined contribution retirement plans covering substantially all regular employees.

DEFINED CONTRIBUTION PLAN

Employer contributions to the defined contribution retirement plan are based on a percentage of participant annual compensation. Employer contributions to this plan amounted to approximately \$81.3 million and \$71.6 million for the years ended August 31, 2014 and 2013, respectively.

DEFINED BENEFIT PLANS

Certain employees of the Hospitals are covered by the *Staff Pension Plan* (the "Pension Plan"), a noncontributory, defined benefit pension plan. Benefits of certain prior employees of LPCH are covered by a frozen defined benefit plan. Benefits are based on years of service and the employee's compensation. Contributions to the plans are based on actuarially determined amounts sufficient to meet the benefits to be paid to plan participants.

POST RETIREMENT MEDICAL BENEFIT PLAN

The Hospitals currently provide health insurance coverage for certain retired employees through its *Post Retirement 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 provide a subsidy which varies depending on whether the retiree is covered under the grandfathered design or the defined dollar benefit design. A Medicare supplement option is provided for retirees over age 65. The obligation for these benefits has been recorded in the *Statements of Financial Position* as "accrued pension and post retirement benefit cost".

The change in Pension Plan and PRMB 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	POST RETIREMENT MEDICAL BENEFIT PLAN (PRMB)	TOTAL
2014			
Change in plan assets:			
Fair value of plan assets, beginning of year	\$ 187,527	\$ -	\$ 187,527
Actual return on plan assets	37,820	-	37,820
Employer contributions	6,020	4,703	10,723
Plan participants' contributions	-	1,237	1,237
Benefits and plan expenses paid	(10,939)	(5,940)	(16,879)
FAIR VALUE OF PLAN ASSETS, END OF YEAR	220,428	-	220,428
Change in projected benefit obligation:			
Benefit obligation, beginning of year	231,342	82,846	314,188
Service cost	2,324	1,839	4,163
Interest cost	10,330	3,507	13,837
Plan participants' contributions	-	1,237	1,237
Actuarial loss	20,094	1,127	21,221
Benefits and plan expenses paid	(10,939)	(5,940)	(16,879)
BENEFIT OBLIGATION, END OF YEAR	253,151	84,616	337,767
NET LIABILITY RECOGNIZED IN THE STATEMENTS OF FINANCIAL POSITION	\$ (32,723)	\$ (84,616)	\$ (117,339)
2013			
Change in plan assets:			
Fair value of plan assets, beginning of year	\$ 190,704	\$ -	\$ 190,704
Actual return on plan assets	3,772	-	3,772
Employer contributions	3,986	5,163	9,149
Plan participants' contributions	-	1,859	1,859
Benefits and plan expenses paid	(10,935)	(7,022)	(17,957)
FAIR VALUE OF PLAN ASSETS, END OF YEAR	187,527	-	187,527
Change in projected benefit obligation:			
Benefit obligation, beginning of year	257,781	87,150	344,931
Service cost	2,708	2,075	4,783
Interest cost	9,117	2,911	12,028
Plan participants' contributions	-	1,859	1,859
Actuarial gain	(27,329)	(5,751)	(33,080)
Benefits and plan expenses paid	(10,935)	(7,022)	(17,957)
Plan amendments	-	1,624	1,624
BENEFIT OBLIGATION, END OF YEAR	231,342	82,846	314,188
NET LIABILITY RECOGNIZED IN THE STATEMENTS OF FINANCIAL POSITION	\$ (43,815)	\$ (82,846)	\$ (126,661)

The accumulated benefit obligation for the Pension Plan was \$250.7 million and \$228.7 million at August 31, 2014 and 2013, respectively.

Net periodic benefit expense and non-operating activities related to the plans for the years ended August 31, 2014 and 2013, in thousands of dollars, includes the following components:

	STAFF PENSION PLAN	POST RETIREMENT MEDICAL BENEFIT PLAN (PRMB)	TOTAL
2014			
Service cost	\$ 2,324	\$ 1,839	\$ 4,163
Interest cost	10,330	3,507	13,837
Expected return on plan assets	(13,471)	-	(13,471)
Amortization of:			
Prior service cost	-	815	815
Actuarial loss (gain)	2,245	(463)	1,782
NET PERIODIC BENEFIT EXPENSE	1,428	5,698	7,126
Net actuarial (gain) loss during period	(4,255)	1,127	(3,128)
Amortization of:			
Prior service cost	-	(815)	(815)
Actuarial (loss) gain	(2,245)	463	(1,782)
TOTAL AMOUNTS RECOGNIZED IN NON-OPERATING ACTIVITIES	(6,500)	775	(5,725)
TOTAL AMOUNT RECOGNIZED IN NET PERIODIC BENEFIT EXPENSE AND NON- OPERATING ACTIVITIES	\$ (5,072)	\$ 6,473	\$ 1,401
2013			
Service cost	\$ 2,708	\$ 2,075	\$ 4,783
Interest cost	9,117	2,911	12,028
Expected return on plan assets	(13,993)	-	(13,993)
Amortization of:			
Prior service cost	-	312	312
Actuarial loss (gain)	10,677	(71)	10,606
NET PERIODIC BENEFIT EXPENSE	8,509	5,227	13,736
Prior service cost during period	-	1,624	1,624
Net actuarial gain during period	(17,108)	(5,751)	(22,859)
Amortization of:			
Prior service cost	-	(312)	(312)
Actuarial (loss) gain	(10,677)	71	(10,606)
TOTAL AMOUNTS RECOGNIZED IN NON-OPERATING ACTIVITIES	(27,785)	(4,368)	(32,153)
TOTAL AMOUNT RECOGNIZED IN NET PERIODIC BENEFIT EXPENSE AND NON- OPERATING ACTIVITIES	\$ (19,276)	\$ 859	\$ (18,417)

Cumulative amounts recognized in non-operating activities, but not yet recognized in net periodic benefit expense in the *Statements of Activities*, are presented in the following table for the years ended August 31, 2014 and 2013, in thousands of dollars:

	STAFF PENSION PLAN	POST RETIREMENT MEDICAL BENEFIT PLAN (PRMB)	TOTAL
2014			
Prior service cost	\$ -	\$ 3,401	\$ 3,401
Net actuarial loss (gain)	66,817	(5,054)	61,763
ACCUMULATED PLAN BENEFIT COSTS NOT YET RECOGNIZED IN NET PERIODIC BENEFIT EXPENSE	\$ 66,817	\$ (1,653)	\$ 65,164
2013			
Prior service cost	\$ -	\$ 4,216	\$ 4,216
Net actuarial loss (gain)	73,317	(6,644)	66,673
ACCUMULATED PLAN BENEFIT COSTS NOT YET RECOGNIZED IN NET PERIODIC BENEFIT EXPENSE	\$ 73,317	\$ (2,428)	\$ 70,889

The prior service cost and net actuarial loss expected to be amortized from non-operating activities to net periodic benefit expense in fiscal year 2015, in thousands of dollars, are as follows:

	STAFF PENSION PLAN	POST RETIREMENT MEDICAL BENEFIT PLAN (PRMB)	TOTAL
Prior service cost	\$ -	\$ 815	\$ 815
Net actuarial loss (gain)	\$ 2,631	\$ (338)	\$ 2,293

ACTUARIAL ASSUMPTIONS

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

	STAFF PENSION PLAN		POST RETIREMENT MEDICAL BENEFIT PLAN (PRMB)	
	2014	2013	2014	2013
BENEFIT OBLIGATIONS				
Discount rate	3.66% - 3.84%	4.37% - 4.59%	3.65%	4.37%
Covered payroll growth rate	3.00%	3.00%	N/A	N/A
NET PERIODIC BENEFIT COST				
Discount rate	4.37% - 4.59%	3.42% - 3.62%	4.37%	3.43%
Expected return on plan assets	6.25% - 7.50%	6.25% - 8.00%	N/A	N/A
Covered payroll growth rate	3.00%	5.50%	N/A	N/A

To develop the expected long-term rate of return on assets assumptions, the Hospitals considered the historical returns and the future expectations for returns for each asset class, as well as the target asset allocation of the pension portfolio.

To determine the accumulated PRMB obligation at August 31, 2014, a 7.25% annual rate of increase in the per capita cost of covered health care was assumed for calendar year 2014, declining gradually to 4.75% by 2024 and remaining at this rate thereafter.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. Increasing the health care cost trend rate by 1% in each future year would increase the accumulated PRMB obligation by \$2.4 million and the aggregate annual service and interest cost by \$156 thousand. Decreasing the health care cost trend rate by 1% in each future year would decrease the accumulated PRMB obligation by \$2.3 million and the aggregate annual service and interest cost by \$144 thousand.

EXPECTED CONTRIBUTIONS

The Hospitals expect to contribute \$0 to their Pension Plan and \$4.4 million to their PRMB during the fiscal year ending August 31, 2015.

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	POST RETIREMENT MEDICAL BENEFIT PLAN (PRMB)	
		EXCLUDING MEDICARE SUBSIDY	EXPECTED MEDICARE PART D SUBSIDY
2015	\$ 13,164	\$ 5,464	\$ 314
2016	13,741	5,685	310
2017	14,222	5,918	304
2018	14,661	6,158	297
2019	15,046	6,418	287
2020 - 2024	78,427	34,573	1,249

INVESTMENT STRATEGY

The Hospitals' investment strategy for the Pension Plan is to maximize the total rate of return (income and appreciation) within the limits of prudent risk taking and Section 404 of the ERISA. The funds are diversified across asset classes to achieve an optimal balance between risk and return and between income and capital appreciation. Many of the pension liabilities are long-term. The investment horizon is also long-term; however, the investment plan also ensures adequate near-term liquidity to meet benefit payments.

CONCENTRATION OF RISK

The Hospitals 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, 2014, the Hospitals did not have concentrations of risk in any single entity, counterparty, sector, industry or country.

PLAN ASSETS

The Hospitals' investment policy is to invest in assets that result in a favorable long-term rate of return from a diversified portfolio. Actual allocations and weighted-average target allocations by asset category for the Pension Plan at August 31, 2014 are as follows:

ASSET CATEGORY	ACTUAL	TARGET
2014		
Cash and cash equivalents	<1%	0%
Public equities	49%	50%
Fixed income	51%	50%
TOTAL PORTFOLIO	100%	100%

FAIR VALUE OF PLAN ASSETS

Current U.S. GAAP defines a hierarchy of valuation inputs for the determination of the fair value of plan assets as described in *Note 5*. The Pension Plan assets measured at fair value at August 31, 2014 and 2013, are all categorized as Level 1 investments and are as follows, in thousands of dollars:

	2014	2013
Cash and cash equivalents	\$ 962	\$ 1,128
Public equities	107,628	97,661
Fixed income	111,838	88,738
TOTAL FAIR VALUE OF PENSION PLAN ASSETS	\$ 220,428	\$ 187,527

18. Operating Leases

The University and the Hospitals lease certain equipment and facilities under operating leases expiring at various dates. Total rental expense under these leases for the years ended August 31, 2014 and 2013 was \$45.3 million and \$37.8 million, respectively, for the University and \$80.5 million and \$76.7 million, respectively, for the Hospitals.

Net minimum future operating lease payments and related present value, assuming a 4.8% discount rate for periods subsequent to August 31, 2014, in thousands of dollars, are as follows:

YEAR ENDING AUGUST 31	MINIMUM LEASE PAYMENTS		PRESENT VALUE OF MINIMUM LEASE PAYMENTS	
	UNIVERSITY	HOSPITALS	UNIVERSITY	HOSPITALS
2015	\$ 29,432	\$ 67,622	\$ 28,084	\$ 64,525
2016	20,703	61,424	18,850	55,926
2017	19,883	59,866	17,274	52,011
2018	19,547	55,382	16,205	45,912
2019	15,622	51,145	12,357	40,457
Thereafter	80,799	122,808	43,250	69,967
TOTAL	\$ 185,986	\$ 418,247	\$ 136,020	\$ 328,798

19. Related Party Transactions

Members of the University's Board and senior management may, from time to time, be associated, either directly or indirectly, with companies doing business with the University. For senior management, the University requires annual disclosure of significant financial interests in, or employment or consulting relationships with, entities doing business with the University. 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 University. The University has a written conflict of interest policy that requires, among other things, that no member of the Board can participate in any decision in which he or she (or an immediate family member) has a material financial interest. Each trustee is required to certify compliance with the conflict of interest policy on an annual basis and indicate whether the University does business with an entity in which a trustee 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 University, and in accordance with applicable conflict of interest laws. No such associations are considered to be significant.

20. Commitments and Contingencies

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

SPONSORED RESEARCH

The University conducts substantial research for the federal government pursuant to contracts and grants from federal agencies and departments. The University records reimbursements of direct and indirect costs (facilities and administrative costs) from grants and contracts as operating revenues. The Office of Naval Research is the University's cognizant federal agency for determining indirect cost rates charged to federally sponsored agreements. It is supported by the Defense Contract Audit Agency, which has the responsibility for auditing direct and indirect charges under those agreements. Costs recovered by the University in support of sponsored research are subject to audit and adjustment. Fringe benefit costs for the fiscal years ended August 31, 2007 to 2014 are still subject to audit. The University does not anticipate that any adjustments will be material to the consolidated financial statements.

HEALTH CARE

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. Differences between final settlements and amounts accrued in previous years are reported as adjustments to "patient care, net" revenue in the year the examination is substantially completed. Medicare cost reports have been audited by the Medicare fiscal intermediary through August 31, 2005 for SHC and August 31, 2012 for LPCH.

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 by health care providers of regulations could result in the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. The Hospitals are subject to similar regulatory reviews, and while such reviews may result in repayments and/or civil remedies that could have a material effect on the Hospitals' financial results of operations in a given period, each Hospital's management believes that such repayments and/or civil remedies would not have a material effect on its financial position.

INFORMATION SECURITY AND PRIVACY

As with many medical centers and universities across the country, information security and privacy is a growing risk area based on developments in the law and expanding mobile technology practices. The University and the Hospitals have policies, procedures, and training in place to safeguard protected information, but select incidents have occurred in the past and may occur in the future involving potential or actual disclosure of such information (including, for example, certain identifiable information relating to patients or research participants). In most cases, there has been no evidence of unauthorized access to, or use/disclosure of, such information, yet laws may require reporting to potentially affected individuals and federal and state governmental agencies. Governmental agencies have the authority to investigate and request further information about an incident or safeguards, to cite the University or Hospitals 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. The cost of such possible consequences has not been material to date to the University or the Hospitals, and management does not believe that any future consequences of these incidents will be material to the consolidated financial statements.

LABOR AGREEMENTS

Approximately 10% of the University's, 34% of SHC's and 42% of LPCH's employees are covered under union contract arrangements and are, therefore, subject to labor stoppages when contracts expire. There are currently no expired contracts under these union contract arrangements. The University's agreements with the Stanford Deputy Sheriffs' Association and the Service Employees International Union (SEIU) will expire in 2015 and 2019, respectively. The Hospitals' agreements with SEIU and the Committee for Recognition of Nursing Achievement (CRONA) will expire in 2017 and 2016, respectively.

GUARANTEES AND INDEMNIFICATIONS

The University and the Hospitals enter 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, 2014.

LITIGATION

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

MEDICAL CENTER RENEWAL PROJECT

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

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

SHC's and LPCH's share of the estimated total cost of the Renewal Project is \$2 billion and \$1.2 billion, respectively. The source of funding for the Renewal Project includes operating surpluses, gifts, government grants, and bond proceeds. Through August 2014, the Hospitals have recorded \$913.8 million in construction in progress related to this project. Based on current estimated schedules, management currently projects that the Renewal Project construction will be complete in 2017.

CONTRACTUAL COMMITMENTS

At August 31, 2014, the University had contractual obligations of approximately \$278.5 million in connection with major construction projects. Remaining expenditures on construction in progress are estimated to be \$631.3 million, which will be financed with certain unexpended plant funds, gifts and debt. Commitments on contracts for the construction and remodeling of Hospital facilities were approximately \$1.3 billion at August 31, 2014. As described in *Note 5*, the University is obligated under certain alternative investment agreements to advance additional funding up to specified levels over a period of years.

21. Subsequent Events

The University and the Hospitals have evaluated subsequent events for the period from August 31, 2014 through December 10, 2014, the date the consolidated financial statements were available to be issued.

In September 2014, ValleyCare Health System (VCHS) and SHC entered into an affiliation agreement under which SHC will become the sole corporate member of VCHS. VCHS operates inpatient and other health care facilities at three Bay Area locations in Alameda County, California. The closing of the affiliation is subject to various approvals including regulatory approvals.

APPENDIX B

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

The following is a summary of certain provisions of the Indenture that are not described elsewhere in this Offering Memorandum. The Bonds are issued and secured pursuant to the Indenture. References to the Indenture or a fund or account refer to the related document, fund or account with respect to the Bonds, as described in the Offering Memorandum. Unless otherwise specified to the contrary in this Appendix B, all definitions and provisions summarized refer to the Indenture. This summary does not purport to be comprehensive and reference should be made to the Indenture for a full and complete statement of its provisions.

Definitions

Unless the context otherwise requires, the following terms shall have the meanings specified below.

"Authorized Denomination" means \$1,000 or any multiple integral thereof.

"Authorized Representative" means the Institution's Vice President for Business Affairs and Chief Financial Officer, its Senior Associate Vice President for Finance, its Treasurer, or any other individual designated as an Authorized Representative of the Institution by a Certificate of the Institution signed by the Institution's Vice President for Business Affairs and Chief Financial Officer, its Senior Associate Vice President for Finance, or its Treasurer and filed with the Trustee.

"Beneficial Owner" means any Person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any of the Bonds (including any Person holding Bonds through nominees, depositories or other intermediaries) established to the reasonable satisfaction of the Trustee or the Institution.

"Bond Fund" means the fund by that name established pursuant to the Indenture.

"Bonds" means Stanford University Taxable Bonds Series 2015 authorized by, and at any time Outstanding pursuant to, the Indenture.

"Book-Entry Form" or *"Book-Entry System"* means a form or system, as applicable, under which physical bond certificates in fully registered form are registered only in the name of a Securities Depository or its nominee as Bondholder, with the physical bond certificates held by and "immobilized" in the custody of the Securities Depository and the book-entry system maintained by and the responsibility of others than the Institution or the Trustee is the record that identifies and records the transfer of the interests of the owners of book-entry interests in those Bonds.

"Business Day" means any day other than (A) a Saturday or Sunday or legal holiday or a day on which banking institutions in the city or cities in which the Designated Office of the Trustee is located are authorized by law or executive order to close or (B) a day on which the New York Stock Exchange is closed.

"Certificate", "Statement", "Request" or "Requisition" of the Institution mean, respectively, a written certificate, statement, request or requisition signed in the name of the Institution by an Authorized Representative. Any such instrument and supporting opinions or representations, if any, may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two

or more so combined shall be read and construed as a single instrument. If and to the extent required by the Indenture, each such instrument shall include the statements provided for in the Indenture.

"*Code*" means the Internal Revenue Code of 1986, as amended, or any successor statute thereto and any regulations promulgated thereunder.

"*Default*" means any event which is or after notice or lapse of time or both would become an Event of Default.

"*Designated Office*" means the Designated Office of the Trustee as specified in the Indenture.

"*Event of Default*" means any of the events specified as such in the Indenture.

"*Fitch*" means Fitch, Inc., doing business as Fitch Ratings, a corporation organized and existing under the laws of the State of Delaware, its successors and their assigns, or, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, any other nationally recognized securities rating agency designated by the Institution upon Notice to the Trustee.

"*Holder*" or "*Bondholder*," whenever used in the Indenture with respect to a Bond, means the Person in whose name such Bond is registered.

"*Indenture*" means the Indenture of Trust, by and between the Institution and the Trustee, as originally executed or as it may from time to time be supplemented, modified or amended by any Supplemental Indenture.

"*Indenture Fund*" means the fund by that name established pursuant to the Indenture.

"*Institution*" means the Board of Trustees of the Leland Stanford Junior University, a body having corporate powers under the Constitution and laws of the State of California, or said body's successor or successors.

"*Interest Account*" means the account by that name in the Bond Fund established pursuant to the Indenture.

"*Interest Payment Date*" means May 1 and November 1 of each year, commencing on November 1, 2015.

"*Investment Securities*" means any of the following: (1) direct nonprepayable, noncallable obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury of the United States of America) or direct nonprepayable, noncallable obligations the timely payment of the principal of and interest on which is fully and unconditionally guaranteed by the United States of America, including instruments evidencing a direct ownership interest in securities described in this clause such as CATS, TIGRs, and Stripped Treasury Coupons rated or assessed in the highest Rating Categories by S&P and Moody's and held by a custodian for safekeeping on behalf of holders of such securities and (2) money market funds registered under the Investment Company Act of 1940, the shares in which are registered under the Securities Act of 1933 and that have a rating by S&P of AAAm-G, AAAm or AAm, including such funds for which the Trustee or its affiliates provide investment advisory or other management services, including those for which the Trustee or an affiliate receives and retains a fee for services provided to the fund, whether as a custodian, transfer agent, investment advisor or otherwise, (3) commercial paper having, at the time of investment or contractual commitment to invest therein, a rating from Moody's and S&P, of A1 and P1, respectively,

(4) repurchase and reverse repurchase agreements collateralized with securities described in clause (1) of this definition, including those of the Trustee or any of its affiliates, and (5) bank deposit products, demand deposits, including interest bearing money market accounts, time deposits, trust funds, trust accounts, overnight bank deposits, interest-bearing deposits, and certificates of deposit, including those placed by a third party pursuant to an agreement between the Trustee and the Institution, or bankers acceptances of depository institutions, including the Trustee or any of its affiliates, which are fully FDIC-insured.

"Make-Whole Redemption Price" means the greater of (1) 100% of the principal amount of the Bonds to be redeemed; or (2) the sum of the present value of the remaining scheduled payments of principal and interest to the maturity date of the Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which the Bonds are to be redeemed, discounted to the date on which the Bonds are to be redeemed on a semi-annual basis assuming a 360-day year consisting of twelve 30-day months at the Treasury Rate plus 15 basis points, plus, in each case, accrued and unpaid interest on the Bonds to be redeemed on the redemption date.

"Moody's" means Moody's Investors Service, a corporation organized and existing under the laws of the State of Delaware, its successors and their assigns, or, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, any other nationally recognized securities rating agency designated by the Institution upon notice to the Trustee.

"Offering Memorandum" means the final offering memorandum dated April 21, 2015, relating to the Bonds.

"Opinion of Counsel" means a written opinion of counsel (who may be counsel for the Institution) satisfactory to the Trustee.

"Outstanding" when used as of any particular time with reference to Bonds, means (subject to the provisions of the Indenture) all Bonds theretofore, or thereupon being, authenticated and delivered by the Trustee under the Indenture except (1) Bonds theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation; (2) Bonds with respect to which all liability of the Institution shall have been discharged in accordance with the Indenture; and (3) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Trustee pursuant to the Indenture.

"Payment Date" means an Interest Payment Date or a Principal Payment Date.

"Person" means an individual, corporation, firm, association, partnership, trust, limited liability company or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof.

"Principal Account" means the account by that name in the Bond Fund established pursuant to the Indenture.

"Principal Payment Date" means May 1, 2047, the date of final maturity of the Bonds.

"Rating Agency" means Moody's, S&P and Fitch.

"Rating Category" means a generic securities rating category, without regard to any refinement or gradation of such rating category by a numerical modifier or otherwise.

"*Record Date*" means the fifteenth (15th) day (whether or not a Business Day) of the month immediately preceding each Interest Payment Date.

"*Redemption Fund*" means the fund by that name established pursuant to the Indenture.

"*Responsible Officer*" means when used with respect to the Trustee, the president, any vice president, any assistant vice president, the secretary, any assistant secretary, the treasurer, any assistant treasurer, any senior associate, any associate or any other officer of the Trustee within the Designated Office (or any successor corporate trust office) customarily performing functions similar to those performed by the persons who at the time shall be such officers, respectively, or to whom any corporate trust matter is referred at the Designated Office because of such person's knowledge of and familiarity with the particular subject and having direct responsibility for the administration of this Indenture.

"*S&P*" means Standard & Poor's, a division of The McGraw-Hill Companies, a corporation organized and existing under the laws of the State of New York, its successors and their assigns, or, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, any other nationally recognized securities rating agency designated by the Institution upon notice to the Trustee.

"*Securities Depository*" means The Depository Trust Company and its successors and assigns, or any other securities depository selected as set forth in the Indenture, which agrees to follow the procedures required to be followed by such securities depository in connection with the Bonds.

"*Special Record Date*" means the date established by the Trustee pursuant to the Indenture as the record date for the payment of defaulted interest on the Bonds.

"*Supplemental Indenture*" means any indenture hereafter duly authorized and entered into between the Institution and the Trustee, supplementing, modifying or amending the Indenture; but only if and to the extent that such Supplemental Indenture is specifically authorized under the Indenture.

"*Treasury Rate*" means, as of any redemption date, the yield to maturity as of such redemption date of United States Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) that has become publicly available at least two Business Days prior to the redemption date (excluding inflation indexed securities) (or, if such Statistical Release is no longer published, any publicly available source of similar market data)) most nearly equal to the period from the redemption date to the maturity date of the Bond to be redeemed; provided, however, that if the period from the redemption date to such maturity date is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year will be used.

"*Trustee*" means The Bank of New York Mellon Trust Company, N.A., a national banking association duly organized and existing under and by virtue of the laws of the United States, or its successor or successors, as Trustee hereunder as provided in the Indenture.

"*Underwriters*" means Barclays Capital Inc., Goldman, Sachs & Co., and Merrill Lynch, Pierce, Fenner & Smith Incorporated.

"*Uniform Commercial Code*" means the Uniform Commercial Code as in effect in the State of California from time to time.

Establishment and Pledge of Indenture Fund

Subject only to the provisions of the Indenture permitting or requiring the application thereof for the purposes and on the terms and conditions set forth therein, the Indenture Fund and all amounts held therein are pledged, assigned and transferred by the Institution to the Trustee for the benefit of the Bondholders to secure the full payment of the principal or Make-Whole Redemption Price of and interest on the Bonds in accordance with their terms and the provisions of the Indenture. The Institution grants to the Trustee a security interest in and acknowledges and agrees that the Indenture Fund and all amounts on deposit therein shall constitute collateral security to secure the full payment of the principal or Make-Whole Redemption Price of and interest on the Bonds in accordance with their terms and the provisions of the Indenture.

Nothing in the Indenture or in the Bonds, expressed or implied, shall be construed to constitute a security interest under the Uniform Commercial Code or otherwise in the assets of the Institution other than in any interest of the Institution in the Indenture Fund and/or the amounts on deposit therein. No recourse for the payment of the principal or Make-Whole Redemption Price of or interest on any Bond, or for any claim based thereon or otherwise in respect thereof, and no recourse under or upon any obligation, covenant or agreement of the Institution in the Indenture or in any Supplemental Indenture or in any Bond, or because of the creation of any indebtedness represented thereby, shall be had against any employee, agent, or officer, as such, past, present or future, of the Institution or of any successor entity, either directly or through any successor entity, whether by virtue of any constitution, statute or rule of law, or by the enforcement of any assessment or penalty or otherwise, it being expressly understood that all such liability is expressly waived and released as a condition of, and as a consideration for, the execution of the Indenture and the issue of the Bonds. No officer or agent of the Institution, nor any individual executing the Bonds, shall in any event be subject to any personal liability or accountability by reason of the issuance of the Bonds.

Funds and Accounts

The Indenture creates an Indenture Fund (and a Bond Fund and a Redemption Fund thereunder). The Indenture also creates an Interest Account and Principal Account under the Bond Fund. All of the funds and accounts are to be held by the Trustee.

Application of Proceeds of Bonds. The proceeds of the Bonds will be used for general corporate purposes, including without limitation financing and refinancing capital expenditures.

Indenture Fund. The Trustee establishes for the sole benefit of the Bondholders, a master fund referred to in the Indenture as the "Indenture Fund" containing the Bond Fund and the Redemption Fund and each of the accounts contained therein. The Indenture Fund and each of the funds and accounts in the Indenture Fund shall be identified on the books of the Trustee with reference hereto and shall be maintained by the Trustee and held in trust apart from all other moneys and securities held under the Indenture or otherwise, and the Trustee shall have the exclusive and sole right of withdrawal therefrom in accordance with the terms of the Indenture. All amounts deposited with the Trustee pursuant to the Indenture shall be held, disbursed, allocated and applied by the Trustee only as provided in the Indenture.

Bond Fund. Upon the receipt thereof, the Trustee shall deposit all payments received from the Institution (other than amounts which are to be deposited in the Redemption Fund or income or profit from investments which are to be applied pursuant to the Indenture) in a special fund designated the "Bond Fund" which the Trustee shall establish and maintain and hold in trust and which shall be disbursed and applied only as authorized in the Indenture.

At the times specified below, the Trustee shall allocate within the Bond Fund in the following order of priority the following amounts to the following accounts or funds, each of which the Trustee shall establish and maintain and hold in trust and each of which shall be disbursed and applied only as hereinafter authorized: (1) on each Interest Payment Date, the Trustee shall deposit in the "Interest Account" the aggregate amount of interest becoming due and payable on such Interest Payment Date on all Bonds then Outstanding, until the balance in said account is equal to said aggregate amount of interest; and (2) on each Principal Payment Date, the Trustee shall deposit in the "Principal Account" the aggregate amount of principal becoming due and payable on such Principal Payment Date, until the balance in said account is equal to said aggregate amount of such principal.

Interest Account. All amounts in the Interest Account shall be used and withdrawn by the Trustee solely for the purpose of paying interest on the Bonds as it shall become due and payable (including accrued interest on any Bonds redeemed prior to maturity pursuant to the Indenture).

Principal Account. All amounts in the Principal Account shall be used and withdrawn by the Trustee solely to pay at maturity the Bonds.

Redemption Fund. Upon the receipt thereof, the Trustee shall deposit the following amounts in a special fund designated the "Redemption Fund" which the Trustee shall establish and maintain and hold in trust: (1) all moneys deposited by the Institution with the Trustee directed to be deposited in the Redemption Fund; and (2) all interest, profits and other income received from the investment of moneys in the Redemption Fund.

All amounts deposited in the Redemption Fund shall be used and withdrawn by the Trustee solely for the purpose of redeeming Bonds, in the manner and upon the terms and conditions specified in the Indenture, at the next succeeding date of redemption for which notice has been given; provided that, at any time prior to the selection of Bonds for such redemption, the Trustee shall, upon direction of the Institution, apply such amounts to the purchase of Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as the Institution may direct, except that the purchase price (exclusive of accrued interest) may not exceed the Make-Whole Redemption Price then applicable to such Bonds (or, if such Bonds are not then subject to redemption, the par value of such Bonds); and provided further that in lieu of redemption at such next succeeding date of redemption, or in combination therewith, amounts in such account may be transferred to the Principal Account as set forth in a Request of the Institution.

Payments by the Institution; Allocation of Funds. On or before 11:00 AM (Pacific time) on each Payment Date, until the principal of and interest on the Bonds shall have been fully paid or provision for such payment shall have been made as provided in the Indenture, the Institution shall pay to the Trustee a sum equal to the amount payable on such Payment Date as principal of and interest on the Bonds, less the amounts, if any, in the Bond Fund and available therefor. Each payment made pursuant to this paragraph, together with other available amounts, if any, in the Bond Fund, shall at all times be sufficient to pay the total amount of interest and principal (whether at maturity or upon acceleration) becoming due and payable on the Bonds on such Payment Date. If on any Payment Date the available amounts held by the Trustee in the Bond Fund are insufficient to make any required payments of principal of (whether at maturity or upon acceleration) and interest on the Bonds as such payments become due, the Institution shall forthwith pay such deficiency to the Trustee.

The obligations of the Institution to make the payments required by the immediately preceding paragraph and to perform and observe the other agreements on its part contained in the Indenture shall be a general obligation of the Institution, absolute and unconditional, irrespective of any defense or any rights of set-off, recoupment or counterclaim it might otherwise have against the Trustee, and during the

term of the Indenture, the Institution shall pay all payments required to be made by the immediately preceding paragraph (which payments shall be net of any other obligations of the Institution) as prescribed therein and all other payments required under the Indenture, free of any deductions and without abatement, diminution or set-off. Until such time as the principal of and interest on the Bonds shall have been fully paid, or provision for the payment thereof shall have been made as required by the Indenture, the Institution (i) will not suspend or discontinue any payments provided for in the immediately preceding paragraph; (ii) will perform and observe all of its other covenants contained in the Indenture; and (iii) except as otherwise provided in the Indenture, will not terminate the Indenture for any cause, including, without limitation, the occurrence of any act or circumstances that may constitute failure of consideration, destruction of or damage to all or a portion of the projects financed with the proceeds of the Bonds, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the State of California or any political subdivision of either of these, or any failure of the Trustee to perform and observe any covenant, whether express or implied, or any duty, liability or obligation arising out of or connected with the Indenture, except to the extent permitted by the Indenture.

Validity of Bonds

The recital contained in the Bonds that the same are issued pursuant to the Indenture shall be conclusive evidence of their validity and of compliance with the provisions of the Indenture in their issuance.

Redemption of Bonds

Terms of Redemption. The Bonds are redeemable prior to maturity at the written direction of the Institution to the Trustee not less than five (5) days nor more than sixty (60) days prior to the date that notice of redemption is due to be given by the Trustee in accordance with the Indenture. Such redemption shall be in accordance with the terms of the Bonds, as a whole or in part on any Business Day in such order of maturity as directed by the Institution at the Make-Whole Redemption Price. The Make-Whole Redemption Price will be calculated by an independent accounting firm, investment banking firm or financial advisor retained by the Institution at its expense. The Trustee and the Institution may conclusively rely on such accounting firm's, investment banking firm's or financial advisor's determination of such Make-Whole Redemption Price and shall bear no liability for such reliance.

Selection of Bonds for Redemption. If the Bonds are registered in book-entry only form and so long as the Securities Depository or its nominee is the sole registered owner of the Bonds, if less than all of the Bonds are called for redemption, the particular Bonds or portions thereof to be redeemed shall be selected on a pro rata pass-through distribution of principal basis in accordance with procedures of the Securities Depository, provided that the selection for redemption of such Bonds shall be made in accordance with the operational arrangements of the Securities Depository then in effect, and, if the Securities Depository's operational arrangements at such time do not allow for redemption on a pro rata pass-through distribution of principal basis, the Bonds shall be selected for redemption, in accordance with Securities Depository procedures, by lot. If the Securities Depository or its nominee is no longer the sole registered owner of the Bonds, if less than all of the Bonds are called for redemption, the Trustee shall select the Bonds to be redeemed on a pro rata basis.

Notice of Redemption. Notice of redemption shall be mailed by the Trustee by first class mail, not less than seven (7) days (or, if longer, the minimum number of days necessary to comply with the operational requirements of the Securities Depository then in effect), nor more than sixty (60) days prior to the redemption date, to the respective Holders of any Bonds designated for redemption at their addresses appearing on the bond registration books of the Trustee. If the Bonds are no longer held by the Securities Depository or its successor or substitute, the Trustee shall also give notice of redemption by

overnight mail to such securities depositories and/or securities information services as shall be designated in a Certificate of the Institution. Each notice of redemption shall state the date of such notice, the date of issue of the Bonds, the redemption date, the Make-Whole Redemption Price, the place or places of redemption (including the name and appropriate address or addresses of the Trustee), the maturity (including CUSIP number, if any), the conditions, if any, to the redemption, and, in the case of Bonds to be redeemed in part only, the portion of the principal amount thereof to be redeemed. Each such notice shall also state that on said date there will become due and payable on each of said Bonds the Make-Whole Redemption Price thereof or of said specified portion of the principal amount thereof in the case of a Bond to be redeemed in part only, and that from and after such redemption date interest thereon shall cease to accrue, and shall require that such Bonds be then surrendered.

Notice of redemption of Bonds shall be given by the Trustee, at the expense of the Institution, for and on behalf of the Institution.

Failure by the Trustee to give notice pursuant to the Indenture to any one or more of the securities information services or depositories designated by the Institution, or the insufficiency of any such notice shall not affect the sufficiency of the proceedings for redemption. Failure by the Trustee to mail notice of redemption pursuant to the Indenture to any one or more of the respective Holders of any Bonds designated for redemption shall not affect the sufficiency of the proceedings for redemption with respect to the Holders to whom such notice was mailed.

The Institution may instruct the Trustee to provide conditional notice of redemption, which may be conditioned upon the receipt of moneys or any other event. Additionally, any notice given pursuant to the Indenture may be rescinded by written notice given to the Trustee by the Institution no later than five (5) Business Days prior to the date specified for redemption. The Trustee shall give notice of such rescission, as soon thereafter as practicable, in the same manner, to the same Persons, as notice of such redemption was given pursuant to the Indenture.

Partial Redemption of Bonds. Upon surrender of any Bond redeemed in part only, the Institution shall execute (but need not prepare) and the Trustee shall prepare or cause to be prepared, authenticate and deliver to the Holder thereof, at the expense of the Institution, a new Bond or Bonds of Authorized Denominations, equal in aggregate principal amount to the unredeemed portion of the Bond surrendered.

Effect of Redemption. Notice of redemption having been duly given as aforesaid, and moneys for payment of the Make-Whole Redemption Price of the Bonds (or portion thereof) so called for redemption being held by the Trustee, and any conditions specified in the notice of redemption having been satisfied, on the date fixed for redemption designated in such notice, the Bonds (or portion thereof) so called for redemption shall become due and payable at the Make-Whole Redemption Price specified in such notice, interest on the Bonds so called for redemption shall cease to accrue, said Bonds (or portion thereof) shall cease to be entitled to any benefit or security under the Indenture, and the Holders of said Bonds shall have no rights in respect thereof except to receive payment of said Make-Whole Redemption Price from funds held by the Trustee for such payment.

All Bonds redeemed pursuant to the provisions of the Indenture shall be cancelled by the Trustee upon surrender thereof and delivered to, or upon the order of, the Institution.

Use of Securities Depository

Notwithstanding any provision of the Indenture to the contrary:

The Bonds shall be initially issued as fully registered Bonds, registered in the name of "Cede & Co.," as nominee of the Securities Depository and shall be evidenced by one Bond for each maturity in the principal amount of the Bonds of such maturity. Registered ownership of the Bonds, or any portion thereof, may not thereafter be transferred except: (1) to any successor of the Securities Depository or its nominee, or to any substitute depository designated pursuant to clause (2) of this paragraph ("substitute depository"); provided that any successor of the Securities Depository or substitute depository shall be qualified under any applicable laws to provide the service proposed to be provided by it; (2) to any substitute depository designated by the Institution and not objected to by the Trustee, upon (i) the resignation of the Securities Depository or its successor (or any substitute depository or its successor) from its functions as depository or (ii) a determination by the Institution that the Securities Depository or its successor (or any substitute depository or its successor) is no longer able to carry out its functions as depository; provided that any such substitute depository shall be qualified under any applicable laws to provide the services proposed to be provided by it; or (3) to any Person as provided below, upon (i) the resignation of the Securities Depository or its successor (or substitute depository or its successor) from its functions as depository; provided that no substitute depository can be obtained or (ii) a determination by the Institution that it is in the best interests of the Institution to remove the Securities Depository or its successor (or any substitute depository or its successor) from its functions as depository.

In the case of any transfer pursuant to clause (1) or clause (2) of the immediately preceding paragraph, upon receipt of the Outstanding Bonds by the Trustee, together with a Certificate of the Institution to the Trustee, new Bonds for each maturity shall be executed and delivered in the principal amount of the Bonds of such maturity, registered in the name of such successor or such substitute depository, or their nominees, as the case may be, all as specified in such Certificate of the Institution. In the case of any transfer pursuant to clause (3) of the immediately preceding paragraph, upon receipt of the Outstanding Bonds by the Trustee together with a Certificate of the Institution to the Trustee, new Bonds shall be executed and delivered in such denominations and registered in the names of such persons as are requested in such a Certificate of the Institution, subject to the limitations of the Indenture, provided the Trustee shall not be required to deliver such new Bonds within a period less than sixty (60) days from the date of receipt of such a Certificate of the Institution.

In the case of partial redemption or an advance refunding of the Bonds evidencing all or a portion of the principal amount Outstanding, the Securities Depository shall make an appropriate notation on the Bonds indicating the date and amounts of such reduction in principal, in form acceptable to the Trustee.

The Institution and the Trustee shall be entitled to treat the Person in whose name any Bond is registered as the Bondholder thereof for all purposes of the Indenture and any applicable laws, notwithstanding any notice to the contrary received by the Institution or the Trustee. So long as the Outstanding Bonds are registered in the name of the Cede & Co. or its registered assign, the Institution and the Trustee shall cooperate with Cede & Co., as sole registered Bondholder, and its registered assigns, in effecting payment of the principal or Make-Whole Redemption Price of and interest on the Bonds by arranging for payment in such manner that funds for such payments are properly identified and are made immediately available on the date they are due, all in accordance with the letter of representations of the Institution to the Securities Depository or as otherwise agreed by the Trustee and the Securities Depository.

Particular Covenants

Punctual Payment. The Institution shall punctually pay the principal or Make-Whole Redemption Price and interest to become due in respect of all the Bonds, in strict conformity with the terms of the Bonds and of the Indenture, according to the true intent and meaning thereof. When and as

paid in full, all Bonds shall be delivered to the Trustee and shall forthwith be cancelled by the Trustee and delivered to, or upon the order of, the Institution.

Power to Issue Bonds. The Institution is duly authorized to issue the Bonds and to enter into the Indenture in the manner and to the extent provided in the Indenture. The Bonds are and will be legal, valid and binding obligations of the Institution in accordance with their terms, and the Institution and the Trustee shall at all times, to the extent permitted by law, defend, preserve and protect said pledge and assignment of funds and accounts and all the rights of the Bondholders under the Indenture against all claims and demands of all Persons whomsoever, subject to the limitations set forth in the Indenture relating to the Trustee.

Accounting Records and Financial Statements. With respect to each fund or account established and maintained by the Trustee pursuant to the Indenture, the Trustee shall at all times keep, or cause to be kept, proper books of record and account prepared in accordance with corporate trust accounting standards, in which complete and accurate entries shall be made of all transactions relating to the receipt, investment, disbursement, allocation and application of payments received from the Institution and the proceeds of the Bonds. Such books of record and account shall be available for inspection by the Institution and any Bondholder, or his or her agent or representative duly authorized in writing, with prior notice, during the Trustee's normal business hours and under reasonable circumstances.

The Trustee shall file with the Institution, within twenty (20) days after the end of each month, a complete financial statement (which need not be audited and may be its regular account statements) covering receipts, disbursements, allocation and application of any moneys (including proceeds of Bonds) in any of the funds and accounts established pursuant to the Indenture for such month; provided that the Trustee shall not be obligated to deliver an accounting for any fund or account that has a balance of \$0.00 and has not had any activity since the last reporting.

Events of Default and Remedies of Bondholders

Events of Default. The following events shall be "Events of Default": (a) default in the due and punctual payment of the principal or Make-Whole Redemption Price of any Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by acceleration or otherwise; (b) default in the due and punctual payment of any interest on any Bond when and as such interest shall become due and payable; (c) default by the Institution in the performance or observance of any of the other covenants, agreements or conditions on its part contained in the Indenture or in the Bonds (other than a covenant, agreement or condition a default in performance or observance of which is elsewhere in the Indenture specifically dealt with), if such default shall have continued for a period of sixty (60) days after written notice thereof, specifying such default and requiring the same to be remedied and stating that such notice is a "Notice of Default" under the Indenture, shall have been given to the Institution by the Trustee, or to the Institution and the Trustee by the Holders of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding; (d) the commencement by the Institution of a voluntary case under the federal bankruptcy laws, or if the Institution shall become insolvent or unable to pay its debts as they become due, or shall make an assignment for the benefit of creditors, or shall apply for, consent to or acquiesce in the appointment of, or taking possession by, a trustee, receiver, custodian or similar official or agent for itself or any substantial part of its property; (e) the appointment of a trustee, receiver, custodian or similar official or agent for the Institution or for any substantial part of its property and such trustee or receiver shall not be discharged within sixty (60) days; or (f) an order or decree for relief in an involuntary case under the federal bankruptcy laws shall be entered against the Institution, or a petition seeking reorganization, readjustment, arrangement, composition, or other similar relief as to it under the federal bankruptcy laws

or any similar law for the relief of debtors shall be brought against it and shall be consented to by it or shall remain undismissed for sixty (60) days.

Acceleration of Maturity. If an Event of Default shall occur, then, and in each and every such case during the continuance of such Event of Default, the Trustee may, upon notice in writing to the Institution, declare the principal of all the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration by the Trustee the same shall become and shall be immediately due and payable, anything in the Indenture or in the Bonds contained to the contrary notwithstanding.

Any such declaration, however, is subject to the condition that if, at any time after such declaration and before any judgment or decree for the payment of the moneys due shall have been obtained or entered, there shall be deposited with the Trustee a sum sufficient to pay all the principal or Make-Whole Redemption Price of and interest on the Bonds payment of which is overdue, with interest on such overdue principal at the rate borne by the Bonds, and the reasonable charges and expenses of the Trustee, and any and all other Defaults actually known to a Responsible Officer of the Trustee (other than in the payment of principal of and interest on the Bonds due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor, then, and in every such case, the Trustee shall, on behalf of the Holders of all of the Bonds, by written notice to the Institution, rescind and annul such declaration and its consequences and waive such Default; but no such rescission and annulment shall extend to or shall affect any subsequent Default, or shall impair or exhaust any right or power consequent thereon.

Application of Moneys Collected by the Trustee. If an Event of Default shall occur and be continuing, all moneys then held or thereafter received by the Trustee under any of the provisions of the Indenture (subject to provisions of the Indenture requiring moneys to be held for payment of particular Bonds) shall be applied by the Trustee as follows and in the following order:

(A) To the payment of any expenses necessary in the opinion of the Trustee to protect the interests of the Holders of the Bonds and payment of reasonable fees and expenses of the Trustee (including reasonable fees and disbursements of its counsel) incurred in and about the performance of its powers and duties under the Indenture; and

(B) To the payment of the principal or Make-Whole Redemption Price of and interest then due on the Bonds (upon presentation of the Bonds to be paid, and stamping thereon of the payment if only partially paid, or surrender thereof if fully paid) subject to the provisions of the Indenture, as follows:

(1) Unless the principal of all of the Bonds shall have become or have been declared due and payable,

First: To the payment to the Persons entitled thereto of all installments of interest then due in the order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full any installment or installments due on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the Persons entitled thereto, without any discrimination or preference; and

Second: To the payment to the Persons entitled thereto of the unpaid principal or Make-Whole Redemption Price of any Bonds which shall have become due, whether at maturity or by call for redemption, in the order of their due dates, with interest on the overdue principal at the rate borne by the Bonds, and, if the amount available shall not be sufficient to pay in full all the Bonds due on any date, together with such interest, then to the payment thereof ratably, according

to the amounts of principal or Make-Whole Redemption Price due on such date to the Persons entitled thereto, without any discrimination or preference.

(2) If the principal of all of the Bonds shall have become or have been declared due and payable, to the payment of the principal and interest then due and unpaid upon the Bonds, with interest on the overdue principal at the rate borne by the Bonds, and, if the amount available shall not be sufficient to pay in full the whole amount so due and unpaid, then to the payment thereof ratably, without preference or priority of principal over interest, or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, according to the amounts due respectively for principal and interest, to the Persons entitled thereto without any discrimination or preference.

Trustee to Represent Bondholders. The Trustee is irrevocably appointed (and the successive respective Holders of the Bonds, by taking and holding the same, shall be conclusively deemed to have so appointed the Trustee) as trustee and true and lawful attorney-in-fact of the Holders of the Bonds for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to such Holders under the provisions of the Bonds, the Indenture and applicable provisions of any law. Upon the occurrence and continuance of an Event of Default or other occasion giving rise to a right in the Trustee to represent the Bondholders, the Trustee in its discretion may, and upon the written request of the Holders of not less than a majority in aggregate principal amount of the Bonds then Outstanding, and upon being indemnified to its satisfaction therefor, shall, proceed to protect or enforce its rights or the rights of such Holders by such appropriate action, suit, mandamus or other proceedings as it shall deem most effectual to protect and enforce any such right, at law or in equity, either for the specific performance of any covenant or agreement contained in the Indenture, or in aid of the execution of any power granted in the Indenture, or for the enforcement of any other appropriate legal or equitable right or remedy vested in the Trustee, or in such Holders under the Bonds, the Indenture or any applicable law; and upon instituting such proceeding, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver of the amounts pledged under the Indenture, pending such proceedings. If more than one such request is received by the Trustee from the Holders, the Trustee shall follow the written request executed by the Holders of the greatest percentage (which percentage shall be, in any case, not less than a majority in aggregate principal amount) of the Bonds then Outstanding. All rights of action under the Indenture or the Bonds or otherwise may be prosecuted and enforced by the Trustee without the possession of any of the Bonds or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in the name of the Trustee for the benefit and protection of all the Holders of such Bonds, subject to the provisions of the Indenture.

Bondholders' Direction of Proceedings. The Holders of a majority in aggregate principal amount of the Bonds then Outstanding shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, and upon indemnifying the Trustee to its satisfaction therefor, to direct the time, method and place of conducting all remedial proceedings taken by the Trustee under the Indenture, provided that such direction shall not be otherwise than in accordance with law and the provisions of the Indenture, and that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Bondholders not parties to such direction (the Trustee having no obligation to determine if such direction is unjustly prejudicial).

Limitation on Bondholders' Right to Sue. No Holder of any Bond shall have the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under the Indenture or any applicable law with respect to such Bond, unless (1) such Holder shall have given to the Trustee written notice of the occurrence of an Event of Default; (2) the Holders of not less than a majority in aggregate principal amount of the Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers granted in the Indenture or to institute such suit, action or

proceeding in its own name; (3) such Holder or said Holders shall have tendered to the Trustee indemnity satisfactory to it against the costs, expenses and liabilities to be incurred in compliance with such request; and (4) the Trustee shall have refused or omitted to comply with such request for a period of sixty (60) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee.

Such notification, request, tender of indemnity and refusal or omission are declared by the Indenture, in every case, to be conditions precedent to the exercise by any Holder of Bonds of any remedy under the Indenture or under law; it being understood and intended that no one or more Holders of Bonds shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Indenture or the rights of any other Holders of Bonds, or to enforce any right under the Indenture or applicable law with respect to the Bonds, except in the manner provided in the Indenture, and that all proceedings at law or in equity to enforce any such right shall be instituted, had and maintained in the manner provided in the Indenture and for the benefit and protection of all Holders of the Outstanding Bonds, subject to the provisions of the Indenture.

Absolute Obligation of Institution. Notwithstanding any other provision of the Indenture, or in the Bonds, nothing shall affect or impair the obligation of the Institution, which is absolute and unconditional, to pay the principal or Make-Whole Redemption Price of and interest on the Bonds to the respective Holders of the Bonds at their respective dates of maturity, or upon call for redemption, as provided in the Indenture, or, subject to the provisions of the Indenture regarding limitation on Bondholders' right to sue, affect or impair the right of such Holders to enforce such payment by virtue of the contract embodied in the Bonds.

Termination of Proceedings. In case any proceedings taken by the Trustee or any one or more Bondholders on account of any Event of Default shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Trustee or the Bondholders, then in every such case the Institution, the Trustee and the Bondholders, subject to any determination in such proceedings, shall be restored to their former positions and rights under the Indenture, severally and respectively, and all rights, remedies, powers and duties of the Institution, the Trustee and the Bondholders shall continue as though no such proceedings had been taken.

Remedies Not Exclusive. No remedy conferred in the Indenture upon or reserved to the Trustee or to the Holders of the Bonds is intended to be exclusive of any other remedy or remedies, and each and every such remedy, to the extent permitted by law, shall be cumulative and in addition to any other remedy given under the Indenture or now or hereafter existing at law or in equity or otherwise.

Delay or Omission Not Waiver. No delay or omission of the Trustee or of any Holder of the Bonds to exercise any right or power arising upon the occurrence of any Default shall impair any such right or power or shall be construed to be a waiver of any such Default or an acquiescence therein; and every power and remedy given by the Indenture to the Trustee or to the Holders of the Bonds may be exercised from time to time and as often as may be deemed expedient.

Waiver of Past Defaults. The Trustee may, and upon request of the Holders of not less than a majority in aggregate principal amount of the Outstanding Bonds shall, on behalf of the Holders of all the Bonds waive any past Default under the Indenture and its consequences, except a Default: (A) In the payment of the principal or Make-Whole Redemption Price of or interest on any Bond, or (B) in respect of a covenant or other provision of the Indenture which, pursuant to the Indenture, cannot be modified or amended without the consent of the Holder of each Outstanding Bond affected. Upon any such waiver, such Default shall cease to exist, and any Event of Default arising therefrom shall be deemed to have been

cured, for every purpose of the Indenture, but no such waiver shall extend to any subsequent or other Default or impair any right consequent thereon.

Undertaking for Costs. Subject to the provisions of the Indenture regarding the Trustee's rights to compensation and indemnification, the parties to the Indenture agree, and each Holder of any Bond by such Person's acceptance thereof shall be deemed to have agreed, that any court may in its discretion require, in any suit for the enforcement of any right or remedy under the Indenture, or in any suit against the Trustee for any action taken or omitted by it as Trustee, the filing by any party litigant in such suit of an undertaking to pay the costs of such suit, and that such court may in its discretion assess reasonable costs, including reasonable attorneys fees, against any party litigant in such suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant; but the provisions of this paragraph shall not apply to any suit instituted by the Trustee or to any suit instituted by any Bondholder or group of Bondholders holding in the aggregate more than a majority in aggregate principal amount of the Outstanding Bonds.

Notice of Default. Upon a Responsible Officer's actual knowledge of the existence of any Default under the Indenture, the Trustee shall notify the Institution in writing as soon as practicable, but in any event within five (5) Business Days.

Upon a Responsible Officer's actual knowledge of the existence of any Default under the Indenture, the Trustee shall transmit by mail to all Bondholders, as their names and addresses appear in the bond register, notice of such Default under the Indenture within ninety (90) days, unless such Default shall have been cured or waived; provided, however, that, except in the case of a Default in the payment of the principal or Make-Whole Redemption Price of or interest on any Bond, the Trustee shall be protected in withholding such notice if and so long as the board of directors, the executive committee or a trust committee of directors or Responsible Officers of the Trustee in good faith determine that the withholding of such notice is in the interest of the Bondholders; and provided, further, that in the case of any Default of the character specified in (c) under "Events of Default" above, no such notice to Bondholders shall be given until at least thirty (30) days after date of the applicable Notice of Default.

Trustee May File Proofs of Claim. In case of the pendency of any receivership, insolvency, liquidation, bankruptcy, reorganization, arrangement, adjustment, composition or other judicial proceeding relative to the Institution or any other obligor upon the Bonds or the property of the Institution or of such other obligor or their creditors, the Trustee (irrespective of whether the principal of the Bonds shall then be due and payable as therein expressed or by declaration or otherwise and irrespective of whether the Trustee shall have made any demand on the Institution for the payment of overdue principal or interest) shall be entitled and empowered, by intervention in such proceeding or otherwise: (1) To file and prove a claim for the whole amount of principal (or Make-Whole Redemption Price) and interest owing and unpaid in respect of the Bonds and to file such other papers or documents as may be necessary or advisable in order to have the claims of the Trustee (including any claim for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel including expenses and fees of outside counsel and allocated costs of internal legal counsel) and of the Bondholders allowed in such judicial proceeding; and (2) To collect and receive any moneys or other property payable or deliverable on any such claims and to distribute the same; and any receiver, assignee, trustee, liquidator or sequestrator (or other similar official) in any such judicial proceeding is, by the Indenture, authorized by each Bondholder to make such payments to the Trustee and, in the event that the Trustee shall consent to the making of such payments directly to the Bondholders, to pay to the Trustee any amount due to it for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel including expenses and fees of outside counsel and allocated costs of internal legal counsel, and any other amounts due the Trustee under the Indenture.

Nothing contained in the Indenture shall be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Bondholder any plan of reorganization, arrangement, adjustment or composition affecting the Bonds or the rights of any Holder thereof, or to authorize the Trustee to vote in respect of the claim of any Bondholder in any such proceeding.

The Trustee

Duties, Immunities and Liabilities of Trustee. The Trustee shall, prior to an Event of Default, and after the curing or waiver of all Events of Default which may have occurred, perform such duties and only such duties as are specifically set forth in the Indenture, and, except to the extent required by law, no implied covenants or obligations shall be read into the Indenture against the Trustee. The Trustee shall, during the existence of any Event of Default (which has not been cured or waived), exercise such of the rights and powers vested in it by the Indenture, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs.

The Institution may remove the Trustee at any time unless an Event of Default shall have occurred and then be continuing, and shall remove the Trustee if at any time requested to do so by an instrument or concurrent instruments in writing signed by the Holders of not less than a majority in aggregate principal amount of the Bonds then Outstanding (or their attorneys duly authorized in writing) or if at any time the Trustee shall cease to be eligible in accordance with the Indenture, or shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or a receiver of the Trustee or its property shall be appointed, or any public officer shall take control or charge of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation, in each case by giving written notice of such removal to the Trustee, and thereupon shall appoint a successor Trustee by an instrument in writing.

The Trustee may at any time resign by giving written notice of such resignation to the Institution and by giving the Bondholders notice of such resignation by mail at the addresses shown on the registration books maintained by the Trustee. Upon receiving such notice of resignation, the Institution shall promptly appoint a successor Trustee by an instrument in writing. The Trustee shall not be relieved of its duties until such successor Trustee has accepted appointment.

Any removal or resignation of the Trustee and appointment of a successor Trustee shall become effective upon acceptance of appointment by the successor Trustee. If no successor Trustee shall have been appointed and have accepted appointment within thirty (30) days of giving notice of removal or notice of resignation as aforesaid, the outgoing Trustee or any Bondholder (on behalf of itself and all other Bondholders) may petition any court of competent jurisdiction for the appointment of a successor Trustee, and such court may thereupon, after such notice (if any) as it may deem proper, appoint such successor Trustee. Any successor Trustee appointed under the Indenture, shall signify its acceptance of such appointment by executing and delivering to the Institution and to its predecessor Trustee a written acceptance thereof, and thereupon such successor Trustee, without any further act, deed or conveyance, shall become vested with all the moneys, estates, properties, rights, powers, trusts, duties and obligations of such predecessor Trustee, with like effect as if originally named Trustee in the Indenture; but, nevertheless at the request of the successor Trustee, such predecessor Trustee shall execute and deliver any and all instruments of conveyance or further assurance and do such other things as may reasonably be required for more fully and certainly vesting in and confirming to such successor Trustee all the right, title and interest of such predecessor Trustee in and to any property held by it under the Indenture and shall pay over, transfer, assign and deliver to the successor Trustee any money or other property subject to the trusts and conditions set forth in the Indenture. Upon request of the successor Trustee, the Institution shall execute and deliver any and all instruments as may be reasonably required for more fully and

certainly vesting in and confirming to such successor Trustee all such moneys, estates, properties, rights, powers, trusts, duties and obligations. Upon acceptance of appointment by a successor Trustee as provided in this paragraph, the Institution shall mail or cause to be mailed (at the expense of the Institution) a notice of the succession of such Trustee to the trusts under the Indenture to the Bondholders at the addresses shown on the registration books maintained by the Trustee. If the Institution fails to mail such notice within fifteen (15) days after acceptance of appointment by the successor Trustee, the successor Trustee shall cause such notice to be mailed at the expense of the Institution.

Any successor Trustee shall be a national banking association, trust company or bank having trust powers in the State of California, having a combined capital and surplus of (or if such national banking association, trust company or bank is a member of a bank holding system, its bank holding company shall have a combined capital and surplus of) at least fifty million dollars (\$50,000,000), and subject to supervision or examination by federal or State of California authority. If such national banking association, bank or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purpose of this subsection the combined capital and surplus of such national banking association, bank or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. In case at any time the Trustee shall cease to be eligible in accordance with the provisions of this paragraph, the Trustee shall resign immediately in the manner and with the effect specified in the Indenture.

Preservation and Inspection of Documents. All documents received by the Trustee under the provisions of the Indenture shall be retained in its possession and shall be subject upon prior written notice to the inspection of the Institution and any Bondholder, and their agents and representatives duly authorized in writing, at reasonable hours and under reasonable conditions.

Modification or Amendment of the Indenture

Amendments Permitted. The Indenture and the rights and obligations of the Institution and of the Holders of the Bonds and of the Trustee may be modified or amended from time to time and at any time by an indenture or one or more Supplemental Indentures, which the Institution and the Trustee may enter into when the written consent of the Holders of a majority in aggregate principal amount of the Bonds then Outstanding shall have been filed with the Trustee. No such modification or amendment shall (1) extend the fixed maturity of any Bond, or reduce the amount of principal thereof, or reduce the rate of interest thereon, or extend the time of payment of interest thereon, or reduce any premium payable upon the redemption thereof, without the consent of the Holder of each Bond so affected, or (2) reduce the aforesaid percentage of Bonds the consent of the Holders of which is required to effect any such modification or amendment, or permit the creation of any lien on the Indenture Fund or the amounts pledged under the Indenture prior to or on a parity with the lien created by the Indenture, or deprive the Holders of the Bonds of the lien created by the Indenture on the Indenture Fund and such amounts (except as expressly provided in the Indenture), without the consent of the Holders of all Bonds then Outstanding. It shall not be necessary for the consent of the Bondholders to approve the particular form of any Supplemental Indenture, but it shall be sufficient if such consent shall approve the substance thereof. Promptly after the execution by the Institution and the Trustee of any Supplemental Indenture pursuant to this paragraph, the Trustee shall mail a notice, setting forth in general terms the substance of such Supplemental Indenture, to the Bondholders at the addresses shown on the registration books maintained by the Trustee. Any failure to give such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such Supplemental Indenture.

The Indenture and the rights and obligations of the Institution, of the Trustee and of the Holders of the Bonds may also be modified or amended from time to time and at any time by an indenture or one or more Supplemental Indentures, which the Institution and the Trustee may enter into without the necessity of obtaining the consent of any Bondholders, but only to the extent permitted by law and only for any one or more of the following purposes: (1) to add to the covenants and agreements of the Institution contained in the Indenture other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power reserved in the Indenture to or conferred upon the Institution, provided that such covenant, agreement, pledge, assignment or surrender shall not materially adversely affect the interests of the Holders of the Bonds; (2) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in the Indenture, or in regard to matters or questions arising under the Indenture, as the Institution or the Trustee may deem necessary or desirable and not inconsistent with the Indenture, and which shall not materially adversely affect the interests of the Holders of the Bonds; (3) to modify, amend or supplement the Indenture or any Supplemental Indenture in such manner as to permit the qualification hereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute, and which shall not materially adversely affect the interests of the Holders of the Bonds; (4) to provide for the procedures required to permit any Bondholder, at its option, to utilize an uncertificated system of registration of its Bond or to facilitate the registration of the Bonds in the name of a nominee of the Securities Depository in accordance with the provisions of the Indenture; (5) to authorize different authorized denominations of the Bonds and to make correlative amendments and modifications to the Indenture regarding exchangeability of Bonds of different authorized denominations, redemptions of portions of Bonds of particular authorized denominations and similar amendments and modifications of a technical nature; (6) to make any changes required by a Rating Agency in order to obtain or maintain a rating for the Bonds; or (7) to modify, amend or supplement any other provision of the Indenture that shall not materially adversely affect the interests of the Holders of the Bonds.

The Trustee may in its discretion, but shall not be obligated to, enter into any such Supplemental Indenture authorized by either of the two preceding paragraphs which materially adversely affects the Trustee's own rights, duties or immunities under the Indenture or otherwise.

Effect of Supplemental Indenture. Upon the execution of any Supplemental Indenture pursuant to the Indenture, the Indenture shall be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under the Indenture of the Institution, the Trustee and all Holders of Bonds Outstanding shall thereafter be determined, exercised and enforced under the Indenture subject in all respects to such modification and amendment, and all the terms and conditions of any such Supplemental Indenture shall be deemed to be part of the terms and conditions of the Indenture for any and all purposes.

Amendment of Particular Bonds. The provisions of the Indenture regarding modification or amendment of the Indenture shall not prevent any Bondholder from accepting any amendment as to the particular Bonds held by such Bondholder, provided that due notation thereof is made on such Bonds.

Defeasance

Discharge of Indenture. The Bonds may be paid or discharged by the Institution or the Trustee on behalf of the Institution in any of the following ways: (A) by paying or causing to be paid the principal or Make-Whole Redemption Price of and interest on all Bonds Outstanding, as and when the same become due and payable; (B) by depositing with the Trustee, in trust, at or before maturity, moneys or

securities in the necessary amount (as provided in the Indenture) to pay when due or redeem all Bonds then Outstanding; or (C) by delivering to the Trustee, for cancellation by it, all Bonds then Outstanding.

If the Institution shall also pay or cause to be paid all other sums payable under the Indenture by the Institution, then and in that case at the election of the Institution (evidenced by a Certificate of the Institution filed with the Trustee signifying the intention of the Institution to discharge all such indebtedness and the Indenture and upon receipt by the Trustee of an Opinion of Counsel to the effect that the obligations under the Indenture and the Bonds have been discharged), and notwithstanding that any Bonds shall not have been surrendered for payment, the Indenture and the pledge of the Indenture Fund and all amounts held therein made under the Indenture and all covenants, agreements and other obligations of the Institution under the Indenture (except as otherwise provided in the Indenture) shall cease, terminate, become void and be completely discharged and satisfied and the Bonds shall be deemed paid. In such event, upon the request of the Institution, the Trustee shall cause an accounting for such period or periods as may be requested by the Institution to be prepared and filed with the Institution and shall execute and deliver to the Institution all such instruments as may be necessary to evidence such discharge and satisfaction, and the Trustee shall pay over, transfer, assign or deliver to the Institution all moneys or securities or other property held by it pursuant to the Indenture which are not required for the payment or redemption of Bonds not theretofore surrendered for such payment or redemption.

Discharge of Liability on Bonds. Upon the deposit with the Trustee, in trust, at or before maturity, of money or securities in the necessary amount (as provided in the Indenture) to pay or redeem any Outstanding Bond (whether upon or prior to its maturity or the redemption date of such Bond), provided that, if such Bond is to be redeemed prior to maturity, notice of such redemption shall have been given as provided in the Indenture or provision satisfactory to the Trustee shall have been made for the giving of such notice, then all liability of the Institution in respect of such Bond shall cease, terminate and be completely discharged, and the Bonds shall be deemed paid, except only that thereafter the Holder thereof shall be entitled to payment of the principal or Make-Whole Redemption Price of and interest on such Bond by the Institution, and the Institution shall remain liable for such payments, but only out of such money or securities deposited with the Trustee as aforesaid for their payment, subject, however, to the provisions of the Indenture regarding payment of Bonds after discharge of the Indenture.

The Institution may at any time surrender to the Trustee for cancellation by it any Bonds previously issued and delivered, which the Institution may have acquired in any manner whatsoever, and such Bonds, upon such surrender and cancellation, shall be deemed to be paid and retired.

Payment of Bonds After Discharge of Indenture. Notwithstanding any provisions of the Indenture, any moneys held by the Trustee in trust for the payment of the principal or Make-Whole Redemption Price of, or interest on, any Bonds and remaining unclaimed for two years (or, if shorter, one day before such moneys would escheat to the State of California under then applicable California law) after such principal, Make-Whole Redemption Price or interest, as the case may be, has become due and payable (whether at maturity or upon call for redemption), shall be repaid to the Institution free from the trusts created by the Indenture upon receipt of an indemnification agreement acceptable to the Institution and the Trustee indemnifying the Institution and the Trustee with respect to claims of Holders of Bonds which have not yet been paid, and all liability of the Trustee and the Institution with respect to such moneys shall thereupon cease; provided, however, that before the repayment of such moneys to the Institution as aforesaid, the Trustee may (at the cost of the Institution) first mail to the Holders of Bonds which have not yet been paid, at the addresses shown on the registration books maintained by the Trustee, a notice, in such form as may be deemed appropriate by the Trustee with respect to the Bonds so payable and not presented and with respect to the provisions relating to the repayment to the Institution of the moneys held for the payment thereof.

Limitation of Rights to Parties and Bondholders

Nothing in the Indenture or in the Bonds expressed or implied is intended or shall be construed to give to any Person other than the Institution, the Trustee and the Holders of the Bonds, any legal or equitable right, remedy or claim under or in respect of the Indenture or any covenant, condition or provision therein contained; and all such covenants, conditions and provisions are and shall be held to be for the sole and exclusive benefit of the Institution, the Trustee and the Holders of the Bonds.

Evidence of Rights of Bondholders

Any request, consent or other instrument required or permitted by the Indenture to be signed and executed by Bondholders may be in any number of concurrent instruments of substantially similar tenor and shall be signed or executed by such Bondholders in person or by an agent or agents duly appointed in writing.

The fact and date of the execution by any individual of any such request, consent or other instrument or writing may be proved by the certificate of any notary public or other officer of any jurisdiction, authorized by the laws thereof to take acknowledgments of deeds, certifying that the individual signing such request, consent or other instrument acknowledged to him the execution thereof, or by an affidavit of a witness of such execution duly sworn to before such notary public or other officer.

The ownership of Bonds shall be proved by the registration books for the Bonds held by the Trustee.

Any request, consent, or other instrument or writing of the Holder of any Bond shall bind every future Holder of the same Bond and the Holder of every Bond issued in exchange therefor or in lieu thereof, in respect of anything done or suffered to be done by the Trustee or the Institution in accordance therewith or reliance thereon.

Waiver of Personal Liability

No member, officer, agent or employee of the Institution shall be individually or personally liable for the payment of the principal or Make-Whole Redemption Price of or interest on the Bonds or be subject to any personal liability or accountability by reason of the issuance thereof or the performance of any duty under the Indenture; but nothing contained in the Indenture shall relieve any such member, officer, agent or employee from the performance of any official duty provided by law or by the Indenture.

Governing Law; Venue

The Indenture shall be construed in accordance with and governed by the Constitution and the laws of the State of California applicable to contracts made and performed in the State of California. The Indenture shall be enforceable in the State of California, provided, however, that any action arising under the Indenture shall (unless waived by the Institution) be filed and maintained in the State of California.

CUSIP Numbers

Neither the Trustee nor the Institution shall be liable for any defect or inaccuracy in the CUSIP number that appears on any Bond or in any redemption notice. The Trustee may, in its discretion, include in any redemption notice a statement to the effect that the CUSIP numbers on the Bonds have been assigned by an independent service and are included in such notice solely for the convenience of the Holders and that neither the Trustee nor the Institution shall be liable for any inaccuracies in such numbers.

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APPENDIX C

PROPOSED FORM OF OPINION OF COUNSEL TO THE UNIVERSITY

April 28, 2015

Barclays Capital Inc.,
as Representative of the Underwriters
New York, New York

The Bank of New York Mellon Trust Company, N.A., as Trustee
Los Angeles, California

Ladies and Gentlemen:

We have been requested to furnish you with an opinion in connection with the issuance by The Board of Trustees of the Leland Stanford Junior University (the "University") of \$250,000,000 aggregate principal amount of Stanford University Taxable Bonds Series 2015 (the "Bonds").

We have examined executed copies of the Indenture of Trust dated as of April 1, 2015 (the "Indenture") between the University and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"), specimen bonds as executed on behalf of the University and authenticated by the Trustee, and a certified copy of proceedings of the University authorizing the execution of the Indenture, certain other documents and the issuance of the Bonds.

In addition, we have examined such other documents and have made such investigation and such examination of law as we have deemed necessary for the purposes of the following opinion.

For purposes of this opinion, we have relied on an opinion addressed to each of you by the General Counsel of the University as to the due authorization, execution and delivery of the Indenture and as to the issuance, sale and delivery of the Bonds, and we have assumed that the Trustee has all requisite power and authority and has taken all necessary corporate action, consistent with all applicable laws and regulations, to execute and deliver the Indenture and to effect the transactions contemplated thereby.

We express no opinion as to the laws of any jurisdiction other than those of the State of California and the federal laws of the United States of America.

Based upon the foregoing, we are of the opinion that:

1. The Indenture constitutes a valid and legally binding obligation of the University and, subject to the qualifications stated in the unnumbered paragraphs at the end of this opinion, is enforceable against the University in accordance with its terms.

2. The Bonds have been duly authorized, issued and delivered against payment of the agreed upon consideration and, subject to the qualifications contained in the unnumbered paragraphs at the end of this opinion, are valid, legally binding, general obligations of the University, enforceable against the University in accordance with their terms.

Our opinion that the Indenture and the Bonds are enforceable, each in accordance with its terms, is qualified to the extent that enforcement of the rights and remedies created thereby is subject to (i)

general principles of equity and (ii) bankruptcy, insolvency, moratorium and other similar laws affecting the rights and remedies of creditors and secured parties. We do not express any opinion herein as to the availability of the remedy of specific performance or injunctive relief or other relief in equity upon breach of any of the agreements, documents, or obligations referred to herein.

In addition, we express no opinion as to (i) the extent to which broadly worded waivers, conclusive presumptions or determinations or powers of attorney may be enforced; (ii) the enforceability of any provision of the Indenture which permits the exercise of a right of set-off against amounts not then due or which constitutes a penalty or forfeiture; or (iii) the enforceability of any provision that provides for non-effectiveness of oral modifications, waiver of or consent to service of process and venue, or waiver of offset or defenses.

Very truly yours,

Ropes & Gray LLP

APPENDIX D

DTC BOOK-ENTRY SYSTEM AND GLOBAL CLEARANCE PROCEDURES

The information set out in this Appendix D is subject to any change in or reinterpretation of the rules, regulations and procedures of the Depository Trust Company ("DTC"), Euroclear Bank S.A./N.V. as operator of the Euroclear System ("Euroclear") or Clearstream Banking, société anonyme, Luxembourg ("Clearstream Banking") (DTC, Euroclear and Clearstream Banking together, the "Clearing Systems") currently in effect. The information herein concerning the Clearing Systems has been obtained from sources that the University believes to be reliable, but none of the University, the Trustee or the Underwriters take any responsibility for the accuracy of the information in this Appendix D. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. The University will not have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Bonds held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

DTC and the Book-Entry System

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants," and together with Direct Participants, "Participants"). The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for such Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the Bonds of an issue are being redeemed, DTC will determine pro rata the amount of the interest of each Direct Participant in such issue to be redeemed as notified by the Trustee.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the University as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payment of the principal or Make-Whole Redemption Price of and interest on the Bonds will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the University or the Trustee on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Underwriters, the Trustee or the University subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal or Make-Whole Redemption Price and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the University or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time if it is unwilling or unable to continue as depository by giving reasonable notice to the University or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, the Bond certificates are required to be printed and delivered. See "Certificated Bonds" below.

The University may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, the Bond certificates will be printed and delivered to DTC.

Each person for whom a Participant acquires an interest in the Bonds, as nominee, may desire to make arrangements with such Participant to receive a credit balance in the records of such Participant,

and may desire to make arrangements with such Participant to have all notices of redemption or other communications to DTC, which may affect such persons, to be forwarded in writing by such Participant and to have notification made of all interest payments. NONE OF THE UNIVERSITY, THE UNDERWRITERS AND THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO SUCH PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE BONDS.

When reference is made to any action which is required or permitted to be taken by the Beneficial Owners, such reference shall only relate to those permitted to act (by statute, regulation or otherwise) on behalf of such Beneficial Owners for such purposes. When notices are given, they shall be sent by the Trustee to DTC only.

For every transfer and exchange of Bonds, the Beneficial Owner may be charged a sum sufficient to cover any tax, fee or other governmental charge that may be imposed in relation thereto.

NONE OF THE UNIVERSITY, THE UNDERWRITERS AND THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DIRECT PARTICIPANTS, TO INDIRECT PARTICIPANTS, OR TO ANY BENEFICIAL OWNER WITH RESPECT TO (I) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DIRECT PARTICIPANT, OR ANY INDIRECT PARTICIPANT; (II) ANY NOTICE THAT IS PERMITTED OR REQUIRED TO BE GIVEN TO THE OWNERS OF THE BONDS UNDER THE AGREEMENT; (III) THE SELECTION BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE BONDS; (IV) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OR MAKE-WHOLE REDEMPTION PRICE, IF ANY, OR INTEREST DUE WITH RESPECT TO THE BONDS; (V) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE OWNER OF THE BONDS; OR (VI) ANY OTHER MATTER.

Certificated Bonds

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time if it is unwilling or unable to continue as depository by giving reasonable notice to the University. In addition, the University may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). If for either reason the Book-Entry system is discontinued, Bond certificates will be delivered as described in the Indenture and the Beneficial Owner, upon registration of certificates held in the Beneficial Owner's name, will become the Bondowner. Thereafter, the Bonds may be exchanged for an equal aggregate principal amount of the Bonds in other authorized denominations and of the same maturity, upon surrender thereof at the principal corporate trust office of the Trustee. The transfer of any Bond may be registered on the books maintained by the Trustee for such purpose only upon assignment in form satisfactory to the Trustee. For every exchange or registration of transfer of the Bonds, the Trustee may make a charge sufficient to reimburse them for any tax or other governmental charge required to be paid with respect to such exchange or registration of transfer, and the Trustee may also require the Bondholder requesting such exchange to pay a reasonable sum to cover any expenses incurred by the University in connection with such exchange. The Trustee will not be required to transfer or exchange any Bond during the 15 days next preceding the selection of Bonds for redemption if such Bond (or any part thereof) is eligible to be selected or has been selected for redemption.

Euroclear and Clearstream Banking

Euroclear and Clearstream Banking each hold securities for their customers and facilitate the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders. Euroclear and Clearstream Banking provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream Banking also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream Banking have established an electronic bridge between their two systems across which their respective participants may settle trades with each other.

Euroclear and Clearstream Banking customers are worldwide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear and Clearstream Banking is available to other institutions that clear through or maintain a custodial relationship with an account holder of either system, either directly or indirectly.

Clearing and Settlement Procedures

The Bonds sold in offshore transactions will be initially issued to investors through the book-entry facilities of DTC, or Clearstream Banking and Euroclear in Europe if the investors are participants in those systems, or indirectly through organizations that are participants in the systems. For any of such Bonds, the record holder will be DTC's nominee. Clearstream Banking and Euroclear will hold omnibus positions on behalf of their participants through customers' securities accounts in Clearstream Banking's and Euroclear's names on the books of their respective depositories.

The depositories, in turn, will hold positions in customers' securities accounts in the depositories' names on the books of DTC. Because of time zone differences, the securities account of a Clearstream Banking or Euroclear participant as a result of a transaction with a participant, other than a depository holding on behalf of Clearstream Banking or Euroclear, will be credited during the securities settlement processing day, which must be a business day for Clearstream Banking or Euroclear, as the case may be, immediately following the DTC settlement date. These credits or any transactions in the securities settled during the processing will be reported to the relevant Euroclear participant or Clearstream Banking participant on that business day. Cash received in Clearstream Banking or Euroclear as a result of sales of securities by or through a Clearstream Banking participant or Euroclear participant to a DTC Participant, other than the depository for Clearstream Banking or Euroclear, will be received with value on the DTC settlement date but will be available in the relevant Clearstream Banking or Euroclear cash account only as of the business day following settlement in DTC.

Transfers between participants will occur in accordance with DTC rules. Transfers between Clearstream Banking participants or Euroclear participants will occur in accordance with their respective rules and operating procedures. Cross-market transfers between persons holding directly or indirectly through DTC, on the one hand, and directly or indirectly through Clearstream Banking participants or Euroclear participants, on the other, will be effected in DTC in accordance with DTC rules on behalf of the relevant European international clearing system by the relevant depositories; however, cross-market transactions will require delivery of instructions to the relevant European international clearing system by the counterparty in the system in accordance with its rules and procedures and within its established deadlines in European time. The relevant European international clearing system will, if the transaction meets its settlement requirements, deliver instructions to its depository to take action to effect final settlement on its behalf by delivering or receiving securities in DTC, and making or receiving payment in accordance with normal procedures for same day funds settlement applicable to DTC. Clearstream Banking participants or Euroclear participants may not deliver instructions directly to the depositories.

The University will not impose any fees in respect of holding the Bonds; however, holders of book-entry interests in the Bonds may incur fees normally payable in respect of the maintenance and operation of accounts in the Clearing Systems.

Initial Settlement

Interests in the Bonds will be in uncertified book-entry form. Purchasers electing to hold book-entry interests in the Bonds through Euroclear and Clearstream Banking accounts will follow the settlement procedures applicable to conventional Eurobonds. Book-entry interests in the Bonds will be credited to Euroclear and Clearstream Banking participants' securities clearance accounts on the business day following the date of delivery of the Bonds against payment (value as on the date of delivery of the Bonds). DTC participants acting on behalf of purchasers electing to hold book-entry interests in the Bonds through DTC will follow the delivery practices applicable to securities eligible for DTC's Same Day Funds Settlement system. DTC participants' securities accounts will be credited with book-entry interests in the Bonds following confirmation of receipt of payment to the University on the date of delivery of the Bonds.

Secondary Market Trading

Secondary market trades in the Bonds will be settled by transfer of title to book-entry interests in the Clearing Systems. Title to such book-entry interests will pass by registration of the transfer within the records of Euroclear, Clearstream Banking or DTC, as the case may be, in accordance with their respective procedures. Book-entry interests in the Bonds may be transferred within Euroclear and within Clearstream Banking and between Euroclear and Clearstream Banking in accordance with procedures established for these purposes by Euroclear and Clearstream Banking. Book-entry interests in the Bonds may be transferred within DTC in accordance with procedures established for this purpose by DTC. Transfer of book-entry interests in the Bonds between Euroclear or Clearstream Banking and DTC may be effected in accordance with procedures established for this purpose by Euroclear, Clearstream Banking and DTC.

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