



**\$750,000,000**  
**STANFORD UNIVERSITY**  
**Taxable Bonds Series 2020 A**

**\$300,000,000 1.289% Bonds due June 1, 2027 Issue price: 100.00%**

**CUSIP No.<sup>†</sup>**  
**85440KAC8**

**ISIN No.<sup>†</sup>**  
**US85440KAC80**

**Common Code<sup>‡</sup>**  
**218488480**

**\$450,000,000 2.413% Bonds due June 1, 2050 Issue price: 100.00%**

**CUSIP No.<sup>†</sup>**  
**85440KAD6**

**ISIN No.<sup>†</sup>**  
**US85440KAD63**

**Common Code<sup>‡</sup>**  
**218488528**

The Stanford University Taxable Bonds Series 2020 A (the “Bonds”) will be issued pursuant to the terms of an Indenture of Trust, dated as of June 1, 2020 (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 University purposes. 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 (i) \$1,000 and integral multiples thereof with respect to Bonds sold outside of Korea and (ii) \$3,000,000 and integral multiples thereof with respect to Bonds sold in Korea, 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. Purchases of the Bonds will be made through the book-entry facilities of DTC, and purchasers will not receive physical certificates (except under certain circumstances as described in the Indenture) representing their ownership interests in the Bonds.

Interest on the Bonds will be payable on June 1 and December 1 of each year, commencing on December 1, 2020. So long as the Bonds are held by DTC, the principal, Redemption Price or Make-Whole Redemption Price (each 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, Redemption Price 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” and Appendix D – “DTC BOOK-ENTRY SYSTEM AND GLOBAL CLEARANCE PROCEDURES.”

**The Bonds are subject to redemption prior to their stated maturity as described herein. See “THE BONDS – Redemption” 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 the applicable terms of the Bonds or any other considerations. 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 June 4, 2020.

**Goldman Sachs & Co. LLC**  
**Morgan Stanley**

**J.P. Morgan**  
**Barclays**

Dated: May 28, 2020

<sup>†</sup> CUSIP is a registered trademark of the American Bankers Association. CUSIP and ISIN data herein is provided by CUSIP Global Services (CGS), which is managed on behalf of the American Bankers Association by S&P Global Market Intelligence. This data is not intended to create a database and does not serve in any way as a substitute for the CGS database. CUSIP and ISIN numbers have been assigned by an independent company not affiliated with the University and are included solely for the convenience of the registered owners of the Bonds. Neither the University nor the Underwriters are responsible for the selection or uses of these CUSIP and ISIN numbers, and no representation is made as to their correctness on the Bonds or as included herein.

<sup>‡</sup> The Common Codes are provided herein by Euroclear Bank S.A./N.V. Common Codes are provided for convenience of reference only. Neither the University nor the Underwriters are responsible for the selection or uses of these Common Codes, and no representation is made as to their correctness on the Bonds or as included herein.

[THIS PAGE INTENTIONALLY LEFT BLANK]

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

REFERENCES IN THIS SECTION TO THE “ISSUER” MEAN THE BOARD OF TRUSTEES OF THE LELAND STANFORD JUNIOR UNIVERSITY AND REFERENCES TO “BONDS” OR “SECURITIES” MEAN THE BONDS OFFERED HEREBY.

**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 OTHER THAN IN KOREA, THE BONDS WILL TRADE AND SETTLE ON A UNIT BASIS (ONE UNIT EQUALING ONE BOND OF \$1,000 PRINCIPAL AMOUNT) AND THE MINIMUM PURCHASE AND TRADING AMOUNT IS 150 UNITS (BEING 150 BONDS IN AN AGGREGATE PRINCIPAL AMOUNT OF \$150,000). FOR ANY SALES MADE IN KOREA, THE BONDS WILL TRADE AND SETTLE ON A UNIT BASIS (ONE UNIT EQUALING ONE BOND OF \$3,000,000 PRINCIPAL AMOUNT) AND THERE IS NO MINIMUM PURCHASE OR TRADING AMOUNT.

## **NOTICE TO INVESTORS IN THE EUROPEAN ECONOMIC AREA AND THE UNITED KINGDOM**

THE BONDS ARE NOT INTENDED TO BE OFFERED, SOLD OR OTHERWISE MADE AVAILABLE TO AND SHOULD NOT BE OFFERED, SOLD OR OTHERWISE MADE AVAILABLE TO ANY RETAIL INVESTOR DOMICILED OR WITH A REGISTERED OFFICE IN ANY MEMBER STATE OF THE EUROPEAN ECONOMIC AREA (THE “EEA”) OR THE UNITED KINGDOM (THE “UK”) (COLLECTIVELY, “EUROPEAN INVESTORS”). FOR THESE PURPOSES, A RETAIL INVESTOR MEANS A PERSON WHO IS ONE (OR MORE) OF: (I) A RETAIL CLIENT AS DEFINED IN POINT (11) OF ARTICLE 4(1) OF DIRECTIVE 2014/65/EU AS AMENDED (“MIFID II”); (II) A CUSTOMER WITHIN THE MEANING OF DIRECTIVE 2016/97/EU (AS AMENDED, THE “INSURANCE DISTRIBUTION DIRECTIVE”), WHERE THAT CUSTOMER WOULD NOT QUALIFY AS A PROFESSIONAL CLIENT AS DEFINED IN POINT (10) OF ARTICLE 4(1) OF MIFID II; OR (III) NOT A QUALIFIED INVESTOR AS DEFINED IN REGULATION 2017/1129 (EU) (AS AMENDED OR SUPERSEDED, THE “PROSPECTUS REGULATION”). CONSEQUENTLY, NO KEY INFORMATION DOCUMENT REQUIRED BY REGULATION (EU) NO 1286/2014 (AS AMENDED, THE “PRIIPS REGULATION”) FOR OFFERING OR SELLING THE BONDS OR OTHERWISE MAKING THEM AVAILABLE TO RETAIL INVESTORS IN THE EEA OR THE UK HAS BEEN PREPARED. OFFERING OR SELLING THE BONDS OR OTHERWISE MAKING THEM AVAILABLE TO ANY RETAIL INVESTOR IN THE EEA OR THE UK MAY BE UNLAWFUL UNDER THE PRIIPS REGULATION. THIS OFFERING MEMORANDUM HAS BEEN PREPARED ON THE BASIS THAT THE OFFER OF BONDS IN ANY MEMBER STATE OF THE EEA OR THE UK IS NOT SUBJECT TO A REQUIREMENT TO PUBLISH A PROSPECTUS UNDER THE PROSPECTUS REGULATION AS THE MINIMUM INVESTMENT AMOUNT IS MORE THAN EUR 100,000 PER EUROPEAN INVESTOR AND THEREFORE AN EXEMPTION TO THE OBLIGATION TO PUBLISH A PROSPECTUS APPLIES. THIS OFFERING MEMORANDUM IS NOT A PROSPECTUS FOR THE PURPOSES OF THE PROSPECTUS REGULATION.

## **NOTICE TO PROSPECTIVE INVESTORS IN THE UNITED KINGDOM**

THIS OFFERING MEMORANDUM WILL CONSISTUTE A FINANCIAL PROMOTION AND HAS NOT BEEN APPROVED FOR THE PURPOSES OF SECTION 21 OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (“FSMA”) AND DOES NOT CONSTITUTE AN OFFER TO THE PUBLIC IN ACCORDANCE WITH THE PROVISIONS OF SECTION 85 OF THE FSMA. IT IS FOR DISTRIBUTION ONLY TO, AND IS DIRECTED SOLELY AT, PERSONS WHO (I) ARE INVESTMENT PROFESSIONALS, AS SUCH TERM IS DEFINED IN ARTICLE 19(5) OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (FINANCIAL PROMOTION) ORDER 2005, AS AMENDED (THE “FINANCIAL PROMOTION ORDER”) BROADLY PERSONS HAVING PROFESSIONAL EXPERIENCE IN MATTERS RELATING TO INVESTMENTS, (II) ARE PERSONS FALLING WITHIN ARTICLE 49(2)(A) TO (D) OF THE FINANCIAL PROMOTION ORDER INCLUDING HIGH NET WORTH COMPANIES, UNINCORPORATED ASSOCIATIONS, OR (III) ARE PERSONS TO WHOM AN INVITATION OR INDUCEMENT TO ENGAGE IN INVESTMENT ACTIVITY (WITHIN THE MEANING OF SECTION 21 OF THE FSMA) IN CONNECTION WITH THE ISSUE OR SALE OF ANY SECURITIES MAY OTHERWISE BE LAWFULLY COMMUNICATED OR CAUSED TO BE COMMUNICATED (ALL SUCH PERSONS TOGETHER BEING REFERRED TO AS “RELEVANT PERSONS”). THIS OFFERING MEMORANDUM IS DIRECTED ONLY AT RELEVANT PERSONS AND MUST NOT BE ACTED ON OR RELIED ON BY PERSONS WHO ARE NOT RELEVANT PERSONS. ANY INVESTMENT OR INVESTMENT ACTIVITY TO WHICH THIS OFFERING MEMORANDUM RELATES IS AVAILABLE ONLY TO RELEVANT PERSONS AND WILL BE ENGAGED IN ONLY WITH RELEVANT PERSONS. ANY PERSON WHO IS NOT A RELEVANT PERSON SHOULD NOT ACT OR RELY ON THIS OFFERING MEMORANDUM OR ANY OF ITS CONTENTS.

## **NOTICE TO PROSPECTIVE INVESTORS IN HONG KONG**

THE BONDS MAY NOT BE OFFERED OR SOLD IN HONG KONG 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 (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE (CAP. 32 OF THE LAWS OF HONG KONG) (“COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE”) OR WHICH DO NOT CONSTITUTE AN INVITATION TO THE PUBLIC WITHIN THE MEANING OF THE SECURITIES AND FUTURES ORDINANCE (CAP. 571 OF THE LAWS OF HONG KONG) (“SECURITIES AND FUTURES ORDINANCE”), OR (II) TO “PROFESSIONAL INVESTORS” AS DEFINED IN THE SECURITIES AND FUTURES ORDINANCE AND ANY RULES MADE THEREUNDER, OR (III) IN OTHER CIRCUMSTANCES WHICH DO NOT RESULT IN THE DOCUMENT BEING A “PROSPECTUS” AS DEFINED IN THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE, 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 IN 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 SECURITIES LAWS OF HONG KONG) OTHER THAN WITH RESPECT TO BONDS WHICH ARE OR ARE INTENDED TO BE DISPOSED OF ONLY TO PERSONS OUTSIDE HONG KONG OR ONLY TO “PROFESSIONAL INVESTORS” IN HONG KONG AS DEFINED IN THE SECURITIES AND FUTURES ORDINANCE AND ANY RULES MADE THEREUNDER.

## **NOTICE TO INVESTORS IN CANADA**

THE BONDS MAY BE SOLD IN CANADA ONLY TO PURCHASERS PURCHASING, OR DEEMED TO BE PURCHASING, AS PRINCIPAL THAT ARE ACCREDITED INVESTORS, AS DEFINED IN NATIONAL INSTRUMENT 45-106 PROSPECTUS EXEMPTIONS OR SUBSECTION 73.3(1) OF THE SECURITIES ACT (ONTARIO), AND ARE PERMITTED CLIENTS, AS DEFINED IN NATIONAL INSTRUMENT 31-103 REGISTRATION REQUIREMENTS, EXEMPTIONS AND ONGOING REGISTRANT OBLIGATIONS. ANY RESALE OF THE BONDS MUST BE MADE IN ACCORDANCE WITH AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE PROSPECTUS REQUIREMENTS OF APPLICABLE SECURITIES LAWS.

SECURITIES LEGISLATION IN CERTAIN PROVINCES OR TERRITORIES OF CANADA MAY PROVIDE A PURCHASER WITH REMEDIES FOR RESCISSION OR DAMAGES IF THIS OFFERING MEMORANDUM (INCLUDING ANY AMENDMENT THERETO) CONTAINS A MISREPRESENTATION, PROVIDED THAT THE REMEDIES FOR RESCISSION OR DAMAGES ARE EXERCISED BY THE PURCHASER WITHIN THE TIME LIMIT PRESCRIBED BY THE SECURITIES LEGISLATION OF THE PURCHASER'S PROVINCE OR TERRITORY. THE PURCHASER SHOULD REFER TO ANY APPLICABLE PROVISIONS OF THE SECURITIES LEGISLATION OF THE PURCHASER'S PROVINCE OR TERRITORY FOR PARTICULARS OF THESE RIGHTS OR CONSULT WITH A LEGAL ADVISOR.

PURSUANT TO SECTION 3A.3 OF NATIONAL INSTRUMENT 33-105 UNDERWRITING CONFLICTS (NI 33-105), THE UNDERWRITERS ARE NOT REQUIRED TO COMPLY WITH THE DISCLOSURE REQUIREMENTS OF NI 33-105 REGARDING UNDERWRITERS CONFLICTS OF INTEREST IN CONNECTION WITH THIS OFFERING.

## **NOTICE TO INVESTORS IN KOREA**

THE BONDS HAVE NOT BEEN AND WILL NOT BE REGISTERED WITH THE FINANCIAL SERVICES COMMISSION OF KOREA FOR PUBLIC OFFERING IN KOREA UNDER THE FINANCIAL INVESTMENT SERVICES AND CAPITAL MARKETS ACT AND ITS SUBORDINATE DECREES AND REGULATIONS (COLLECTIVELY THE “FSCMA”). THE BONDS MAY NOT BE OFFERED, SOLD OR DELIVERED, DIRECTLY OR INDIRECTLY, OR OFFERED OR SOLD TO ANY PERSON FOR RE-OFFERING OR RESALE, DIRECTLY OR INDIRECTLY, IN KOREA OR TO ANY RESIDENT OF KOREA EXCEPT AS OTHERWISE PERMITTED UNDER THE APPLICABLE LAWS AND REGULATIONS OF KOREA, INCLUDING THE FSCMA AND THE FOREIGN EXCHANGE TRANSACTION LAW AND ITS SUBORDINATE DECREES AND REGULATIONS (COLLECTIVELY, THE “FETL”). WITHOUT PREJUDICE TO THE FOREGOING, THE NUMBER OF BONDS OFFERED IN KOREA OR TO A RESIDENT IN KOREA SHALL BE LESS THAN FIFTY AND FOR A PERIOD OF ONE YEAR FROM THE ISSUE DATE OF THE BONDS, NONE OF THE BONDS MAY BE DIVIDED RESULTING IN AN INCREASED NUMBER OF THE BONDS. FURTHERMORE, THE BONDS MAY NOT BE RESOLD TO KOREAN RESIDENTS UNLESS THE PURCHASER OF THE BONDS COMPLIES WITH ALL APPLICABLE REGULATORY REQUIREMENTS (INCLUDING BUT NOT LIMITED TO GOVERNMENT REPORTING REQUIREMENTS UNDER THE FETL) IN CONNECTION WITH THE PURCHASE OF THE BONDS.



## **NOTICE TO INVESTORS IN SINGAPORE**

THIS OFFERING CIRCULAR HAS NOT BEEN REGISTERED AS A PROSPECTUS WITH THE MONETARY AUTHORITY OF SINGAPORE. ACCORDINGLY, THIS OFFERING CIRCULAR 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 (AS DEFINED IN SECTION 4A OF THE SECURITIES AND FUTURES ACT, CHAPTER 289 OF SINGAPORE (THE “SFA”)) UNDER SECTION 274 OF THE SFA, (II) TO A RELEVANT PERSON (AS DEFINED IN SECTION 275(2) OF THE SFA ) PURSUANT TO SECTION 275(1) OF THE SFA, OR ANY PERSON PURSUANT TO SECTION 275(1A) OF THE SFA, 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, IN EACH CASE SUBJECT TO CONDITIONS SET FORTH IN THE SFA.

WHERE THE BONDS ARE SUBSCRIBED OR PURCHASED UNDER SECTION 275 OF THE SFA BY A RELEVANT PERSON WHICH IS A CORPORATION (WHICH IS NOT AN ACCREDITED INVESTOR (AS DEFINED IN SECTION 4A OF THE SFA)) 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, THE SECURITIES (AS DEFINED IN SECTION 239(1) OF THE SFA) OF THAT CORPORATION SHALL NOT BE TRANSFERABLE FOR 6 MONTHS AFTER THAT CORPORATION HAS ACQUIRED THE BONDS UNDER SECTION 275 OF THE SFA EXCEPT: (1) TO AN INSTITUTIONAL INVESTOR UNDER SECTION 274 OF THE SFA OR TO A RELEVANT PERSON (AS DEFINED IN SECTION 275(2) OF THE SFA), (2) WHERE SUCH TRANSFER ARISES FROM AN OFFER IN THAT CORPORATION’S SECURITIES PURSUANT TO SECTION 275(1A) OF THE SFA, (3) WHERE NO CONSIDERATION IS OR WILL BE GIVEN FOR THE TRANSFER, (4) WHERE THE TRANSFER IS BY OPERATION OF LAW, (5) AS SPECIFIED IN SECTION 276(7) OF THE SFA, OR (6) AS SPECIFIED IN REGULATION 32 OF THE SECURITIES AND FUTURES (OFFERS OF INVESTMENTS) (SHARES AND DEBENTURES) REGULATIONS 2005 OF SINGAPORE (“REGULATION 32”).

WHERE THE BONDS ARE SUBSCRIBED OR PURCHASED UNDER SECTION 275 OF THE SFA BY A RELEVANT PERSON WHICH IS A TRUST (WHERE THE TRUSTEE IS NOT AN ACCREDITED INVESTOR (AS DEFINED IN SECTION 4A OF THE SFA)) WHOSE SOLE PURPOSE IS TO HOLD INVESTMENTS AND EACH BENEFICIARY OF THE TRUST IS AN ACCREDITED INVESTOR, THE BENEFICIARIES’ RIGHTS AND INTEREST (HOWSOEVER DESCRIBED) IN THAT TRUST SHALL NOT BE TRANSFERABLE FOR 6 MONTHS AFTER THAT TRUST HAS ACQUIRED THE BONDS UNDER SECTION 275 OF THE SFA EXCEPT: (1) TO AN INSTITUTIONAL INVESTOR UNDER SECTION 274 OF THE SFA OR TO A RELEVANT PERSON (AS DEFINED IN SECTION 275(2) OF THE SFA), (2) WHERE SUCH TRANSFER ARISES FROM AN OFFER THAT IS MADE ON TERMS THAT SUCH RIGHTS OR INTEREST ARE ACQUIRED AT A CONSIDERATION OF NOT LESS THAN S\$200,000 (OR ITS EQUIVALENT IN A FOREIGN CURRENCY) FOR EACH TRANSACTION (WHETHER SUCH AMOUNT IS TO BE PAID FOR IN CASH OR BY EXCHANGE OF SECURITIES OR OTHER ASSETS), (3) WHERE NO CONSIDERATION IS OR WILL BE GIVEN FOR THE TRANSFER, (4) WHERE THE TRANSFER IS BY OPERATION OF LAW, (5) AS SPECIFIED IN SECTION 276(7) OF THE SFA, OR (6) AS SPECIFIED IN REGULATION 32.

## **NOTICE TO INVESTORS IN JAPAN**

THE SECURITIES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE FINANCIAL INSTRUMENTS AND EXCHANGE ACT OF JAPAN (ACT NO. 25 OF 1948, AS AMENDED), OR THE FIEA. THE SECURITIES MAY NOT BE OFFERED OR SOLD, DIRECTLY OR INDIRECTLY, IN JAPAN OR TO OR FOR THE BENEFIT OF ANY RESIDENT OF JAPAN (INCLUDING ANY PERSON RESIDENT IN JAPAN OR ANY CORPORATION OR OTHER ENTITY ORGANIZED UNDER THE LAWS OF JAPAN) OR TO OTHERS FOR REOFFERING OR RESALE, DIRECTLY OR INDIRECTLY, IN JAPAN OR TO OR FOR THE BENEFIT OF ANY RESIDENT OF JAPAN, EXCEPT PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE FIEA AND OTHERWISE IN COMPLIANCE WITH ANY RELEVANT LAWS AND REGULATIONS OF JAPAN.

INTRODUCTION .....	1
Purpose of the Bonds .....	1
The University .....	1
The Bonds.....	1
Security for the Bonds .....	1
Miscellaneous.....	2
PLAN OF FINANCE.....	2
ESTIMATED SOURCES AND USES OF PROCEEDS .....	2
THE BONDS .....	3
Description of the Bonds .....	3
Redemption.....	3
Notice of Redemption.....	5
Effect of Redemption.....	5
Selection of Bonds for Redemption.....	5
Cancellation of Bonds .....	6
BOOK-ENTRY SYSTEM.....	6
SECURITY FOR THE BONDS .....	7
General .....	7
Indenture Fund.....	7
ENFORCEABILITY OF REMEDIES .....	8
CERTAIN INVESTMENT CONSIDERATIONS .....	8
CERTAIN UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS .....	10
Certain U.S. Federal Income Tax Consequences to U.S. Holders.....	12
Certain U.S. Federal Income Tax Consequences to Non-U.S. Holders .....	13
FATCA Withholding .....	15
ERISA AND OTHER BENEFIT PLAN CONSIDERATIONS.....	15
UNDERWRITING .....	16
CERTAIN RELATIONSHIPS .....	17
ANNUAL REPORTS .....	17
REGULATORY MATTERS AND LITIGATION .....	18
APPROVAL OF LEGALITY.....	18
INDEPENDENT ACCOUNTANTS .....	18
RATINGS .....	18
MISCELLANEOUS .....	18

STANFORD UNIVERSITY (INCLUDING FINANCIAL STATEMENTS AND DISCUSSION OF FINANCIAL RESULTS).....	APPENDIX A
SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE .....	APPENDIX B
PROPOSED FORM OF OPINION OF COUNSEL TO THE UNIVERSITY .....	APPENDIX C
DTC BOOK-ENTRY SYSTEM AND GLOBAL CLEARANCE PROCEDURES .....	APPENDIX D

[THIS PAGE INTENTIONALLY LEFT BLANK]

## **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 Goldman Sachs & Co. LLC, J.P. Morgan Securities LLC, Morgan Stanley & Co. LLC and Barclays Capital Inc. (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 that 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 none of this Offering Memorandum or 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 that 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 ANY 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 THAT MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.**

---

## SUMMARY OF THE OFFERING

<b>Issuer</b>	The Board of Trustees of the Leland Stanford Junior University
<b>Securities Offered</b>	\$300,000,000 1.289% Taxable Bonds due June 1, 2027 \$450,000,000 2.413% Taxable Bonds due June 1, 2050
<b>Interest Payment Dates</b>	June 1 and December 1 of each year, commencing on December 1, 2020
<b>Redemption</b>	The Bonds are subject to optional redemption (i) prior to the Par Call Date, at the Make-Whole Redemption Price, and (ii) on or after the Par Call Date, at the Redemption Price, all as discussed more fully herein. See “THE BONDS – Redemption” herein.
<b>Issuance and Settlement Date</b>	June 4, 2020
<b>Authorized Denominations</b>	(i) with respect to Bonds sold outside of Korea, \$1,000 and integral multiples thereof and (ii) with respect to Bonds sold in Korea, \$3,000,000 and integral multiples thereof
<b>Form and Depository</b>	The Bonds will be delivered solely in book-entry form through the facilities of DTC.
<b>Use of Proceeds</b>	The University plans to use the proceeds of the Bonds for general University purposes. See “PLAN OF FINANCE” and “ESTIMATED SOURCES AND USES OF PROCEEDS” herein.
<b>Ratings</b>	Moody’s: Aaa S&P: AAA Fitch: AAA

[THIS PAGE INTENTIONALLY LEFT BLANK]



**OFFERING MEMORANDUM**  
**Relating to**  
**\$750,000,000**  
**STANFORD UNIVERSITY**  
**TAXABLE BONDS SERIES 2020 A**

**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 \$750,000,000 aggregate principal amount of Stanford University Taxable Bonds Series 2020 A (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 University purposes. See “PLAN OF FINANCE” and “ESTIMATED SOURCES AND USES OF PROCEEDS” herein.

**The University**

Founded in 1885, 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.

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 June 1, 2020 (the “Indenture”), by and between the University and The Bank of New York Mellon Trust Company, N.A., as trustee (the “Trustee”). 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 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. The delivery of this Offering Memorandum, any sale made hereunder or any future use of this Offering Memorandum shall not, 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 at <https://treasurer.stanford.edu/> 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 University purposes. See "ESTIMATED SOURCES AND USES OF PROCEEDS" herein.

### 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 .....	\$750,000,000
Total Sources of Funds .....	<u>\$750,000,000</u>

#### USES:

University Purposes .....	\$747,906,733
Costs of Issuance <sup>(1)</sup> .....	<u>2,093,267</u>
Total Uses of Funds .....	<u>\$750,000,000</u>

<sup>(1)</sup> Costs of issuance include fees of the Rating Agencies, the Trustee and Counsel to the University and the 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 bear interest at the rates and will mature on the dates (subject to prior redemption) as set forth on the cover page of 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 (i) \$1,000 and integral multiples thereof with respect to Bonds sold outside of Korea and (ii) \$3,000,000 and integral multiples thereof with respect to Bonds sold in Korea. The Bonds will be registered initially in the name of “Cede & Co.,” as nominee of DTC and will be evidenced by one Bond in the principal amount of the Bonds. 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, Redemption Price 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 June 1 and December 1 of each year commencing on December 1, 2020. 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 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 on the applicable Interest Payment Date 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 (1) 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 in such written request. Notwithstanding the foregoing, as long as Cede & Co. is the holder of all or part of the Bonds in book-entry form, such principal, Redemption Price or Make-Whole Redemption Price and interest payments will be made to Cede & Co. by wire transfer in immediately available funds.

### Redemption

#### *Optional Redemption at Par*

On or after the applicable Par Call Date, the Bonds will be subject to optional redemption prior to maturity, in whole or in part, at the direction of the University (and, if in part, in Authorized Denominations and on a pro rata basis, subject to the provisions described below under “Selection of Bonds for Redemption”), on any Business Day, as directed by the University, at the Redemption Price. “Redemption Price” means 100% of the principal amount of the Bonds to be redeemed plus accrued and unpaid interest on such Bonds to, but excluding, the redemption date. “Par Call Date” means April 1, 2027 with respect to the Bonds maturing on June 1, 2027 and December 1, 2049 with respect to the Bonds maturing on June 1, 2050.

#### *Optional Redemption at Make-Whole Redemption Price*

Prior to the applicable Par Call Date, the Bonds will be subject to optional redemption prior to maturity, in whole or in part, at the direction of the University (and, if in part, in Authorized Denominations and on a pro rata basis, subject to the provisions described below under “Selection of Bonds for

Redemption”), on any Business Day, as directed by the University, at the Make-Whole Redemption Price. The University shall retain an independent accounting firm or an independent financial advisor to determine the Make-Whole Redemption Price and perform all actions and make all calculations required to determine the Make-Whole Redemption Price. The Trustee and the University may conclusively rely on such accounting firm’s or financial advisor’s calculations in connection with, and its determination of, the Make-Whole Redemption Price, and neither the Trustee nor the University will have any liability for such reliance. The determination of the Make-Whole Redemption Price by such accounting firm or financial advisor shall be conclusive and binding on the Trustee, the University and the holders of the Bonds.

“Make-Whole Redemption Price” means the greater of (i) 100% of the principal amount of the Bonds to be redeemed or (ii) the sum of the present values 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 such Bonds are to be redeemed), discounted to the date on which such Bonds are to be redeemed on a semi-annual basis assuming a 360-day year consisting of twelve 30-day months at the adjusted Treasury Rate plus 15 basis points plus, in each case, accrued and unpaid interest on such Bonds to, but excluding, the redemption date.

“Treasury Rate” means, with respect to any redemption date, the rate per annum equal to (i) the semiannual equivalent yield to maturity, or (ii) if no such semiannual equivalent yield to maturity is available, the interpolated yield to maturity (on a day count basis) of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

“Comparable Treasury Issue” means the United States Treasury security or securities selected by a Designated Investment Banker as having an actual or interpolated maturity comparable to the remaining term of the Bonds to be redeemed that would be used, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of a comparable maturity to the remaining term of such Bonds.

“Comparable Treasury Price” means, with respect to any redemption date, the average of the Primary Treasury Dealer Quotations for such redemption date or, if the Designated Investment Banker obtains only one Primary Treasury Dealer Quotation, such Primary Treasury Dealer Quotation.

“Designated Investment Banker” means a Primary Treasury Dealer appointed by the University.

“Primary Treasury Dealer” means one or more entities appointed by the University, which, in each case, is a primary U.S. Government securities dealer in the City of New York, New York, and its successors.

“Primary Treasury Dealer Quotations” means, with respect to each Primary Treasury Dealer and any redemption date, the average, as determined by the Designated Investment Banker, of the bid and ask prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Designated Investment Banker by such Primary Treasury Dealer at 3:30 p.m. New York time on the third Business Day preceding such redemption date.

“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.

## **Notice of Redemption**

Notice of redemption will be sent by the Trustee by first class mail or using Electronic Means, not less than seven (7) days (or, if longer, the minimum number of days necessary to comply with the operational requirements of DTC or its nominee 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 registration books of the Trustee. If the Bonds are no longer held by DTC, its nominee or a 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 Redemption Price or Make-Whole Redemption Price, the place or places of redemption (including the name and appropriate address or addresses of the Trustee), the maturity, the CUSIP number (if any), any conditions 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 will also state that on said date there will become due and payable on each of said Bonds the Redemption Price or 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**

Moneys for payment of the Redemption Price or Make-Whole Redemption Price of the Bonds (or portion thereof called for redemption) will be held by the Trustee, and if the conditions specified in the notice of redemption (if any) have been satisfied, shall be paid 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 Redemption Price or the Make-Whole Redemption Price, as applicable, interest on the Bonds so called for redemption shall cease to accrue, such Bonds (or portion thereof) will cease to be entitled to any benefit or security under the Indenture and the holders of such Bonds will have no rights in respect thereof except to receive payment of such Redemption Price or Make-Whole Redemption Price, as applicable, 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 the customary procedures and operational arrangements of DTC (or its nominee or successor) then in effect, but, if such operational arrangements do not allow for redemption on a pro rata pass-through distribution of principal basis, the Bonds will be selected for redemption, in accordance with the customary procedures of DTC, by lot.

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.

For purposes of calculation of the pro rata pass-through distribution of principal, "pro rata," means, for any amount of principal to be paid, the application of a fraction to each denomination of the respective Bonds where (a) the numerator is equal to the amount due to the respective bondholders on a payment date, and (b) the denominator is equal to the total original par amount of the respective Bonds.

If the Bonds are no longer registered in book-entry-only form, each owner will receive an amount of Bonds equal to the original face amount then beneficially held by that owner, registered in such investor's name. Thereafter, any redemption of less than all of the Bonds will continue to be paid to the registered owners of such Bonds on a pro-rata basis, based on the portion of the original face amount of any such Bonds to be redeemed.

### **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**

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 Redemption Price or 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 Redemption Price or 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 the Bonds, and will be deposited with DTC. Purchasers will not receive certificates representing the Bonds purchased by them. Beneficial interests in the Bonds may be held through DTC, Clearstream Banking, S.A or Euroclear Bank S.A./N.V., directly as a participant or indirectly through organizations that are participants in such system. 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 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. 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, the Redemption Price 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 will constitute collateral security to secure the full payment of the principal, Redemption Price 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, Redemption Price 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, including information regarding the impact of the COVID-19 pandemic on the operations and financial condition of 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 investment portfolio, impact investment returns, increase liabilities associated with investments, reduce investment income distributable from the endowment and other expendable funds for operations, affect the ability of 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 6, 7, 8, 10, 11 and 12 to the consolidated financial statements of the University as of and for the years ended August 31, 2019 and 2018 included in Part II of Appendix A hereto.

(ii) Liquidity constraints 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, impose constraints or mandates on tuition levels and endowment payout, or impose significant new compliance requirements with associated costs.

(v) Counties or municipalities in which the University operates may constrain additional facility and infrastructure expansion, or impose significant costs.

(vi) The ability to recruit and retain faculty, graduate students, postdoctoral scholars and staff may be impaired 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 regulations and mandates, investigations and enforcement actions and private litigation, and may incur substantial costs of compliance, defense, sanctions, penalties and reputational harm for violation of applicable laws. The University self-insures for the first \$1 million to \$2 million of liability claims, but certain types of claims may not be covered by insurance policies.

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 thousands of 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 per occurrence 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, the amounts of third-party payments received, limitations on and inadequate governmental reimbursements for medical services and graduate medical education, increasing costs of providing indigent care, escalating costs of personnel and equipment and inpatient capacity constraints that limit the Hospitals' ability to absorb increased costs through greater volume. In addition, industry trends, adverse legislative and regulatory developments such as state or federal adoption of a single-payor reimbursement system, and government enforcement actions could also 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, continue to be challenged in various venues and could have adverse financial impacts on the Hospitals. Legislative and regulatory actions to repeal, postpone and replace elements of the ACA or other components of the United States health care system create unpredictability for the strategic and business planning efforts of health care providers, which creates additional risks. Further, the Hospitals' operations and financial results are likely to be adversely affected by consequences of the COVID-19 pandemic. The current outbreak of the COVID-19 disease has deferred elective procedures, impacted staffing, imposed costs and delayed or disrupted the delivery of pharmaceuticals and other medical supplies, and future outbreaks may have similar effects.

Lawsuits against many institutions of higher education have been filed following suspension of residential education in response to the COVID-19 pandemic. Such suits seek damages including refunds of tuition, room, board, fees and other charges, and many seek class-action status. The University has not been named in any lawsuit of this type, believes that such claims against it would be without merit, and would vigorously defend itself against all such claims. No assurance can be provided that similar lawsuits will not be brought against the University. The impacts of such lawsuits cannot be determined at this time. See Appendix A – “STANFORD UNIVERSITY (INCLUDING FINANCIAL STATEMENTS AND DISCUSSION OF FINANCIAL RESULTS) – PART I – GENERAL INFORMATION ABOUT STANFORD UNIVERSITY – COVID-19 Pandemic Impacts.”

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,” “– Liquidity” and “– COVID-19 Pandemic Impacts,” and “– PART II, STANFORD UNIVERSITY'S FY2019 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 income 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 (including as a result of tax reform in the United States) 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.

This 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 or the 3.8% net investment income tax. This summary does not purport to address special classes of taxpayers (such as S corporations, mutual funds, insurance companies, banks and other 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 or certain taxpayers that are required to prepare certified financial statements or file financial statements with certain regulatory or governmental agencies. This summary also does not address the tax consequences to a holder 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 further assumes that the Bonds will be held by holders 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) a citizen or individual 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 income 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 “Certain U.S. Federal Income Tax Considerations” section and each holder should consult its own tax advisor regarding the consequences to such holder of a legal defeasance of a Bond.

In certain circumstances, the University may be obligated to pay amounts in excess of the stated interest or principal on the Bonds and/or to prepay or redeem all or a portion of the Bonds. The obligation to make such payments may implicate the provisions of U.S. Treasury regulations relating to “contingent payment debt instruments” in which case the timing and amount of income inclusions and the character of income recognized may be different from the consequences discussed herein. According to the applicable U.S. Treasury regulations, certain contingencies will not cause a debt instrument to be treated as a contingent payment debt instrument if such contingencies in the aggregate, as of the date of issuance, are either “remote” or “incidental” or if certain other rules apply. Although the matter is not free from doubt, the University believes and intends to take the position if required that either such contingencies should be treated as remote and/or incidental or that the rules on “contingent payment debt instruments” otherwise would not be applicable. The position that the Bonds are not contingent payment debt instruments is binding on a holder unless such holder discloses its contrary position in the manner required by applicable U.S. Treasury regulations. The University’s position is not, however, binding on the IRS, and if the IRS were to successfully challenge this position, a holder subject to U.S. federal income taxation might be required to accrue interest income on the Bonds at a rate higher than the stated interest rate and to treat as ordinary interest income (rather than as capital gain) any gain realized on the taxable disposition 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, ESTATE 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 Non-U.S. Holders.

**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. 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 to amortize the premium 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 U.S. federal income 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 U.S. federal income 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 of the Bonds 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 that

qualifies as qualified stated interest 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), 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.

**Information Reporting and Backup Withholding.** Payments of interest and principal 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 then current rate 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.

Backup withholding is not an additional tax. 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. This discussion does not address all aspects of U.S. federal income taxation that may be relevant to non-U.S. Holders in light of their particular circumstances. For example, special rules may apply to a non-U.S. Holder that is a “controlled foreign corporation” or a “passive foreign investment company,” and, accordingly, non-U.S. Holders should consult their own tax advisors to determine the effect of U.S. federal, state, local and non-U.S. tax laws, as well as tax treaties, with respect to an investment in the Bonds.

**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 income 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 backup withholding and 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” of the University 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 of a trade or business by the Non-U.S. Holder 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 Bonds provides

a statement signed by such person under penalties of perjury, on valid 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, and otherwise complies with applicable IRS requirements. 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 qualify for, or does not claim, the benefit of the portfolio interest exemption, the Non-U.S. Holder will be subject to a 30% withholding tax on interest payments on the Bonds. A Non-U.S. Holder may be able to reduce or eliminate withholding tax under an applicable income tax treaty between the Non-U.S. Holder's country of residence and the United States. 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 backup 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 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 income tax treaty provides otherwise.

**Information Reporting and Backup Withholding.** Certain payors must report annually to the IRS and to each Non-U.S. Holder on information returns 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 from backup withholding. 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.

Backup withholding is not an additional tax. 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**

Sections 1471 through 1474 of the Code impose a 30% withholding tax on certain types of payments made to foreign financial institutions, unless the foreign financial institution enters into an agreement with the U.S. Treasury to, among other things, undertake to identify accounts held by certain U.S. persons or U.S.-owned entities, annually report certain information about such accounts and withhold 30% on payments to account holders whose actions prevent it from complying with these and other reporting requirements, or unless the foreign financial institution is otherwise exempt from those requirements. In addition, the FATCA imposes a 30% withholding tax on the same types of payments to a non-financial foreign entity unless the entity certifies that it does not have any substantial U.S. owners or the entity furnishes identifying information regarding each substantial U.S. owner. An intergovernmental agreement between the United States and the holder's jurisdiction may modify these requirements. Under current guidance, failure to comply with the additional certification, information reporting and other specified requirements imposed under FATCA could result in the 30% withholding tax being imposed on payments of interest on the Bonds. In general, withholding under FATCA currently applies to payments of U.S. source interest (including OID, if any). While withholding under FATCA would also have applied to payments of gross proceeds from the sale or other disposition of the Bonds on or after January 1, 2019, proposed U.S. Treasury regulations eliminate FATCA withholding on payments of gross proceeds entirely. Although these Treasury regulations are not final, they can be relied upon until final U.S. Treasury regulations are issued. Prospective holders 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 or Section 4975 of the Code, but may be subject to state, federal, non-US, or other laws or regulations that are similar to Title I of ERISA or Section 4975 of the Code ("Similar Law").

Under ERISA and Section 4975 of 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 exercises any authority or control over 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, 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.

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.

Each purchaser and transferee, by its purchase or acceptance 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 any Tax-Benefit Plan or (B) the purchase and holding of the Bonds for or on behalf of a Tax-Benefit Plan or foreign plan, governmental plan or church plan subject to Similar Law 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 Similar Law, a violation of such Similar Law.

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 (other than ERISA Plans) or plans that subject to Similar Law should seek similar counsel with respect to the prohibited transaction provisions of the Code and the applicability of any Similar Law.

## **UNDERWRITING**

The University has entered into a purchase contract (the "Purchase Contract") with the Underwriters listed on the cover hereof for whom Goldman Sachs & Co. LLC is acting as representative, and the Underwriters have agreed to purchase the Bonds from the University at a purchase price of \$748,482,732.92, representing the par amount of the Bonds, less an Underwriters' discount of \$1,517,267.08. The Purchase Contract 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 offering of the Bonds by the Underwriters is subject to receipt and acceptance and subject to the Underwriters' right to reject any order in whole or in part.



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 respective affiliates may have certain creditor and/or other rights against the University and its affiliates in connection with such activities. In addition, certain of the Underwriters and their respective affiliates have provided, and may in the future provide, a variety of these services to the University and to persons and entities with relationships with the University, for which they received or will receive customary fees and expenses.

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.

J.P. Morgan Securities LLC (“JPMS”), one of the Underwriters of the Bonds, has entered into negotiated dealer agreements (each, a “Dealer Agreement”) with each of Charles Schwab & Co., Inc. (“CS&Co.”) and LPL Financial LLC (“LPL”) for the retail distribution of certain securities offerings at the original issue prices. Pursuant to each Dealer Agreement, each of CS&Co. and LPL may purchase Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any Bonds that such firm sells.

Morgan Stanley & Co. LLC, one of the Underwriters of the Bonds, has entered into a retail distribution arrangement with Morgan Stanley Smith Barney LLC. As part of the distribution arrangement, Morgan Stanley & Co. LLC may distribute municipal securities to retail investors through the financial advisor network of Morgan Stanley Smith Barney LLC. As part of this arrangement, Morgan Stanley & Co. LLC may compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Bonds.

## **CERTAIN RELATIONSHIPS**

Gene T. Sykes, Managing Director of Goldman Sachs & Co. LLC, is a member of the University’s Board of Trustees. The University believes that the participation of Goldman Sachs & Co. LLC 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 the validity of the Bonds and certain other matters are subject to the 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 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 the accuracy, completeness or fairness of this Offering Memorandum.

## **INDEPENDENT ACCOUNTANTS**

The consolidated financial statements as of August 31, 2019 and 2018 and for each of the two years in the period ended August 31, 2019, 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 Investors Service, Inc. (“Moody’s”), an “AAA” rating by S&P Global Ratings (“S&P”), and an “AAA” rating by Fitch Ratings, Inc. (“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, New York, New York, 10007, from S&P at 55 Water Street, New York, New York 10041 and from Fitch at 33 Whitehall Street, 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. None of the University or 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. A copy of the Indenture may be obtained upon written 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**

May 28, 2020

By: /s/ Karen L. Kearney  
Treasurer

[THIS PAGE INTENTIONALLY LEFT BLANK]

## **APPENDIX A**

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

Part I of this Appendix A contains general information with respect to The Leland Stanford Junior University (“Stanford” or the “University”). Part II consists of portions of the University’s Annual Financial Report for the fiscal years ended August 31, 2019 and 2018 (the “University’s FY2019 Annual Financial Report”), which includes management’s discussion and analysis, selected financial and other data, the report of independent auditors, and the University’s consolidated financial statements as of and for the years ended August 31, 2019 and 2018 (the “University’s FY2019 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 FY2019 Audited Financial Statements.

#### **PART I**

##### **GENERAL INFORMATION ABOUT STANFORD 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.

##### **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 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 (the “Board”) 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 Audit, Compliance and Risk; Development; Finance; Land and Buildings; Student, Alumni and External Affairs; 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.

The following table lists the members of the Board of Trustees as of April 1, 2020.

Jeffrey S. Raikes ( <i>Chair</i> )	Sarah H. Ketterer
Felix J. Baker	Carol C. Lam
Mary T. Barra	Christy O. MacLear
Aneel Bhusri	Kenneth E. Olivier
Michael C. Camunez	Carrie W. Penner
Michelle R. Clayman	Ruth M. Porat
RoAnn Costin	Laurene Powell Jobs
Dipanjjan Deb	Mindy B. Rogers
Henry A. Fernandez	Victoria B. Rogers
Angela S. Filo	Srinija Srinivasan
Sakurako D. Fisher	Jeffrey E. Stone
Bradley A. Geier	Gene T. Sykes
James D. Halper	Marc Tessier-Lavigne
Ronald B. Johnson	Jerry Yang
Marc E. Jones	Charles D. Young
Tonia G. Karr	

**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, 2020.

## University Officers

Marc Tessier-Lavigne  
*President*

Jon Denney  
*Vice President for Development*

Persis Drell  
*Provost*

Harry Elam\*  
*Vice President for the Arts*

Farnaz Khadem  
*Vice President for Communications*

Randall Livingston  
*Vice President for Business Affairs,  
Chief Financial Officer and University Liaison for  
Stanford Medicine*

Robert Reidy  
*Vice President for Land, Buildings  
and Real Estate*

Martin Shell  
*Vice President and Chief External Relations Officer*

Robert Wallace  
*Chief Executive Officer, Stanford Management  
Company*

Howard Wolf  
*Vice President for Alumni Affairs  
and President, Stanford Alumni Association*

Elizabeth Zacharias  
*Vice President for Human Resources*

Debra Zumwalt  
*Vice President and General Counsel*

## University Executive Cabinet

Marc Tessier-Lavigne  
*President*

Persis Drell  
*Provost and Vice President for SLAC National  
Accelerator Laboratory*

Stacey Bent  
*Vice Provost for Graduate Education*

Harry Elam\*  
*Senior Vice Provost for Education,  
Vice Provost for Undergraduate Education*

Thomas Gilligan\*\*  
*Director, Hoover Institution on War,  
Revolution and Peace*

Stephan Graham  
*Dean, School of Earth, Energy &  
Environmental Sciences*

Chi-Chang Kao  
*Director, SLAC National Accelerator Laboratory*

Jonathan Levin  
*Dean, Graduate School of Business*

Jennifer Martinez  
*Dean, School of Law*

Lloyd Minor  
*Dean, School of Medicine*

Kathryn Ann Moler  
*Vice Provost and Dean of Research*

Debra Satz  
*Dean, School of Humanities and Sciences*

Daniel Schwartz  
*Dean, Graduate School of Education*

Jennifer Widom  
*Dean, School of Engineering*

---

\* Harry Elam has announced his resignation from the University to become the next President of Occidental College and, effective June 1, 2020, Sarah Church will become the Vice Provost for Undergraduate Education.

\*\* Thomas Gilligan is stepping down and will be replaced effective September 1, 2020, by Condoleezza Rice.

## Faculty and Staff

For the 2019 fall quarter, the Stanford professoriate had 2,276 members. Of those, 53% hold tenure, and 99% hold the highest degrees in their respective fields. The Academic Council comprises the main body of the faculty. Of its 1,701 members, 1,553 are tenure-line faculty, and 148 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 9.6 to 1.

As of August 31, 2019, the University, including the SLAC National Accelerator Laboratory, employed 15,208 non-academic staff members. Of these employees, 1,245 were represented by the Service Employees International Union, and 23 were police officers represented by the Stanford Deputy Sheriffs' Association. Contracts between the University and those unions expire on August 31, 2024 and July 31, 2020, respectively.

## Students

For the 2019 fall quarter, the University enrolled 6,994 undergraduate and 9,390 graduate students. During academic year 2018-2019, 1,893 bachelor's degrees and 3,433 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 <sup>(1)(2)</sup>			Graduate <sup>(2)</sup>		
	Applications	Admissions	Enrollment	Applications	Admissions	Enrollment
2015-16	44,520	2,160	1,735	44,437	4,318	2,656
2016-17	45,956	2,160	1,778	45,564	4,530	2,701
2017-18	46,307	2,116	1,730	45,907	4,157	2,696
2018-19	49,804	2,098	1,721	46,889	4,181	2,635
2019-20	49,961	2,086	1,721	48,143	4,119	2,588

<sup>(1)</sup> Includes both freshman and transfer students.

<sup>(2)</sup> 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 and meets full need for admitted students without an expectation of student loans. In addition to institutional scholarship funds, eligible Stanford undergraduates may also 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 2014-15 through 2019-20.



Academic Year	Tuition	Room and Board	Total	Average Financial Aid <sup>(1)</sup>	Average Financial Aid + Athletic Aid
2014-15	\$44,184	\$13,631	\$57,815	\$19,010	\$21,982
2015-16	45,729	14,107	59,836	19,676	23,016
2016-17	47,331	14,601	61,932	21,699	24,987
2017-18	48,987	15,112	64,099	22,142	25,556
2018-19	50,703	15,763	66,466	23,795	27,509
2019-20 <sup>(2)</sup>	52,857	16,433	69,290	25,924	n/a

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

(2) Average need-based aid is estimated as of February 29, 2020.

Institutional graduate student support is awarded based on academic merit and the availability of funds and consists of fellowships, stipends, and trainee/assistantships. Stanford also provides a gift funded institutional loan program for some students in certain academic programs. Student loan receivables, net of allowances for doubtful accounts, were \$52.0 million and \$60.3 million as of August 31, 2019 and 2018, respectively.

## **The Stanford Campus and Other Real Property**

Stanford's campus consists of 8,180 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 municipalities. In addition to the lands utilized for educational, research, athletics, patient care and related purposes, a portion of Stanford lands are leaseholds related to commercial, residential, agriculture and other developments that provide rental income as part of the University's investment portfolio. 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 academic programs and administrative functions, including approximately 28 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 projections of the major capital projects that the University plans to pursue in support of its academic mission. The fiscal year 2020 Capital Budget approved by the Board of Trustees is approximately \$908 million and represents the authorized capital expenditures in the first year of the rolling three-year Capital Plan. This budgeted amount is likely to be impacted by consequences of the COVID-19 pandemic-related county shelter-in-place restrictions. The fiscal year 2020-2022 Capital Plan includes projects with estimated total costs of over \$3.7 billion and represents one of the largest capital programs in Stanford's history. Estimated funding sources for projects under the current Capital Plan consist of \$1.5 billion in debt, \$1.3 billion in reserves and other funds,

\$676 million in gifts, and \$317 million of resources to be identified in the course of annual capital planning. 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 subject to change based on funding availability, budget affordability and university priorities. In light of the financial impacts and uncertainties related to the COVID-19 pandemic, projects that have not yet begun construction are being reevaluated and re-prioritized, and some projects may be suspended, deferred or redesigned.

The use and development of University land within the County of Santa Clara (“Santa Clara County”) are governed by a General Use Permit and the related Stanford University Community Plan (together, the “2000 GUP”), which have been in force since they were approved in 2000 by the Santa Clara County Board of Supervisors. The 2000 GUP permits Stanford to develop 2,035,000 square feet of net new academic facilities and 4,468 new housing units for students, faculty and staff. Although the 2000 GUP limits the amount of new development, it does not restrict removal, renovation or rehabilitation of existing facilities. Through August 31, 2019, projects using approximately 1,838,000 of net new gross square feet were completed or under construction and approximately 2,400 housing units have been added, with another 2,020 net new units under construction. Stanford filed an application with Santa Clara County in 2016 for a new GUP that was projected to last 17-20 years, but withdrew the application on November 1, 2019, determining instead to address academic space and housing needs by, for example, making use of the remaining allotments under the 2000 GUP, renovating and rehabilitating existing facilities in the main campus land in Santa Clara County, and developing facilities on University land in other jurisdictions, including the University’s new campus in Redwood City. It is also possible that Stanford could seek to amend the current GUP to obtain approvals for smaller projects at some time in the future.

## **Hospitals**

The University is the sole member of Stanford Health Care (“SHC”) 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 FY2019 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 have recently completed major capital projects to rebuild and expand their principal facilities in Palo Alto. SHC completed construction of the New Stanford Hospital, which opened for its first patient on November 17, 2019, at a cost of approximately \$2.2 billion. LPCH

opened a majority of its new expanded facilities in FY2018 with completion of the remaining components of the project in fiscal year 2020, at a cost of approximately \$1.4 billion.

## **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, including the following matter, which has received broad public attention.

The University is among over 100 colleges and universities under investigation or monitoring by the Office for Civil Rights, Department of Education ("OCR"), relating to Title IX concerns. As is its practice when a university is under review, OCR looks not only at the matters that are the subject of the complaints, but also at all reports of sexual harassment and sexual violence for the past three academic years. On April 6, 2018, Stanford entered into a Resolution Agreement and on April 10, 2018, OCR issued its letter of findings from the investigation. OCR made no finding that laws were violated in the handling of any individual student matters.

OCR's investigation raised concerns about some omissions and errors in the University's policies and determined that some provisions in the University's policies did not comply with Title IX. Stanford committed in the Resolution Agreement to make certain policy changes, give training on those changes, and meet with two of the student complainants to discuss Title IX issues and these changes. Stanford is now implementing the commitments it made. This process may take several years, and OCR will continue to monitor Stanford's compliance with the Resolution Agreement until all commitments have been completed and approved by OCR.

One responding student disciplined by the University after a sexual assault claim and who filed a claim with OCR (since dismissed by OCR) later filed two related actions against the University. The first is a writ petition filed in state court alleging that he did not receive due process during the University's disciplinary proceedings and seeking to compel the University to reverse the disciplinary findings against him. Stanford prevailed at trial on the writ petition, and the responding student has filed an appeal. All appeal briefs have been submitted, but the court has not yet set a date for oral argument. The second is a complaint filed in federal court alleging gender discrimination by the University and seeking money damages, which is stayed pending the outcome of the writ petition proceedings (including the appeal).

The University believes it is reasonably possible that other students may bring claims against the University under Title IX. The University intends to vigorously defend against all such claims, including the pending claims, and believes that the ultimate cost of all such claims will not be material to the University on a consolidated financial basis.

## **Investments**

At August 31, 2019, the University held investments with a fair value of approximately \$35.3 billion. With the recent volatility in investment markets, the University expects a decline in valuations in the natural resources, private equities and absolute return asset classes. These

investments are typically reported as updated values become available from outside fund managers, generally on a calendar quarter basis.

At August 31, 2019, the value of the University's endowment was \$27.7 billion, and in fiscal year 2019 the distribution from the endowment for University operations provided approximately 26% of operating revenues. Given the economic and financial market uncertainty relating to the COVID-19 pandemic, its actual and potential impacts and general volatility of investment markets, the fiscal year 2021 payout rate will likely be reduced by up to 15% from the fiscal year 2020 payout at the June 2020 meeting of the Board of Trustees. In anticipation, management is taking steps to reduce expenditures consistent with reduction in payout and other anticipated declining revenue sources. Immediate measures to reduce expenditures have included University leadership taking a 20% pay reduction, a hiring moratorium and University-wide salary freeze for the current and ensuing fiscal year. Additionally, the budget planning process for the fiscal year commencing September 1, 2020 has been re-opened, with expense reduction targets of up to 25%. This planning and decision-making is expected to be completed by the end of June 2020.

## **Liquidity**

Stanford monitors its liquidity requirements and structures its financial assets to meet its projected short- and long-term needs and contractual commitments. To meet these needs, Stanford holds investments in various pools or in specific assets with varying degrees of liquidity, as well as having an authorized short-term commercial paper program. Stanford also has access to additional short-term financing facilities such as revolving lines of credit that can be available for liquidity needs. 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 6, "Investments," and Note 20, "Commitments and Contingencies," to the University's FY2019 Audited Financial Statements included in Part II of this Appendix A).

## **COVID-19 Pandemic Impacts**

The outbreak of the COVID-19 pandemic has had numerous significant impacts on the University and its community. Since the week of March 9, 2020, with few exceptions, events, activities and operations on campus and in University facilities have been cancelled or postponed, undergraduate and graduate course instruction has been conducted through virtual means and research and operations have been conducted through remote work. An initial financial impact assessment conducted in April 2020 and updated in May 2020 estimated that the University will end the current fiscal year 2020 with an operating deficit between approximately \$40 million and \$45 million, in comparison to the budgeted operating surplus of \$126 million. Given uncertainties over the progression of the virus and governmental orders and private responses to the pandemic, a timetable has not been set for resuming in-person instruction, research and campus operations in whole or in part. As part of its pandemic response, the University has concurrently been planning for recovery. Once public health and State mandated restrictions are relaxed, with due consideration to public health and safety considerations, the University expects to re-start essential operations in a phased manner, commencing with research activities.

The COVID-19 pandemic has negatively affected national, state, and local economies and global financial markets, and the higher education landscape in general. The pandemic may have a material adverse effect on the future financial and operating performance of the University. Investment performance will be impacted by volatility and likely downturn in financial markets. The University's financial performance will depend on future developments, including, for example, (i) the duration and spread of the outbreak, (ii) additional restrictions, and advisories imposed by federal, state and local governments, (iii) litigation arising from circumstances related to, and actions taken in response to, the pandemic, (iv) the continued effects of the pandemic on the financial markets, and (v) the continued effects of the pandemic on the economy overall, all of which are highly uncertain and cannot be predicted.

For information regarding recent lawsuits against other institutions of higher education arising from circumstances related to the COVID-19 pandemic, see "CERTAIN INVESTMENT CONSIDERATIONS" in the forepart of this Offering Memorandum.

[THIS PAGE INTENTIONALLY LEFT BLANK]

**PART II**

**STANFORD UNIVERSITY'S FY2019 ANNUAL FINANCIAL REPORT**

[THIS PAGE INTENTIONALLY LEFT BLANK]



# MANAGEMENT'S DISCUSSION AND ANALYSIS

## CONSOLIDATED FINANCIAL HIGHLIGHTS

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

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

## SUMMARY

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

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

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

## UNIVERSITY

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

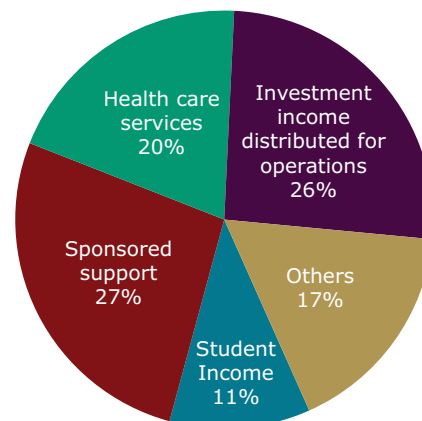
## UNIVERSITY OPERATING REVENUES

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

### Total Student Income, net

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

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



In FY19, 48% of undergraduates were awarded need-based financial aid from Stanford while 81% of graduate students received some form of financial support. One of the University's highest priorities is to remain affordable and accessible to all admitted students, regardless of their financial circumstances. The University continues to enhance its financial support for both its undergraduate and graduate students. In FY19, the University significantly increased the minimum salary for graduate student assistantships and removed the home equity component of the undergraduate financial aid calculation, enabling more students to qualify for financial aid.

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

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

### Sponsored Support

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

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

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

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

## Health Care Services

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

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

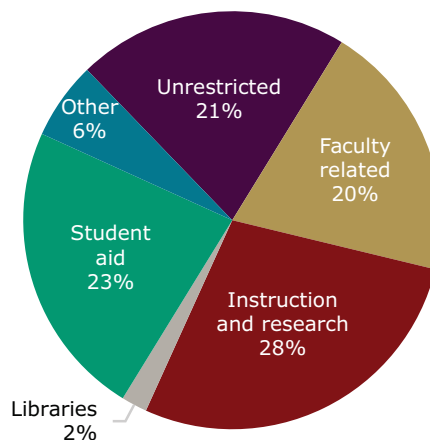
## Gifts and Pledges

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

## Total Investment Income Distributed for Operations

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

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



## UNIVERSITY OPERATING EXPENSES

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

## UNIVERSITY FINANCIAL POSITION

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

## Investments

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

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

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

### **Capital Projects**

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

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

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

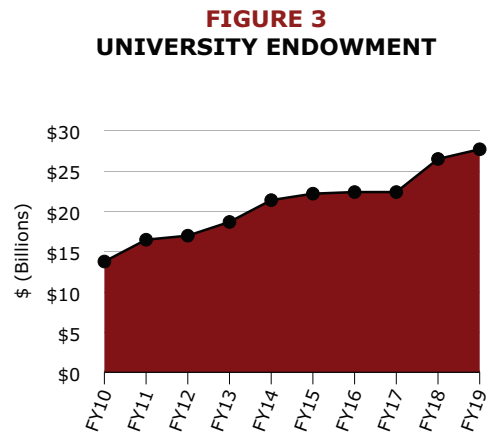
### **Debt**

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

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

### THE UNIVERSITY'S ENDOWMENT

The University's endowment is a collection of gift funds and reserves invested to generate income to support the University's teaching and research missions. At August 31, 2019, the endowment totaled \$27.7 billion (see Figure 3) and represented approximately 72% of the University's net assets. The majority of endowment funds are designated by donors for specific purposes including scholarships, fellowships, professorships or other academic initiatives. In FY19, the endowment distributed \$1.3 billion to support operations, providing crucial funding for education and research programs, including increasing the amount spent on student financial aid. See the *Total Investment Income Distributed for Operations* section for more information.



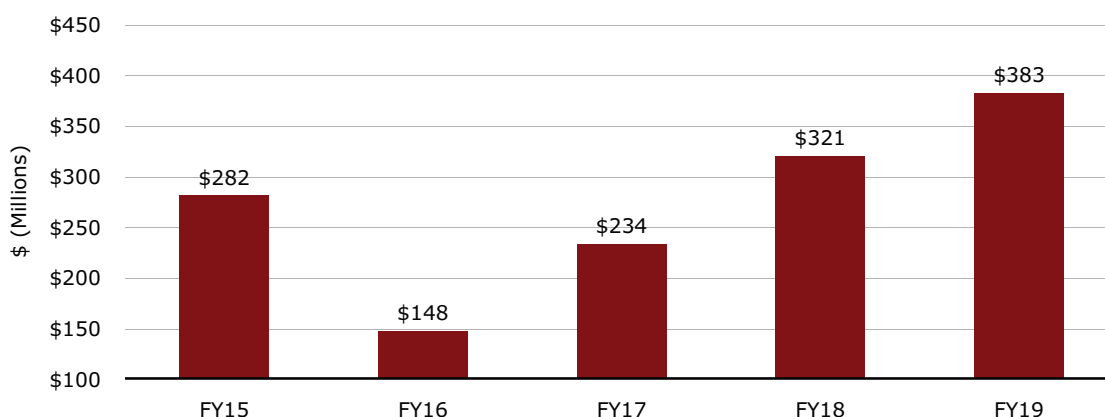
The Board is responsible for determining endowment payout with the aim of balancing current and future needs of the University. Through a combination of investment strategy and payout policy, the University strives to provide a reasonably consistent payout from the endowment to support operations, while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

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

### STANFORD HEALTH CARE

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

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



### SHC OPERATING REVENUES

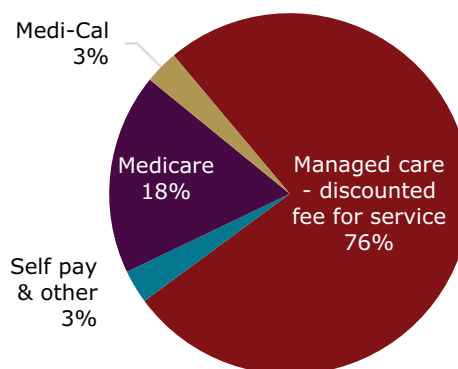
FY19 operating revenues were \$5.4 billion, reflecting a 10% increase over FY18.

#### Net Patient Service Revenue

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

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

**FIGURE 5**  
**SHC NET PATIENT SERVICE REVENUE**



**OPERATING EXPENSES**

Total expenses increased \$417 million, or 9%, to \$5.0 billion in FY19, which was primarily due to salaries and benefits, purchased services, physician services, and supplies. Salaries and benefits comprised 46% of SHC's total expenses, depreciation expense was 4%, and all other operating expenses represented 50%.

Salaries and benefits increased 10% in FY19 to \$2.3 billion (inclusive of community-based ambulatory clinics and network growth). The increase resulted from expanded headcount to support current growth in patient volumes and for future expansion (see the Capital Projects section below). The remaining increase was due to annual salary increases necessary to maintain SHC's position in the competitive market for healthcare professionals and higher benefit costs.

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

**SHC FINANCIAL POSITION**

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

**Capital Projects**

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

**Debt**

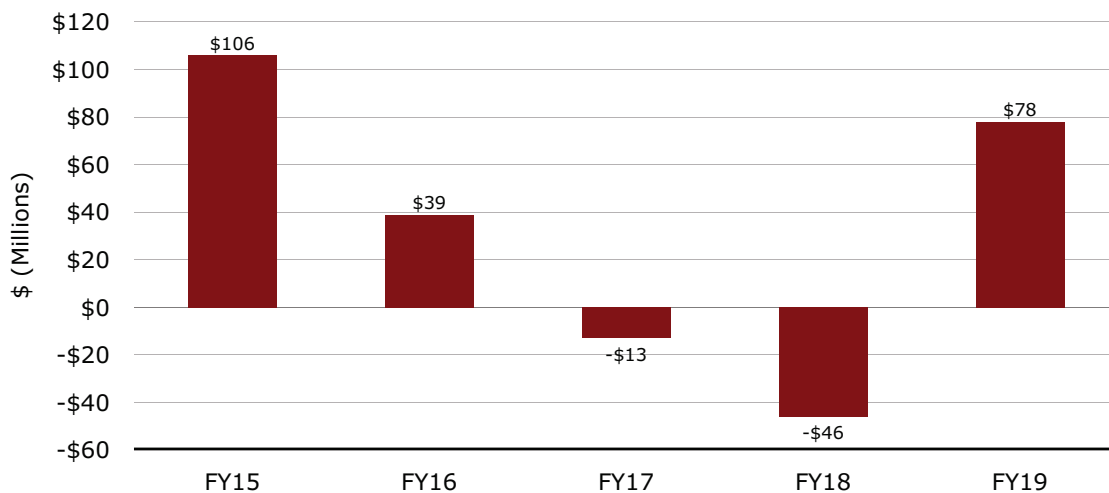
Total debt was \$1.9 billion as of August 31, 2019, a decrease of \$19 million over FY18.

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

### LUCILE SALTER PACKARD CHILDREN'S HOSPITAL AT STANFORD

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

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



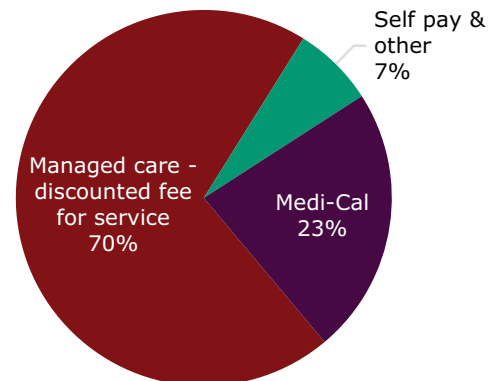
### LPCH OPERATING REVENUES

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

**FIGURE 7**  
**LPCH NET PATIENT SERVICE REVENUE**

#### Net Patient Service Revenue

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





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

#### **LPCH OPERATING EXPENSES**

Operating expenses increased \$197 million, or 12%, compared to the prior year. This increase was mainly attributable to higher salaries and benefits due to increased headcount to support the increase in volume and higher annual salary rates needed to maintain a competitive market position. In addition, LPCH experienced increases in payments to the SOM for services provided by the physician faculty (included in other operating expenses). FY19 operating expenses also include increased facility and depreciation costs for a full year as compared to a partial year in FY18.

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

#### **LPCH FINANCIAL POSITION**

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

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

#### **Capital Projects**

LPCH's *Consolidated Balance Sheet* reflects significant investments in the facilities and systems required to continue to provide the highest quality children's hospital services to the community it serves. Property and equipment, net of accumulated depreciation, increased in FY19 by \$10 million to \$1.9 billion as of August 31, 2019.

#### **Debt**

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

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

#### **LOOKING FORWARD**

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

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

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

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

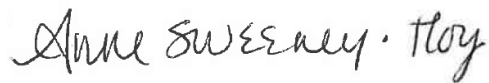
Stanford's financial strength and physical infrastructure are instrumental to continuing to evolve and realize our long range vision, while helping us adapt to the changing landscape in which we operate. Stanford enters FY20 in a strong financial position with a robust physical infrastructure and a dedicated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

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

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



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



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



Linda Hoff  
Chief Financial Officer  
Stanford Health Care



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

## SELECTED FINANCIAL AND OTHER DATA

Fiscal Years Ended August 31

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

(A) Student income is reported net of financial aid in the Consolidated Statements of Activities.

(B) Includes University, SHC and LPCH gifts. The FY15 amount includes \$626 million in works of art and special collections which is included with other donations reported by the Office of Development. As stated in Note 1, Stanford does not capitalize works of art and special collections.

(C) Fall quarter immediately following fiscal year end.

## MANAGEMENT RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

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

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

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

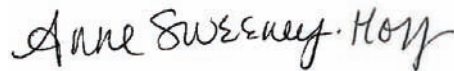
The Board of Trustees of the University and the separate Boards of Directors of SHC and LPCH, through their respective audit committees, comprised of trustees and directors not employed by the University, SHC or LPCH, are responsible for engaging the independent auditor and meeting with management, internal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



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



Linda Hoff  
Chief Financial Officer  
Stanford Health Care



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



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



## **Report of Independent Auditors**

To the Board of Trustees of the  
Leland Stanford Junior University

We have audited the accompanying consolidated financial statements of the Leland Stanford Junior University and its subsidiaries ("Stanford"), which comprise the consolidated statements of financial position as of August 31, 2019 and 2018, and the related consolidated statements of activities and cash flows for the years then ended.

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

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

### ***Auditors' Responsibility***

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

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

### ***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Leland Stanford Junior University and its subsidiaries as of August 31, 2019 and 2018, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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

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

*PricewaterhouseCoopers LLP*  
December 3, 2019

---

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

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

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

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

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

## CONSOLIDATED STATEMENTS OF ACTIVITIES

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

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

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

## CONSOLIDATED STATEMENTS OF ACTIVITIES, Continued

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

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

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



# CONSOLIDATED STATEMENTS OF CASH FLOWS

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. Basis of Presentation and Significant Accounting Policies

### **BASIS OF PRESENTATION**

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

### **University**

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

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

### **Hospitals**

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

### **TAX STATUS**

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

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

The TCJA was signed into law on December 22, 2017. Under the TCJA, the University is subject to a 1.4% excise tax on its net investment income as defined under the Internal Revenue Code which, among other things, includes net investment income of certain related entities such as the Hospitals. In addition, the University and Hospitals are both subject to a 21% excise tax on annual compensation in excess of one million dollars paid to certain covered employees. These excise taxes became effective beginning fiscal year 2019. The University and Hospitals are also subject to a 21% income tax on certain expenses incurred in connection with providing qualified transportation benefits to employees. The tax is effective as of January 1, 2018.

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

## **BASIS OF ACCOUNTING**

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

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

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

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

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

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

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

#### **CASH AND CASH EQUIVALENTS**

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

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

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

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

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

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

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

#### **ACCOUNTS AND LOANS RECEIVABLE**

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

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

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

#### **PLEDGES RECEIVABLE**

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

#### **INVESTMENTS**

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

## PLANT FACILITIES

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

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

## WORKS OF ART AND SPECIAL COLLECTIONS

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

## DONATED ASSETS

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

## DONOR ADVISED FUNDS

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

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

## SPLIT-INTEREST AGREEMENTS

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

The assets held under split-interest agreements, where the University is the trustee, were \$844.4 million and \$823.1 million at August 31, 2019 and 2018, respectively, and were recorded in specific investment categories. The assets held under split-interest agreements, where LPCH is the trustee, were \$11.4 million and \$11.2 million at August 31, 2019 and 2018, respectively, and were recorded in specific investment categories. Liabilities for the discounted present value of any income beneficiary interest are reported in "liabilities associated with investments" in the *Consolidated Statements of Financial Position*. At August 31,

2019 and 2018, the University used discount rates of 2.2% and 3.4%, respectively, based on the Charitable Federal Midterm Rate. The LPCH discount rate used during the years ended August 31, 2019 and 2018 was 1.8% and 2.9%, respectively, determined using the T-bill rate.

Included in assets held under split-interest agreements are amounts held to meet legally mandated annuity reserves of \$27.2 million and \$26.6 million as of August 31, 2019 and 2018 respectively, as required by California state law.

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

During fiscal years 2019 and 2018, the discounted present value of new University gifts subject to split-interest agreements, net of any income beneficiary share, was \$16.9 million and \$20.9 million, respectively, and was included in net assets with donor restrictions as "gifts and pledges, net" in the *Consolidated Statements of Activities*. Actuarial gains or losses were included in "change in value of split-interest agreements, net" in the *Consolidated Statements of Activities*.

#### **DEFERRED INCOME AND OTHER OBLIGATIONS**

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

##### **Deferred Rental Income**

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

##### **457(b) Deferred Compensation Plan**

The University offers a non-qualified deferred compensation plan under Internal Revenue Code 457(b) to a select group of highly compensated employees. There is no University contribution related to the plan. The University has recorded both an asset and a liability related to the plan of \$196.8 million and \$165.4 million as of August 31, 2019 and 2018, respectively; the assets are included in "assets limited as to use" in the *Consolidated Statements of Financial Position*.

##### **Repurchase Obligations**

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

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

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

### **Asset Retirement Obligations**

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

### **SELF-INSURANCE**

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

### **INTEREST RATE EXCHANGE AGREEMENTS**

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

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

### **REVENUE**

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

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

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

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

### **Sponsored Support**

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

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

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

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

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

### **Health Care Services**

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

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



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

### **Gifts**

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

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

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

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

### **RECENT ACCOUNTING PRONOUNCEMENTS**

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

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

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

#### **Fair value**

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

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

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

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

**Defined benefit plan disclosures**

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

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

**Cloud computing arrangements**

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

The ASU allows capitalization of implementation costs incurred in a cloud computing arrangement in a manner that is consistent with the capitalization of implementation costs incurred to develop or obtain internal-use software.

**Pension service costs**

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

The ASU requires that an employer report the service cost component of pension costs in the same line item as employee compensation costs within operating income. The other components of net benefit cost are required to be presented as "non-operating activities", and will not be eligible for capitalization. The new guidance was evaluated and will not have a material impact on the *Consolidated Financial Statements*.

**Statement of cash flows**

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

The ASU requires that the amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The new guidance was evaluated and will not have a material impact on the *Consolidated Financial Statements*.

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

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

### Not-for-profit reporting

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

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

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

### Leases

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

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

### Revenue recognition

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

The ASU improves consistency of revenue recognition practices across industries for economically similar transactions. Subsequently, the FASB has issued several amendments and updates to the original standard. The core principle is that an entity recognizes revenue for goods or services to customers in an amount that reflects the consideration it expects to receive in return. The guidance also requires expanded disclosures. Stanford adopted this standard in fiscal year 2019 using the modified retrospective approach. Stanford elected to apply the standard only to contracts that were not completed as of August 31, 2018, therefore, comparative information has not been adjusted and continues to be reported under the previous revenue recognition guidance. The adoption of this guidance did not have a material impact to Stanford's *Consolidated Financial Statements*.

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

The ASU assists entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions and (2) determining whether a contribution is conditional. Stanford adopted this standard in fiscal year 2019 using the modified prospective approach and it did not have a material impact to Stanford's *Consolidated Financial Statements*.

## 2. Financial Assets and Liquid Resources

### OVERVIEW

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

### OPERATIONS

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

### MERGED POOL

The Merged Pool (MP) (see *Note 7*) is the primary investment pool for endowment and other long-term funds for the University and the Hospitals. Approximately 20% of the MP consists of liquid investments, with the balance representing investments which are generally subject to constraints which either limit Stanford's ability to withdraw such capital or limit the amounts available for withdrawal at given redemption dates (see *Note 6*). The MP further maintains sufficient liquidity to distribute the annual endowment payout in support of University operating expenditures, and to meet unfunded commitments associated with certain alternative investments (see *Note 6*). It is not the intention of the University to utilize its financial assets without donor restrictions-including board designated endowment funds-that are invested for the long-term for unplanned operating commitments; however, amounts could be made available from these sources if necessary, except for those underlying investments with lock-up provisions as discussed in *Note 6*.

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

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

### 3. Accounts Receivable

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

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

#### 4. Pledges Receivable

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

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

## 5. Loans Receivable

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

### STUDENT LOANS RECEIVABLE

Student loans receivable consist of institutional and federally-sponsored loans due from both current and former students. Student loans and allowance for student loan losses at August 31, 2019 and 2018, in thousands of dollars, are as follows:

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

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

Federally-sponsored loans are funded by advances to the University primarily under the Federal Perkins Loan Program (the "Program"). During the year ended August 31, 2018, the University returned \$14.3 million of Program funds to the U.S. Department of Education. Loans to students under the Program are subject to mandatory interest rates and significant restrictions and can be assigned to the federal government in certain non-repayment situations. In these situations, the federal portion of the loan balance is guaranteed.

Amounts received under the Program are ultimately refundable to the federal government in the event the University no longer participates in the Program, and accordingly, have been reported as an obligation in the *Consolidated Statements of Financial Position* as "U.S. government refundable loan funds." The Program expired in September 2017 and the University is no longer issuing new loans under the Program. The U.S. Department of Education is in the process of evaluating procedures to reimburse schools for the federal guaranteed portion of loans in certain non-repayment situations.

### FACULTY AND STAFF MORTGAGES

In a program to attract and retain excellent faculty and senior staff, the University provides home mortgage financing assistance, primarily in the form of subordinated loans. The loans and mortgages are collateralized by deeds of trust on properties concentrated in the region surrounding the University. Notes receivable amounting to \$780.2 million and \$695.7 million at August 31, 2019 and 2018, respectively, from University faculty and staff are included in "faculty and staff mortgages and other loans receivable, net" in the *Consolidated Statements of Financial Position*. Management has determined that no allowance is necessary.

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

## 6. Investments

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

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

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



	UNIVERSITY	SHC	LPCH	ELIMINATIONS	CONSOLIDATED
<b>2018</b>					
Investment assets:					
Cash and short-term investments	\$ 1,040,835	\$ 447,307	\$ 3,400	\$ —	\$ 1,491,542
Collateral held for securities loaned	77,137	—	—	—	77,137
Public equities	8,335,690	248,631	52,324	—	8,636,645
Derivatives	(554)	—	—	—	(554)
Fixed income	2,419,741	169,983	96,661	—	2,686,385
Real estate	7,367,786	41,688	8,215	—	7,417,689
Natural resources	2,525,967	—	10,944	—	2,536,911
Private equities	8,430,025	—	22,247	—	8,452,272
Absolute return	5,673,513	—	23,378	—	5,696,891
Assets held by other trustees	123,993	—	15,477	—	139,470
Other	648,308	896	—	—	649,204
Total	36,642,441	908,505	232,646	—	37,783,592
Hospitals' funds invested in the University's investment pools	(2,125,005)	1,393,429	724,423	7,153	—
<b>INVESTMENTS AT FAIR VALUE</b>	<b>\$ 34,517,436</b>	<b>\$ 2,301,934</b>	<b>\$ 957,069</b>	<b>\$ 7,153</b>	<b>\$ 37,783,592</b>
Investment liabilities:					
Income beneficiary share of split interest agreements <sup>1</sup>	\$ 541,558	\$ —	\$ —	\$ —	\$ 541,558
Securities lending	77,137	—	—	—	77,137
Securities sold, not yet purchased	69,092	—	—	—	69,092
Accrued management fees	6,693	—	—	—	6,693
Pending trades of securities	2,912	—	—	—	2,912
Other	11,237	—	—	—	11,237
<b>LIABILITIES ASSOCIATED WITH INVESTMENTS</b>	<b>\$ 708,629</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 708,629</b>

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

## VALUATION METHODOLOGY

To the extent available, Stanford's investments are recorded at fair value based on quoted prices in active markets on a trade-date basis. Stanford's investments that are listed on any U.S. or non-U.S. recognized exchanges are valued based on readily available market quotations. When such inputs do not exist, fair value measurements are based on the best available information and usually require a degree of judgment. For alternative investments, which are principally interests in limited partnerships or similar investments in private equity, real estate, natural resources, public equities and absolute return funds, the value is primarily based on the Net Asset Value (NAV) of the underlying investments. The NAV is reported by external investment managers in accordance with their policies as described in their respective financial statements and offering memoranda. The most recent NAV reported is adjusted for any investment-related transactions such as capital calls or distributions and significant known valuation changes of its related portfolio through August 31, 2019 and 2018, respectively. These investments are generally less liquid than other investments, and the value reported may differ from the values that would have been reported had a ready market for these investments existed.

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

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

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

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

### **INVESTMENT CATEGORIES**

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

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

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

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

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

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

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

partnerships is based on the NAV reported by the external investment managers and is adjusted as described under *Valuation Methodology* above. The fair value of real estate held through commingled and mutual funds are based on quoted market prices.

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

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

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

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

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

#### **FAIR VALUE HIERARCHY**

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

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

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

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

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

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

The following tables summarize Stanford's investment assets and liabilities within the fair value hierarchy and asset categories at August 31, 2019 and 2018, in thousands of dollars:

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

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

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
<b>2018</b>				
Investment assets:				
Cash and short-term investments	\$ 569,707	\$ 914,425	\$ —	\$ 1,484,132
Collateral held for securities loaned	—	77,137	—	77,137
Public equities	2,996,887	1,417	—	2,998,304
Derivatives	—	(554)	—	(554)
Fixed income	470,099	2,216,286	—	2,686,385
Real estate	98,087	—	5,792,978	5,891,065
Natural resources	520,183	—	210,270	730,453
Private equities	505	—	20,188	20,693
Absolute return	1,278	—	27,378	28,656
Assets held by other trustees	—	—	139,470	139,470
Other	9,921	—	627,989	637,910
<b>INVESTMENTS SUBJECT TO FAIR VALUE LEVELING</b>	<b>\$ 4,666,667</b>	<b>\$ 3,208,711</b>	<b>\$ 6,818,273</b>	<b>14,693,651</b>
Investments measured using Net Asset Value <sup>1</sup>				23,089,941
<b>TOTAL CONSOLIDATED INVESTMENT ASSETS</b>				<b>\$ 37,783,592</b>
Investment liabilities:				
Income beneficiary share of split interest agreements	\$ —	\$ 541,558	\$ —	\$ 541,558
Securities lending	—	77,137	—	77,137
Securities sold, not yet purchased	69,092	—	—	69,092
Accrued management fees	6,693	—	—	6,693
Pending trades of securities	2,912	—	—	2,912
Other	—	—	11,237	11,237
<b>LIABILITIES ASSOCIATED WITH INVESTMENTS</b>	<b>\$ 78,697</b>	<b>\$ 618,695</b>	<b>\$ 11,237</b>	<b>\$ 708,629</b>

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

### SUMMARY OF LEVEL 3 INVESTMENT ACTIVITIES AND TRANSFERS

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

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

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

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

Net realized and unrealized gains (losses) in the tables above are included in the *Consolidated Statements of Activities* primarily as increases or decreases in reinvested gains by level of restriction. For the years ended August 31, 2019 and 2018, the change in unrealized gains (losses) for Level 3 investments still held at August 31, 2019 and 2018 was \$936.9 million and \$491.7 million, respectively.

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

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

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

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

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

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

### INVESTMENT-RELATED COMMITMENTS

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

ASSET CLASS	FAIR VALUE	UNFUNDED COMMITMENT	REMAINING LIFE (YEARS)	REDEMPTION TERMS
Public equities	\$ 5,271,989	\$ 219,848	0 to 5	Generally, lock-up provisions ranging from 0 to 2 years. After initial lock up expires, redemptions are available on a rolling basis and require 30 to 90 days prior notification.
Real estate	1,749,967	1,507,547	0 to 13	Not eligible for redemption
Natural resources	1,622,674	556,345	0 to 15	Not eligible for redemption
Private equities	9,940,458	3,849,854	0 to 16	Not eligible for redemption
Absolute return	5,565,483	932,158	0 to 7	Generally, lock-up provisions ranging from 0 to 5 years. After initial lock up expires, redemptions are available on a rolling basis and require 30 to 90 days prior notification.
<b>TOTAL</b>	<b>\$24,150,571</b>	<b>\$ 7,065,752</b>		

## **LIABILITIES ASSOCIATED WITH INVESTMENTS**

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

**Net investment income excise tax** represents current and deferred tax liabilities (see *Note 1*).

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

Under the securities lending agreement, securities loaned are primarily public equities, corporate bonds or U.S. Treasury bills and the agreement continues until the security is delivered back to the University. The estimated fair value of securities loaned at August 31, 2019 and 2018 was \$19.3 million and \$75.5 million, respectively. At August 31, 2019, the University received on loan publicly traded equities of \$19.9 million. At August 31, 2018, the University received cash and short-term investments in the amount of \$77.1 million; \$30.4 million was received for loaned publicly traded equities and \$46.7 million was received for loaned U.S. Treasury notes.

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

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

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



## OFFSETS TO INVESTMENT-RELATED ASSETS AND LIABILITIES

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

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

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

The following table presents information about the gross amounts of assets and liabilities, the offset of these instruments and the related collateral amounts as of August 31, 2019 and 2018, in thousands of dollars:

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

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

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

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

## INVESTMENT RETURNS

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

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

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

## FUTURE MINIMUM RENTAL INCOME

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

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

## 7. Investment Pools

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

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

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

The University manages the majority of SHC's and LPCH's investments, including their investments in the Merged Pool (MP). SHC's investments in the MP were \$1.5 billion and \$1.4 billion at August 31, 2019 and 2018, respectively. LPCH's investments in the MP were \$752.9 million and \$724.4 million at August 31, 2019 and 2018, respectively.

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

The Expendable Funds Pool (EFP) and Endowment Income Funds Pool (EIFP) are the principal investment vehicles for the University's expendable funds. A substantial portion of the EFP is cross-invested in the MP. For the years ended August 31, 2019 and 2018, the EFP was also invested in the STIP and the Intermediate Pool (IPool). The EIFP holds income previously distributed to holders of endowment funds with restrictions that are perpetual in nature that has not yet been expended and the entire balance is invested in the STIP.

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

The Board has established a policy for the distribution of the investment returns of the EFP. The difference between the actual return of this investment pool and the approved payout is deposited in, or withdrawn from, funds functioning as endowment (FFE) (see *Note 12*). For the years ended August 31, 2019 and 2018, the results of the EFP, in thousands of dollars, are as follows:

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

## 8. Derivatives

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

### INVESTMENT-RELATED DERIVATIVES

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

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

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

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

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

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

## DEBT-RELATED DERIVATIVES

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

At August 31, 2019, the University had interest rate exchange agreements related to \$97.0 million of the outstanding balance of the CEFA Series S bonds in variable rate mode (see *Note 10*). The agreements, which have a weighted average interest rate of 3.68%, expire November 1, 2039. The notional amount and the fair value of the exchange agreements are included in the table below. Collateral posted with various counterparties was \$28.6 million and \$13.5 million at August 31, 2019 and 2018, respectively, and is included in the *Consolidated Statements of Financial Position*. In addition, the University issued an irrevocable standby letter of credit of \$15.0 million to support collateral requirements at August 31, 2019 and 2018 (see *Note 10*).

At August 31, 2019, SHC had interest rate exchange agreements expiring through November 2051 (see *Note 10*). The agreements require SHC to pay fixed interest rates to the counterparties varying from 3.37% to 4.08% in exchange for variable rate payments from the counterparties based on a percentage of the One Month London Interbank Offered Rate (LIBOR). The notional amount and the fair value of the exchange agreements are included in the table below. There was cash collateral required to be posted with counterparties at August 31, 2019 of \$31.6 million and no cash collateral posted at August 31, 2018.

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

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

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

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

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

## 9. Plant Facilities

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

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

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

## 10. Notes and Bonds Payable

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

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

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

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

The University's long-term ratings of AAA/Aaa/AAA were affirmed in March 2019 by S&P Global Ratings, Moody's Investors Service, and Fitch Ratings, respectively. In March and May 2019, SHC's long-term ratings were affirmed by S&P Global Ratings, Moody's Investors Service, and Fitch Ratings at AA-/Aa3/AA, respectively. In October and November 2019, LPCH's long-term ratings were affirmed by S&P Global Ratings, Moody's Investors Service, and Fitch Ratings at A+/A1/AA-, respectively.

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

## **UNIVERSITY**

### **Debt issuances and repayment activity**

In April 2019, CEFA Series V-1 bonds were issued in the amount of \$441.8 million plus an original issue premium of \$158.2 million. The bonds bear interest at a coupon rate of 5.00%, with \$41.8 million maturing on May 1, 2029 and \$400 million maturing on May 1, 2049, and have yields of 1.83% and 3.12%, respectively. Proceeds are being used to finance or refinance capital projects of the University.

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

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

The University has two unsecured revolving credit facilities with a \$250.0 million and \$175.0 million capacity, respectively. Funds drawn on the revolving credit facilities bear interest at a floating rate equal to the applicable LIBOR rate plus a specified margin. The amount outstanding on these credit facilities was \$55.6 million and \$75.9 million at August 31, 2019 and 2018, respectively.

In October 2017, a CEFA Series L tranche in the amount of \$15.2 million matured and was repaid.

The University's taxable and tax-exempt commercial paper authorized borrowing capacity was \$500.0 million and \$300.0 million, respectively, at both August 31, 2019 and 2018. Tax-exempt commercial paper of \$0.0 million and \$130.0 million was outstanding at August 31, 2019 and 2018, respectively.



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

The University had \$177.4 million of revenue bonds in variable rate mode outstanding at August 31, 2019. CEFA Series L bonds bear interest at a weekly rate and CEFA Series S bonds bear interest at a commercial paper municipal rate for various interest periods of 270 days or less. In the event the University receives notice of any optional tender of these bonds, or if the bonds become subject to mandatory tender, the purchase price of the bonds will be paid from the remarketing of such bonds. However, if the remarketing proceeds are insufficient, the University will have a current obligation to purchase the bonds tendered. The University has identified several sources of funding including cash, money market funds, U.S. Treasury securities and agencies' discount notes to provide for the full and timely purchase price of any bonds tendered in the event of a failed remarketing.

**Letters of credit**

In December 2010, the University entered into a credit agreement and established a letter of credit facility under which the bank agreed to issue standby letters of credit in a principal amount not to exceed \$50.0 million. In June 2018, the University increased the facility to \$75.0 million. At August 31, 2019, irrevocable standby letters of credit of \$52.6 million were outstanding in the following amounts and for the following respective purposes: (1) \$15.0 million to support collateral requirements under certain interest rate exchange agreements discussed in *Note 8*; (2) \$32.7 million to serve as security for workers' compensation deductible insurance arrangements; and (3) \$4.9 million for other purposes. No amounts have been drawn on these letters of credit at August 31, 2019.

**SHC****Debt issuances and repayment activity**

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

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

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

At August 31, 2019, SHC had \$403.2 million of revenue bonds in variable rate mode outstanding. The 2008 Series B-1 bonds bear interest at a weekly rate, and bondholders have the option to tender their bonds on a weekly basis. The 2008 Series B-2 bonds bear interest at the commercial paper rate for each commercial paper period of 270 days or less. Bondholders in commercial paper mode have the option to tender their bonds only at the end of the commercial paper rate period.

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

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

**Letters of credit**

At August 31, 2019, SHC had irrevocable standby letters of credit in the aggregate amount of \$21.2 million posted with certain beneficiaries in the following amounts and for the following respective purposes: (i) \$19.0 million to serve as security for the workers' compensation self-insurance arrangement and (ii) \$2.2 million to serve as security deposits for certain construction projects being undertaken by SHC including the Renewal Project (see *Note 20*). No amounts have been drawn on these letters of credit at August 31, 2019 and 2018.

**LPCH****Debt activity**

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

**Letters of credit**

At August 31, 2019, LPCH had irrevocable standby letters of credit in the aggregate amount of \$7.7 million posted with certain beneficiaries in the following amounts and for the following respective purposes: (i) \$6.3 million to serve as security for the workers' compensation self-insurance arrangement, and (ii) \$1.4 million to serve as security deposits for certain construction projects being undertaken by LPCH including the Renewal Project (see *Note 20*). No amounts have been drawn on these letters of credit at August 31, 2019 and 2018.

**INTEREST**

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

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

The University and SHC use interest rate exchange agreements to manage the interest rate exposure of their debt portfolios. University net payments on interest rate exchange agreements were \$2.0 million and \$2.5 million for the years ended August 31, 2019 and 2018, respectively. SHC net payments on interest rate exchange agreements were \$12.6 million and \$15.4 million for the years ended August 31, 2019 and 2018, respectively.

**PRINCIPAL PAYMENTS**

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

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

## 11. Net Assets

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

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

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

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

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

## 12. Endowments

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

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

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

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

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

## UNIVERSITY

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

	NET ASSETS WITHOUT DONOR RESTRICTIONS	NET ASSETS WITH DONOR RESTRICTIONS	TOTAL
<b>2019</b>			
Endowment, beginning of year	\$ 12,351,730	\$ 14,113,182	\$ 26,464,912
Total investment returns, net	1,495,691	830,055	2,325,746
Amounts distributed for operations	(524,564)	(778,471)	(1,303,035)
Gifts, transfers and other changes in endowment:			
Current year gifts and pledge payments	5,301	229,370	234,671
Transfers of prior year gifts	3,864	65,541	69,405
EFP funds added to the endowment	23,622	—	23,622
Other funds withdrawn from the endowment, net	(115,111)	(376)	(115,487)
Total gifts, transfers and other changes in endowment	(82,324)	294,535	212,211
Total net increase in endowment	888,803	346,119	1,234,922
<b>ENDOWMENT, END OF YEAR</b>	<b>\$ 13,240,533</b>	<b>\$ 14,459,301</b>	<b>\$ 27,699,834</b>
<b>2018</b>			
Endowment, beginning of year	\$ 11,484,688	\$ 13,300,255	\$ 24,784,943
Total investment returns, net	1,166,116	1,221,518	2,387,634
Amounts distributed for operations	(506,513)	(733,233)	(1,239,746)
Gifts, transfers and other changes in endowment:			
Current year gifts and pledge payments	4,414	227,754	232,168
Transfers of prior year gifts	2,621	69,816	72,437
EFP funds added to the endowment	155,356	—	155,356
Other funds invested in the endowment	45,048	27,072	72,120
Total gifts, transfers and other changes in endowment	207,439	324,642	532,081
Total net increase in endowment	867,042	812,927	1,679,969
<b>ENDOWMENT, END OF YEAR</b>	<b>\$ 12,351,730</b>	<b>\$ 14,113,182</b>	<b>\$ 26,464,912</b>

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

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

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

The current Board approved targeted spending rate is 5.5%. The payout amount is determined by applying a smoothing rule designed to mitigate the impact of short-term market volatility on the flow of funds to support operations. The Board has the authority to override the smoothing rule and set the payout rate directly. The sources of payout are earned income on endowment assets (interest, dividends, rents and royalties), realized capital gains and FFE, as needed and as available.

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

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

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

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

#### **SHC AND LPCH**

The endowments of SHC and LPCH are intended to generate investment income to support their current operating and strategic initiatives. The Hospitals invest the majority of their endowments in the University's MP. The endowments are subject to similar investment and spending strategies that the University employs. The Hospitals' Boards of Directors have approved payout policies which provide for annual amounts to be distributed for current use. "Amounts distributed for operations" in the tables below represents SHC's and LPCH's current year endowment payout spent for designated purposes during fiscal years 2019 and 2018.



**SHC**

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

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

**LPCH**

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

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

## 13. Health Care Services Revenue

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

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

### **Medicare**

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

Inpatient non-acute services, certain outpatient services and medical education costs related to Medicare beneficiaries are paid based, in part, on a cost reimbursement methodology subject to final settlement after submission of annual cost reports and audits thereof by the Medicare fiscal intermediary. The estimated amounts due to or from the program are reviewed and adjusted annually based on the status of such audits and any subsequent appeals. Differences between final settlements and amounts accrued in previous years are reported as adjustments to net health care services revenue in the year examination is substantially completed. Medicare cost reports have been audited by the Medicare administrative contractor through August 31, 2010 for SHC and August 31, 2017 for LPCH.

Professional services are reimbursed based on a fee schedule.

### **Medi-Cal**

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

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

### **Managed Care Organizations**

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

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

## Uninsured

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

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

	UNIVERSITY	SHC	LPCH	ELIMINATIONS	CONSOLIDATED
<b>2019</b>					
Patient care revenue, net:					
Medicare	\$ —	\$ 937,369	\$ 10,924	\$ —	\$ 948,293
Medi-Cal	—	150,184	418,841	—	569,025
Managed care	—	3,871,597	1,290,662	—	5,162,259
Self pay and other	—	115,527	117,334	—	232,861
Physician services and support (see Note 1)	1,166,935	38,375	—	(1,205,310)	—
Total patient care revenue, net	1,166,935	5,113,052	1,837,761	(1,205,310)	6,912,438
Premium revenue	—	106,130	—	—	106,130
Other services and support	43,286	—	—	(11,182)	32,104
<b>HEALTH CARE SERVICES REVENUE, NET</b>	<b>\$1,210,221</b>	<b>\$5,219,182</b>	<b>\$1,837,761</b>	<b>\$ (1,216,492)</b>	<b>\$ 7,050,672</b>
<b>2018</b>					
Patient care revenue, net:					
Medicare	\$ —	\$ 892,195	\$ 5,512	\$ —	\$ 897,707
Medi-Cal	—	140,788	362,300	—	503,088
Managed care	—	3,498,434	1,103,782	—	4,602,216
Self pay and other	—	160,605	80,871	—	241,476
Physician services and support (see Note 1)	1,048,749	43,344	—	(1,092,093)	—
Total patient care revenue, net	1,048,749	4,735,366	1,552,465	(1,092,093)	6,244,487
Premium revenue	—	92,654	—	—	92,654
Other services and support	40,672	—	—	(12,438)	28,234
	1,089,421	4,828,020	1,552,465	(1,104,531)	6,365,375
Provision for doubtful accounts <sup>1</sup>	—	(57,437)	(5,660)	—	(63,097)
<b>HEALTH CARE SERVICES REVENUE, NET</b>	<b>\$1,089,421</b>	<b>\$4,770,583</b>	<b>\$1,546,805</b>	<b>\$ (1,104,531)</b>	<b>\$ 6,302,278</b>

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

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

### Charity Care and Uncompensated Costs

SHC's estimated cost of providing charity care was \$24.0 million and \$24.8 million, and LPCH's estimated cost of providing charity care was \$2.7 million and \$1.8 million for the years ended August 31, 2019 and 2018, respectively. This cost is estimated by calculating a ratio of total costs to gross patient service charges at established rates, and then multiplying that ratio by gross uncompensated patient service charges at established rates associated with providing care to charity patients. SHC received \$410 thousand and \$876 thousand during the years ended August 31, 2019 and 2018, respectively, from contributions that were restricted for the care of indigent patients.

SHC and LPCH also provide services to other patients under the Medicare, Medi-Cal and other publicly sponsored programs, which reimburse at amounts less than the cost of the services provided to the recipients. Estimated costs in excess of reimbursements for the Medicare, Medi-Cal and other publicly sponsored programs for the years ended August 31, 2019 and 2018 were \$1.1 billion and \$976.2 million for SHC, and \$296.2 million and \$298.1 million for LPCH, respectively.

### Provider Fee

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

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

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

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

## 14. Gifts and Pledges

Gifts and pledges reported for financial statement purposes are recorded on the accrual basis. The Office of Development (OOD), which is the primary fundraising agent for the University and SHC, reports total gifts based on contributions received in cash or property during the fiscal year. Lucile Packard Foundation for Children's Health (LPFCH) is the primary community fundraising agent for LPCH and the pediatric faculty and programs at the University's SOM. The following summarizes gifts and pledges reported for the years ended August 31, 2019 and 2018, per the *Consolidated Statements of Activities*, in thousands of dollars:

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

## 15. Functional Expenses

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

Major functional categories consist of the following:

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

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

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

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

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

## 16. University Retirement Plans

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

### **DEFINED CONTRIBUTION PLAN**

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

### **DEFINED BENEFIT PLANS**

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

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

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

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

#### **Faculty Retirement Incentive Program**

The University provides a retirement incentive bonus for eligible faculty through the University *Faculty Retirement Incentive Program* (FRIP). The University's faculty may become eligible for the FRIP program if they commit to retire within a designated window of time. At August 31, 2019 and 2018, there were no program assets. The University funds benefit payouts as they are incurred.

#### **Postretirement Benefit Plan**

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



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

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

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

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

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

Cumulative amounts recognized in non-operating activities, but not yet recognized in net periodic benefit expense in the *Consolidated Statements of Activities*, are presented in the following table for the years ended August 31, 2019 and 2018, in thousands of dollars:

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

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

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

### ACTUARIAL ASSUMPTIONS

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

	SRAP		FRIP		PRBP	
	2019	2018	2019	2018	2019	2018
<b>BENEFIT OBLIGATIONS</b>						
Discount rate	2.78%	4.00%	2.82%	4.02%	3.06%	4.16%
Covered payroll growth rate	3.00%	3.00%	4.25%	4.26%	N/A	N/A
<b>NET PERIODIC BENEFIT COST</b>						
Discount rate	4.00%	3.42%/3.53%*	4.02%	3.44%	4.16%	3.78%
Expected returns on plan assets	5.00%	5.50%	N/A	N/A	6.50%	6.50%
Covered payroll growth rate	3.00%	3.00%	4.26%	4.26%	N/A	N/A

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

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

component of non-operating activities and amortized as a component of net periodic benefit expense (income) over the service or life expectancy of the plan participants, depending on the plan, provided such amounts exceed the accounting standards threshold.

To determine the accumulated PRBP obligation at August 31, 2019, a 6.25% annual rate of increase in the per capita cost of covered health care was assumed for calendar year 2019, declining gradually to 4.50% by 2038 and remaining at this rate thereafter.

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

	1% INCREASE IN HEALTH CARE COST TREND RATE		1% DECREASE IN HEALTH CARE COST TREND RATE	
Effect on PRBP total service and interest cost	\$	8,763	\$	(6,706)
Effect on accumulated PRBP obligation	\$	129,855	\$	(101,758)

### EXPECTED CONTRIBUTIONS

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

### EXPECTED BENEFIT PAYMENTS

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

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

## INVESTMENT STRATEGY

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

## CONCENTRATION OF RISK

The University manages a variety of risks, including market, credit, and liquidity risks, across its plan assets. Concentration of risk is defined as an undiversified exposure to one of the above-mentioned risks that increases the exposure of the loss of plan assets unnecessarily. Risk is minimized by predominately investing in broadly diversified index funds for public equities and fixed income. As of August 31, 2019, the University did not have concentrations of risk in any single entity, counterparty, sector, industry or country.

## PLAN ASSETS AND ALLOCATIONS

Current U.S. GAAP defines a hierarchy of valuation inputs for the determination of the fair value of plan assets as described in *Note 6*. As of August 31, 2019 and 2018, all of the assets of the PRBP and substantially all of the assets of the SRAP were categorized as Level 1 investments. The fair value of plan assets by asset category, in thousands of dollars, at August 31, 2019 and 2018 and actual allocations and weighted-average target allocations at August 31, 2019 are as follows:

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

## 17. SHC and LPCH Retirement Plans

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

### **DEFINED CONTRIBUTION PLAN**

The Hospitals offer a defined contribution plan to eligible employees. Employer contributions to the defined contribution retirement plan are based on a percentage of participant annual compensation, participant contributions and years of service. SHC and LPCH contributions under the plan, which are vested immediately to participants, were approximately \$112.1 million and \$111.4 million, and \$44.3 million and \$42.7 million for the years ended August 31, 2019 and 2018, respectively.

### **DEFINED BENEFIT PLANS**

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

#### **Staff Pension Plan**

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

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

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

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

#### **Frozen Pension Plan**

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

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

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

\* Net of Medicare subsidy of \$289 thousand

The net liability for the PRMB includes amounts for both SHC and LPCH employees and is recognized on the Hospitals' respective *Statements of Financial Position*. The table below presents the plan obligations for each entity as of August 31, 2019 and 2018, in thousands of dollars:

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

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



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

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

The net periodic benefit expense and amounts recognized in non-operating activities for the PRMB include amounts for both SHC and LPCH employees and is recognized on the Hospitals' respective *Statements of Activities*. The table below presents the amount for each entity as of August 31, 2019 and 2018, in thousands of dollars:

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

Cumulative amounts recognized in non-operating activities, but not yet recognized in net periodic benefit expense in the *Consolidated Statements of Activities*, are presented in the following table for the years ended August 31, 2019 and 2018, in thousands of dollars:

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

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

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

## ACTUARIAL ASSUMPTIONS

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

	STAFF PENSION PLAN		PRMB		LPCH FROZEN PENSION PLAN	
	2019	2018	2019	2018	2019	2018
<b>BENEFIT OBLIGATIONS</b>						
Discount rate	2.88%	4.07%	2.77%	3.96%	2.80%	4.01%
Covered payroll growth rate	3.00%	3.00%	N/A	N/A	N/A	N/A
<b>NET PERIODIC BENEFIT COST</b>						
Discount rate	4.07%	3.56%	3.96%	3.33%	4.01%	3.46%
Expected return on plan assets	5.50%	6.00%	N/A	N/A	4.50%	5.00%
Covered payroll growth rate	3.00%	3.00%	N/A	N/A	N/A	N/A

The expected long-term rate of return on asset assumptions for the Pension Plan and LPCH Frozen Pension Plan are 5.50% and 4.50%, respectively. The assumption is used in determining the expected returns on plan assets, a component of net periodic benefit expense (income), representing the expected return for the upcoming fiscal year on plan assets based on the calculated market-related value of plan assets. This assumption is developed based on future expectations for returns in each asset class, as well as the target asset allocation of the portfolios. The use of expected long-term returns on plan assets may result in income that is greater or less than the actual returns of those plan assets in any given year. Over time, however, the expected long-term returns are designed to approximate the actual long-term returns, and therefore result in a pattern of income and cost recognition that more closely matches the pattern of the services provided by the employees. Differences between actual and expected returns are recognized as a component of non-operating activities and amortized as a component of net periodic benefit expense (income) over the service or life expectancy of the plan participants, depending on the plan, provided such amounts exceed the accounting standards threshold.

To determine the accumulated PRMB obligation at August 31, 2019, a 6.25% annual rate of increase in the per capita cost of covered health care was assumed for calendar year 2019, declining gradually to 4.50% by 2038 and remaining at this rate thereafter.

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

	1% INCREASE IN HEALTH CARE COST TREND RATE		1% DECREASE IN HEALTH CARE COST TREND RATE	
Effect on PRMB total service and interest cost	\$	116	\$	(121)
Effect on accumulated PRMB obligation	\$	2,131	\$	(2,110)

## EXPECTED CONTRIBUTIONS

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

### EXPECTED BENEFIT PAYMENTS

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

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

### INVESTMENT STRATEGY

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

### CONCENTRATION OF RISK

SHC and LPCH manage a variety of risks, including market, credit, and liquidity risks, across its plan assets. Concentration of risk is defined as an undiversified exposure to one of the above-mentioned risks that increases the exposure of the loss of plan assets unnecessarily. Risk is minimized by diversifying the Hospitals' exposure to such risks across a variety of instruments, markets, and counterparties. As of August 31, 2019, the Hospitals did not have concentrations of risk in any single entity, counterparty, sector, industry or country.

### PLAN ASSETS AND ALLOCATIONS

Current U.S. GAAP defines a hierarchy of valuation inputs for the determination of the fair value of plan assets as described in Note 6. The Plans' assets measured at fair value at August 31, 2019 and 2018, are all categorized as Level 1 investments. The fair value of plan assets by asset category, in thousands of dollars, at August 31, 2019 and 2018 and actual allocations and weighted-average target allocations at August 31, 2019 are as follows:

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

## 18. Operating Leases

Stanford leases certain equipment and facilities under operating leases expiring at various dates. Total rental expense under these leases for the years ended August 31, 2019 and 2018 was \$89.8 million and \$79.7 million, respectively, for the University, \$122.6 million and \$116.3 million, respectively, for SHC, and \$30.7 million and \$28.6 million, respectively, for LPCH.

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

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

## 19. Related Party Transactions

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

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

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

## 20. Commitments and Contingencies

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

### **SPONSORED SUPPORT**

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

### **HEALTH CARE**

As described in *Note 13*, cost reports filed under the Medicare program for services based upon cost reimbursement are subject to audit. The estimated amounts due to or from the program are reviewed and adjusted annually based upon the status of such audits and subsequent appeals.

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

### **INFORMATION PRIVACY AND SECURITY**

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

### **LABOR AGREEMENTS**

Approximately 7% of the University's, 29% of SHC's and 43% of LPCH's employees are covered under union contract arrangements and are, therefore, subject to labor stoppages when contracts expire. There are currently no expired contracts under these union contract arrangements. The University's agreements with the Stanford Deputy Sheriffs' Association and the Service Employees International Union (SEIU) will expire in 2020 and 2024, respectively. SHC's and LPCH's agreements with SEIU and the Committee for Recognition of Nursing Achievement (CRONA) will expire in 2020 and 2022, respectively.

## **GUARANTEES AND INDEMNIFICATIONS**

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

## **LITIGATION**

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

## **MEDICAL CENTER RENEWAL PROJECT**

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

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

The sources of funding for the Renewal Project include operating surpluses, gifts, government grants, and bond proceeds. During the year ended August 31, 2018, LPCH opened the majority of their new expanded facilities and expects to complete the remaining components of its portion of the Renewal Project in fiscal year 2020. SHC's share of the estimated total cost of the Renewal Project is \$2.2 billion and construction was completed in the fall of 2019. Through August 31, 2019, SHC has recorded \$2.1 billion in construction in progress, exclusive of \$180.0 million in capitalized interest.

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

## **CONTRACTUAL COMMITMENTS**

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

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

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

## 21. Subsequent Events

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

### **IMPACT OF COVID-19 (UNAUDITED)**

The outbreak of COVID-19 has caused domestic and global disruption in operations that may materially affect the ability of the University to conduct its operations. In addition, COVID-19 has negatively impacted the financial markets and may continue to materially affect the value of the University's investments and other revenue streams. The full impact of COVID-19 on the University's operations cannot be fully determined at this time.

## 22. Consolidating Entity Statements

The pages which follow present consolidating statements of financial position as of August 31, 2019 and 2018, and consolidating statements of activities and cash flows for the years then ended, in thousands of dollars.



# **CONSOLIDATING STATEMENTS OF FINANCIAL POSITION**

*At August 31, 2019 (in thousands of dollars)*

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

# **CONSOLIDATING STATEMENTS OF FINANCIAL POSITION**

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

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

## CONSOLIDATING STATEMENTS OF ACTIVITIES

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

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

# **CONSOLIDATING STATEMENTS OF ACTIVITIES, Continued**

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

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

## CONSOLIDATING STATEMENTS OF ACTIVITIES

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

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

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

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

## CONSOLIDATING STATEMENTS OF CASH FLOWS

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

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

## CONSOLIDATING STATEMENTS OF CASH FLOWS

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

	UNIVERSITY	SHC	LPCH	ELIMINATIONS	CONSOLIDATED
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>					
Change in net assets	\$ 2,192,219	\$ 456,616	\$ 22,680	\$ (18,093)	\$ 2,653,422
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:					
Depreciation	380,142	176,595	99,367	—	656,104
Amortization of bond premiums, discounts and other	(14,896)	(3,839)	(2,846)	—	(21,581)
Provision for doubtful accounts for health care services	—	57,437	5,660	—	63,097
Losses on disposal of plant facilities	4,350	—	—	—	4,350
Net gains on investments	(2,683,987)	(123,731)	(38,216)	—	(2,845,934)
Change in fair value of interest rate swaps	(10,654)	(63,439)	—	—	(74,093)
Change in split-interest agreements	44,626	—	353	—	44,979
Investment income for restricted purposes	(12,413)	—	—	—	(12,413)
Gifts restricted for long-term investments	(232,520)	(37,958)	(71,032)	—	(341,510)
Equity and fund transfers, net	(123,619)	93,938	29,681	—	—
Gifts of securities and properties	(31,093)	—	—	—	(31,093)
Loss on extinguishment of debt	—	47,613	—	—	47,613
Other	32,140	1,909	—	—	34,049
Premiums received from bond issuance	—	76,138	—	—	76,138
Changes in operating assets and liabilities:					
Accounts receivable	(9,697)	(82,765)	(6,589)	—	(99,051)
Pledges receivable, net	(31,016)	2,684	13,767	—	(14,565)
Prepaid expenses and other assets	578	(13,877)	(18,095)	—	(31,394)
Accounts payable and accrued expenses	10,345	64,535	66,743	—	141,623
Accrued pension and postretirement benefit obligations	(45,537)	(50,772)	(1,474)	—	(97,783)
Deferred income and other obligations	18,566	93,620	—	—	112,186
<b>NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES</b>	<b>(512,466)</b>	<b>694,704</b>	<b>99,999</b>	<b>(18,093)</b>	<b>264,144</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>					
Additions to plant facilities, net	(1,133,180)	(474,735)	(271,391)	—	(1,879,306)
Change in assets limited as to use	194,376	58,134	33,096	—	285,606
Student, faculty and other loans:					
New loans made	(121,949)	—	—	—	(121,949)
Principal collected	69,831	—	—	—	69,831
Purchases of investments	(12,054,658)	(605,959)	(12,502)	17,987	(12,655,132)
Sales and maturities of investments	13,095,901	47,262	14,570	—	13,157,733
Sales (purchases) of investments with securities lending collateral, net	271,647	—	—	—	271,647
Change associated with short term investments	246,599	—	—	—	246,599
Swap settlement payments, net	—	(15,393)	—	—	(15,393)
<b>NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES</b>	<b>568,567</b>	<b>(990,691)</b>	<b>(236,227)</b>	<b>17,987</b>	<b>(640,364)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>					
Gifts and reinvested income for restricted purposes	297,548	40,747	53,658	—	391,953
Equity and fund transfers from Hospitals	100,718	(70,875)	(29,843)	—	—
Proceeds from borrowing	293,471	954,200	—	—	1,247,671
Repayment of notes and bonds payable	(398,371)	(679,331)	(5,801)	—	(1,083,503)
Bond issuance costs and interest rate swaps	—	(6,783)	—	—	(6,783)
Contributions received for split-interest agreements	29,561	—	—	—	29,561
Payments made under split-interest agreements	(42,630)	—	—	—	(42,630)
Securities lending collateral (sold) received, net	(271,647)	—	—	—	(271,647)
Change in liabilities associated with investments	(71,322)	—	—	—	(71,322)
Other	11,993	176	—	—	12,169
<b>NET CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES</b>	<b>(50,679)</b>	<b>238,134</b>	<b>18,014</b>	<b>—</b>	<b>205,469</b>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>5,422</b>	<b>(57,853)</b>	<b>(118,214)</b>	<b>(106)</b>	<b>(170,751)</b>
Cash and cash equivalents, beginning of year	260,373	710,109	406,683	(7,047)	1,370,118
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 265,795</b>	<b>\$ 652,256</b>	<b>\$ 288,469</b>	<b>\$ (7,153)</b>	<b>\$ 1,199,367</b>
<b>SUPPLEMENTAL DATA:</b>					
Interest paid, net of capitalized interest	\$ 154,654	\$ 33,033	\$ 14,750	\$ —	\$ 202,437
Cash collateral received under security lending agreements	\$ 77,137	\$ —	\$ —	\$ —	\$ 77,137
Change in payables for plant facilities	\$ 75,031	\$ 111,562	\$ 10,615	\$ —	\$ 197,208



## 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 will be issued 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 such language as in 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 (i) \$1,000 and integral multiples thereof with respect to Bonds sold outside of Korea and (ii) \$3,000,000 and integral multiples thereof with respect to Bonds sold in Korea.

*“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 sent to 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 2020 A 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, which form or system is maintained by and the responsibility of others than the Institution or the Trustee and 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” or “Request” of the Institution* mean, respectively, a written certificate, statement or request 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.

“*Comparable Treasury Issue*” means the United States Treasury security or securities selected by a Designated Investment Banker as having an actual or interpolated maturity comparable to the remaining term of the Bonds to be redeemed that would be used, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of a comparable maturity to the remaining term of such Bonds.

“*Comparable Treasury Price*” means, with respect to any redemption date, the average of the Primary Treasury Dealer Quotations for such redemption date or, if the Designated Investment Banker obtains only one Primary Treasury Dealer Quotation, such Primary Treasury Dealer Quotation.

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

“*Designated Investment Banker*” means a Primary Treasury Dealer appointed by the Institution.

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

“*Electronic Means*” means the following communications methods: e-mail, facsimile transmission, secure electronic transmission containing applicable authorization codes, passwords and/or authentication keys issued by the Trustee, or another method or system specified by the Trustee as available for use in connection with its services hereunder.

“*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, and any successor to its securities rating agency business, 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 such 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 June 1 and December 1 of each year, commencing on December 1, 2020.

*“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 values 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 redemption date), discounted to the redemption date on a semi-annual basis assuming a 360-day year consisting of twelve 30-day months at the adjusted Treasury Rate plus 15 basis points plus, in each case, accrued and unpaid interest on such Bonds to, but excluding, the redemption date.

*“Moody’s”* means Moody’s Investors Service, Inc., a corporation organized and existing under the laws of the State of Delaware, and any successor to its securities rating agency business, 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.

*“Opinion of Counsel”* means a written opinion of counsel (which may be subject to customary assumptions and exclusions) from legal counsel who is reasonably acceptable to the Trustee. Such counsel may be an employee of, or outside counsel to, the Institution.

*“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.

*“Par Call Date”* means April 1, 2027 with respect to the Bonds maturing on June 1, 2027 and December 1, 2049 with respect to the Bonds maturing on June 1, 2050.

*“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.

*“Primary Treasury Dealer”* means one or more entities appointed by the Institution, which, in each case, is a primary U.S. Government securities dealer in The City of New York, New York, and its or their respective successors.

*“Primary Treasury Dealer Quotations”* means, with respect to each Primary Treasury Dealer and any redemption date, the average, as determined by the Designated Investment Banker, of the bid and ask prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Designated Investment Banker by such Primary Treasury Dealer at 3:30 p.m. New York time on the third Business Day preceding such redemption date.

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

*“Principal Payment Date”* means the date of maturity of the Bonds: June 1, 2027 and June 1, 2050, as applicable.

*“Rating Agency”* means any of 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.

*“Redemption Price”* means 100% of the principal amount of the Bonds to be redeemed, plus accrued and unpaid interest on the Bonds to be redeemed to, but excluding, the redemption date.

*“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, in each case, having direct responsibility for the administration of the Indenture.

*“S&P”* means S&P Global Ratings, a corporation organized and existing under the laws of the State of New York, and any successor to its securities rating agency business, 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, with respect to any redemption date, the rate per annum equal to (i) the semiannual equivalent yield to maturity or (ii) if no such semiannual equivalent yield to maturity is available, the interpolated yield to maturity (on a day count basis) of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

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

“*Underwriters*” means Goldman Sachs & Co. LLC, J.P. Morgan Securities LLC, Morgan Stanley & Co. LLC and Barclays Capital Inc.

“*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, Redemption Price 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, Redemption Price 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, Redemption Price 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 past, present or future employee, agent or officer of the Institution or of any successor entity, either directly or through any successor entity, whether by 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 University plans to use the proceeds of the Bonds for general University purposes.

*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 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 and unpaid 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 Redemption Price or 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 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 promptly 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.

### **Additional Bonds**

The Institution may, from time to time, without the consent of the Bondholders, issue additional bonds under this Indenture in addition to the Bonds (the “Additional Bonds”). If issued, the Additional Bonds will have the same interest rate, redemption provisions and maturity date as the Bonds.

### **Redemption of Bonds**

*Terms of Redemption.* On or after the applicable Par Call Date, the Bonds are subject to optional redemption prior to maturity, in whole or in part, at the written direction of the Institution to the Trustee. Such redemption shall be in accordance with the terms of the Bonds as directed by the Institution, at the Redemption Price, as described in the Bonds. Prior to the applicable Par Call Date, the Bonds are also subject to optional redemption prior to maturity, in whole or in part, at the written direction of the Institution to the Trustee. Such redemption shall be in accordance with the terms of the Bonds as directed by the Institution, at the Make-Whole Redemption Price, as described in the Bonds. The Institution shall retain an independent accounting firm or an independent financial advisor to determine the Make-Whole Redemption Price of the Bonds to be redeemed and perform all actions and make all calculations required to determine such Make-Whole Redemption Price. The Make-Whole Redemption Price will be calculated by an independent accounting firm or financial advisor retained by the Institution at its expense. The Trustee and the Institution may conclusively rely on such accounting firm’s or financial

advisor's calculations in connection with, and its determination of, the Make-Whole Redemption Price, and neither the Trustee nor the Institution shall have any liability for such reliance. The determination of the Make-Whole Redemption Price by such accounting firm or financial advisor shall be conclusive and binding on the Trustee, the Institution and the Holders of the Bonds. The Bonds are redeemable prior to maturity at the written direction of the Institution to the Trustee not less than five (5) Business 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.

*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 the customary procedures and operational arrangements of the Securities Depository then in effect, but, if such operational arrangements 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 the customary procedures of the Securities Depository, by lot.

The Institution intends that redemption allocations made by the Securities Depository be made on a pro rata pass-through distribution of principal basis as described above. However, neither the Institution nor the Underwriters can provide any assurance that the Securities Depository, the Securities Depository's direct and indirect participants or any other intermediary will allocate the redemption of the Bonds on such basis.

In connection with any repayment of principal, the Trustee will direct the Securities Depository to make a pro rata pass-through distribution of principal to the holders of the Bonds in amounts to be determined in accordance with Securities Depository procedures in effect from time to time.

For purposes of calculation of the pro rata pass-through distribution of principal, "pro rata," means, for any amount of principal to be paid, the application of a fraction to each denomination of the respective Bonds where (a) the numerator is equal to the amount due to the respective bondholders on a payment date, and (b) the denominator is equal to the total original par amount of the respective Bonds.

If the Bonds are no longer registered in book-entry-only form, each owner will receive an amount of Bonds equal to the original face amount then beneficially held by that owner, registered in such investor's name. Thereafter, any redemption of less than all of the Bonds will continue to be paid to the registered owners of such Bonds on a pro-rata basis, based on the portion of the original face amount of any such Bonds to be redeemed.

*Notice of Redemption.* Notice of redemption shall be sent by the Trustee by first class mail or using Electronic Means 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 Redemption Price or Make-Whole Redemption Price, as applicable, the place or places of redemption (including the name and appropriate address or addresses of the Trustee), the maturity, the 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 such date, there will become due and



payable on each such Bond the Redemption Price or Make-Whole Redemption Price (as applicable) thereof, or such 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 the Bonds shall be given to the applicable Holders 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 send 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 in part.

*Effect of Redemption.* Moneys for payment of the Redemption Price or Make-Whole Redemption Price of the Bonds (or portion thereof called for redemption in accordance with the Indenture) shall be held by the Trustee, and, if any conditions specified in the notice of redemption have been satisfied, paid 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 Redemption Price or Make-Whole Redemption Price specified in such notice, interest on the Bonds so called for redemption shall cease to accrue and such Bonds (or portion thereof) shall cease to be entitled to any benefit or security under the Indenture, and the Holders of such Bonds shall have no rights in respect thereof except to receive the payment of such Redemption Price or 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, in the principal amount of the Bonds. 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 shall be executed and delivered in the principal amount of the Bonds, 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 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 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, Redemption Price 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.

In connection with any proposed transfer outside the Book-Entry Only system, the Institution or the Securities Depository shall provide or cause to be provided to the Trustee all information necessary to allow the Trustee to comply with any applicable tax reporting obligations, including without limitation any cost basis reporting obligations under Internal Revenue Code Section 6045. The Trustee may rely on the information provided to it and shall have no responsibility to verify or ensure the accuracy of such information.

## **Particular Covenants**

*Punctual Payment.* The Institution shall punctually pay the principal, Redemption Price or Make-Whole Redemption Price and interest to become due in respect of all the Bonds, in compliance with the

terms of the Bonds and the Indenture. When and as paid in full, all Bonds shall be delivered to the Trustee and shall thereafter 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 and perform the transactions hereunder in the manner and to the extent provided in the Indenture. The Bonds are and will be the 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 such obligations and all the rights of the Bondholders under the Indenture against all claims and demands of all Persons, 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 furnish to 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, Redemption Price 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 any covenant, agreement or condition a default in the performance or observance of which is specifically dealt with elsewhere in the Indenture), 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 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 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, Redemption Price or Make-Whole Redemption Price of, and overdue interest on, 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 cured to the reasonable satisfaction of the Trustee or provision reasonably 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 the 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, Redemption Price 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, Redemption Price 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, Redemption Price 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 Holders shall have offered to the Trustee indemnity reasonably 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 such offer of indemnity shall have been made to, the Trustee.

Such notification, request, offer 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, Redemption Price or Make-Whole Redemption Price of and interest on the Bonds to the respective Holders of the Bonds at their date 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 pursuant to the terms of 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, Redemption Price 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, Redemption Price 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; *provided, further*, that in the case of any Default as 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 Redemption Price or Make-Whole Redemption Price, as applicable) 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 and its agents, including reasonable and documented fees and expenses 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 and its agents, including reasonable and documented fees and expenses 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 as 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 of 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 of 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 provided to 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 redemption price or 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 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 of 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, 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 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 such 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 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 in a manner 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. Prior to the Trustee entering into any such Supplemental Indenture, the Institution shall deliver to the Trustee an Opinion of Counsel stating, in substance, that such Supplemental Indenture has been adopted in compliance with the requirements of the Indenture.

*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, Redemption Price 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 satisfied and discharged and the Bonds shall be deemed paid. In such event, upon the request of the Institution, the Trustee shall promptly cause an accounting for such period or periods as may be requested by the Institution to be prepared and sent to the Institution and shall execute and deliver to the Institution all such instruments as may be necessary to evidence such satisfaction and discharge, 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 that 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 reasonably 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, Redemption Price 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, substitute defeasance securities, and purchase of Bonds by the Institution..

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, Redemption Price 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, Redemption Price or 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 of 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.

*Substitute Defeasance Securities.* At the written Request of the Institution, and upon compliance with the conditions set forth below, the Trustee shall redeem, sell, transfer or otherwise dispose of any Investment Securities held by the Trustee and purchase substitute Investment Securities, as identified by the Institution, in principal amounts and bearing interest at rates such that the principal of and interest on such substitute Investment Securities to be purchased, together with the principal of and interest on any securities then held by the Trustee that are not to be redeemed, sold, transferred or otherwise disposed of, shall be sufficient to pay the principal, Redemption Price or Make-Whole Redemption Price and interest as the same become due. The Trustee shall purchase such substitute Investment Securities with the proceeds derived from the redemption, sale, transfer, or other disposition on the date of such transaction. The transactions may be consummated only if the Trustee shall have received (i) a report prepared by a firm of independent, certified public accountants selected by the Institution who are recognized on a nationwide basis for skill and expertise in the preparation of such verifications confirming that the amounts of moneys and investments remaining after such payment will mature and will earn interest in such amounts and at such times so that sufficient moneys will be available to pay when due all outstanding installments of interest on and principal, Redemption Price and Make-Whole Redemption Price of the Bonds; and (ii) an Opinion of Counsel selected by the Institution to the effect that such substitution of Investment Securities is permitted under this Indenture. If, following any such substitution of Investment Securities, the funds held by the Trustee contain moneys that will not be required for the payment of installments of interest on and principal, Redemption Price or Make-Whole Redemption Price of the Bonds, the Institution may direct that such excess moneys be promptly paid over to the Institution.

*Purchase of Bonds by Institution.* The Institution may purchase the Bonds on the open market and tender them to the Trustee for cancellation at any time. If, following any such tender of Bonds by the Institution, the funds held by the Trustee contain moneys that will not be required for the payment of installments of interest on and principal, Redemption Price or Make-Whole Redemption Price of the Bonds, the Institution may direct that such excess moneys be promptly paid over to the Institution; provided, however, that (i) the Trustee and the Institution shall, at the expense of the Institution, confirm by a mathematical verification prepared by a firm of independent, certified public accountants selected by the Institution who are recognized on a nationwide basis for skill and expertise in the preparation of such verifications that the amounts of moneys and investments remaining after such payment will mature and will earn interest in such amounts and at such times so that sufficient moneys will be available to pay when due all outstanding installments of interest on and principal, Redemption Price and Make-Whole Redemption Price of the Bonds; and (ii) the Trustee shall have received an Opinion of Counsel selected by the Institution to the effect that such purchase, tender and cancellation is permitted under this Indenture.

### **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**

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, Redemption Price 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.

[THIS PAGE INTENTIONALLY LEFT BLANK]

## **APPENDIX C**

### **PROPOSED FORM OF OPINION OF COUNSEL TO THE UNIVERSITY**

[Closing Date]

Goldman Sachs & Co. LLC  
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 \$750,000,000 aggregate principal amount of Stanford University Taxable Bonds Series 2020 A (the “Bonds”).

We have examined executed copies of the Indenture of Trust dated as of June 1, 2020 (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 reviewed such other documents and have made such investigation of fact and such examination of law as we have deemed appropriate in order to enable us to render the opinions set forth herein.

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 and subject to the foregoing, and the qualifications and limitations set forth below, we are of the opinion that:

1. The Indenture constitutes the valid and binding obligation of the University, enforceable against the University in accordance with its terms.

2. The Bonds have been duly authorized and executed and, assuming the due authentication of the Bonds by the Trustee in the manner provided for in the Indenture, when delivered against payment of the agreed upon consideration, the Bonds will constitute valid and binding obligations of the University, enforceable against the University in accordance with their terms.

Our opinions are subject to (i) bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and similar laws affecting the rights and remedies of creditors and secured parties generally and (ii) general principles of equity. 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 forth in this Appendix D is subject to any change in or reinterpretation of the rules, regulations and procedures of DTC, Euroclear or Clearstream Banking (DTC, Euroclear and Clearstream Banking together, the “Clearing Systems”) currently in effect. The information set forth in this Appendix D 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, completeness or adequacy of the information in this section. 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.*

NEITHER THE UNIVERSITY NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATIONS TO DIRECT PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE PAYMENTS TO OR THE PROVIDING OF NOTICE FOR DIRECT 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.

#### **DTC Book-Entry Only System**

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. One fully registered Bond certificate will be issued for the Bonds in their aggregate principal amount and will be deposited with DTC.

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. This eliminates 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](http://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 the 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. Subject to the provisions described in the forepart under the heading "THE BONDS – Selection of Bonds for Redemption," if less than all of the Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such Bonds to be redeemed.

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).

Payments of principal, Redemption Price and Make-Whole Redemption Price and interest payments 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 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, Redemption Price, 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 by giving reasonable notice to the University or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, such Bond certificates are required to be printed and delivered. 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 OR 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.**

So long as Cede & Co. is the registered owner of the Bonds, as nominee for DTC, references herein to Bondholders or registered owners of the Bonds shall mean Cede & Co. and shall not mean the Beneficial Owners of 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.

The University, in its sole discretion and without the consent of any other person, may terminate the services of DTC with respect to the Bonds if the University determines that (i) DTC is unable to discharge its responsibilities with respect to the Bonds, or (ii) a continuation of the requirement that all of the outstanding Bonds be registered in the registration books kept by the Trustee in the name of Cede & Co., as nominee of DTC, is not in the best interests of the Beneficial Owners.

**NONE OF THE UNIVERSITY, THE UNDERWRITERS OR 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 INDENTURE; (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, REDEMPTION PRICE OR MAKE-WHOLE REDEMPTION PRICE, 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.**

## **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 Direct 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 DTC 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 DTC, Euroclear and Clearstream Banking.

### **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). Direct 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. Direct 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 DTC, Euroclear and Clearstream Banking. Title to such book-entry interests will pass by registration of the transfer within the records of DTC, Euroclear or Clearstream Banking, as the case may be, in accordance with their respective procedures. Book-entry interests in the Bonds may be transferred within DTC in accordance with procedures established for this purpose by DTC. 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. Transfer of book-entry interests in the Bonds between DTC, Euroclear or Clearstream Banking may be effected in accordance with procedures established for this purpose by DTC, Euroclear and Clearstream Banking.

### **General**

None of DTC, Euroclear or Clearstream Banking is under any obligation to perform or continue to perform the procedures referred to above, and such procedures may be discontinued at any time.

None of the University, the Trustee or the Underwriters will have any responsibility for the performance by DTC, Euroclear or Clearstream Banking or their respective direct or indirect participants or account holders of their respective obligations under the rules and procedures governing their operations or the arrangements referred to above.

**The information in this Appendix D concerning DTC, Euroclear and Clearstream Banking has been obtained from sources that the Underwriters believe to be reliable, but the Underwriters take no responsibility for the accuracy thereof or make any representation as to the completeness or the accuracy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof.**

[THIS PAGE INTENTIONALLY LEFT BLANK]



