

PRICING SUPPLEMENT NO. 1 TO OFFERING CIRCULAR DATED JUNE 10, 1996  
AND OFFERING CIRCULAR SUPPLEMENT DATED JUNE 10, 1996

**\$50,000,000**  
**Stanford University**  
**7.65% Notes due June 15, 2026**



**FILE COPY**

Interest on the 7.65% Notes due June 15, 2026 offered hereby (the "Notes") will be payable semiannually on June 15 and December 15 of each year, commencing December 15, 1996. The Notes may be redeemed by the Leland Stanford Junior University (the "University") at any time at the University's option at the Make Whole Redemption Amount as described under "Certain Terms of the Notes — Redemption" herein.

The Notes are part of the series of debt securities of the University described in the University's Offering Circular dated June 10, 1996, as supplemented by an Offering Circular Supplement dated June 10, 1996. *The Notes are not tax-exempt. See "Certain United States Federal Income Tax Consequences" in the accompanying Offering Circular Supplement.*

**THE NOTES CONSTITUTE UNCONDITIONAL, DIRECT AND GENERAL OBLIGATIONS OF THE UNIVERSITY, RANKING EQUALLY WITH THE UNSECURED AND UNSUBORDINATED INDEBTEDNESS OF THE UNIVERSITY. SEE "DESCRIPTION OF DEBT SECURITIES — GENERAL" IN THE ACCOMPANYING OFFERING CIRCULAR.**

**THE NOTES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY STATE SECURITIES LAWS AND ARE BEING OFFERED PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION.**

	<u>Price to Public (1)</u>	<u>Underwriter's Commissions</u>	<u>Proceeds to University (1) (2)</u>
Per Note .....	100%	.875%	99.125%
Total .....	\$50,000,000	\$437,500	\$49,562,500

(1) Plus accrued interest, if any, from June 14, 1996 to date of delivery.

(2) Before deduction of offering expenses for the account of the University.

The Notes offered by this Pricing Supplement are offered by the Underwriter, as specified herein, subject to receipt and acceptance by the Underwriter and subject to the Underwriter's right to reject any order in whole or in part. It is expected that delivery of the Notes will be made in book-entry form only through the facilities of The Depository Trust Company, on or about June 14, 1996, against payment therefor in immediately available funds.

**Goldman, Sachs & Co.**

The date of this Pricing Supplement is June 10, 1996.

**IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SECURITIES OFFERED HEREBY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.**

### **USE OF PROCEEDS**

The University intends to use the net proceeds of the offering of the Notes for capital projects, including new construction and major renovations in support of the University's academic program initiatives, seismic strengthening program and deferred maintenance and infrastructure enhancement programs. See "The Stanford Campus and Other Real Property - Capital Improvement Programs" in Appendix A to the accompanying Offering Circular.

### **CERTAIN TERMS OF THE NOTES**

The following description of the particular terms of the Notes supplements, and to the extent inconsistent therewith supersedes, the descriptions of the general terms and provisions of the series of debt securities of the University designated "Medium-Term Notes, Series A" (the "Medium-Term Notes") set forth under "Description of Notes" in the accompanying Offering Circular Supplement and under "Description of Debt Securities" in the accompanying Offering Circular. Certain capitalized terms used herein without definition are defined in such Offering Circular and Offering Circular Supplement.

The Notes will mature on June 15, 2026. The Interest Payment Dates for the Notes will be June 15 and December 15, commencing December 15, 1996. The Regular Record Date with respect to any Interest Payment Date will be the June 1 or December 1, as the case may be, immediately preceding such Interest Payment Date. The Original Issue Date for each of the Notes will be June 14, 1996. The Notes will be issued in global form. All principal of and interest on the Notes will be payable in U.S. Dollars. The interest rate on the Notes is not subject to reset by the University, the Notes are not subject to repayment at the option of the Holder, and the Stated Maturity is not subject to extension by the University. The Notes are redeemable at the option of the University. See "—Redemption" below. The Notes will not be "Amortizing Notes," "Original Issue Discount Notes" or "Reset Notes."

### **Redemption**

The Notes will be subject to redemption in a whole or in part, at any time, at the option of the University, upon not less than 30 days and not greater than 60 days notice as provided in the Notes, at a price equal to the Make Whole Redemption Amount (as defined below) plus accrued interest to the redemption date. Unless the University defaults in payment of the redemption price, on and after the redemption date interest will cease to accrue on the Notes or portions thereof called for redemption.

The term "Make Whole Redemption Amount" is defined to mean, as of the redemption date, the net present value of the remaining scheduled principal and interest payments on the Notes (less accrued interest to the redemption date) discounted to such redemption date on a semiannual basis at the Treasury Yield (as defined below). The Make Whole Redemption Amount of a Note may be less than or more than the principal amount of the Note depending on the relationship between the interest rate on the Note and the Treasury Yield.

The Make Whole Redemption Amount will be calculated by an independent investment banking institution of national standing appointed by the University; provided, however, that if the University fails to

make such appointment at least ten (10) days prior to the redemption date, or if the institution so appointed is unwilling or unable to make such calculation, such calculation will be made by Goldman, Sachs & Co., or, if such firm is unwilling or unable to make such calculation, by an independent investment banking institution of national standing appointed by the Issuing and Paying Agent (in any such case the "Independent Investment Banker").

For purposes of determining the Make Whole Redemption Amount, "Treasury Yield" means a rate of interest per annum, determined by the Independent Investment Banker as of the third Business Day preceding the applicable redemption date (the "Quote Date"), equal to the weekly average yield to maturity of United States Treasury Notes having a constant maturity, as set forth in H.15(519), corresponding to the remaining term of the Notes from the redemption date (calculated to the nearest 1/12 of a year) (the "Remaining Term"), such yield to be calculated by the Independent Investment Banker, by interpolation (unless the Remaining Term of the Notes equals a constant maturity set forth in H.15(519) on a straight-line basis, between the weekly average yields (rounded, if necessary, to the nearest 1/100 of 1% with any figure of 1/200 of 1% or above rounded upward), on (i) the United States Treasury Notes with a constant maturity closest to and greater than the Remaining Term and (ii) the United States Treasury Notes with a constant maturity closest to and less than the Remaining Term, or if such weekly average yields are not available, by interpolation of comparable rates selected by the Independent Investment Banker.

### **PLAN OF DISTRIBUTION**

Subject to the terms and conditions set forth in the Terms Agreement between the University and the Underwriter, and the Distribution Agreement, the University has agreed to sell to Goldman, Sachs & Co. (the "Underwriter"), and the Underwriter has agreed to purchase, the entire principal amount of the Notes.

Under the terms and conditions of the Terms Agreement, the Underwriter is committed to take and pay for all of the Notes, if any are taken.

The Underwriter proposes initially to offer the Notes to the public at the public offering price set forth on the cover page of this Pricing Supplement and to certain securities dealers at such price less a concession not in excess of .50% of the principal amount of the Notes. The Underwriter may allow and such dealers may reallow a concession not in excess of .25% of the principal amount of the Notes to certain brokers and dealers. After the Notes are released for sale to the public, the offering price and other selling terms may from time to time be varied by the Underwriter.

The Underwriter has agreed to pay \$66,667 of the University's expenses in connection with the offering of the Notes.

The Notes are part of a new issue of securities with no established trading market. The University has been advised by the Underwriter that the Underwriter intends to make a market in the Notes but is not obligated to do so and may discontinue market-making at any time without notice. No assurance can be given as to the liquidity of the trading market for the Notes, or that an active trading market for the Notes will develop.

The University has agreed to indemnify the Underwriter against certain liabilities in connection with the offering.

**\$150,000,000**  
**Stanford University**  
**Medium-Term Notes, Series A**  
**due Nine Months or More from Date of Issue**

The Leland Stanford Junior University (the "University") may offer from time to time its Medium-Term Notes, Series A (the "Notes"), having an aggregate initial offering price not to exceed \$150,000,000, subject to reduction under certain circumstances as a result of the sale of other Debt Securities of the University under the Offering Circular to which this Offering Circular Supplement relates. The Notes will be offered in varying maturities of nine months or more from their date of issue and may be subject to redemption at the option of the University or repayment at the option of the Holder, in each case in whole or in part prior to the maturity date (as further defined below, the "Stated Maturity") thereof as set forth in a Pricing Supplement to this Offering Circular Supplement (a "Pricing Supplement"). Each Note will be denominated in U.S. dollars. The Notes may be issued as "Amortizing Notes," "Original Issue Discount Notes," "Reset Notes" or in other forms. See "Description of Notes." The Notes are not tax-exempt. See "Certain United States Federal Income Tax Consequences."

(Continued on next page)

**THE NOTES CONSTITUTE UNCONDITIONAL, DIRECT AND GENERAL OBLIGATIONS OF THE UNIVERSITY, RANKING EQUALLY WITH THE UNSECURED AND UNSUBORDINATED INDEBTEDNESS OF THE UNIVERSITY. SEE "DESCRIPTION OF DEBT SECURITIES — GENERAL" IN THE ACCOMPANYING OFFERING CIRCULAR.**

**THE NOTES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY STATE SECURITIES LAWS AND ARE BEING OFFERED PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION (THE "COMMISSION").**

	<u>Price to Public (1)</u>	<u>Agent's Commissions (2)</u>	<u>Proceeds to University (2) (3)</u>
Per Note .....	100%	.125%-1.125%	99.875%-98.875%
Total .....	\$150,000,000	\$187,500-\$1,687,500	\$149,812,500-\$148,312,500

- (1) Unless otherwise indicated in the applicable Pricing Supplement, Notes will be sold at 100% of their principal amount.
- (2) The University will pay Goldman, Sachs & Co. (the "Agent") a commission ranging from .125% to 1.000% of the principal amount of any Note, sold through the Agent, depending upon its Stated Maturity which may range from nine months to more than fifty years. The Agent, acting as principal, may also purchase Notes at a discount for resale to one or more investors or one or more broker-dealers (acting as principal for purposes of resale) at varying prices related to prevailing market prices at the time of resale, as determined by the Agent, or, if so agreed, at a fixed public offering price. The University will pay the Agent a commission ranging from .125% to 1.125% of any Note sold to the Agent acting as principal, depending upon its Stated Maturity which may range from nine months to more than fifty years. The University has agreed to reimburse the Agent for certain expenses. The University has agreed to indemnify the Agent against certain liabilities in connection with the offering.
- (3) Before deduction of offering expenses for the account of the University.

The Notes are offered on a continuing basis by the University through the Agent, which has agreed to use its reasonable efforts to solicit offers to purchase the Notes. The University has reserved the right to sell Notes to the Agent acting as principal or directly to investors on its own behalf, and on such sales no commissions will be paid. The Notes will not be listed on any securities exchange, and there can be no assurance that the Notes will be sold or that there will be a secondary market for the Notes. The University reserves the right to withdraw, cancel or modify the offer made hereby without notice. The University or the Agent may reject any such offer to purchase Notes in whole or in part. See "Supplemental Plan of Distribution."

**Goldman, Sachs & Co.**

The date of this Offering Circular Supplement is June 10, 1996.

*(from preceding page)*

Each Note will bear interest at a fixed rate (a "Fixed Rate Note" ), which may be zero in the case of certain Notes issued at a price representing a discount from the principal amount payable at maturity (a "Zero-Coupon Note"), or at a variable rate (a "Floating Rate Note") determined by reference to the Commercial Paper Rate, CD Rate, Federal Funds Rate, CMT Rate, 11th District Cost of Funds Rate, Kenny Rate, LIBOR, Prime Rate or Treasury Rate or such other interest rate formula (the "Interest Rate Basis") as may be indicated in the accompanying Pricing Supplement, as adjusted by a Spread or Spread Multiplier, if any, applicable to such Notes. See "Description of Notes." Unless otherwise specified in the applicable Pricing Supplement, interest on Fixed Rate Notes will be payable either semiannually on each February 1 and August 1 or annually on February 1 (each an "Interest Payment Date" with respect to such Fixed Rate Notes) and at Stated Maturity. Interest on Floating Rate Notes will be payable on the dates indicated in the applicable Pricing Supplement (each an "Interest Payment Date" with respect to such Floating Rate Notes).

Each Note will be represented by either a Global Security (a "Book-Entry Note") registered in the name of a nominee of The Depository Trust Company ("DTC") or other depository (DTC or such other depository as is indicated in the applicable Pricing Supplement is referred to herein as the "Depository"), or a certificate issued in definitive form (a "Certificated Note"), as indicated in the applicable Pricing Supplement. Beneficial interests in Book-Entry Notes will be shown on, and transfers thereof will be effected only through, records maintained by the Depository and its participants. Owners of beneficial interests in Book-Entry Notes will be entitled to physical delivery of Certificated Notes only under the limited circumstances described herein. See "Description of Notes—Book-Entry System." Unless otherwise indicated in the applicable Pricing Supplement, Notes will be issued in denominations of \$1,000 and integral multiples thereof.

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## USE OF PROCEEDS

The University intends to use the net proceeds of the offering of the Notes for capital projects, including new construction and major renovations in support of the University's academic program initiatives, seismic strengthening program and deferred maintenance and infrastructure enhancement programs. See "The Stanford Campus and Other Real Property - Capital Improvement Programs" in Appendix A to the accompanying Offering Circular.

## DESCRIPTION OF NOTES

The following description of the particular terms of the Notes offered hereby supplements and, to the extent inconsistent therewith, replaces the description of the general terms and provisions of the Debt Securities (as defined in the accompanying Offering Circular) set forth under the heading "Description of Debt Securities" in the accompanying Offering Circular, to which description reference is hereby made. The provisions of the Notes summarized herein will apply to each Note unless otherwise indicated in the applicable Pricing Supplement. Capitalized terms used but not defined herein have the meanings specified in the Issuing and Paying Agency Agreement and/or the Notes.

### General

The Notes offered hereby will be issued pursuant to the Issuing and Paying Agency Agreement referred to in the accompanying Offering Circular. The summary contained herein of certain provisions of the Notes does not purport to be complete and is qualified in its entirety by reference to the provisions of the Issuing and Paying Agency Agreement and the forms of Notes, each of which is available for inspection at the Corporate Trust Office of the Issuing and Paying Agent, currently located at 100 Wall Street, 16th Floor, New York, New York 10005.

The Notes constitute a single series for purposes of the Issuing and Paying Agency Agreement and are limited to an aggregate initial offering price of \$150,000,000.

The Notes will constitute unsecured and unsubordinated indebtedness of the University and will rank on a parity with the University's other unsecured and unsubordinated indebtedness.

The Notes are offered on a continuing basis and will mature on a Business Day (as defined below) nine months or more from their date of issue, as selected by the initial purchaser and agreed to by the University, and may be subject to redemption at the option of the University or repayment at the option of the Holder prior to Maturity. See "— Redemption and Repayment" below. Floating Rate Notes will mature on the Interest Payment Date specified in the Pricing Supplement applicable thereto.

The Notes will be denominated in U.S. dollars, and payments of principal of, premium, if any, and any interest on the Notes will be made in U.S. dollars.

Each Note will be issued initially as either a Book-Entry Note or a Certificated Note. Except as set forth under "— Book-Entry System" below, Book-Entry Notes will not be issuable in certificated form. Unless otherwise specified in the applicable Pricing Supplement, Notes will be issued in denominations of \$1,000 and integral multiples thereof.

Payments of interest and principal (and premium, if any) to Beneficial Owners (as defined below) of Book-Entry Notes are expected to be made in accordance with the Depositary's and its participants' procedures in effect from time to time as described below under "— Book-Entry System."

Unless otherwise specified in the applicable Pricing Supplement, payments of interest and, in the case of Amortizing Notes, principal with respect to any Certificated Note (other than interest and, in the case of Amortizing Notes, principal payable at Stated Maturity) will be made by mailing a check to the Holder at the address of such Holder appearing on the Security Register for the Notes on the applicable Regular Record Date (as defined below). Notwithstanding the foregoing, at the option of the University, all payments of interest and, in the case of Amortizing Notes, principal on the Notes may be made by wire transfer of immediately available funds to an account at a bank located within the United States as designated by each Holder not less than 15 calendar days prior to the applicable Interest Payment Date. A Holder of \$10,000,000 or more in aggregate principal amount of Notes of like tenor and terms with the same Interest Payment Date may demand payment by wire transfer but only if appropriate payment instructions have been received in writing by the Issuing and Paying Agent, not less than 15 calendar days prior to the applicable Interest Payment Date. In the event that payment is so made in accordance with instructions of the Holder, such wire transfer shall be deemed to constitute full and complete payment of such interest and principal on the Notes. Payment of the principal of (and premium, if any) and interest due with respect to any Certificated Note at Maturity will be made in immediately available funds upon surrender of such Note at the principal office of the Issuing and Paying Agent in the City of New York, New York accompanied by wire transfer instructions, provided that the Note is presented to the Issuing and Paying Agent in time for the Issuing and Paying Agent to make such payments in such funds in accordance with its normal procedures.

Notwithstanding anything in this Offering Circular Supplement to the contrary, unless otherwise specified in the applicable Pricing Supplement, if a Note is an Original Issue Discount Note, the amount payable on such Note in the event the principal thereof is declared to be due and payable immediately as described in the accompanying Offering Circular under "Description of Debt Securities—Events of Default" or, in the event of the redemption or repayment thereof prior to its Stated Maturity, shall be the Amortized Face Amount of such Note as of the date of declaration, redemption or repayment, as the case may be. The "Amortized Face Amount" of an Original Issue Discount Note shall be the amount equal to (i) the principal amount of such Note multiplied by the Issue Price (as defined below) set forth in the applicable Pricing Supplement plus (ii) the portion of the difference between the dollar amount determined pursuant to the preceding clause (i) and the principal amount of such Note that has accreted at the yield to maturity set forth in the Pricing Supplement (computed in accordance with generally accepted United States bond yield computation principles) to such date of declaration, redemption or repayment, but in no event shall the Amortized Face Amount of an Original Issue Discount Note exceed its principal amount.

The Pricing Supplement relating to each Note will describe, among other things, the following items: (i) the price (expressed as a percentage of the aggregate principal amount thereof) at which such Note will be issued (the "Issue Price"); (ii) the date on which such Note will be issued (the "Original Issue Date"); (iii) the date on which such Note will mature (the "Stated Maturity") and whether the Stated Maturity may be extended by the University, and if so, the Extension Periods and the Final Maturity Date (each as defined below); (iv) whether such Note is a Fixed Rate Note or a Floating Rate Note; (v) if such Note is a Fixed Rate Note, the rate per annum at which such Note will bear interest, if any, the interest payment date or dates, if different from those set forth below under "Fixed Rate Notes" and whether such rate may be changed by the University prior to Stated Maturity; (vi) if such Note is a Floating Rate Note, the Initial Interest Rate, the Interest Rate Basis, the Interest Reset Dates, the Interest Payment Dates, the Index Maturity, the maximum interest rate, if any, the minimum interest rate, if any, the Spread, if any, the Spread Multiplier, if any (all as defined herein), and any other terms relating to the particular method of calculating the interest rate for such Note, and whether any such Spread and/or Spread Multiplier may be changed by the University prior to Stated Maturity; (vii) whether such Note is an Original Issue Discount Note, and if so, the yield to maturity; (viii) whether such Note is an Amortizing Note (as defined below), and if so, the basis or formula for the amortization of principal and/or interest and the payment dates for such periodic principal payments; (ix) the regular record date or dates (a "Regular Record Date") if other than as set forth below; (x) whether such Note may be redeemed at the option of the University, or repaid at the option of the Holder, prior to Stated Maturity and, if so, the provisions relating to such redemption or repayment; (xi) whether such Note will be issued initially as a Book-Entry Note or a Certificated Note; and (xii) any other terms of such Note not inconsistent with the provisions of the Issuing and Paying Agency Agreement.

Certificated Notes may be presented for registration of transfer or exchange at the Corporate Trust Office of the Issuing and Paying Agent in the City of New York, New York.

All percentages resulting from any calculation with respect to any Notes will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point, with five one-millionths of a percentage point rounded upward (e.g., 9.876545% (or .09876545) would be rounded to 9.87655% (or .0987655)), and all dollar amounts used in or resulting from such calculation on any Notes will be rounded to the nearest cent with one half cent being rounded upward.

As used herein, "Business Day" means, unless otherwise specified in the applicable Pricing Supplement, any Monday, Tuesday, Wednesday, Thursday or Friday that in The City of New York is not a day on which banking institutions are generally authorized or required by law, regulation or executive order to close and, with respect to Notes as to which LIBOR (as defined below) is an applicable Base Rate (as defined below), is also a London Business Day. As used herein, "London Business Day" means any day on which dealings in deposits in U.S. dollars are transacted in the London interbank market.

The Notes are referred to in the accompanying Offering Circular as the "Debt Securities." For a description of the rights attaching to different series of Debt Securities under the Issuing and Paying Agency Agreement, see "Description of Debt Securities" in the Offering Circular. Unless otherwise indicated in the applicable Pricing Supplement, the Notes will have the terms described below.

### **Interest and Interest Rates**

Each Note (other than a Zero-Coupon Note) will bear interest from its Original Issue Date or from and including the most recent Interest Payment Date to which interest on such Note has been paid or duly provided for at a fixed rate per annum or at a rate per annum determined pursuant to an Interest Rate Basis, stated therein and in the applicable Pricing Supplement, that may be adjusted by a Spread and/or Spread Multiplier, until the principal thereof is paid or made available for payment. The Pricing Supplement relating to each Note will indicate whether interest shall accrue on any overdue principal and on any overdue installment of interest (to the extent that the payment of such interest is legally enforceable) and at what rate any such interest will accrue. Unless otherwise set forth in the applicable Pricing Supplement, interest will be payable on each Interest Payment Date and at Maturity. "Maturity" means the date on which the principal of a Note becomes due and payable in full in accordance with its terms and the terms of the Issuing and Paying Agency Agreement, whether at Stated Maturity, upon acceleration, redemption, repayment or otherwise. Interest (other than defaulted interest which may be paid on a special record date) will be payable to the Holder at the close of business on the Regular Record Date immediately preceding such Interest Payment Date; provided, however, that the first payment of interest on any Note originally issued between a Regular Record Date and the next Interest Payment Date will be made on the Interest Payment Date following the next succeeding Regular Record Date to the Holder on such next succeeding Regular Record Date.

Interest rates, interest rate formulae and other variable terms of the Notes are subject to change by the University from time to time, but no such change will affect any Note already issued or as to which an offer to purchase has been accepted by the University. Unless otherwise indicated in the applicable Pricing Supplement, the Interest Payment Dates and the Regular Record Dates for Fixed Rate Notes shall be as described below under "— Fixed Rate Notes." The Interest Payment Dates for Floating Rate Notes shall be as indicated in the applicable Pricing Supplement and, unless otherwise indicated in the applicable Pricing Supplement, each Regular Record Date for a Floating Rate Note will be the fifteenth day (whether or not a Business Day) preceding each Interest Payment Date.

Each Note (other than a Zero-Coupon Note) will bear interest at either (a) a fixed rate or (b) a floating rate determined by reference to an Interest Rate Basis which may be adjusted by a Spread and/or Spread Multiplier. Any Floating Rate Note may also have either or both of the following: (i) a maximum numerical interest rate limitation, or ceiling, on the rate of interest which may accrue during any interest period, and



(ii) a minimum numerical interest rate limitation, or floor, on the rate of interest which may accrue during any interest period. The applicable Pricing Supplement relating to each Note will designate either a fixed rate of interest per annum on the applicable Fixed Rate Note or one of the following Interest Rate Bases as applicable to the relevant Floating Rate Note: (a) the CD Rate, in which case such Note will be a "CD Rate Note," (b) the Commercial Paper Rate, in which case such Note will be a "Commercial Paper Rate Note," (c) the Federal Funds Rate, in which case such Note will be a "Federal Funds Rate Note," (d) LIBOR, in which case such Note will be a "LIBOR Note," (e) the Treasury Rate, in which case such Note will be a "Treasury Rate Note," (f) the Prime Rate, in which case such Note will be a "Prime Rate Note," (g) the CMT Rate, in which case such Note will be a "CMT Rate Note," (h) the 11th District Cost of Funds Rate, in which case such Note will be an "11th District Cost of Funds Rate Note," (i) the Kenny Rate, in which case such Note will be a "Kenny Rate Note," or (j) such other Interest Rate Basis as is set forth in such Pricing Supplement.

Notwithstanding the determination of the interest rate as provided below, the interest rate on the Notes for any interest period shall not be greater than the maximum interest rate, if any, or less than the minimum interest rate, if any, specified in the applicable Pricing Supplement. The interest rate on the Notes will in no event be higher than the maximum rate permitted by California or other applicable law, as the same may be modified by United States law of general application.

### **Fixed Rate Notes**

Each Fixed Rate Note (other than a Zero-Coupon Note) will bear interest from its date of issue at the annual rate stated on the face thereof, as specified in the applicable Pricing Supplement. Payments of interest on any Fixed Rate Note with respect to any Interest Payment Date will include interest accrued from and including the Original Issue Date, or from and including the immediately preceding Interest Payment Date, to but excluding the applicable Interest Payment Date or Maturity. Fixed Rate Notes may bear one or more annual rates of interest during the periods or under the circumstances specified therein and in the applicable Pricing Supplement. Interest on Fixed Rate Notes will be computed and paid on the basis of a 360-day year of twelve 30-day months.

Unless otherwise specified in the applicable Pricing Supplement, the Interest Payment Dates for Fixed Rate Notes (other than Amortizing Notes) will be either semiannually on each February 1 and August 1 or annually on February 1 and the Regular Record Dates will be each January 15 and July 15 or January 15, as the case may be (whether or not a Business Day). Unless otherwise specified in the applicable Pricing Supplement, payments of principal and interest on Fixed Rate Amortizing Notes will be made either quarterly on each February 1, May 1, August 1 and November 1, semiannually on each February 1 and August 1 or annually on each February 1, as set forth in the applicable Pricing Supplement, and at Maturity. Unless otherwise specified in the applicable Pricing Supplement, Regular Record Dates with respect to Fixed Rate Amortizing Notes will be the fifteenth day (whether or not a Business Day) preceding each Interest Payment Date. If the Interest Payment Date or Maturity for any Fixed Rate Note is a day that is not a Business Day, all payments to be made on such day will be made on the next succeeding Business Day with the same force and effect as if made on the due date, and no additional interest shall be payable as a result of such delayed payment.

Payments with respect to Fixed Rate Amortizing Notes will be applied first to interest due and payable thereon and then to the reduction of the unpaid principal amount thereof. A table setting forth repayment information in respect of each Fixed Rate Amortizing Note will be provided to the original purchaser thereof and will be available, upon request, to subsequent Holders.

### **Floating Rate Notes**

The interest rate on each Floating Rate Note will be equal to either (i) the interest rate calculated by reference to the specified Interest Rate Basis plus or minus the Spread, if any, or (ii) the interest rate

calculated by reference to the specified Interest Rate Basis multiplied by the Spread Multiplier, if any. The "Spread" is the number of basis points (one basis point equals one-hundredth of a percentage point) specified in the applicable Pricing Supplement as being applicable to such Note, and the "Spread Multiplier" is the percentage specified in the applicable Pricing Supplement as being applicable to such Note. The applicable Pricing Supplement will specify the Interest Rate Basis and the Spread or Spread Multiplier, if any, and the maximum or minimum interest rate limitation, if any, applicable to each Floating Rate Note. In addition, such Pricing Supplement will contain particulars as to the Calculation Agent (unless specified in the applicable Pricing Supplement, First Trust of New York, N.A. (in such capacity, the "Calculation Agent")), Index Maturity, Original Issue Date, the interest rate in effect for the period from the Original Issue Date to the first Interest Reset Date set forth in the applicable Pricing Supplement (the "Initial Interest Rate"), Interest Determination Dates, Interest Payment Dates, Regular Record Dates and Interest Reset Dates with respect to such Note.

Except as provided below or in the applicable Pricing Supplement, interest on Floating Rate Notes, including Floating Rate Amortizing Notes, will be payable, (i) in the case of Floating Rate Notes that reset daily, weekly or monthly, on the third Wednesday of each month or on the third Wednesday of March, June, September and December of each year, as specified on the face thereof and in the applicable Pricing Supplement; (ii) in the case of Floating Rate Notes, including Floating Rate Amortizing Notes, that reset quarterly, on the third Wednesday of March, June, September and December of each year; (iii) in the case of Floating Rate Notes, including Floating Rate Amortizing Notes, that reset semiannually, on the third Wednesday of each of two months of each year specified on the face thereof and in the applicable Pricing Supplement; and (iv) in the case of Floating Rate Notes, including Floating Rate Amortizing Notes, that reset annually, on the third Wednesday of one month of each year specified on the face thereof and in the applicable Pricing Supplement (each such day being an "Interest Payment Date") and, in each case, at Maturity. If any Interest Payment Date, other than Maturity, for any Floating Rate Note would otherwise be a day that is not a Business Day, such Interest Payment Date shall be postponed to the next day that is a Business Day, except that in the case of a LIBOR Note, if such Business Day is in the next succeeding calendar month, such Interest Payment Date shall be the immediately preceding London Business Day. If the Maturity for any Floating Rate Note falls on a day that is not a Business Day, payment of principal, premium, if any, and interest with respect to such Note will be made on the next succeeding Business Day with the same force and effect as if made on the due date, and no additional interest shall be payable as a result of such delayed payment.

The rate of interest on each Floating Rate Note will be reset daily, weekly, monthly, quarterly, semiannually or annually (such period being the "Reset Period" for such Note, and the first day of each Reset Period being an "Interest Reset Date"), as specified in the applicable Pricing Supplement. The Interest Reset Date will be, in the case of Floating Rate Notes which reset daily, each Business Day; in the case of Floating Rate Notes (other than Treasury Rate Notes) which reset weekly, the Wednesday of each week; in the case of Treasury Rate Notes which reset weekly, the Tuesday of each week, except as provided below; in the case of Floating Rate Notes which reset monthly, the third Wednesday of each month (with the exception of monthly reset 11th District Cost of Funds Rate Notes, which will reset on the first calendar day of the month); in the case of Floating Rate Notes which reset quarterly, the third Wednesday of each March, June, September and December; in the case of Floating Rate Notes which reset semiannually, the third Wednesday of the two months of each year specified in the applicable Pricing Supplement; and in the case of Floating Rate Notes which reset annually, the third Wednesday of one month of each year specified in the applicable Pricing Supplement; *provided, however*, that the interest rate in effect from the date of issue to the first Interest Reset Date with respect to a Floating Rate Note will be the Initial Interest Rate (as set forth in the applicable Pricing Supplement). If any Interest Reset Date for any Floating Rate Note would otherwise be a day that is not a Business Day for such Floating Rate Note, the Interest Reset Date for such Floating Rate Note shall be postponed to the next day that is a Business Day for such Floating Rate Note, except that in the case of a LIBOR Note, if such Business Day is in the next succeeding calendar month, such Interest Reset Date shall be the immediately preceding London Business Day. Each adjusted rate shall be applicable on and after the Interest Reset Date to which it relates, to, but not including, the next succeeding Interest Reset Date or until Stated Maturity or the date of redemption, as the case may be.

The interest rate for each Reset Period will be the rate determined by the Calculation Agent on the Calculation Date (as defined below) pertaining to the Interest Determination Date pertaining to the Interest Reset Date for such Reset Period. Unless otherwise specified in the applicable Pricing Supplement, the "Interest Determination Date" pertaining to an Interest Reset Date for (a) a Commercial Paper Rate Note (the "Commercial Paper Interest Determination Date"), (b) a Federal Funds Rate Note (the "Federal Funds Interest Determination Date"), (c) a CD Rate Note (the "CD Interest Determination Date"), (d) a Prime Rate Note (the "Prime Interest Determination Date"), (e) a CMT Rate Note (the "CMT Interest Determination Date"), or (f) a Kenny Rate Note (the "Kenny Rate Interest Determination Date") will be the second Business Day prior to such Interest Reset Date. Unless otherwise specified in the applicable Pricing Supplement, the Interest Determination Date pertaining to an Interest Reset Date for an 11th District Cost of Funds Rate Note (the "11th District Interest Determination Date") will be the last Business Day of the month immediately preceding such Interest Reset Date on which the Federal Home Loan Bank of San Francisco (the "FHLB of San Francisco") publishes the Index (as defined below). Unless otherwise specified in the applicable Pricing Supplement, the Interest Determination Date pertaining to an Interest Reset Date for a LIBOR Note (the "LIBOR Interest Determination Date") will be the second London Business Day immediately preceding each Interest Reset Date. Unless otherwise specified in the applicable Pricing Supplement, the Interest Determination Date pertaining to an Interest Reset Date for a Treasury Rate Note (the "Treasury Interest Determination Date") will be the day of the week in which such Interest Reset Date falls on which Treasury bills would normally be auctioned. Treasury bills are usually sold at auction on Monday of each week, unless that day is a legal holiday, in which case the auction is usually held on the following Tuesday, except that such auction may be held on the preceding Friday. If, as a result of a legal holiday, an auction is so held on the preceding Friday, such Friday will be the Treasury Interest Determination Date pertaining to the Reset Period commencing in the next succeeding week. If an auction date shall fall on any Interest Reset Date for a Treasury Rate Note, then such Interest Reset Date shall instead be the first Business Day immediately following such auction date. Unless otherwise specified in the applicable Pricing Supplement, the "Calculation Date" pertaining to any Interest Determination Date shall be the earlier of (i) the tenth calendar day after the Interest Determination Date or, if such day is not a Business Day, the next succeeding Business Day, or (ii) the Business Day preceding the applicable Interest Payment Date or Maturity, as the case may be.

"Index Maturity" means, with respect to a Floating Rate Note, the period to maturity of the instrument or obligation on which the interest rate formula is based, as specified in the applicable Pricing Supplement.

Unless otherwise specified in the applicable Pricing Supplement, payments with respect to Floating Rate Amortizing Notes will be applied first to interest due and payable thereon and then to the reduction of the unpaid principal amount thereof. A table setting forth repayment information in respect of each Floating Rate Amortizing Note will be provided to the original purchaser thereof and will be available, upon request, to subsequent Holders.

Unless otherwise indicated in the applicable Pricing Supplement, interest on Floating Rate Notes will accrue from and including the date of issue or from and including the immediately preceding Interest Payment Date in respect of which interest has been paid or duly provided for, as the case may be, to but excluding the Interest Payment Date or Maturity, as the case may be. With respect to Floating Rate Notes, accrued interest is calculated by multiplying the face amount of a Note by an accrued interest factor. This accrued interest factor is computed by adding the interest factors calculated for each day from the date of issue, or from the last date to which interest has been paid, to the date for which accrued interest is being calculated. The interest factor for each such day (unless otherwise specified) is computed by dividing the interest rate applicable to such day by 360, in the case of Commercial Paper Rate Notes, CD Rate Notes, 11th District Cost of Funds Rate Notes, Federal Funds Rate Notes, LIBOR Notes and Prime Rate Notes or by the actual number of days in the year, in the case of Treasury Rate Notes or CMT Rate Notes, or by 365 days in the case of Kenny Rate Notes.

The Calculation Agent shall calculate the interest rate on the Floating Rate Notes, as provided below. The Calculation Agent will, upon the request of the Holder of any Floating Rate Note, provide the interest

rate then in effect and, if then determined, the interest rate which will become effective as a result of a determination made with respect to the most recent Interest Determination Date with respect to such Note. The Issuing and Paying Agent shall act as the initial Calculation Agent for the Notes. For purposes of calculating the rate of interest payable on Floating Rate Notes, the University will enter into an agreement with the Calculation Agent. The Calculation Agent's determination of any interest rate shall be final and binding in the absence of manifest error.

#### *Commercial Paper Rate Notes*

Each Commercial Paper Rate Note will bear interest at the interest rate (calculated with reference to the Commercial Paper Rate and the Spread and/or Spread Multiplier, if any) specified in the Commercial Paper Rate Note and in the applicable Pricing Supplement.

Unless otherwise indicated in the applicable Pricing Supplement, "Commercial Paper Rate" means, with respect to any Commercial Paper Interest Determination Date, the Money Market Yield (calculated as described below) of the rate on such date for commercial paper having the Index Maturity specified in the applicable Pricing Supplement as published by the Board of Governors of the Federal Reserve System in "Statistical Release H.15(519), Selected Interest Rates" or any successor publication of the Board of Governors ("H.15(519)") under the heading "Commercial Paper." In the event that such rate is not published prior to 9:00 A.M., New York City time, on the Calculation Date pertaining to such Commercial Paper Interest Determination Date, then the Commercial Paper Rate with respect to such Commercial Paper Interest Determination Date shall be the Money Market Yield of the rate on such Commercial Paper Interest Determination Date for commercial paper having the Index Maturity specified in the applicable Pricing Supplement as published by the Federal Reserve Bank of New York in its daily statistical release "Composite 3:30 P.M. Quotations for U.S. Government Securities" or any successor publication ("Composite Quotations") under the heading "Commercial Paper." If by 3:00 P.M., New York City time, on such Calculation Date such rate is not yet published in either H.15(519) or Composite Quotations, then the Commercial Paper Rate for such Commercial Paper Interest Determination Date shall be calculated by the Calculation Agent and shall be the Money Market Yield of the arithmetic mean of the offered rates as of 11:00 A.M., New York City time, on such Commercial Paper Interest Determination Date of three leading dealers of commercial paper in The City of New York selected by the Calculation Agent for commercial paper having the Index Maturity designated in the applicable Pricing Supplement placed for an educational institution having the bond ratings then applicable to the University, or the equivalent, from a nationally recognized securities rating agency; *provided, however*, that if the dealers selected as aforesaid by the Calculation Agent are not quoting as mentioned in this sentence, the Commercial Paper Rate with respect to such Commercial Paper Interest Determination Date will be the Commercial Paper Rate in effect immediately prior to such Commercial Paper Interest Determination Date.

"Money Market Yield" shall be a yield (expressed as a percentage rounded, if necessary, to the nearest one hundred-thousandth of a percent) calculated in accordance with the following formula:

$$\text{Money Market Yield} = \frac{D \times 360}{360 - (D \times M)} \times 100$$

where "D" refers to the per annum rate for commercial paper, quoted on a bank discount basis and expressed as a decimal; and "M" refers to the actual number of days in the period for which accrued interest is being calculated.

### *CD Rate Notes*

Each CD Rate Note will bear interest at the interest rate (calculated with reference to the CD Rate and the Spread and/or Spread Multiplier, if any) specified in the CD Rate Note and in the applicable Pricing Supplement.

Unless otherwise indicated in the applicable Pricing Supplement, "CD Rate" means, with respect to any CD Interest Determination Date, the rate on such date for negotiable certificates of deposit having the Index Maturity specified in the applicable Pricing Supplement as published in H.15(519) under the heading "CDs (Secondary Market)." In the event that such rate is not published prior to 9:00 A.M., New York City time, on the Calculation Date pertaining to such CD Interest Determination Date, then the CD Rate with respect to such CD Interest Determination Date shall be the rate on such CD Interest Determination Date for negotiable certificates of deposit having the Index Maturity specified in the applicable Pricing Supplement as published in Composite Quotations under the heading "Certificates of Deposit." If by 3:00 P.M., New York City time, on such Calculation Date such rate is not published in either H.15(519) or Composite Quotations, then the CD Rate on such CD Interest Determination Date shall be calculated by the Calculation Agent and shall be the arithmetic mean of the secondary market offered rates as of 10:00 A.M., New York City time, on such CD Interest Determination Date of three leading nonbank dealers in negotiable U.S. dollar certificates of deposit in The City of New York selected by the Calculation Agent for negotiable certificates of deposit of major United States money market banks (in the market for negotiable certificates of deposit) with a remaining maturity closest to the Index Maturity designated in the applicable Pricing Supplement in a denomination of \$5,000,000; *provided, however*, that if the dealers selected as aforesaid by the Calculation Agent are not quoting as mentioned in this sentence, the CD Rate with respect to such CD Interest Determination Date will be the CD Rate in effect immediately prior to such CD Interest Determination Date.

### *CMT Rate Notes*

Each CMT Rate Note will bear interest at the interest rate (calculated with reference to the CMT Rate and the Spread and/or Spread Multiplier, if any) specified in the CMT Rate Note and in the applicable Pricing Supplement.

Unless otherwise indicated in the applicable Pricing Supplement, "CMT Rate" means, with respect to any CMT Interest Determination Date, the rate displayed on the Designated CMT Telerate Page (as defined below) under the caption "... Treasury Constant Maturities ... Federal Reserve Board Release H.15 ... Mondays Approximately 3:45 P.M.," under the column for the Designated CMT Maturity Index (as defined below) for (i) if the Designated CMT Telerate Page is 7055, the rate on such CMT Interest Determination Date and (ii) if the Designated CMT Telerate Page is 7052, the week, or the month, as applicable, ended immediately preceding the week in which the applicable CMT Interest Determination Date occurs. If such rate is no longer displayed on the relevant page, or if not displayed by 3:00 P.M., New York City time, on the Calculation Date pertaining to such CMT Interest Determination Date, then the CMT Rate for such CMT Interest Determination Date will be such treasury constant maturity rate for the Designated CMT Maturity Index as published in the relevant H.15(519). If such rate is no longer published, or if not published by 3:00 P.M., New York City time, on the Calculation Date pertaining to such CMT Interest Determination Date, then the CMT Rate for such CMT Interest Determination Date will be such treasury constant maturity rate for the Designated CMT Maturity Index (or other United States Treasury rate for the Designated CMT Maturity Index) for the CMT Interest Determination Date with respect to such Interest Reset Date as may then be published by either the Board of Governors of the Federal Reserve System or the United States Department of the Treasury that the Calculation Agent determines to be comparable to the rate formerly displayed on the Designated CMT Telerate Page and published in the relevant H.15(519). If such information is not provided by 3:00 P.M., New York City time, on the Calculation Date pertaining to such CMT Interest Determination Date, then the CMT Rate for the CMT Interest Determination Date will be calculated by the Calculation Agent and will be a yield to maturity, based on the arithmetic mean of the secondary market closing offer side prices as of approximately 3:30 P.M., New York City time, on the CMT Interest Determination Date reported, according to their written records, by three leading primary United States government securities dealers

(each, a "Reference Dealer") in The City of New York selected by the Calculation Agent (from five such Reference Dealers selected by the Calculation Agent and eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest)), for the most recently issued direct noncallable fixed rate obligations of the United States ("Treasury Notes") with an original maturity of approximately the Designated CMT Maturity Index and a remaining term to maturity of not less than such Designated CMT Maturity Index minus one year. If the Calculation Agent cannot obtain three such Treasury Note quotations, the CMT Rate for such CMT Interest Determination Date will be calculated by the Calculation Agent and will be a yield to maturity based on the arithmetic mean of the secondary market offer side prices as of approximately 3:30 P.M., New York City time, on the CMT Interest Determination Date of three Reference Dealers in The City of New York (from five such Reference Dealers selected by the Calculation Agent and eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest)), for Treasury Notes with an original maturity of the number of years that is the next highest to the Designated CMT Maturity Index and a remaining term to maturity closest to the Designated CMT Maturity Index and in an amount of at least \$100,000,000. If three or four (and not five) of such Reference Dealers are quoting as described above, then the CMT Rate will be based on the arithmetic mean of the offer prices obtained and neither the highest nor the lowest of such quotes will be eliminated; provided, however, that if fewer than three Reference Dealers selected by the Calculation Agent are quoting as described herein, the CMT Rate will be the CMT Rate in effect on such CMT Interest Determination Date. If two Treasury Notes with an original maturity as described in the third preceding sentence have remaining terms to maturity equally close to the Designated CMT Maturity Index, the quotes for the Treasury Note with the shorter remaining term to maturity will be used.

"Designated CMT Telerate Page" means the display on the Dow Jones Telerate Service on the page specified in the applicable Pricing Supplement (or any other page as may replace such page on that service for the purpose of displaying Treasury Constant Maturities as published in H.15(519)), for the purpose of displaying Treasury Constant Maturities as published in H.15(519). If no such page is specified in the applicable Pricing Supplement, the Designated CMT Telerate Page shall be 7052, for the most recent week.

"Designated CMT Maturity Index" means the original period to maturity of the Treasury Notes (either one, two, three, five, seven, ten, twenty or thirty years) specified in the applicable Pricing Supplement with respect to which the CMT Rate will be calculated. If no such maturity is specified in the applicable Pricing Supplement, the Designated CMT Maturity Index shall be two years.

#### *Federal Funds Rate Notes*

Each Federal Funds Rate Note will bear interest at the interest rate (calculated with reference to the Federal Funds Rate and the Spread and/or Spread Multiplier, if any) specified in the Federal Funds Rate Note and in the applicable Pricing Supplement.

Unless otherwise indicated in the applicable Pricing Supplement, "Federal Funds Rate" means, with respect to any Federal Funds Rate Interest Determination Date, the rate on such date for Federal Funds as published in H.15(519) under the heading "Federal Funds (Effective)." In the event that such rate is not published prior to 9:00 A.M., New York City time, on the Calculation Date pertaining to such Federal Funds Interest Determination Date, then the Federal Funds Rate with respect to such Federal Funds Interest Determination Date shall be the rate on such Federal Funds Interest Determination Date as published in Composite Quotations under the heading "Federal Funds/Effective Rate." If by 3:00 P.M., New York City time, on such Calculation Date such rate is not published in either H.15(519) or Composite Quotations, then the Federal Funds Rate with respect to such Federal Funds Interest Determination Date shall be calculated by the Calculation Agent and shall be the arithmetic mean (each as rounded, if necessary, to the nearest one hundred-thousandth of a percent) of the rates as of 9:00 A.M., New York City time, on such Federal Funds Interest Determination Date for the last transaction in overnight Federal Funds arranged by three leading brokers of Federal Funds transactions in The City of New York selected by the Calculation Agent; provided, however, that if the brokers selected as aforesaid by the Calculation Agent are not quoting as

mentioned in this sentence, the Federal Funds Rate with respect to such Federal Funds Interest Determination Date will be the Federal Funds Rate in effect immediately prior to such Federal Funds Interest Determination Date.

#### *11th District Cost of Funds Rate Notes*

Each 11th District Cost of Funds Rate Note will bear interest at the interest rate (calculated with reference to the 11th District Cost of Funds Rate and the Spread and/or Spread Multiplier, if any) specified in the 11th District Cost of Funds Rate Note and in the Pricing Supplement.

Unless otherwise specified in the applicable Pricing Supplement, "11th District Cost of Funds Rate" means, with respect to any 11th District Interest Determination Date, the rate equal to the monthly weighted average cost of funds for the calendar month preceding such 11th District Cost of Funds Rate Interest Determination Date as set forth under the caption "11th District" on Telerate Page 7058 as of 11:00 A.M., San Francisco time, on such 11th District Interest Determination Date. If such rate does not appear on Telerate Page 7058 on any related 11th District Interest Determination Date, the 11th District Cost of Funds Rate for such 11th District Interest Determination Date shall be the monthly weighted average cost of funds paid by member institutions of the Eleventh Federal Home Loan Bank District that was most recently announced (the "Index") by the FHLB of San Francisco as such cost of funds for the calendar month preceding the date of such announcement. If the FHLB of San Francisco fails to announce such rate for the calendar month immediately preceding such 11th District Interest Determination Date, then the 11th District Cost of Funds Rate for such 11th District Interest Determination Date will be the 11th District Cost of Funds Rate then in effect on such 11th District Interest Determination Date.

#### *Kenny Rate Notes*

Each Kenny Rate Note will bear interest at the interest rate (calculated with reference to the Kenny Rate and the Spread and/or Spread Multiplier, if any) specified in the applicable Kenny Rate Note and in the Pricing Supplement.

Unless otherwise indicated in the applicable Pricing Supplement, "Kenny Rate" means, with respect to any Kenny Rate Interest Determination Date, the high grade weekly index (the "Weekly Index") on such date made available by Kenny Information Systems ("Kenny") to the Calculation Agent. The Weekly Index is, and shall be, based upon 30 day yield evaluations at par of bonds, the interest on which is exempt from federal income taxation under the Internal Revenue Code of 1986, as amended, of not less than five high grade component issuers selected by Kenny which shall include, without limitation, issuers of general obligation bonds. The specific issuers included among the component issuers may be changed from time to time by Kenny in its discretion. The bonds on which the Weekly Index is based shall not include any bonds on which the interest is subject to a minimum tax or similar tax under the Internal Revenue Code of 1986, as amended, unless all tax exempt bonds are subject to such tax. In the event Kenny ceases to make available such Weekly Index, a successor indexing agent will be selected by the Calculation Agent, such index to reflect the prevailing rate for bonds rated in the highest short-term rating category by two nationally recognized statistical rating organizations (as that term is defined by the Securities and Exchange Commission) in respect of issuers most closely resembling the high grade component issuers selected by Kenny for its Weekly Index, the interest on which is (A) variable on a weekly basis, (B) exempt from federal income taxation under the Internal Revenue Code of 1986, as amended, and (C) not subject to a minimum tax or similar tax under the Internal Revenue Code of 1986, as amended, unless all tax-exempt bonds are subject to such tax. If such successor indexing agent is not available, the rate for any Kenny Rate Interest Determination Date shall be 67% of the rate determined as if the Treasury Rate option had been originally selected.

## *LIBOR Notes*

Each LIBOR Note will bear interest at the interest rate (calculated with reference to LIBOR and the Spread and/or Spread Multiplier, if any) specified in the LIBOR Note and in the applicable Pricing Supplement.

Unless otherwise indicated in the applicable Pricing Supplement, "LIBOR" means, with respect to any LIBOR Interest Determination Date, the rate determined in accordance with the following provisions:

(i) With respect to any LIBOR Interest Determination Date, LIBOR will be either: (a) if "LIBOR Reuters" is specified in the Note and the applicable Pricing Supplement, the arithmetic mean of the offered rates (unless the specified designated LIBOR Page (as defined below) by its terms provides only for a single rate, in which case such single rate shall be used) for deposits in the Designated LIBOR Currency (as defined below) having the Index Maturity designated in the Note and the applicable Pricing Supplement, commencing on the second London Business Day immediately following the LIBOR Interest Determination Date, which appear on the Designated LIBOR Page specified in the Note and the applicable Pricing Supplement as of 11:00 A.M., London time, on that LIBOR Interest Determination Date, if at least two such offered rates appear (unless, as aforesaid, only a single rate is required) on such Designated LIBOR Page, or (b) if "LIBOR Telerate" is specified in the Note and the applicable Pricing Supplement, the rate for deposits in the Designated LIBOR Currency having the Index Maturity designated in the Note and the applicable Pricing Supplement, commencing on the second London Business Day immediately following such LIBOR Interest Determination Date, which appears on the Designated LIBOR Page specified in the Note and the applicable Pricing Supplement as of 11:00 A.M., London time, on that LIBOR Interest Determination Date. Notwithstanding the foregoing, if fewer than two offered rates appear on the Designated LIBOR Page with respect to LIBOR Reuters (unless the specified Designated LIBOR Page with respect to LIBOR Reuters by its terms provides only for a single rate, in which case such single rate shall be used), or if no rate appears on the Designated LIBOR Page with respect to LIBOR Telerate, whichever may be applicable, LIBOR in respect of the related LIBOR Interest Determination Date will be determined as if the parties had specified the rate described in clause (ii) below.

(ii) With respect to any LIBOR Interest Determination Date on which fewer than two offered rates appear on the Designated LIBOR Page with respect to LIBOR Reuters (unless the Designated LIBOR Page by its terms provides only for a single rate, in which case such single rate shall be used), or if no rate appears on the Designated LIBOR Page with respect to LIBOR Telerate, as the case may be, the Calculation Agent will request the principal London office of each of four major banks in the London interbank market selected by the Calculation Agent to provide the Calculation Agent with its offered rate quotation for deposits in the Designated LIBOR Currency for the period of the Index Maturity designated in the Note and the applicable Pricing Supplement, commencing on the second London Business Day immediately following such LIBOR Interest Determination Date, to prime banks in the London interbank market as of 11:00 A.M., London time, on such LIBOR Interest Determination Date and in a principal amount that is representative for a single transaction in such Designated LIBOR Currency in such market at such time. If at least two such quotations are provided, LIBOR determined on such LIBOR Interest Determination Date will be the arithmetic mean of such quotations. If fewer than two quotations are provided, LIBOR determined on such LIBOR Interest Determination Date will be the arithmetic mean of the rates quoted as of 11:00 A.M. in the applicable Principal Financial Center (as defined below) on such LIBOR Interest Determination Date by three major banks in such Principal Financial Center selected by the Calculation Agent for loans in the Designated LIBOR Currency to leading banks, having the Index Maturity designated in the Note and the applicable Pricing Supplement commencing on the second London Business Day immediately following the LIBOR Interest Determination Date and in a principal amount that is representative for a single transaction in such Designated LIBOR Currency in such market at such time; *provided, however*, that if the banks so selected by the Calculation Agent are not quoting as mentioned in this sentence, LIBOR determined on such LIBOR Interest Determination Date will be LIBOR in effect on such LIBOR Interest Determination Date.



"Designated LIBOR Currency" means, with respect to any LIBOR Note, the currency (including a composite currency), if any, designated in the Note and the applicable Pricing Supplement as the Designated LIBOR Currency. If no such currency is designated in the Note and the applicable Pricing Supplement, the Designated LIBOR Currency shall be U.S. dollars.

"Designated LIBOR Page" means either (a) the display on the Reuters Monitor Money Rates Service for the purpose of displaying the London interbank rates of major banks for the applicable Designated LIBOR Currency (if "LIBOR Reuters" is designated in the Note and the applicable Pricing Supplement), or (b) the display on the Dow Jones Telerate Service for the purpose of displaying the London interbank rates of major banks for the applicable designated LIBOR Currency (if "LIBOR Telerate" is designated in the Note and the applicable Pricing Supplement). If neither LIBOR Reuters nor LIBOR Telerate is specified in the Note and applicable Pricing Supplement, LIBOR for the applicable Designated LIBOR Currency will be determined as if LIBOR Telerate (and, if the U.S. dollar is the Designated LIBOR Currency, page 3750) had been chosen.

"Principal Financial Center" means, with respect to any LIBOR Note, unless otherwise specified in the Note and the applicable Pricing Supplement, the capital city of the country that issues as its legal tender the Designated LIBOR Currency of such Note, except that with respect to U.S. dollars, the Principal Financial Center shall be The City of New York.

#### *Prime Rate Notes*

Each Prime Rate Note will bear interest at the interest rate (calculated with reference to the Prime Rate and the Spread and/or Spread Multiplier, if any) specified in the Prime Rate Note and in the applicable Pricing Supplement.

Unless otherwise indicated in the applicable Pricing Supplement, "Prime Rate" means, with respect to any Prime Interest Determination Date, the rate set forth on such date in H.15(519) under the heading "Bank Prime Loan." In the event that such rate is not published prior to 9:00 A.M., New York City time, on the Calculation Date pertaining to such Prime Interest Determination Date, then the Prime Rate with respect to such Prime Interest Determination Date shall be the arithmetic mean of the rates of interest publicly announced by each bank that appears on the Reuters Screen USPRIMEI Page as such bank's prime rate or base lending rate as in effect for that Prime Interest Determination Date. If fewer than four such rates appear on the Reuters Screen USPRIMEI Page for the Prime Interest Determination Date, the Prime Rate with respect to such Prime Interest Determination Date shall be the arithmetic mean of the prime rates quoted on the basis of the actual number of days in the year divided by 360 as of the close of business on such Prime Interest Determination Date by at least two of the three major money center banks in The City of New York selected by the Calculation Agent. If fewer than two quotations are provided, the Prime Rate with respect to such Prime Interest Determination Date shall be determined on the basis of the rates furnished in The City of New York by the appropriate number of substitute banks or trust companies organized and doing business under the laws of the United States, or any state thereof, having total equity capital of at least U.S. \$500 million and being subject to supervision or examination by federal or state authority, selected by the Calculation Agent to provide such rate or rates; *provided, however*, that if the bank or trust company selected as aforesaid is not quoting as mentioned in this sentence, the Prime Rate with respect to such Prime Interest Determination Date will be the Prime Rate in effect immediately prior to such Prime Interest Determination Date. "Reuters Screen USPRIMEI Page" means the display designated as page "USPRIMEI" on the Reuters Monitor Money Rate Service (or such other page as may replace the USPRIMEI page on the service for the purpose of displaying the prime rate or base lending rate of major banks).

#### *Treasury Rate Notes*

Each Treasury Rate Note will bear interest at the interest rate (calculated with reference to the Treasury Rate and the Spread and/or Spread Multiplier, if any) specified in the Treasury Rate Note and in the applicable Pricing Supplement.

Unless otherwise indicated in the applicable Pricing Supplement, "Treasury Rate" means, with respect to any Treasury Interest Determination Date, the rate for the most recent auction of direct obligations of the United States ("Treasury bills") having the Index Maturity specified in the applicable Pricing Supplement as published in H.15(519) under the heading, "Treasury bills—auction average (investment)" or, if not so published by 3:00 P.M., New York City time, on the Calculation Date pertaining to such Treasury Interest Determination Date, the average auction rate (expressed as a bond equivalent, on the basis of a year of 365 or 366 days, as applicable, and applied on a daily basis) as otherwise announced by the United States Department of the Treasury. In the event that such rate is not available by 3:00 P.M., New York City time, on such Treasury Interest Determination Date, or if no such auction is held in a particular week, then the Treasury Rate with respect to such Treasury Interest Determination Date shall be calculated by the Calculation Agent and shall be a yield to maturity (expressed as a bond equivalent, on the basis of a year of 365 or 366 days, as applicable, and applied on a daily basis) of the arithmetic mean of the secondary market bid rates, as of approximately 3:30 P.M., New York City time, on such Treasury Interest Determination Date, of three leading primary U.S. government securities dealers selected by the Calculation Agent for the issue of Treasury bills with a remaining maturity closest to the Index Maturity designated in the applicable Pricing Supplement; *provided, however*, that if the dealers selected as aforesaid by the Calculation Agent are not quoting as mentioned in this sentence, the Treasury Rate with respect to such Treasury Interest Determination Date will be the Treasury Rate in effect immediately prior to such Treasury Interest Determination Date.

### **Original Issue Discount Notes**

The University may from time to time offer Original Issue Discount Notes. The Pricing Supplement applicable to certain Original Issue Discount Notes may provide that Holders of such Notes will not receive periodic payments of interest. See "—General."

"Original Issue Discount Note" means, (i) a Note that has a stated redemption price at Maturity that exceeds its Issue Price (as defined for U.S. federal income tax purposes) by at least 0.25% of its stated redemption price at maturity multiplied by the number of full years from the Original Issue Date to the Stated Maturity for such Notes and (ii) any other Note designated by the University as issued with original issue discount for U.S. federal income tax purposes.

### **Amortizing Notes**

The University may from time to time offer Notes for which payments of principal and interest are made in installments over the life of the Note ("Amortizing Notes"). Interest on each Amortizing Note will be computed as set forth in a Pricing Supplement or in the Book-Entry Note representing such Amortizing Note. Unless otherwise provided in such Pricing Supplement or in such Book-Entry Note, payments with respect to Amortizing Notes will be applied first to interest due and payable thereon and then to the reduction of the unpaid principal amount thereof. A table setting forth repayment information with respect to each Amortizing Note will be provided to the original purchaser of such Note and will be available upon request to the subsequent Holders thereof.

### **Reset Notes**

The Pricing Supplement relating to each Note will indicate whether the University has the option with respect to such Note to reset the interest rate, in the case of a Fixed Rate Note, or to reset the Spread and/or Spread Multiplier, in the case of a Floating Rate Note (in each case, a "Reset Note"), and, if so, (i) the date or dates on which such interest rate or such Spread and/or Spread Multiplier, as the case may be, may be reset (each an "Optional Interest Reset Date") and (ii) the basis or formula, if any, for such resetting.

The University may exercise such option with respect to a Note by notifying the Issuing and Paying Agent in writing of such exercise at least 45 but not more than 60 calendar days prior to an Optional Interest

Reset Date for such Note. If the University so notifies the Issuing and Paying Agent of such exercise, not later than 40 calendar days prior to such Optional Interest Reset Date, the Issuing and Paying Agent will send by telegram, telex, facsimile transmission or letter (first class, postage prepaid) to the Holder of such Note a notice (the "Reset Notice") indicating (i) that the University has elected to reset the interest rate, in the case of a Fixed Rate Note, or the Spread and/or Spread Multiplier, in the case of a Floating Rate Note, (ii) such new interest rate or such new Spread and/or Spread Multiplier, as the case may be, and (iii) the provisions, if any, for redemption during the period from such Optional Interest Reset Date to the next Optional Interest Reset Date or, if there is no such next Optional Interest Reset Date, to the Stated Maturity of such Note (each such period a "Subsequent Interest Period"), including the date or dates on which or the period or periods during which and the price or prices at which such redemption may occur during such Subsequent Interest Period.

Notwithstanding the foregoing, not later than 20 calendar days prior to an Optional Interest Reset Date for a Note, the University may, at its option, revoke the interest rate, in the case of a Fixed Rate Note, or the Spread and/or Spread Multiplier, in the case of a Floating Rate Note, provided for in the Reset Notice and establish a higher interest rate, in the case of a Fixed Rate Note, or a higher Spread and/or Spread Multiplier, in the case of a Floating Rate Note, for the Subsequent Interest Period commencing on such Optional Interest Reset Date by causing the Issuing and Paying Agent to send by telegram, telex, facsimile transmission or letter (first class, postage prepaid) notice of such higher interest rate or higher Spread and/or Spread Multiplier, as the case may be, to the Holder of such Note. Such notice shall be irrevocable. All Notes with respect to which the interest rate or Spread and/or Spread Multiplier is reset on an Optional Interest Reset Date will bear such higher interest rate, in the case of a Fixed Rate Note, or higher Spread and/or Spread Multiplier, in the case of a Floating Rate Note, whether or not tendered for repayment as provided in the next paragraph.

If the University elects prior to an Optional Interest Reset Date to reset the interest rate or the Spread and/or Spread Multiplier of a Note, the Holder of such Note will have the option to elect repayment of such Note by the University on such Optional Interest Reset Date at a price equal to the principal amount thereof plus any accrued interest to such Optional Interest Reset Date. In order for a Note to be so repaid on an Optional Interest Reset Date, the Holder thereof must follow the procedures set forth below under "Redemption and Repayment" for optional repayment, except that the period for delivery of such Note or notification to the Issuing and Paying Agent shall be at least 25 but not more than 35 calendar days prior to such Optional Interest Reset Date. A Holder who has tendered a Note for repayment following receipt of a Reset Notice may revoke such tender for repayment by written notice to the Issuing and Paying Agent received prior to 5:00 P.M., New York City time, on the tenth calendar day prior to such Optional Interest Reset Date.

#### **Extension of Maturity**

The Pricing Supplement relating to each Note will indicate whether the University has the option to extend the Stated Maturity of such Note for one or more periods of from one to five whole years (each an "Extension Period") up to but not beyond the date (the "Final Maturity Date") set forth in such Pricing Supplement.

The University may exercise such option with respect to a Note by notifying the Issuing and Paying Agent in writing of such exercise at least 45 but not more than 60 calendar days prior to the Stated Maturity of such Note in effect prior to the exercise of such option (the "Original Stated Maturity Date"). If the University so notifies the Issuing and Paying Agent of such exercise, not later than 40 calendar days prior to the Original Stated Maturity Date, the Issuing and Paying Agent will send by telegram, telex, facsimile transmission or letter (first class, postage prepaid) to the Holder of such Note a notice (the "Extension Notice") relating to such Extension Period, indicating (i) that the University has elected to extend the Stated Maturity of such Note, (ii) the new Stated Maturity, (iii) in the case of a Fixed Rate Note, the interest rate applicable to the Extension Period or, in the case of a Floating Rate Note, the Spread and/or Spread Multiplier applicable to the Extension Period, and (iv) the provisions, if any, for redemption during the

Extension Period, including the date or dates on which or the period or periods during which and the price or prices at which such redemption may occur during the Extension Period. Upon the sending by the Issuing and Paying Agent of an Extension Notice to the Holder of a Note, the Stated Maturity of such Note shall be extended automatically, and, except as modified by the Extension Notice and as described in the next two paragraphs, such Note will have the same terms as prior to the sending of such Extension Notice.

Notwithstanding the foregoing, not later than 20 calendar days prior to the Original Stated Maturity Date for a Note, the University may, at its option, revoke the interest rate, in the case of a Fixed Rate Note, or the Spread and/or Spread Multiplier, in the case of a Floating Rate Note, provided for in the Extension Notice and establish a higher interest rate, in the case of a Fixed Rate Note, or a higher Spread and/or Spread Multiplier, in the case of a Floating Rate Note, for the Extension Period by causing the Issuing and Paying Agent to send by telegram, telex, facsimile transmission or letter (first class, postage prepaid) notice of such higher interest rate or higher Spread and/or Spread Multiplier, as the case may be, to the Holder of such Note. Such notice shall be irrevocable. All Notes with respect to which the Stated Maturity is extended will bear such higher interest rate, in the case of a Fixed Rate Note, or higher Spread and/or Spread Multiplier, in the case of a Floating Rate Note, for the Extension Period, whether or not tendered for repayment as provided in the next paragraph.

If the University elects to extend the Stated Maturity of a Note, the Holder of such Note will have the option to elect repayment of such Note by the University on the Original Stated Maturity Date at a price equal to the principal amount thereof plus any accrued and unpaid interest to such date. In order for a Note to be so repaid on the Original Stated Maturity Date, the Holder thereof must follow the procedures set forth below under "— Redemption and Repayment" for optional repayment, except that the period for delivery of such Note or notification to the Issuing and Paying Agent shall be at least 25 but not more than 35 calendar days prior to the Original Stated Maturity Date. A Holder who has tendered a Note for repayment following receipt of an Extension Notice may revoke such tender for repayment by written notice to the Issuing and Paying Agent received prior to the close of business on the tenth calendar day prior to the Original Stated Maturity Date.

### **Renewable Notes**

The applicable Pricing Supplement will indicate whether a Note (other than an Amortizing Note) will mature at its Original Stated Maturity Date unless the term of all or any portion of any such Note is renewed by the Holder in accordance with the procedures described in such Pricing Supplement.

### **Combination of Provisions**

If so specified in the applicable Pricing Supplement, any Note may be subject to all of the provisions, or any combination of the provisions, described above under "— Reset Notes," "— Extension of Maturity" and "— Renewable Notes."

### **Redemption and Repayment**

Unless otherwise specified in the applicable Pricing Supplement, the Notes will not be subject to any sinking fund or to redemption at the University's option.

The Pricing Supplement relating to each Note will indicate either that such Note cannot be repaid prior to Stated Maturity or that such Note will be repayable at the option of the Holder on a date or dates specified prior to Stated Maturity at a price or prices set forth in the applicable Pricing Supplement, together with accrued interest to the date of repayment.

In order for a Note that is repayable at the option of the Holder to be repaid prior to Stated Maturity, the Issuing and Paying Agent must receive at least 30 but not more than 60 calendar days prior to the repayment date (i) the Note with the form entitled "Option to Elect Repayment" on the reverse of the Note

duly completed or (ii) a telegram, telex, facsimile transmission or letter (first class, postage prepaid) from a member of a national securities exchange or the National Association of Securities Dealers, Inc. or a commercial bank or trust company in the United States setting forth the name of the Holder of the Note, the principal amount of the Note, the principal amount of the Note to be repaid, the certificate number or a description of the tenor and terms of the Note, a statement that the option to elect repayment is being exercised thereby and a guarantee that the Note to be repaid with the form entitled "Option to Elect Repayment" on the reverse of the Note duly completed will be received by the Issuing and Paying Agent not later than five Business Days after the date of such telegram, telex, facsimile transmission or letter and such Note and form duly completed are received by the Issuing and Paying Agent by such fifth Business Day. Exercise of the repayment option by the Holder of a Note shall be irrevocable, except that a Holder who has tendered a Note for repayment may revoke such tender for repayment by written notice to the Issuing and Paying Agent received prior to the close of business on the tenth calendar day prior to the repayment date. The repayment option may be exercised by the Holder of a Note for less than the entire principal amount of the Note provided that the principal amount of the Note remaining outstanding after such repayment is an authorized denomination.

While the Book-Entry Notes are represented by the Global Security or Securities held by or on behalf of the Depositary, and registered in the name of the Depositary or the Depositary's nominee, the option for repayment may be exercised by the applicable Participant (as defined herein) that has an account with the Depositary, on behalf of the beneficial owners of the Global Security or Securities representing such Book-Entry Notes, by delivering a written notice substantially similar to the above mentioned form to the Issuing and Paying Agent at 100 Wall Street, 16th Floor, New York, New York 10005 (or such other address of which the University shall from time to time notify the Holders), not more than 60 nor less than 30 days prior to the date of repayment. Notices of election from Participants on behalf of beneficial owners of the Global Security or Securities representing such Book-Entry Notes to exercise their option to have such Book-Entry Notes repaid must be received by the Issuing and Paying Agent by 5:00 P.M., New York City time, on the last day for giving such notice. In order to ensure that a notice is received by the Issuing and Paying Agent on a particular day, the beneficial owner of the Global Security or Securities representing such Book-Entry Notes must so direct the applicable Participant before such Participant's deadline for accepting instructions for that day. Different firms may have different deadlines for accepting instructions from their customers. Accordingly, beneficial owners of the Global Security or Securities representing Book-Entry Notes should consult the Participants through which they own their interest therein for the respective deadlines for such Participants. All notices shall be executed by a duly authorized officer of such Participant (with signatures guaranteed) and shall be irrevocable. In addition, beneficial owners of the Global Security or Securities representing Book-Entry Notes shall effect delivery at the time such notices of election are given to the Depositary by causing the applicable Participant to transfer such beneficial owner's interest in the Global Security or Securities representing such Book-Entry Notes, on the Depositary's records, to the Issuing and Paying Agent. See "— Book-Entry System."

### **Repurchase**

The University may at any time purchase Notes at any price or prices in the open market or otherwise. Notes so purchased by the University may be held or resold or, at the discretion of the University, may be surrendered to the Issuing and Paying Agent for cancellation.

### **Other Provisions**

Any provisions with respect to the determination of an interest rate basis, to the specification of an interest rate basis, to the calculation of the interest rate applicable to, or the principal payable at Maturity on, any Note, to the Interest Payment Dates or to any other matter relating to any Note, may be modified by the terms as specified under "Other Provisions" on the face of such Note, or in an addendum to the Note relating to such subjects, if so specified on the face of the Note, and in the applicable Pricing Supplement.

## **Book-Entry System**

DTC will act as securities depository for the Book-Entry Notes. The Book-Entry Notes will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One-fully-registered Global Security will be issued for each issue of the Notes, each in the aggregate principal amount of such issue, 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 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, as amended. DTC holds securities that its participants ("Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants ("Direct Participants") include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to DTC's system is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Purchases of Book-Entry Notes under DTC's system must be made by or through Direct Participants, which will receive a credit for the Book-Entry Notes on DTC's records. The ownership interest of each actual purchaser of each Book-Entry Note ("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, but Beneficial Owners are expected to receive written confirmations providing details of the transactions, 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 Book-Entry Notes are to be accomplished by entries made on the books of Participants acting on behalf of the Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Book-Entry Notes, except in the event that use of the book-entry system for one or more Book-Entry Notes is discontinued.

To facilitate subsequent transfers, all Global Securities deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Global Securities with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Book-Entry Notes. DTC's records reflect only the identity of the Direct Participants to whose accounts such Book-Entry Notes are credited, which may or may not be the Beneficial Owners. The Participants 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 Cede & Co. If less than all of the Book-Entry Notes within an issue are being redeemed, DTC's current practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to Book-Entry Notes. Under its usual procedures, DTC will mail 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 Book-Entry Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Book-Entry Notes will be made to DTC. DTC's practice is to credit Direct Participants' accounts on the payable date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the payable date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as in the case of securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, or the University, subject to any statutory or regulatory requirements which may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the University, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its Book-Entry Notes purchased or tendered, through its Participant, to the Issuing and Paying Agent, and shall effect delivery of such Book-Entry Notes by causing the Direct Participant to transfer the Participant's interest in the Book-Entry Notes, on DTC's records, to the Issuing and Paying Agent. The requirement for physical delivery of Book-Entry Notes in connection with a demand for purchase or a mandatory purchase will be deemed satisfied when the ownership rights in the Book-Entry Notes are transferred by a Direct Participant on DTC's records.

DTC may discontinue providing its services as securities depository with respect to the Book-Entry Notes at any time by giving reasonable notice to the University or the Agents. Under such circumstances, in the event that a successor securities depository is not obtained, Certificated Notes will be printed and delivered in exchange for the Book-Entry Notes represented by the Global Securities held by DTC.

The University may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Certificated Notes will be printed and delivered in exchange for the Book-Entry Notes represented by the Global Securities held by DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the University believes to be reliable, but the University takes no responsibility for the accuracy thereof.

Neither the University nor the Issuing and Paying Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in a Global Security or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

#### **Defeasance**

Unless otherwise specified in the applicable Pricing Supplement, the Notes will be subject to defeasance and discharge as described under "Description of Debt Securities—Defeasance" in the accompanying Offering Circular.

#### **CERTAIN UNITED STATES FEDERAL INCOME TAX CONSEQUENCES**

The following summary describes certain United States federal income tax consequences of the ownership of Notes as of the date hereof. Except where noted, it deals only with Notes held as capital assets by United States Holders and does not deal with special situations, such as those of dealers in securities or currencies, financial institutions, life insurance companies, persons holding Notes as a part of a hedging or conversion transaction or a straddle or United States Holders whose "functional currency" is not the U.S. dollar. Furthermore, the discussion below is based upon the provisions of the Internal Revenue

Code of 1986, as amended (the "Code"), and regulations, rulings and judicial decisions thereunder as of the date hereof, and such authorities may be repealed, revoked or modified so as to result in federal income tax consequences different from those discussed below. Any special United States federal income tax considerations relevant to a particular issue of the Notes will be provided in the applicable Pricing Supplement. **Persons considering the purchase, ownership or disposition of Notes should consult their own tax advisors concerning the federal income tax consequences in light of their particular situations as well as any consequences arising under the laws of any other taxing jurisdiction.**

### **Payments of Interest**

Except as set forth below, interest on a Note will generally be taxable to a United States Holder as ordinary income from domestic sources at the time it is paid or accrued in accordance with the United States Holder's method of accounting for tax purposes. As used herein, a "United States Holder" of a Note means a holder that is a citizen or resident of the United States, a corporation, partnership or other entity created or organized in or under the laws of the United States or any political subdivision thereof, or an estate or trust the income of which is subject to United States federal income taxation regardless of its source. A "Non-United States Holder" is a holder that is not a United States Holder.

### **Original Issue Discount**

United States Holders of Notes issued with original issue discount ("OID") will be subject to special tax accounting rules, as described in greater detail below. United States Holders of such Notes should be aware that they generally must include OID in gross income in advance of the receipt of cash attributable to that income. However, United States Holders of such Notes generally will not be required to include separately in income cash payments received on the Notes, even if denominated as interest, to the extent such payments do not constitute qualified stated interest (as defined below). Notes issued with OID will be referred to as "Original Issue Discount Notes." Notice will be given in the applicable Pricing Supplement when the University determines that a particular Note will be an Original Issue Discount Note.

This summary is based upon final Treasury regulations addressing debt instruments issued with OID (the "OID Regulations"). The following discussion does not address Notes providing for contingent payments other than Notes that bear qualified stated interest.

A Note with an "issue price" that is less than its stated redemption price at maturity (the sum of all payments to be made on the Note other than "qualified stated interest") will be issued with OID if such difference is at least 0.25 percent of the stated redemption price at maturity multiplied by the number of complete years to maturity or, in the case of an Amortizing Note, the weighted average maturity. If a Note has certain interest payment characteristics (e.g., interest holidays, interest payable in additional Notes or stepped interest rates), then the Note may also be treated as having OID even if such Note was issued at an issue price that does not result in OID. The "issue price" of each Note in a particular offering will be the first price at which a substantial amount of that particular offering is sold (other than to an underwriter, placement agent or wholesaler). The term "qualified stated interest" means stated interest that is unconditionally payable in cash or in property (other than debt instruments of the issuer) at least annually at a single fixed rate or, subject to certain conditions, based on one or more interest indices. Interest is payable at a single fixed rate only if the rate appropriately takes into account the length of the interval between payments. Notice will be given in the applicable Pricing Supplement when the University determines that a particular Note will bear interest that is not qualified stated interest.

In the case of a Note issued with de minimis OID (*i.e.*, discount that is not OID because it is less than 0.25 percent of the stated redemption price at maturity multiplied by the number of complete years to maturity), the United States Holder generally must include such de minimis OID in income as principal payments on the Notes are made in proportion to the stated principal amount of the Note. Any amount of



de minimis OID that has been included in income under the preceding rule is characterized as gain recognized on the retirement of the Note.

Certain of the Notes may be redeemed prior to their Stated Maturity at the option of the University and/or at the option of the holder. Original Issue Discount Notes containing such features may be subject to rules that differ from the general rules discussed herein. Persons considering the purchase of Original Issue Discount Notes with such features should carefully examine the applicable Pricing Supplement and should consult their own tax advisors with respect to such features since the tax consequences with respect to OID will depend, in part, on the particular terms and features of the Notes.

United States Holders of Original Issue Discount Notes with a maturity upon issuance of more than one year must, in general, include OID in income in advance of the receipt of some or all of the related cash payments. The amount of OID includible in income by the initial United States Holder of an Original Issue Discount Note is the sum of the "daily portions" of OID with respect to the Note for each day during the taxable year or portion of the taxable year in which such United States Holder held such Note ("accrued OID"). The daily portion is determined by allocating to each day in any "accrual period" a pro rata portion of the OID allocable to that accrual period. The "accrual period" for an Original Issue Discount Note may be of any length and may vary in length over the term of the Note, provided that each accrual period is no longer than one year and each scheduled payment of principal or interest occurs on the first day or the final day of an accrual period. The amount of OID allocable to any accrual period is an amount equal to the excess, if any, of (a) the product of the Note's adjusted issue price at the beginning of such accrual period and its yield to maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) over (b) the sum of any qualified stated interest allocable to the accrual period. OID allocable to a final accrual period is the difference between the amount payable at maturity (other than a payment of qualified stated interest) and the adjusted issue price at the beginning of the final accrual period. Special rules will apply for calculating OID for an initial short accrual period. The "adjusted issue price" of a Note at the beginning of any accrual period is equal to its issue price increased by the accrued OID for each prior accrual period (determined without regard to the amortization of any acquisition or bond premium, as described below) and reduced by any payments made on such Note (other than qualified stated interest) on or before the first day of the accrual period. Under these rules, a United States Holder will have to include in income increasingly greater amounts of OID in successive accrual periods. The University is required to provide information returns stating the amount of OID accrued on Notes held of record by persons other than corporations and other exempt holders.

In the case of an Original Issue Discount Note that is a Floating Rate Note, both the "yield to maturity" and "qualified stated interest" will be determined solely for purposes of calculating the accrual of OID as though the Note will bear interest in all periods at a fixed rate generally equal to the rate that would be applicable to interest payments on the Note on its date of issue or, in the case of certain Floating Rate Notes, the rate that reflects the yield to maturity that is reasonably expected for the Note. Additional rules may apply if interest on a Floating Rate Note is based on more than one interest index. Persons considering the purchase of Floating Rate Notes should carefully examine the applicable Pricing Supplement and should consult their own tax advisors regarding the U.S. federal income tax consequences of the holding and disposition of such Notes.

Certain United States Holders may elect to treat all interest on any Note as OID and calculate the amount includible in gross income under the constant yield method described above. For the purposes of this election, interest includes stated interest, acquisition discount, OID, de minimis OID, market discount, de minimis market discount and unstated interest, as adjusted by any amortizable bond premium or acquisition premium. The election is to be made for the taxable year in which the United States Holder acquired the Note, and may not be revoked without the consent of the Internal Revenue Service (the "IRS"). **United States Holders should consult with their own tax advisors about this election.**

## **Short-Term Notes**

In the case of Original Issue Discount Notes having a term of one year or less ("Short-Term Notes"), under the OID Regulations all payments (including all stated interest) will be included in the stated redemption price at maturity and, thus, United States Holders will generally be taxable on the discount in lieu of stated interest. The discount will be equal to the excess of the stated redemption price at maturity over the issue price of a Short Term Note, unless the United States Holder elects to compute this discount using tax basis instead of issue price. In general, individuals and certain other cash method United States Holders of a Short-Term Note are not required to include accrued discount in their income currently unless they elect to do so. United States Holders that report income for federal income tax purposes on the accrual method and certain other United States Holders are required to accrue discount on such Short-Term Notes (as ordinary income) on a straight-line basis, unless an election is made to accrue the discount according to a constant yield method based on daily compounding. In the case of a United States Holder that is not required, and does not elect, to include discount in income currently, any gain realized on the sale, exchange or retirement of the Short-Term Note will be ordinary income to the extent of the discount accrued through the date of sale, exchange or retirement. In addition, a United States Holder that does not elect to currently include accrued discount in income may be required to defer deductions for a portion of the United States Holder's interest expense with respect to any indebtedness incurred or continued to purchase or carry such Notes.

## **Market Discount**

If a United States Holder purchases a Note (other than an Original Issue Discount Note) for an amount that is less than its stated redemption price at maturity or, in the case of an Original Issue Discount Note, its adjusted issue price, the amount of the difference will be treated as "market discount" for federal income tax purposes, unless such difference is less than a specified de minimis amount. Under the market discount rules, a United States Holder will be required to treat any principal payment on, or any gain on the sale, exchange, retirement or other disposition of, a Note as ordinary income to the extent of the market discount which has not previously been included in income and is treated as having accrued on such Note at the time of such payment or disposition. In addition, the United States Holder may be required to defer, until the maturity of the Note or its earlier disposition in a taxable transaction, the deduction of all or a portion of the interest expense on any indebtedness incurred or continued to purchase or carry such Note.

Any market discount will be considered to accrue ratably during the period from the date of acquisition to the maturity date of the Note, unless the United States Holder elects to accrue on a constant interest method. A United States Holder of a Note may elect to include market discount in income currently as it accrues (on either a ratable or constant interest method), in which case the rule described above regarding deferral of interest deductions and ordinary income treatment on disposition will not apply. This election to include market discount in income currently, once made, applies to all market discount obligations acquired on or after the first taxable year to which the election applies and may not be revoked without the consent of the IRS.

## **Acquisition Premium; Amortizable Bond Premium**

A United States Holder that purchases a Note for an amount that is greater than its adjusted issue price but equal to or less than the sum of all amounts payable on the Note after the purchase date other than payments of qualified stated interest will be considered to have purchased such Note at an "acquisition premium." Under the acquisition premium rules, the amount of OID which such holder must include in its gross income with respect to such Note for any taxable year will be reduced (but not below zero) by the portion of such acquisition premium properly allocable to such year.

A United States Holder that purchases a Note for an amount in excess of the sum of all amounts payable on the Note after the purchase date other than qualified stated interest will be considered to have purchased the Note at a "premium" and will not be required to include any OID in income. A United States

Holder generally may elect to amortize the premium over the remaining term of the Note on a constant yield method. The amount amortized in any year will be treated as a reduction of the United States Holder's interest income from the Note. Bond premium on a Note held by a United States Holder that does not make such an election will decrease the gain or increase the loss otherwise recognized on disposition of the Note. The election to amortize premium on a constant yield method once made applies to all debt obligations held or subsequently acquired by the electing United States Holder on or after the first day of the first taxable year to which the election applies and may not be revoked without the consent of the IRS.

### **Sale, Exchange and Retirement of Notes**

A United States Holder's tax basis in a Note will, in general, be the United States Holder's cost thereof increased by OID, market discount or any discount with respect to a Short-Term Note previously included in income by the United States Holder and reduced by any amortized premium and any cash payments on the Note other than qualified stated interest. Upon the sale, exchange or retirement of a Note, a United States Holder will recognize gain or loss equal to the difference between the amount realized upon the sale, exchange or retirement (less any accrued qualified stated interest, which will be taxable as such) and the adjusted tax basis of the Note. Except as described above with respect to certain Short-Term Notes or with respect to market discount, such gain or loss will be capital gain or loss and will be long-term capital gain or loss if at the time of sale, exchange or retirement the Note has been held for more than one year. Under current law, net capital gains of individuals are, under certain circumstances, taxed at lower rates than items of ordinary income. The deductibility of capital losses is subject to limitations.

### **Extendible Notes, Reset Notes and Renewable Notes**

If so specified in an applicable Pricing Supplement relating to a Note, the University or a holder may have the option to extend the maturity of a Note. See "Description of Notes—Renewable Notes" and "Description of Notes—Extension of Maturity." In addition, the University may have the option to reset the interest rate, the Spread or the Spread Multiplier. See "Description of Notes—Subsequent Interest Periods." The treatment of a United States Holder of Notes with respect to which such an option has been exercised is unclear and will depend, in part, on the terms established for such Notes by the University pursuant to the exercise of such option (the "Revised Terms"). Such United States Holder may be treated for federal income tax purposes as having exchanged such Notes (the "Old Notes") for new Notes with Revised Terms (the "New Notes"). If the exercise of the option by the University is not treated as an exchange of Old Notes for New Notes, no gain or loss will be recognized by a United States Holder as a result thereof. If the exercise of the option is treated as a taxable exchange of Old Notes for New Notes, a United States Holder would recognize gain or loss equal to the difference between the issue price of the New Notes and the holder's tax basis in the Old Notes.

The presence of such options may also affect the calculation of OID, among other things. The OID Regulations provide that, solely for purposes of the accrual of OID, an issuer of a debt instrument having an option or combination of options to extend the term of the debt instrument will be presumed to exercise such option or options in a manner that minimizes the yield on the debt instrument. Conversely, a holder having a put option, an option to extend the term of the debt instrument or a combination of such options will be presumed to exercise such option or options in a manner that maximizes the yield on the debt instrument. If the exercise of such option or options to extend the term of the debt instrument actually occurs or the option to put does not occur, contrary to the presumption made under the OID Regulations (a "change in circumstances"), then, solely for purposes of the accrual of OID, the debt instrument is treated as reissued on the date of the change in circumstances for an amount equal to its adjusted issue price on that date. Persons considering the purchase of Extendible Notes, Reset Notes or Renewable Notes should carefully examine the applicable Pricing Supplement and should consult their own tax advisors regarding the U.S. federal income tax consequences of the holding and disposition of such Notes.

## **Non-United States Holders**

Subject to the discussion below concerning backup withholding, assuming certain certification requirements are satisfied (which generally can be satisfied by providing Internal Revenue Service Form W-8, identifying the beneficial owner of the instrument as a non-U.S. person and disclosing the Non-United States Holder's name and address), under current U.S. federal income and estate tax laws:

(i) Payments of principal and interest (including OID) on a Note to a Non-United States Holder will not be subject to U.S. federal income tax or withholding tax, provided that, in the case of interest and OID, (a) the payments are not effectively connected with a U.S. trade or business, (b) the holder is not a controlled foreign corporation related to the University through stock ownership, and (c) the holder is not a bank receiving interest pursuant to a loan agreement entered into in the ordinary course of its trade or business;

(ii) A Non-United States Holder of a Note will not be subject to U.S. federal income tax on gain realized on the sale, exchange or redemption of a Note if such gain is not effectively connected with a U.S. trade or business and, in the case of a Non-United States Holder who is an individual, such holder is not present in the United States for a total of 183 days or more during the taxable year in which such gain is realized; and

(iii) A Note held by an individual who at the time of death is not a citizen or resident of the United States will generally not be subject to U.S. federal estate tax as a result of such individual's death, provided that the interest payments with respect to such Note would not have been, if received at the time of such individual's death, effectively connected with the conduct by such holder of a U.S. trade or business.

## **Backup Withholding**

Under current U.S. federal income tax law, a 31% "backup" withholding tax is applied to certain interest and principal payments made to, and to the proceeds of sales before maturity by, certain U.S. persons if such persons fail to supply taxpayer identification numbers and other information. Interest paid with respect to a Note and received by a Non-United States Holder will not be subject to backup withholding if the person required to withhold has received appropriate certification statements. The applicable certification procedures require that the holder certify as to its non-U.S. status and provide its name and address.

## **SUPPLEMENTAL PLAN OF DISTRIBUTION**

The Notes are offered on a continuing basis by the University through the Agent, which has agreed to use its reasonable efforts to solicit purchases of the Notes. The University will pay the Agent a commission from .125% to 1.000% of the principal amount of each Note sold through the Agent, depending upon its Stated Maturity. The University will have the sole right to accept offers to purchase Notes and may reject any such offer in whole or in part. The Agent will have the right, in its discretion reasonably exercised, to reject in whole or in part any offer to purchase Notes received by the Agent. The University also may sell Notes to the Agent, acting as principal, at a discount to be agreed upon at the time of sale, for resale to one or more investors or to one or more broker-dealers (acting as principal for purposes of resale) at varying prices related to prevailing market prices at the time of resale, as determined by the Agent, or, if so agreed, at a fixed public offering price. Unless otherwise indicated in the applicable Pricing Supplement, if any Note is resold by the Agent to any broker-dealer at a discount, such discount will not be in excess of the discount or commission received by the Agent from the University. In addition, unless otherwise indicated in the applicable Pricing Supplement, any Note purchased by the Agent as principal will be purchased at 100% of the principal amount thereof less a commission from .125% to 1.125% of the principal amount of each Note sold to the Agent, depending upon its Stated Maturity which may range from nine months to more than fifty years. After the initial public offering of the Notes, the public offering price (in the case of Notes to be

resold on a fixed public offering price basis), the concession and the discount may be changed. The University also reserves the right to sell the Notes directly to investors on its own behalf in those jurisdictions where it is authorized to do so or as otherwise provided in the applicable Pricing Supplement. In such circumstances, the University will have the sole right to accept offers to purchase Notes and may reject any proposed purchase of Notes in whole or in part. In the case of sales made directly by the University, no commission will be payable.

The University has agreed to indemnify the Agent against certain liabilities in connection with the offering or to contribute to payments the Agent may be required to make in respect thereof. The University has agreed to reimburse the Agent for certain of the Agent's expenses, including, but not limited to, the fees and expenses of counsel to the Agent.

The University has been advised by the Agent that it may from time to time purchase and sell Notes in the secondary market, but that it is not obligated to do so. There can be no assurance that there will be a secondary market for the Notes or liquidity in the secondary market if one develops. From time to time, the Agent may make a market in the Notes but is not obligated to and may discontinue such market-making at any time without notice.

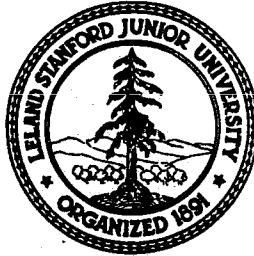
The Agent has agreed to pay a portion of the University's expenses in connection with the offering of the Notes.

The Agent and its affiliates engage in transactions with and perform services for the University in the ordinary course of business.

William C. Landreth, a general partner of the Goldman Sachs Group, L.P., is a member of the Board of Trustees of the University and a member of the Board of Directors of the Stanford Management Company.

OFFERING CIRCULAR

# Stanford University



## Debt Securities

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The Leland Stanford Junior University ("Stanford" or the "University") may offer from time to time up to \$150,000,000 aggregate principal amount of its unsecured debt securities (the "Debt Securities"), consisting of debentures, notes, and/or other unsecured evidences of indebtedness. The Debt Securities may be offered as separate series in amounts, at prices and on terms to be determined at the time of sale. The accompanying Offering Circular Supplement (the "Offering Circular Supplement") sets forth with regard to the Debt Securities in respect of which this Offering Circular is being delivered (the "Offered Debt Securities") the title, aggregate principal or initial offering amount, denominations, maturity, rate (which may be fixed or variable) and time of payment of any interest, any terms for redemption at the option of the University or the holder, any terms for sinking fund payments, and initial public offering price and other terms in connection with the offering and sale of the Offered Debt Securities.

The University may sell Debt Securities to or through underwriters or dealers, and also may sell Debt Securities directly to other purchasers or through agents. See "Plan of Distribution." The Offering Circular Supplement sets forth the names of any underwriters or agents involved in the sale of the Offered Debt Securities and any applicable commissions or discounts.

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**THE DEBT SECURITIES CONSTITUTE UNCONDITIONAL, DIRECT AND GENERAL OBLIGATIONS OF THE UNIVERSITY, RANKING EQUALLY WITH THE UNSECURED AND UNSUBORDINATED INDEBTEDNESS OF THE UNIVERSITY. SEE "DESCRIPTION OF DEBT SECURITIES — GENERAL" HEREIN.**

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**THE DEBT SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY STATE SECURITIES LAWS AND ARE BEING OFFERED PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION (THE "COMMISSION").**

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This Offering Circular may not be used to consummate sales of Debt Securities unless accompanied by an Offering Circular Supplement.

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The date of this Offering Circular is June 10, 1996.

## **THE UNIVERSITY**

Stanford is one of a select group of American 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. In the years since its founding in 1885, Stanford has grown to 1,459 faculty members and an enrollment for the fall quarter of the 1995-96 academic year of 6,577 undergraduate and 7,467 graduate students.

The founding grant by Senator and Mrs. Leland Stanford conveyed to the University an endowment of approximately \$20 million and the Stanfords' farm at Palo Alto. From this beginning, Stanford had, at August 31, 1995, an endowment of \$3.40 billion at market value and an extensive physical plant located on a portion of the approximately 8,200 acres owned by the University.

The University is governed by a Board of Trustees (the "Board"), which consists of a minimum of 25 and a maximum of 35 members, including the President of the University as Trustee ex-officio. Current membership of the Board is 31. The Board is responsible for the University's endowment and all the operations and properties of the University, including the adoption of the University budget, establishment of schools and departments, investment and accounting policies, debt policy, land use and development, faculty and staff appointments and benefits and gift development. The Board conducts its business through a number of committees.

For further information concerning the University, see Appendix A and Appendix B hereto.

## **USE OF PROCEEDS**

The University intends to use the net proceeds of the offering of the Debt Securities for capital projects, including new construction and major renovations in support of the University's academic program initiatives, seismic strengthening program and deferred maintenance and infrastructure enhancement programs. See "The Stanford Campus and Other Real Property - Capital Improvement Programs" in Appendix A hereto.

## **DESCRIPTION OF DEBT SECURITIES**

The following description sets forth certain general terms and provisions of the Debt Securities to which any Offering Circular Supplement may relate. The particular terms of the Debt Securities offered pursuant to any Offering Circular Supplement and the extent, if any, to which such general provisions may apply to the Debt Securities so offered will be described in the Offering Circular Supplement relating to such Debt Securities.

The Offered Debt Securities are to be issued under an Issuing and Paying Agency Agreement, dated as of June 1, 1996, as supplemented from time to time (the "Issuing and Paying Agency Agreement"), between the University and First Trust of New York, N.A., as Issuing and Paying Agent (the "Issuing and Paying Agent"), a copy of which is available for inspection at the Corporate Trust Office of the Issuing and Paying Agent, currently located at 100 Wall Street, 16th Floor, New York, New York 10005. The following summaries of certain provisions of the Debt Securities and the Issuing and Paying Agency Agreement do not purport to be complete and are subject to, and are qualified in their entirety by express reference to, all the provisions of the Issuing and Paying Agency Agreement, including the definitions therein of certain terms. Certain terms defined in the Issuing and Paying Agency Agreement are capitalized herein.

The University has been advised by its counsel that the principal of and income from funds restricted to purposes other than the general purposes of the University or the general purposes of a school or department which receives the advantages of the issuance of Debt Securities might not be available to make payments on account of the Debt Securities or to meet the claims of general creditors. However, to the extent that funds are restricted to a particular purpose which is being accomplished by application of a portion of Debt Securities, that portion of the Debt Securities might be payable by application of such funds. The University has not attempted to determine the amount of principal of and income from its endowment and other restricted funds which may be available to make payments on account of any particular Debt Security. However, the University has estimated that its available income will be substantially in excess of its annual scheduled debt service on account of Debt Securities and that the amount of available funds will exceed the principal amount of the outstanding Debt Securities.

## **General**

The Debt Securities will be unsecured obligations of the University and will rank on a parity with all other unsecured and unsubordinated indebtedness of the University. The Debt Securities have not been registered with the Commission and are offered pursuant to an exemption from registration under Section 3(a)(4) of the Securities Act. Accordingly, the Issuing and Paying Agency Agreement is not required to be, and has not been, qualified under the Trust Indenture Act of 1939, as amended.

The Debt Securities will not be listed on any securities exchange, and there can be no assurance that there will be a secondary market for the Debt Securities.

The Issuing and Paying Agency Agreement provides that Debt Securities may be issued thereunder from time to time in one or more series.

Reference is made to the Offering Circular Supplement relating to the Offered Debt Securities for, among other things, the following terms thereof: (1) the title of the Offered Debt Securities; (2) any limit on the aggregate principal amount of the Offered Debt Securities; (3) the date or dates on which the Offered Debt Securities will mature; (4) the rate or rates (which may be fixed or variable) per annum at which the Offered Debt Securities will bear interest, if any, and the date from which such interest will accrue; (5) the dates on which such interest will be payable and the regular record dates for such interest payment dates; (6) the dates, if any, on which and the price or prices at which the Offered Debt Securities may, pursuant to any mandatory or optional sinking fund provisions, be redeemed by the University and other detailed terms and provisions of such sinking funds and; (7) the date, if any, after which and the price or prices at which the Offered Debt Securities may, pursuant to any optional redemption provisions, be redeemed at the option of the University or of the holder (the "Holder") thereof and other detailed terms and provisions of such optional redemption. For a description of the terms of the Offered Debt Securities, reference must be made to both the Offering Circular Supplement relating thereto and to the description of Debt Securities set forth herein.

Unless otherwise indicated in the Offering Circular Supplement relating thereto, the principal of, and any premium or interest on, the Offered Debt Securities will be payable, and the Offered Debt Securities will be exchangeable and transfers thereof will be registerable, at the Corporate Trust Office of the Issuing and Paying Agent, provided that, at the option of the University, payment of interest may be made by check mailed to the address of the person entitled thereto as it appears in the Security Register.

Unless otherwise indicated in the Offering Circular Supplement relating thereto, the Offered Debt Securities will be issued in United States dollars in fully registered form, without coupons, in denominations of \$1,000 or any integral multiple thereof. No service charge will be made for any transfer or exchange of the Offered Debt Securities, but the University may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.



Debt Securities may be issued as Original Issue Discount Securities to be offered and sold at a substantial discount from the principal amount thereof. Special federal income tax, accounting and other considerations applicable to any such Original Issue Discount Securities will be described in the Offering Circular Supplement relating thereto. "Original Issue Discount Security" means any security which provides for an amount less than the principal amount thereof to be due and payable upon the declaration of acceleration of the maturity thereof upon the occurrence of an Event of Default and during the continuation thereof.

Unless otherwise indicated in the accompanying Offering Circular Supplement, the Issuing and Paying Agency Agreement does not afford Holders of Debt Securities of any series protection against the University incurring unsecured indebtedness.

### **Restrictive Covenants**

The University represents in the Issuing and Paying Agency Agreement that it is an organization: (i) organized and operated exclusively for educational or charitable purposes and not for pecuniary profit and (ii) no part of its net earnings inures to the benefit of any person, private stockholder or individual and agrees that it will not perform any act or enter into any agreement which will adversely affect that status.

The University also represents in the Issuing and Paying Agency Agreement that: (i) it is an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended, (the "Code") or corresponding provisions of prior law and is not a "private foundation," as such term is defined in the Code; (ii) it has received letters or other notification from the Internal Revenue Service to that effect; (iii) such letters or other notification have not been modified, limited or revoked; (iv) it is in compliance with all terms, conditions and limitations, if any, contained in such letters or other notification; (v) the facts and circumstances which form the basis of such letters or other notification as represented to the Internal Revenue Service continue to exist; and (vi) it is exempt from federal income taxation under Section 501(a) of the Code, except as otherwise provided by Section 501(b) of the Code. The University agrees that it will not perform any act or enter into any agreement which will adversely affect such federal income tax status and will conduct its operations in a manner which will conform to the standards necessary to qualify the University as an educational organization within the meaning of Section 501(c)(3) of the Code or any successor provision of federal income tax law.

The University covenants pursuant to the Issuing and Paying Agency Agreement that it will maintain its corporate existence, will continue to operate as an institution for higher education, will obtain, maintain and keep in full force and effect such governmental approvals, covenants, licenses, permits and accreditations as may be necessary for the continued operation of the University as an institution of higher education providing such programs of instruction as it may from time to time determine, will not dissolve or otherwise dispose of all or substantially all of its assets and will not consolidate with or merge into another corporation or permit one or more corporations to consolidate with or merge into it, except that the University may (i) sell or otherwise transfer all or substantially all of its assets to, or consolidate with or merge into, another organization or corporation which qualifies under Section 501(c)(3) of the Code or any successor provision of federal income tax law, or (ii) permit one or more corporations or any other organization to consolidate with or merge into it, or (iii) acquire all or substantially all of the assets of one or more corporations or any other organization; provided, however, that (a) the surviving, resulting or transferee corporation or organization, as the case may be, is incorporated, or has corporate powers, under the laws of the State of California, is qualified under Section 501(c)(3) of the Code or any successor provision of federal income tax law and assumes in writing all of the obligations of and restrictions on the University under the Issuing and Paying Agency Agreement and the Debt Securities and (b) after giving effect to such sale, transfer, consolidation or merger, no Event of Default (as defined below) shall have occurred and be continuing.

## Events of Default

The following are Events of Default with respect to Debt Securities of any series: (a) default in the timely payment of any interest on any Debt Security of that series when due, continued for 30 days; (b) default in the timely payment of the principal of or premium, if any, on any Debt Security of that series at maturity, whether at stated maturity, upon any redemption, by declaration or otherwise; (c) default in the deposit of any sinking fund payment in respect of any Debt Security of that series when due; (d) default in the performance, or breach, of any other covenant or warranty of the University in the Issuing and Paying Agency Agreement (other than a covenant or warranty included in the Issuing and Paying Agency Agreement solely for the benefit of series of Debt Securities other than that series), continued for 30 days after written notice to the University by the Holder of any Debt Security; provided that, if such default is correctable but can not be corrected within such 30 day period, it shall not constitute an Event of Default if (i) corrective action is instituted by the University within such period and is diligently pursued until the default is corrected and (ii) such default is corrected within 180 days; (e) a court or governmental authority of competent jurisdiction shall enter an order appointing a custodian, receiver, trustee or other officer with similar powers with respect to the University or with respect to any substantial part of its property or an order for relief shall be entered in any case or proceeding for liquidation or reorganization or otherwise to take advantage of any bankruptcy or insolvency law of any jurisdiction, or ordering the dissolution, winding-up or liquidation of the University, or any petition for any such relief shall be filed against the University and such petition shall not be dismissed within 90 days; (f) the charter of the University shall be suspended or revoked; (g) a petition shall be filed by the University with the governmental authority having jurisdiction over the University to dissolve the University; (h) an order of dissolution of the University shall be made by the governmental authority having jurisdiction over the University, which order shall remain undismissed or unstayed for an aggregate of 30 days; (i) a petition shall be filed with a court having jurisdiction for an order directing the sale, disposition or distribution of all or substantially all of the property belonging to the University which petition shall remain undismissed or unstayed for an aggregate of 90 days; or (j) an order of a court having jurisdiction shall be made directing the sale, disposition or distribution of all or substantially all of the property belonging to the University, which order shall remain undismissed or unstayed for an aggregate of 30 days; and (k) any other Event of Default provided with respect to Debt Securities of that series.

In case an Event of Default shall have occurred and be continuing with respect to any Debt Security, the Holder of the Debt Security, by notice in writing to the University, may declare the principal of the Debt Security and the interest accrued thereon to be due and payable immediately.

At any time after an acceleration of a Debt Security, but before a judgment or decree for payment of money due has been obtained, the Holder of such Debt Security may rescind any acceleration and its consequences, if all payments due on such Debt Security (other than those due as a result of acceleration) have been made, or an amount sufficient to make all such payments has been deposited with the Issuing and Paying Agent and all Events of Default have been remedied or waived by such Holder. Any Event of Default with respect to a Debt Security may be waived by the Holder of such Debt Security.

## Defeasance

### *Defeasance and Discharge*

If the Debt Securities of any series so provide, the University will be discharged (hereinafter, "defeasance") from any and all obligations in respect of Debt Securities of that series (except for certain obligations to register the transfer or exchange of Debt Securities of that series, to replace stolen, lost or mutilated Debt Securities of that series, to maintain paying agencies, to compensate and indemnify the Issuing and Paying Agent and to furnish the Issuing and Paying Agent (if the Issuing and Paying Agent is not the registrar) with the names and addresses of the Holders of Debt Securities of that series) upon the irrevocable deposit with the Issuing and Paying Agent, in trust, of money and/or United States government

securities or securities issued by United States government agencies backed by the full faith and credit of the federal government which, through the payment of interest and principal in respect thereof in accordance with their terms, will provide money in an amount sufficient to pay the principal of (and premium, if any) and the interest on the Debt Securities of that series on the stated maturity of such payments in accordance with the terms of the Debt Securities of that series. Such a defeasance may be effected only if, among other things, the University has delivered to the Issuing and Paying Agent an opinion of legal counsel (who may be an employee of or counsel for the University) stating that the University has received from the Internal Revenue Service a private letter ruling, or that the Internal Revenue Service has published a revenue ruling pertaining to a comparable form of transaction, or that since the date of the Issuing and Paying Agency Agreement there has been a change in the applicable federal income tax law, in either case to the effect that the Holders of the Debt Securities of that series will not recognize income, gain or loss for federal income tax purposes as a result of such defeasance and will be subject to federal income tax on the same amounts, in the same manner and at the same times, as would have been the case if such defeasance had not occurred. In addition, the University may also obtain a discharge of the Issuing and Paying Agency Agreement with respect to all Debt Securities issued under the Issuing and Paying Agency Agreement by depositing with the Issuing and Paying Agent, in trust, money sufficient to pay at stated maturity or upon redemption all of such Debt Securities, provided that such Debt Securities are by their terms to become due and payable within one year or are to be called for redemption within one year.

#### *Defeasance of Certain Covenants and Certain Events of Default*

If the Debt Securities of any series so provide, the University may omit to comply (hereinafter, "covenant defeasance") with the restrictive covenants described under "Description of Debt Securities—Restrictive Covenants" (regarding maintenance of tax status of the University and maintenance of corporate existence of the University) and such other covenants as may be included in the Offering Circular Supplement for such series, and no Event of Default shall arise with respect to Debt Securities of such series by reason of any failure to comply therewith, upon the irrevocable deposit with the Issuing and Paying Agent, in trust, of money and/or United States government securities or securities issued by United States government agencies backed by the full faith and credit of the federal government which, through the payment of interest and principal in respect thereof in accordance with their terms, will provide money in an amount sufficient to pay the principal of (and premium, if any) and the interest on the Debt Securities of that series on the stated maturity of such payments in accordance with the terms of the Debt Securities of that series. The obligations of the University under the Debt Securities of that series other than with respect to the covenants referred to above and all Events of Default other than with respect to such covenants shall remain in full force and effect. Such a covenant defeasance may be effected only if, among other things, the University has delivered to the Issuing and Paying Agent an opinion of legal counsel (who may be an employee of or counsel for the University) to the effect that the Holders of the Debt Securities of that series will not recognize income, gain or loss for federal income tax purposes as a result of such covenant defeasance and will be subject to federal income tax on the same amounts, in the same manner and at the same times, as would have been the case if such covenant defeasance had not occurred.

#### *Covenant Defeasance and Certain Other Events of Default*

In the event the University exercises its option to effect a covenant defeasance with respect to the Debt Securities of any series as described above and the Debt Securities of that series are thereafter declared due and payable because of the occurrence of any Event of Default other than the Event of Default caused by failing to comply with the covenants which are defeased, the amount of money and securities on deposit with the Issuing and Paying Agent would be sufficient to pay amounts due on the Debt Securities of that series at the time of their stated maturity but may not be sufficient to pay amounts due on the Debt Securities of that series at the time of the acceleration resulting from such Event of Default. However, the University would remain liable for such payments.

## **Issuing and Paying Agent**

The Issuing and Paying Agent may at any time resign from its duties and the University reserves the right at any time to terminate the appointment of the Issuing and Paying Agent in each case upon 30 days' written notice. The University has covenanted in the Debt Securities that it will maintain an issuing and paying agent which shall be a bank or trust company organized and doing business under the laws of the United States of America or the State of New York or the State of California, having a place of business in The City of New York and authorized under such laws to exercise corporate trust powers, until all the Debt Securities (i) have been delivered to such agent for cancellation or (ii) have become due and payable and funds sufficient to pay principal of and interest on the Debt Securities have been made available for payment and either paid or returned to the University, whichever event occurs earlier.

The Issuing and Paying Agency Agreement does not obligate the Issuing and Paying Agent to exercise certain responsibilities that may be exercised by trustees in connection with certain other debt offerings. Among the responsibilities that may be exercised by a trustee in connection with certain other debt offerings that are not to be exercised by the Issuing and Paying Agent under the Issuing and Paying Agency Agreement are actions in connection with Events of Default. Under the Issuing and Paying Agency Agreement, the Issuing and Paying Agent will act solely as the agent of the University and will not assume any relationship of trust with the Holders of the Debt Securities except with respect to funds held by it for the payment of principal of and interest on the Debt Securities.

The Issuing and Paying Agency Agreement provides that any corporation resulting from any merger, conversion or consolidation to which the Issuing and Paying Agent is a party shall be the successor Issuing and Paying Agent without the execution or filing of any paper or any further act on the part of any party to the Issuing and Paying Agency Agreement.

Any monies held by the Issuing and Paying Agent in trust for the payment of principal or interest in respect of Debt Securities after the expiration of two years following the date on which such principal or interest has become due and payable shall be returned to the University and any Holder of such Debt Securities shall thereafter look, as an unsecured general creditor, only to the University for the payment thereof and all liability of the Issuing and Paying Agent with respect to such trust monies shall thereafter cease.

## **RATINGS**

The Debt Securities are rated Aaa by Moody's Investors Service, Inc. ("Moody's") and AAA by Standard & Poor's Ratings Services ("Standard & Poor's").

A rating reflects only the views of Moody's or Standard & Poor's, as the case may be, and is not a recommendation to buy, sell or hold the Debt Securities. There is no assurance that such rating will be retained for any given period of time or that it will not be revised downward or withdrawn entirely by Moody's or Standard & Poor's, as the case may be, if, in its respective judgment, circumstances so warrant. Any such downward change in, or withdrawal entirely of, a rating may have an adverse effect on the marketability or market price of the Debt Securities.

## **PLAN OF DISTRIBUTION**

The University may sell Debt Securities to or through underwriters or dealers, and also may sell Debt Securities directly to one or more other purchasers or through agents. The Offering Circular Supplement sets forth the names of any underwriters or agents involved in the sale of the Offered Debt Securities and any applicable commissions or discounts.

Underwriters, dealers or agents may offer and sell the Debt Securities at a fixed price or prices, which may be changed, or from time to time at market prices prevailing at the time of sale, at prices related to such prevailing market price or at negotiated prices. In connection with the sale of the Debt Securities, underwriters or agents may be deemed to have received compensation from the University in the form of underwriting discounts or commissions and may also receive commissions from purchasers of the Debt Securities for whom they may act as agent. Underwriters or agents may sell the Debt Securities to or through dealers, and such dealers may receive compensation in the form of discounts, concessions or commissions from the underwriters or commissions from the purchasers for whom they may act as agent.

The Debt Securities, when first issued, will have no established trading market. Any underwriters or agents to or through whom Debt Securities are sold by the University for public offering and sale may make a market in such Debt Securities, but such underwriters or agents will not be obligated to do so and may discontinue any market making at any time without notice. No assurance can be given as to the liquidity of the trading market for any Debt Securities.

Underwriters, dealers or agents may be entitled, under agreements entered into with the University, to indemnification against or contribution toward certain liabilities in connection with offerings of the Debt Securities.

If so indicated in the Offering Circular Supplement, the University will authorize underwriters or agents to solicit offers by certain institutions to purchase Debt Securities from the University pursuant to contracts providing for payment and delivery on a future date. Institutions with which such contracts may be made include commercial and savings banks, insurance companies, pension funds, investment companies, educational and charitable institutions and others, but in all cases such institutions must be approved by the University. The obligations of any purchaser under any such contract will be subject to the condition that the purchase of the Offered Debt Securities shall not at the time of delivery be prohibited under the laws of the jurisdiction to which such purchaser is subject. The underwriters and such other persons will not have any responsibility in respect of the validity or performance of such contracts.

#### **LEGAL MATTERS**

Certain legal matters in connection with the Debt Securities offered hereby will be passed upon for the University by Michael Roster, General Counsel of the University, and for any underwriters or agents by O'Melveny & Myers. James R. Ukropina, a partner of O'Melveny & Myers, is a member of the Board of Trustees of the University.

#### **INDEPENDENT ACCOUNTANTS**

The financial statements of the University for the fiscal years ended August 31, 1995 and 1994 (the "Financial Statements"), attached hereto as Appendix B, have been audited by Coopers & Lybrand L.L.P., independent accountants, as stated in their report appearing therein which includes an explanatory paragraph relative to the University's adoption of Statement of Financial Accounting Standard No. 106 "Employers' Accounting for Postretirement Benefits Other Than Pensions."

The Financial Statements and any financial statements of the University hereafter attached hereto or incorporated herein that have been audited and are the subject of a report by independent accountants, are or will be so attached or incorporated in reliance upon such reports and upon the authority of such firms as independent accountants subject to the written consent of such independent accountants.

#### **FINANCIAL ADVISOR**

Prager, McCarthy & Sealy has served as financial advisor to the University in connection with the Debt Securities offered hereby.

## ADDITIONAL INFORMATION

Attached hereto as Appendix A is a description of the University and attached hereto as Appendix B are the Financial Statements of the University. Any amendment or supplement to the Financial Statements, and any subsequent financial statements published by the University and made publicly available prior to termination of the offering of the Debt Securities, shall be deemed to be incorporated by reference in the Offering Circular and any related Offering Circular Supplement and to be a part hereof and thereof from the date made publicly available. Any statement contained in any document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this Offering Circular and any such Offering Circular Supplement to the extent that a statement contained herein or therein or in any other subsequently publicly available document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Offering Circular or any such Offering Circular Supplement.

The University will provide without charge to each person to whom a copy of this Offering Circular has been delivered, on the written or oral request of such person, a copy of any or all of the financial statements referred to above which have been or may be incorporated in this Offering Circular by reference. Written requests or requests by telephone for such copies should be directed to the University's Office of the Controller, 857 Serra Street, Stanford, California 94305. The University does not intend to provide any additional information to investors.

## **APPENDIX A**

### **THE UNIVERSITY**

Stanford University is one of a select group of American 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. In the years since its founding in 1885, Stanford has grown to 1,459 faculty members and an enrollment for the fall quarter of the 1995-96 academic year of 6,577 undergraduate and 7,467 graduate students.

The founding grant (the "Founding Grant") by Senator and Mrs. Leland Stanford conveyed to the University an endowment of approximately \$20 million and the Stanfords' farm at Palo Alto. From this beginning, Stanford had an endowment of \$3.40 billion market value at August 31, 1995, and an extensive physical plant located on a portion of the approximately 8,200 acres owned by the University.

### **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 Sciences, Engineering, and Humanities and Sciences (which includes the arts, humanities, sciences, and social sciences) offer both undergraduate and graduate degree programs. The Schools of Business, Education, Law, and Medicine offer graduate and professional degree programs. Undergraduate students are admitted to the University and have access to any undergraduate major and to classes and research opportunities in all seven schools. Degree programs are offered by departments and through interdepartmental programs involving faculty from multiple departments in one or more Schools. The University, its Schools, and its academic programs hold all appropriate accreditations.

Stanford's research enterprise extends throughout the University. In addition to research conducted in the Schools, Stanford has a number of interdisciplinary research institutes and centers which bring together faculty and students from throughout the University to collaborate on research topics that cross traditional boundaries. A representative sample includes the Stanford Linear Accelerator Center, the Hansen Experimental Physics Laboratory, the Stanford Humanities Center, the Center for Computer Research in Music and Acoustics, the Center for Integrated Systems, the Institute for International Studies, and the Center for Economic Policy Research. Extensive library and archival resources are available through the Stanford University Libraries system and the Hoover Institution on War, Revolution and Peace.

### **FACULTY AND STAFF**

The Academic Council comprises the main body of the faculty. For the 1995-96 academic year, it has 1,294 members composed of 1,170 professors, associate professors and assistant professors in the tenure line, 120 professors, associate professors and assistant professors in the non-tenure line, and 4 academic administrators. Of the 1,459 member professoriate (which includes assistant professors who are Ph.D.s, Center Fellows at specified policy centers and certain Medical Center line faculty who are not members of the Academic Council), 67% are tenured professors and associate professors and more than 98% hold Ph.D, J.D. or M.D. degrees. The student-Academic Council ratio (excluding graduate students who are completing their dissertations but are not attending classes) is 10 to 1.

As of January 1, 1996, the University employed 6,443 non-academic staff members. Of these employees, 763 were represented by the United Stanford Workers (U.S.W.) Local 680, S.E.I.U., AFL-CIO, with a contract that expires August 31, 1997. In addition, Stanford's 30 police officers are represented by the Stanford Police Officer's Association.

## STUDENTS

For the academic year 1995-96, the University enrolled 6,577 undergraduate and 7,467 graduate students. During FY 1995, 1,623 bachelors degrees and 2,830 advanced degrees were conferred. Both the undergraduate and graduate student bodies are among the most highly qualified in the country. The following table provides a summary for the last five academic years of undergraduate and graduate applications, admissions and enrollment.

Academic Year	<u>Undergraduate(1)(2)</u>			<u>Graduate(2)</u>		
	<u>Applications</u>	<u>Admissions</u>	<u>Enrollment</u>	<u>Applications</u>	<u>Admissions</u>	<u>Enrollment</u>
1991-92 . . . .	14,825	2,860	1,626	26,803	4,213	2,056
1992-93 . . . .	14,462	3,103	1,728	25,829	4,504	2,226
1993-94 . . . .	14,944	3,082	1,725	25,352	4,379	2,157
1994-95 . . . .	16,026	3,137	1,732	27,621	4,323	2,150
1995-96 . . . .	16,589	3,099	1,742	28,421	4,235	2,115

(1) Includes both freshman and transfer students. Each year, the University admits between 100 and 200 transfer students, entering either the sophomore or junior class.

(2) Fall only.

## THE STANFORD CAMPUS AND OTHER REAL PROPERTY

Stanford's main campus occupies part of approximately 8,200 acres of land owned by the University near Palo Alto, California.

The heart of the University is the Inner Quadrangle - twelve original classroom buildings joined with Memorial Church - and the surrounding Outer Quadrangle. The Quadrangle architecture is a mixture of Romanesque and Mission Revival styles. Its sandstone buildings, with their red clay roof tiles, are connected by arches and long arcades. Today's surrounding central campus, libraries, laboratories, auditoriums, residence areas and athletic facilities have grown to occupy approximately 1,500 acres.

Approximately 800 acres of Stanford's real estate holdings have been commercially developed to produce lease income for the University. These income-generating properties include the Stanford Research Park, the Stanford Shopping Center and professional buildings occupied by service-oriented entities, offices and retailers.

Much of the University's land remains undeveloped, used primarily for agricultural purposes. A substantial part of the University's land cannot be sold as a result of restrictions in the Founding Grant.

### Capital Improvement Programs

Investment in the physical facilities of the University is a high priority. The University has identified in its capital planning process projects which total approximately \$700 million over the next five fiscal years. These capital projects reflect three priorities: new construction and major renovations in support of the University's academic program initiatives (approximately \$360 million), commitment to complete the University's seismic strengthening program (approximately \$160 million) and the need to complete the University's deferred maintenance and infrastructure enhancement programs (approximately \$180 million). It is anticipated that approximately 40 percent of the total capital expenditures will be funded by University debt.



### *New Construction and Major Renovations*

The University is committed to developing new facilities and renovating existing facilities which support its mission of teaching, learning and research. Examples of new academic construction include current site preparation for the new Science and Engineering Quadrangle where construction of two of the proposed four buildings is expected to begin in August 1996. FY 1996 additions to the campus include the recently completed Gates Computer Science Building and the extension to the Center for Integrated Systems. Other significant projects underway include the Center for Clinical Sciences Research currently in design, as well as the construction of new graduate student housing and the renovation of scientific laboratories.

### *Seismic Strengthening Program*

As a result of damage caused by a major earthquake in October 1989, the threat of future earthquakes and changes in state and local building codes, the University has committed to make seismic improvements, code upgrades and repairs to campus buildings. Stanford has determined that the best protection against earthquakes is to seismically retrofit and strengthen its facilities. Due to coverage limitations and its prohibitive costs, the University does not have earthquake insurance.

### *Deferred Maintenance and Infrastructure Enhancement Programs*

Part of the University's reinvestment strategy is its deferred maintenance and infrastructure enhancement programs. These programs address the completion of certain maintenance and renewal projects primarily related to central campus academic facilities, housing and dining facilities, utilities and other campus infrastructure.

## **GOVERNANCE AND MANAGEMENT**

### **Board of Trustees**

The University is governed by a Board of Trustees (the "Board"), which consists of a minimum of 25 and a maximum of 35 members, including the President of the University as Trustee ex-officio. Current membership of the Board is 31. The Board is responsible for the University's endowment and all the operations and properties of the University, including the adoption of the University budget, establishment of schools and departments, investment and accounting policies, debt policy, land use and development, faculty and staff appointments and benefits and gift development. The Board conducts its business through a number of committees.

Eight Trustees, who are elected pursuant to procedures for the election of alumni Trustees, serve staggered, five-year non-renewable terms. Other Trustees serve five-year terms and are eligible for reelection to one additional five-year term. At the conclusion of that second term, such a Trustee would not be eligible for reelection until a lapse of one year had taken place.

The following table lists the current members of the Board of Trustees:

Mari J. Baker	Chien Lee
Robert M. Bass	John M. Lillie
Douglas Minge Brown	John B. McCoy
John E. Bryson	Rebecca Q. Morgan
Gerhard Casper	Henry Muller
Winston H. Chen	Luis G. Nogales
Roger A. Clay, Jr.	Charles J. Ogletree
Elizabeth Dumanian	Gregor G. Peterson
Doris F. Fisher	Charles M. Pigott
Ivan K. Fong	Susan Westerberg Prager
Bradford M. Freeman	Beverly P. Rydor
John Freidenrich, Chair	Pamela Ann Rymer
William A. Halter	Charles R. Schwab
Mernoy E. Harrison	Isaac Stein
George H. Hume	James R. Ukropina
William C. Landreth	

#### **Principal Administration**

The Founding Grant provides that the Board shall appoint the President of the University. The President prescribes the duties of professors and teachers, sets the course of study and the mode and manner of teaching, and exercises all other necessary powers relating to the educational, financial and business affairs of the University. The President appoints, subject to confirmation by the Board, the senior officers of the University, except that the president and chief executive officer of Stanford Management Company is appointed by its Board of Directors with concurrence of the President.

The following table sets forth in summary form the principal administration of the University.

**University Officers**

Gerhard Casper  
*President*

Condoleezza Rice  
*Provost*

Barbara Butterfield  
*Vice President, Faculty and Staff Services*

Mariann Byerwalter  
*Vice President for Business Affairs and  
Chief Financial Officer*

John B. Ford  
*Vice President for Development*

Michael Roster  
*General Counsel*

**University Cabinet**

Eugene A. Bauer  
*Dean, School of Medicine*

Paul A. Brest  
*Dean, School of Law*

James F. Gibbons  
*Dean, School of Engineering*

Charles H. Kruger  
*Vice Provost and Dean of Research  
and Graduate Policy*

Franklin M. Orr, Jr.  
*Dean, School of Earth Sciences*

John Raisian  
*Director, Hoover Institution*

Burton Richter  
*Director, Stanford Linear  
Accelerator Center*

**Stanford Management Company**

The Stanford Management Company ("SMC") was established in 1991 to manage all financial and real estate investment assets of the University. In addition to providing investment management services, SMC is responsible for special investment-related activities such as securities lending, and selection, liaison and oversight of custodians. SMC manages the University's debt portfolio and oversees several trusts and investment entities established by the Board.

Richard J. Shavelson  
*Dean, School of Education*

John B. Shoven  
*Dean, School of Humanities  
and Sciences*

A. Michael Spence  
*Dean, Graduate School of Business*

**Vice Provosts**

Geoffrey M. Cox  
*Vice Provost and Dean, Institutional  
Planning and Operations*

Mary M. Edmonds  
*Vice Provost, Undergraduate Education*

Charles H. Kruger  
*Vice Provost and Dean of Research  
and Graduate Policy*

Ramón Saldívar  
*Vice Provost, Undergraduate Education*

Timothy Warner  
*Vice Provost, Budget and  
Auxiliaries Management*

Robert Weisberg  
*Vice Provost, Faculty Recruitment  
and Development*

**Controller**

M. Suzanne Calandra  
*Controller*

**Stanford Management Company**

Laurance R. Hoagland  
*President and CEO, Stanford  
Management Company*

SMC is a division of the University but is separately governed by a Board of Directors (the "SMC Board") appointed by the Board of Trustees of the University. The SMC Board consists of at least three University Trustees and up to eight investment professionals. SMC manages, directly and through external managers, approximately \$4.5 billion (at August 31, 1995) of endowment assets, working capital and temporarily invested expendable funds and employs approximately 50 professional and support employees.

The following table lists the current members of the SMC Board:

Robert M. Bass	Laurance R. Hoagland
T. Robert Burke	William C. Landreth
Mariann Byerwalter	John B. McCoy (Chair)
Tully M. Friedman	Gregor G. Peterson
James C. Gaither	William F. Sharpe
Beverly Hamilton	

### STANFORD HEALTH SERVICES

Stanford Health Services ("SHS") is a California nonprofit public benefit corporation whose general members are the Trustees of the University. SHS owns and operates a licensed teaching hospital with 663 licensed beds (the "Hospital") on the campus of the University. As a result of a restructuring implemented as of September 1, 1994 (the "Restructuring"), SHS also owns and operates, in support of the University's School of Medicine, a series of primary care, specialty and subspecialty clinics, including what was formerly the University's Faculty Practice Program. Pursuant to a series of agreements among SHS, the University and the Lucile Salter Packard Children's Hospital at Stanford ("LSPCH"), LSPCH serves as the primary in-patient facility associated with Stanford for the care of infants, children and adolescents. LSPCH is a California nonprofit public benefit corporation which operates a 143 licensed bed health care facility located contiguous to the Hospital on ground leased to LSPCH by the University. The LSPCH board of directors consists of directors a majority of whom are not appointed by the University.

SHS, LSPCH and the University are currently in discussions regarding a proposal for a closer relationship whereby SHS would become the sole general member of LSPCH with the right to elect all of the directors on the LSPCH board. Prior to SHS' becoming the sole member of LSPCH, LSPCH would endow a new foundation dedicated to the support of children's health services with cash and securities of approximately \$65 million. The proposed asset transfer by LSPCH to the new foundation and the proposed addition of SHS as the sole member of LSPCH would require notification to, and in some cases approvals by, the California Attorney General, LSPCH's lenders, federal and state regulators, and other third parties. Securing certain of these approvals is likely to require that SHS provide LSPCH credit or other financial support. At present, the form and magnitude of that support, if any, are unknown. To the extent that SHS provides the University with teaching and research functions, the University might consider, in its discretion, providing financial support to SHS, now or in the future, should it be warranted as a result of the impact on SHS of the transaction with LSPCH. There can be no assurance that a transaction with LSPCH will occur or, if it does, that the terms will be as currently contemplated.

The University and SHS are currently engaged in discussions with the University of California regarding a possible combination of SHS and certain hospital, clinical and faculty practice operations of the University of California, San Francisco Medical Center ("UCSF"). As currently contemplated, the University and the Regents of the University of California would serve as the general members of a nonprofit, public benefit corporation ("Newco") which would own and operate the hospitals and faculty clinics currently operated by SHS and UCSF. Certain real property currently leased to SHS by the University would be leased to Newco. The professional services agreement between the University and SHS, under which the University provides the clinical services of its faculty physicians to SHS, would be replaced by a professional services agreement between the University and Newco. UCSF would enter into a similar professional services agreement for the services of the UCSF faculty physicians. The faculty physicians of each institution would remain employed by that institution. The terms of the proposed combination have not been finalized and will be subject to review and approval by the Regents of the University of California and the

Board of Trustees of the University and to regulatory review and approval. As the proposed transaction is reviewed and considered by the parties and the applicable regulatory authorities, actions may be pursued which might modify, delay or prevent the proposed transaction. There can be no assurance that the proposed combination will occur.

The Restructuring and the proposed transactions described in the preceding two paragraphs are part of SHS' strategy to continue to develop an integrated delivery system capable of more effectively responding to the demands of the marketplace for high-quality, cost-effective health care services.

### **SELECTED FINANCIAL DATA**

The Financial Statements of Stanford University for the Fiscal Years ended August 31, 1995 and 1994 (the "Financial Statements") are presented in Appendix B of the Offering Circular. The Selected Financial Data below should be read in conjunction with the Financial Statements and accompanying notes. The tables below provide a Summary of Operations and Changes in Operating Equity and a Summary of Operating and Endowed Equity of the University for the five years ended August 31, 1995. The University prepares its financial statements in accordance with generally accepted accounting principles. In order to comply with the internal and external restrictions placed on the use of the University's resources, its accounts are maintained in accordance with the principles of fund accounting. See Note 1 of the "Financial Statements" for a discussion of the University's significant accounting policies. Certain funds may not be available for payment of debt service on the Debt Securities. See "Management's Discussion and Analysis of Selected Financial Data ("Management's Discussion and Analysis") — Liquidity and Capital Resources — Limitations on Sources of Payments."

**STANFORD UNIVERSITY**  
**SUMMARY OF OPERATIONS AND CHANGES IN OPERATING EQUITY**  
**For the Five Years Ended August 31, 1995**  
*(In thousands of dollars)*

	<u>1995</u>	<u>1994</u>	<u>1993</u>	<u>1992</u>	<u>1991</u>
<b>Revenues and other additions:</b>					
Student income (including room and board) . . . . .	\$ 293,715	\$ 278,770	\$ 261,459	\$ 236,441	\$ 221,001
Sponsored research support:					
Direct costs . . . . .	276,498	270,091	254,179	252,742	233,055
Indirect costs . . . . .	87,233	90,416	81,543	74,991	75,004
Stanford Linear Accelerator Center . . . . .	175,780	167,140	169,001	156,571	143,927
Gifts . . . . .	100,327	94,616	85,227	76,723	83,640
Investment income:					
Endowment income distributed for operations . . . . .	154,981	159,068	141,383	99,708	99,310
Other investment income . . . . .	64,599	17,934	57,387	64,887	79,756
Other income:					
Special program fees . . . . .	90,923	73,723	55,284	50,075	42,764
Auxiliary activities (excluding room and board) . . . . .	95,395	134,891	136,403	137,745	121,469
Other . . . . .	<u>17,929</u>	<u>29,852</u>	<u>26,312</u>	<u>21,514</u>	<u>25,762</u>
<b>Total revenues and other additions .</b>	<b><u>1,357,380</u></b>	<b><u>1,316,501</u></b>	<b><u>1,268,178</u></b>	<b><u>1,171,397</u></b>	<b><u>1,125,688</u></b>
<b>Expenses:</b>					
Salaries and benefits . . . . .	475,908	482,864	454,454	425,591	419,104
Student financial aid and stipends . . .	104,011	99,504	97,328	88,029	80,839
Depreciation . . . . .	77,428	81,195	71,454	71,760	65,040
Operations and maintenance . . . . .	115,278	119,801	114,709	107,824	104,333
Stanford Linear Accelerator Center . . . . .	175,780	167,140	169,001	156,571	143,927
Auxiliary activities (including room and board) . . . . .	157,420	177,134	170,688	173,976	134,292
Administrative, professional services and other . . . . .	<u>177,309</u>	<u>150,641</u>	<u>120,366</u>	<u>157,841</u>	<u>134,036</u>
<b>Total expenses . . . . .</b>	<b><u>1,283,134</u></b>	<b><u>1,278,279</u></b>	<b><u>1,198,000</u></b>	<b><u>1,181,592</u></b>	<b><u>1,081,571</u></b>
Excess (deficit) of revenues and other additions over expenses . . . . .	74,246	38,222	70,178	(10,195)	44,117
Other changes in operating equity, net . . . . .	<u>36,801</u>	<u>(12,875)</u>	<u>(28,750)</u>	<u>63,590</u>	<u>73,487</u>
<b>Net increase in operating equity . . . . .</b>	<b><u>\$ 111,047</u></b>	<b><u>\$ 25,347</u></b>	<b><u>\$ 41,428</u></b>	<b><u>\$ 53,395</u></b>	<b><u>\$ 117,604</u></b>

**SUMMARY OF OPERATING AND ENDOWED EQUITY**  
**For the Five Years Ended August 31, 1995**  
*(In thousands of dollars)*

	<u>1995</u>	<u>1994</u>	<u>1993</u>	<u>1992</u>	<u>1991</u>
<b>Total operating equity . . . .</b>	<b><u>\$ 1,650,711</u></b>	<b><u>\$ 1,539,664</u></b>	<b><u>\$ 1,514,317</u></b>	<b><u>\$ 1,472,889</u></b>	<b><u>\$ 1,419,494</u></b>
<b>Endowed equity:</b>					
Expendable . . . . .	1,139,291	981,152	931,974	772,707	749,840
Non-expendable . . . . .	<u>2,263,534</u>	<u>2,053,381</u>	<u>1,921,392</u>	<u>1,661,877</u>	<u>1,557,192</u>
<b>Total endowed equity . . . .</b>	<b><u>3,402,825</u></b>	<b><u>3,034,533</u></b>	<b><u>2,853,366</u></b>	<b><u>2,434,584</u></b>	<b><u>2,307,032</u></b>
<b>Total equity . . . . .</b>	<b><u>\$ 5,053,536</u></b>	<b><u>\$ 4,574,197</u></b>	<b><u>\$ 4,367,683</u></b>	<b><u>\$ 3,907,473</u></b>	<b><u>\$ 3,726,526</u></b>

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF SELECTED FINANCIAL DATA**

Stanford's consolidated financial condition has improved over the past five years, as shown in "Selected Financial Data." Total equity has grown to \$5.05 billion at August 31, 1995, composed of operating equity of \$1.65 billion and endowed equity of \$3.40 billion.

The University's "Summary of Operations and Changes in Operating Equity" for the five years ended August 31, 1995 includes the consolidated results of all activities other than those related to the endowment. Certain components of the summary and other relevant financial matters are discussed below.

In June 1993, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 116, "Accounting for Contributions Received and Contributions Made," and No. 117, "Financial Statements of Not-for-Profit Organizations." These pronouncements are effective for the University's 1996 fiscal year and will significantly impact the format of the University's financial reporting and require that promises of future gifts be recorded in the financial statements.

**Revenues**

*Student Income*

Student income consists of tuition, room and board and related fees derived from both undergraduate and graduate students attending classes at the University. Financial aid is recorded as an expense and is discussed under the caption "Student Financial Aid and Stipends." Total student income ranged from 19.6% of operating revenues in FY 1991 to 21.6% in FY 1995. Total student income for FY 1995 increased 5.4% over FY 1994 primarily due to a 5.0% increase in tuition for the 1994-95 academic year. Student enrollment remained strong, with a continuing solid base of applicants. Tuition, room and board increases for the 1995-96 and 1996-97 academic years are 5% and 4%, respectively.

*Sponsored Research Support*

*Direct Costs and Indirect Costs*

The University receives significant revenues in the form of reimbursement for costs incurred in its organized research efforts. A significant portion of Stanford's research and graduate education program is supported by research and instruction contracts and grants. These agreements are primarily with federal government agencies. In addition, support is derived from philanthropic foundations, corporate sponsors and, to a lesser extent, from state and local governments. For the period from FY 1983 through FY 1993

(the most recent information available), Stanford has never ranked lower than fourth in the National Science Foundation survey of institutions receiving federal funds for research and development.

The University conducts substantial research for the federal government pursuant to contracts and grants from federal agencies and departments. In connection with such sponsored research projects, the University is reimbursed for those costs which are directly charged to such projects and for a portion of those costs which cannot be directly charged but rather are indirectly accumulated and applied to such projects by allocation and estimation ("indirect costs"). In the case of indirect costs, Stanford proposes rates for the federal government's allocable share of such indirect costs to the Office of Naval Research ("ONR"), the agency designated to determine for the University the indirect cost rates for all federally sponsored agreements. The Defense Contract Audit Agency ("DCAA") audits such proposed rates and makes recommendations to ONR which makes the final determination as to the appropriate rate. If the rate is agreed to be a carry-forward rate, the amount of any under- or over-payment as a result of any difference between the preliminary billed rate and the retroactively determined final rate is carried over into a future year and used as an adjustment to that year's reimbursements. If the rate is agreed to be a predetermined rate, once the final rate is determined for a year, there are no further adjustments to that year's rate. The indirect cost rates for FY 1993 and FY 1994 were designated as carry-forward rates. Any under- or over-recovery for such years will be carried forward into future years' indirect cost rates. The indirect cost rate for FY 1995 was a predetermined rate. Regardless of the type of rate, the University may be required to immediately repay the previously reimbursed portion of any expressly unallowable or clearly unallocable costs.

The costs which educational institutions may recover in connection with federally sponsored research are governed by Office of Management and Budget Circular A-21 ("Circular A-21"). There have been significant revisions to Circular A-21 in the last few years, including a May 1996 revision, and it is probable that additional changes will be made in the future. While the University has not fully determined the impact of the most recent modifications to Circular A-21, it believes that such modifications will not significantly affect its financial position. The University cannot predict whether the government will make additional changes in cost recovery rules and, if so, their impact on the University.

See "Litigation -- Indirect Cost Recovery Matters" regarding a qui tam action currently pending against the University relating to sponsored research support.

#### *Stanford Linear Accelerator Center*

The Stanford Linear Accelerator Center ("SLAC"), a national research facility, is owned by the Department of Energy ("DoE") and operated by the University under a management and operating contract. The revenues and expenditures of SLAC are included in the Statement of Operations and Changes in Operating Equity in the Financial Statements. As SLAC is a federally funded research and development center, the assets and liabilities of SLAC are owned by the DoE and, accordingly, are not included in the Financial Statements.

#### *Gifts*

Only currently expendable gifts are included in this category. Stanford depends heavily on gifts to cover operating expenses, to increase endowment funds and for the construction of new buildings. See "— Liquidity and Capital Resources — Gifts" and Note 1 to the "Financial Statements."



## *Investment Income*

### *Endowment Income Distributed for Operations*

Endowment income distributed for operations represents funds from the endowment pools that are used to support the University's current operating activities. The University has a policy governing the amounts paid annually from the endowment pools to support current operations. This payout policy is designed to protect the value of the endowment pools against the expected impact of inflation and to provide real growth while also funding a relatively constant portion of the University's current operating expenditures. Prior to the beginning of each fiscal year, the Board establishes a per share payout amount for each of the two endowment pools. That amount is based upon a target payout rate for the succeeding fiscal year, the actual payout rate for the current fiscal year and an estimate of the value of a share of each endowment pool at the beginning of the succeeding fiscal year. For information with respect to the per share values of the endowment pools see Note 5 to the "Financial Statements." The target payout rates for the past five fiscal years, expressed as a percentage of the projected market value of the endowment pools at the beginning of each fiscal year were: FY 1991 4.75%; FY 1992 4.75%; FY 1993 6.75%; FY 1994 6.75%; and FY 1995 5.25%. The target payout rate for FY 1993 and FY 1994 was increased relative to the rate for FY 1991 and FY 1992 to respond to a number of financial needs, including the federal government's imposition of lower indirect cost recovery rates. The target payout rate for FY 1995 reflects a base of 4.75% plus .5% to support the renewal of campus buildings and infrastructure. The actual payout rates for the past five fiscal years, expressed as a percentage of the actual market value of the endowment pools at the beginning of each fiscal year were: FY 1991 4.93%; FY 1992 4.54%; FY 1993 6.73%; FY 1994 6.33%; and FY 1995 5.24%. The sources of the payout are earned income on the funds of the endowment pools (interest, dividends, rents and royalties), previously reinvested income and a portion of realized capital gains.

The performance of the endowment funds for FY 1995 is depicted in the Statement of Endowment and Changes in Endowed Equity of the "Financial Statements." Over the last decade, Stanford's real return objectives ranged from 6.25% to 6.75%. "Real return" for a period is the sum of (i) the difference between the market value of an investment at the beginning and end of the period plus (ii) interest and dividends, expressed as a percentage of the market value at the beginning of the period, as such percentage is adjusted for inflation by subtracting the Gross Domestic Price Deflator. The real (i.e., after adjusting for inflation) value of the endowment funds will be maintained if, over time, the target real return is achieved and it exceeds the annual payout to support operations. Over the past five fiscal years, the weighted average annual real return of the Merged Endowment Pool was 10.7%. No assurance can be given that the Merged Endowment Pool will continue to meet the real return objective. Over that same period, the Merged Endowment Pool and its predecessor pools never constituted less than 90% of the endowment pools and 80% of the University's endowed equity.

### *Other Investment Income*

Other investment income primarily represents realized and unrealized returns on the University's expendable funds pool. Available operating assets are invested in the expendable funds pool, a portfolio of short term investments, bonds and stocks that provide liquidity for operations while allowing for prudent growth. In FY 1995, the expendable funds pool earned a total return of 8.5% compared to 2.1% in FY 1994, reflecting overall market conditions in the respective years. Returns for FY 1993, FY 1992 and FY 1991 were 5.3%, 6.9% and 7.7%, respectively.

### *Other Income*

#### *Auxiliary Activities*

Auxiliary activities include housing and dining services, intercollegiate athletics, and certain patient care provided by the School of Medicine. The decline in auxiliary activities' revenues and expenses in FY

1995 primarily reflects the Restructuring. See "Stanford Health Services" and Note 2 to the "Financial Statements."

## **Expenses**

### *Salaries and Benefits*

Over the past five years, salaries and benefits for all faculty and staff of the University have ranged from 36.0% of total operating expenses to 38.7%. Benefits have ranged from 28.2% of salaries to 30.7% during the same period.

### *Student Financial Aid and Stipends*

The student financial aid and stipends category reflects that portion of student tuition, living and other costs covered by scholarships and fellowship grants. Students also receive other financial assistance in the form of jobs and student loans. Depending on the nature of the services provided, salaries paid to undergraduate and graduate students appear either in the salaries and benefits or auxiliary activities categories. Student loans are reflected under Student Loans Receivable on the University's Balance Sheet.

### *Administrative, Professional Services and Other*

The increase in administrative, professional services and other during FY 1995 and FY 1994 reflects an increased level of activity related to organizational restructuring, including the shifting of certain staff functions to outside vendors. FY 1992 and FY 1991 expenses reflect non-recurring fees paid for professional services in connection with the indirect cost dispute and for certain settlements. See "Litigation — Indirect Cost Recovery Matters."

## **Other Changes in Operating Equity, Net**

Other changes in operating equity include gifts for capital projects, net changes in SHS' equity, transfers between operating and endowed equity and other changes, such as a non-cash loss on defeasance of debt.

## **Liquidity and Capital Resources**

### *Cash and Investments*

At August 31, 1995, the University's cash and investments totaled \$4.5 billion, consisting of \$302.2 million of cash and short term investments, \$902.5 million of operating account investments and \$3.3 billion of investments of the endowment. The University's investments are readily marketable, except for certain assets such as real estate investments and limited partnership investments. See Footnote 5 of the "Financial Statements." The University's cash and investments are invested in the expendable funds pool, the endowment pools, or are specifically invested to meet donor requirements.

The expendable funds pool is a portfolio of short term instruments, bonds and stocks that provide liquidity for operations while allowing for prudent growth. Returns from the expendable funds pool are available to support the University's operations. See "— Revenues — Other Investment Income."

The University's endowment is invested primarily in two pools, the Merged Endowment Pool and Merged Pool C (the "endowment pools"), with varying investment objectives. Holdings in the former, which is the largest of the pools, were valued at \$3.1 billion at August 31, 1995. These holdings, which include cash, bonds, stocks and real estate investments, are invested for total return. See "— Revenues — Investment Income — Endowment Income Distributed for Operations."

## Gifts

Stanford is one of the leading institutions in higher education gift receipts. During the last five fiscal years, the University received gifts totaling approximately \$896 million of which 47% were expendable for current operating purposes, 31% were for endowment, 20% were for capital projects and 2% were for student loans.

## Commercial Paper

The University's authorized commercial paper program is \$200 million. At August 31, 1995, the University had \$108 million outstanding under this program.

## Limitations on Sources of Payments

The principal and income of funds of the University restricted to purposes other than the general purposes of the University may not be available to make payments on liabilities, including the Debt Securities, or to meet the claims of general creditors. The University has not attempted to determine the amount of principal and income from the endowment funds and other restricted funds that may be available to make payments to any particular class of creditor including the holders of Debt Securities. In addition, the revenues and assets of Stanford Health Services are not available to make payment on the Debt Securities. The University does, however, believe that it has sufficient financial resources to meet its obligations generally and on the Debt Securities.

## CAPITALIZATION

The following table sets forth the capitalization of the University at August 31, 1995, and as adjusted to reflect the issuance of the entire \$150,000,000 authorized aggregate principal amount of Debt Securities offered hereby.

	<u>Actual</u>	<u>%</u>	<u>As Adjusted</u>	<u>%</u>
	(In Thousands of Dollars)			
Short-Term Debt				
Commercial Paper(1) .....	\$ 108,069	1.89%	\$ 108,069	1.84%
Long-Term Debt (including current portion)				
Tax-Exempt Revenue Bonds .....	358,649	6.28	358,649	6.11
Taxable Debt Securities .....	180,000	3.15	330,000	5.63
Other .....	<u>14,454</u>	<u>0.25</u>	<u>14,454</u>	<u>0.25</u>
Total Debt .....	661,172	11.57	811,172	13.83
Total Equity .....	<u>5,053,536</u>	<u>88.43</u>	<u>5,053,536</u>	<u>86.17</u>
Total Capitalization .....	<u>\$5,714,708</u>	<u>100.00%</u>	<u>\$5,864,708</u>	<u>100.00%</u>

(1) The aggregate principal amount of the University's authorized commercial paper program is \$200 million.

## LITIGATION

### Indirect Cost Recovery Matters

During 1990, disagreements arose between the University and the federal government over the appropriateness of some of the University's indirect costs allocated to projects sponsored by the government pursuant to agreements with the University called Memoranda of Understanding ("MoUs"). In October, 1994, the University settled its contractual disputes with the federal government pursuant to an agreement with ONR. Under the agreement, the parties settled all contractual disputes between them for fiscal years 1981 through 1992. The settlement agreement states that the previously existing MoUs were "valid and binding agreements between the Government and Stanford" and concludes that ONR "does not have a claim that Stanford engaged in fraud, misrepresentation, or other wrongdoing with respect to the MoUs, costs, submissions, claims, or any other matters covered by" the settlement agreement. Stanford paid the government \$1.2 million and dismissed its claims against the government relating to FY 1991 and FY 1992 as part of the settlement. Stanford and ONR also closed FY 1981 through 1992 for fringe benefits rates.

The University is still defending a qui tam action filed under the False Claims Act by a former government employee alleging inappropriate allocations and billings of indirect costs, fringe benefits and direct costs in connection with government sponsored research projects for fiscal years 1981 through 1993 in "the approximate amount of \$200 million." Under the False Claims Act, the claims, if proven, would result in treble damages, substantial penalties and attorneys' fees. Under the qui tam provisions of the False Claims Act, a private party may sue a government contractor on behalf of the United States and, if successful, recover a portion of the proceeds of the litigation. Qui tam suits are filed under seal, on a confidential basis, until such time as the Department of Justice reviews the suit and decides whether to intervene in and take control of the suit. The U.S. Department of Justice announced its intention not to intervene in this False Claims Act suit in December of 1993. The University believes it has meritorious defenses to, and intends vigorously to contest, any such claims. The University believes that resolution of this suit will not have a material adverse effect on its financial position.

For additional information concerning indirect cost recovery matters, see Note 17 to the "Financial Statements."

### Stanford Research Park Industrial Contamination

The University has been advised of certain instances of soil and/or groundwater contamination in the Stanford Research Park. State agencies have issued 18 different remedial orders covering various sites within the Stanford Research Park, which name as respondents former and/or current tenants and also, in most cases, the University, as landowner. The University believes that, in most of these cases, the tenants or former tenants are primarily responsible for the costs incurred in connection with the contamination and complying with applicable orders. The tenants are proceeding to carry out the evaluation and/or clean-up activities prescribed by such orders. In one case, the University is voluntarily participating with certain of the other respondents in undertaking investigative and remedial actions. None of the orders is currently in default. The University does not believe that it will have liability associated with any of the orders which would materially adversely affect its financial condition.

## APPENDIX B

### **Financial Statements of Stanford University**

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Fiscal Years 1995 and 1994

Report of Independent Accountants.....	B-1
Statement of Operations and Changes in Operating Equity.....	B-2
Statement of Endowment and Changes in Endowed Equity.....	B-3
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## REPORT OF INDEPENDENT ACCOUNTANTS

To The Board of Trustees  
Stanford University  
Stanford, California

We have audited the accompanying balance sheets of Stanford University as of August 31, 1995 and 1994, and the related statements of operations and changes in operating equity, endowment and changes in endowed equity, and cash flows for the years then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Stanford University as of August 31, 1995 and 1994, and the changes in operating equity and in endowed equity and cash flows for the years then ended in conformity with generally accepted accounting principles.

Note 15 discusses the University's adoption of Statement of Financial Accounting Standard No. 106 "Employers' Accounting for Postretirement Benefits Other Than Pensions."

*Coopers & Lybrand L.L.P.*

San Francisco, California  
December 1, 1995

**Statement of Operations and Changes in Operating Equity**  
**Years ended August 31, 1995 and 1994**  
*(in thousands of dollars)*

	1995	1994
<b>Revenues and other additions:</b>		
Student income:		
Undergraduate programs	\$ 123,916	\$ 117,540
Graduate programs	121,876	114,875
Room and board	47,923	46,355
Total student income	<u>293,715</u>	<u>278,770</u>
Sponsored research support:		
Direct costs	276,498	270,091
Indirect costs	87,233	90,416
Stanford Linear Accelerator Center	175,780	167,140
Total sponsored research support	<u>539,511</u>	<u>527,647</u>
Gifts	<u>100,327</u>	<u>94,616</u>
Investment income:		
Endowment income distributed for operations (includes the use of \$51,631 and \$68,657 available through the University's payout formula from endowed equity in 1995 and 1994, respectively)	154,981	159,068
Other investment income	64,599	17,934
Total investment income	<u>219,580</u>	<u>177,002</u>
Other income:		
Special program fees	90,923	73,723
Auxiliary activities (excluding room and board)	95,395	134,891
Other	17,929	29,852
Total other income	<u>204,247</u>	<u>238,466</u>
<b>Total revenues and other additions</b>	<u>1,357,380</u>	<u>1,316,501</u>
<b>Expenses:</b>		
Academic salaries and benefits	225,112	224,897
Staff salaries and benefits	250,796	257,967
Total salaries and benefits	<u>475,908</u>	<u>482,864</u>
Student financial aid	69,433	67,881
Student stipends	34,578	31,623
Administrative and professional services	96,242	86,093
Depreciation	77,428	81,195
Materials and supplies	69,342	70,088
Utilities	24,846	29,901
Repairs and maintenance	21,090	19,812
Stanford Linear Accelerator Center	175,780	167,140
Auxiliary activities (including room and board)	157,420	177,134
Other	81,067	64,548
<b>Total expenses</b>	<u>1,283,134</u>	<u>1,278,279</u>
<b>Excess of revenues and other additions over expenses</b>	74,246	38,222
<b>Other changes in operating equity:</b>		
Capital gifts for loans and facilities	67,411	36,831
Transfer of net assets to Stanford Health Services	(5,574)	0
Net increase (decrease) in Stanford Health Services equity	8,923	(12,423)
Additions to endowed equity	<u>(33,959)</u>	<u>(37,283)</u>
<b>Net change in operating equity</b>	111,047	25,347
Operating equity, beginning of year	<u>1,539,664</u>	<u>1,514,317</u>
<b>Operating equity, end of year</b>	<u>\$ 1,650,711</u>	<u>\$ 1,539,664</u>

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

**Statement of Endowment and Changes in Endowed Equity**  
**Years ended August 31, 1995 and 1994**  
*(in thousands of dollars)*

	1995	1994
<b>Investment returns:</b>		
Earned endowment income (including \$1,370 and \$3,038 reinvested in endowment, as required by donor, in 1995 and 1994, respectively)	\$ 104,720	\$ 93,449
Change in net realized and unrealized appreciation of investments during the year	<u>321,185</u>	<u>145,290</u>
Total investment returns	<u>425,905</u>	<u>238,739</u>
Endowment income distributed for operations	<u>(154,981)</u>	<u>(159,068)</u>
Net investment returns reinvested	<u>270,924</u>	<u>79,671</u>
<b>Other changes in endowed equity:</b>		
Gifts	64,341	65,345
Additions to endowed equity	33,959	37,283
Other deductions	<u>(932)</u>	<u>(1,132)</u>
Total other changes in endowed equity	<u>97,368</u>	<u>101,496</u>
Net change in endowed equity	368,292	181,167
Endowed equity, beginning of year	<u>3,034,533</u>	<u>2,853,366</u>
Endowed equity, end of year	<u>\$ 3,402,825</u>	<u>\$ 3,034,533</u>

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



**Balance Sheet**  
**at August 31, 1995 and 1994**  
*(in thousands of dollars)*

	1995	1994
<b>Assets:</b>		
Cash and short term investments (including \$143,118 and \$165,291 of endowment cash at August 31, 1995 and 1994, respectively)	\$ 302,159	\$ 397,514
Accounts receivable	91,827	97,985
Inventories and prepaid expenses	48,907	40,417
Investments of the operating accounts, at market	902,540	801,711
Investments of the endowment, at market	3,286,165	2,886,789
Student loans receivable	61,555	59,062
Other loans receivable (principally faculty mortgages)	68,805	68,307
Deposits with bond trustee	6,657	6,772
Plant facilities, net of accumulated depreciation	1,058,354	999,367
Net assets of Stanford Health Services	280,057	271,134
<b>Total assets</b>	<b>\$ 6,107,026</b>	<b>\$ 5,629,058</b>
<b>Liabilities and equity:</b>		
<b>Liabilities:</b>		
Accounts payable and accrued expenses	\$ 255,770	\$ 220,467
Collateral for security lending agreements	95,880	117,123
U.S. Government refundable loan funds	40,668	39,047
Notes and bonds payable	661,172	678,224
<b>Total liabilities</b>	<b>1,053,490</b>	<b>1,054,861</b>
<b>Equity:</b>		
Operating equity:		
Stanford University	1,370,654	1,268,530
Stanford Health Services	280,057	271,134
<b>Total operating equity</b>	<b>1,650,711</b>	<b>1,539,664</b>
Endowed equity:		
Expendable	1,139,291	981,152
Nonexpendable	2,263,534	2,053,381
<b>Total endowed equity</b>	<b>3,402,825</b>	<b>3,034,533</b>
<b>Total equity</b>	<b>5,053,536</b>	<b>4,574,197</b>
<b>Total liabilities and equity</b>	<b>\$ 6,107,026</b>	<b>\$ 5,629,058</b>

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

**Statement of Cash Flows**  
**Years ended August 31, 1995 and 1994**  
*(in thousands of dollars)*

	1995	1994
<b>Cash flow from operating activities:</b>		
Tuition, fees, sales and services of auxiliary enterprises	\$ 494,716	\$ 507,114
Investment income	139,991	124,145
Gifts, grants and contracts	634,328	622,487
Cash paid to suppliers and employees	(1,122,936)	(1,115,395)
Interest paid	(38,477)	(32,042)
<b>Net cash provided by operating activities</b>	<u>107,622</u>	<u>106,309</u>
<b>Cash flow from capital activities:</b>		
Endowment gifts	64,341	65,345
Gifts, contracts and grants to student loan and plant funds	69,137	38,555
Investment income on unexpended plant gift funds	12,571	2,250
Interest on student loans	2,546	2,246
Endowment income reinvested per donor instructions	1,370	3,038
Other	(9,722)	(945)
<b>Net cash provided by capital activities</b>	<u>140,243</u>	<u>110,489</u>
<b>Cash flow from financing activities:</b>		
Proceeds from borrowing	8,775	212,475
Repayment of debt	(25,827)	(80,852)
<b>Net cash (used for) provided by financing activities</b>	<u>(17,052)</u>	<u>131,623</u>
<b>Cash flow from investing activities:</b>		
Land, building and equipment purchases	(147,147)	(141,910)
Student, faculty and other loans:		
New loans made	(22,445)	(27,324)
Principal collected	20,290	32,869
Net purchases of investments	(155,623)	(216,170)
Security lending collateral returned	(21,243)	(76,973)
<b>Net cash used for investing activities</b>	<u>(326,168)</u>	<u>(429,508)</u>
<b>Decrease in cash and short-term investments</b>	(95,355)	(81,087)
Cash and short-term investments, beginning of year	397,514	478,601
<b>Cash and short-term investments, end of year</b>	<u>\$ 302,159</u>	<u>\$ 397,514</u>

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

## 1. Significant Accounting Policies:

**Basis of Presentation:** The financial statements include the accounts of Stanford University (the "University"), and Stanford Health Services (Note 2). In addition, as the University manages and operates Stanford Linear Accelerator Center ("SLAC") for the Department of Energy ("DoE") under a management and operating contract, the revenue and expenditures of SLAC are included in the statement of operations and changes in operating equity. As SLAC is a federally funded research and development center, the assets and liabilities of SLAC are owned by the DoE and, accordingly, are not included in the balance sheet. Hoover Institution is an integral part of the University and, therefore, is included in the financial statements. Auxiliary activities include Housing and Dining Services, intercollegiate athletics and certain patient care provided by the School of Medicine.

**Basis of Accounting:** The financial statements are prepared in accordance with generally accepted accounting principles. In order to comply with the internal and external restrictions placed on the use of the University's resources, the accounts are maintained in accordance with the principles of fund accounting. Under these principles, resources are classified into various funds in accordance with their specified activities or objectives. For example, externally restricted funds may only be utilized in accordance with the purposes established by the source of such funds. In contrast, the University's Board of Trustees (the "Board") retains full control over other funds and may use them in achieving any of its institutional purposes. All of these funds have been summarized into two reporting categories, operating and endowed equity, which are explained below.

The operating equity category includes current, plant and loan funds. All of these funds are either available for the operation of the University or have been invested in plant. The student loan funds are not expensed, but rather are loaned to students as a portion of the financial aid package. As these loans are repaid, the principal and accumulated interest are loaned again. The results of operations and fund balances of Stanford Health Services are separately reported in operating equity (Note 2).

The endowed equity category includes both expendable and nonexpendable endowment funds. Nonexpendable endowment funds are subject to the restrictions of gift instruments requiring that the principal be invested in perpetuity and the income be utilized in accordance with the terms of the gift. Funds subject to living trust agreements are trusts with living income beneficiaries where the University is the remainderman. These funds are recorded at fair market value at the date of gift, exclusive of any discount for the value of any income beneficiary interest. Expendable funds include funds functioning as endowment which have been established by the Board for the same purposes as endowment funds. However, any portion of these funds may be expended and have therefore been categorized as expendable. 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. These funds are categorized as expendable.

In June 1993, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 116, "Accounting for Contributions Received and Contributions Made," and No. 117, "Financial Statements of Not-for-Profit Organizations." These pronouncements are effective for the University's 1996 fiscal year and will significantly impact the format of the University's financial reporting and require that promises of future gifts be recorded in the financial statements.

**Pledges:** Gift and non-government grant pledges of approximately \$180,000,000 and \$163,000,000 as of August 31, 1995 and 1994, respectively, are not reported in the financial statements because the net realizable value of such pledges or the years in which payments will be received have not been determined. Substantially all pledges are restricted as to use.

**Cash and Short-Term Investments:** Cash and short-term investments include U.S. Treasury bills, bankers' acceptances, commercial paper, certificates of deposit, money market funds, security transactions pending settlement and other short-term investments, carried at cost, which approximates market.

**Investments:** Investments are generally recorded at market value. Those investments for which market value is not readily determinable are carried at cost, fair value at date of donation or at a nominal value. Developed real estate is valued based on discounted cash flows of existing leases. Non-developed land is reported at cost or fair value at date of donation.

**Student Loans Receivable:** Student loans receivable are carried at cost, less an allowance for doubtful accounts. Determination of the fair value of student loan receivables, which include donor restricted and federally sponsored student loans with mandated interest rates and repayment terms subject to significant restrictions as to their transfer and disposition, could not be made without incurring excessive costs.

**Plant Facilities:** Plant facilities (including land), dedicated to educational purposes, are stated at cost or fair value at date of donation. Interest for construction financing is capitalized as a cost of construction. Art objects and collections are not capitalized.

Depreciation is computed using the straight-line method over the estimated useful lives of the plant assets. The estimated useful lives are:

Buildings	40 years
Building improvements	15 years
Equipment	6 years

Depreciation related to auxiliary activities is recorded as an auxiliary expense.

**Provision for Employee Benefits and Compensated Absences:** The University self-insures unemployment and disability benefits. Annual provisions for estimated claims are charged to operating expenses. The provision includes an accrual for compensated absences.

**Indirect Cost Recovery:** The University records reimbursements of indirect costs from grants, contracts, auxiliary activities and SLAC as operating revenues.

**Reclassification:** Certain amounts recorded in the 1994 financial statements have been reclassified to conform to the 1995 presentation. Such reclassifications had no effect on net operating equity or net change in operating equity.

## **2. Stanford Health Services:**

Stanford Health Services ("SHS") is a separate California nonprofit public benefit corporation whose members are the Board of Trustees of the University. SHS owns and operates a licensed teaching hospital (the "Hospital") on the campus of the University. As a result of a restructuring implemented as of September 1, 1994, SHS also owns and operates, in support of the University's School of Medicine (the "School of Medicine"), a series of primary care, specialty and subspecialty clinics. Prior to the restructuring, SHS was known as Stanford University Hospital.

The restructuring combined the business and clinical operations of the University's Faculty Practice Program (the "FPP"), exclusive of the Department of Pediatrics, with the Hospital. This combination was designed to create an integrated delivery system capable of more effectively responding to the demands of the marketplace for high-quality, cost-effective health care services. Before the restructuring, the FPP was a division of the School of Medicine and encompassed the clinical activities of the School of Medicine faculty.

As part of the restructuring, the University transferred to SHS certain assets and liabilities related to the activities of the FPP, including receivables, buildings and equipment, certain cash reserves, debt and self-insured obligations. In addition, as part of the restructuring, SHS agreed to pay the University a negotiated amount for the professional and certain other services provided by the faculty of the School of Medicine. The net impact of the restructuring is to decrease the University's 1995 auxiliary revenue and expense related to FPP activities and similarly to increase SHS revenue and expense.

Summarized financial information for SHS at August 31, 1995 and 1994 and for the years then ended, in thousands of dollars, is as follows:

	1995	1994
Total revenue	<u>\$ 552,800</u>	<u>\$ 416,747</u>
Excess (deficiency) of revenue over expense	\$ 1,683	\$ (14,655)
Transfer from the University of assets and liabilities related to FPP activities	5,574	—
Other changes in SHS funds	1,666	2,232
Net increase (decrease) in SHS equity	<u>\$ 8,923</u>	<u>\$ (12,423)</u>
Cash and marketable securities	\$ 213,396	\$ 183,790
Other assets (including \$17,379 and \$18,641 receivable from the University at August 31, 1995 and 1994, respectively)	166,214	141,055
Property, plant and equipment, net of accumulated depreciation	<u>240,519</u>	<u>222,985</u>
Total assets	<u>620,129</u>	<u>547,830</u>
Long-term debt	130,625	107,392
Other liabilities (including \$30,452 and \$18,196 payable to the University at August 31, 1995 and 1994, respectively)	<u>209,447</u>	<u>169,304</u>
Total liabilities	<u>340,072</u>	<u>276,696</u>
Net assets of SHS	<u>\$ 280,057</u>	<u>\$ 271,134</u>

SHS long-term debt, in thousands of dollars, consists of the following:

	1995	1994
Tax-exempt revenue bonds:		
1995 Series due serially from 1996 to 2007; interest payable semi-annually, at rates from 4.4% to 6.0%	\$ 22,395	\$ —
1993 Series due serially from 1993 to 2020; interest payable semi-annually, at rates from 2.1% to 5.5%	94,995	96,660
1990 Series due serially from 1991 to 2020; interest payable semi-annually, at rates from 5.25% to 6.75%	8,020	8,610
Other, at various rates	<u>10,213</u>	<u>4,977</u>
	135,623	110,247
Less current portion	<u>4,998</u>	<u>2,855</u>
Long-term debt	<u>\$ 130,625</u>	<u>\$ 107,392</u>

The 1995 tax-exempt Certificates of Participation and the 1993 series of tax-exempt revenue bonds were issued through the Association of Bay Area Governments Finance Authority for Nonprofit Corporations and the 1990 series was issued through the California Health Facilities Financing Authority. These bonds are collateralized by a security interest in SHS's gross revenues. Additionally, the loan agreements require the maintenance of certain debt coverage ratios and that SHS set aside certain funds, as defined, as a debt service reserve account.

The fair value of SHS's long-term debt is estimated based on quoted market prices for the same issues. At August 31, 1995 the fair value of SHS's debt instruments is \$130,797,000. The fair value does not represent the amount that would be required to satisfy the debt obligation.

### 3. Accounts Receivable:

Accounts receivable at August 31, 1995 and 1994, in thousands of dollars, are as follows:

	1995	1994
U.S. Government	\$ 36,366	\$ 26,422
Accrued interest on investments	12,031	12,074
Patient care	5,577	56,314*
Student and other	38,369	31,738
	<u>92,343</u>	<u>126,548</u>
Less allowances for losses	516	28,563*
	<u>\$ 91,827</u>	<u>\$ 97,985</u>

\*The majority of patient care receivables was transferred to SHS on September 1, 1994.

### 4. Loans Receivable:

In a program to attract and keep outstanding faculty and senior staff, the University provides home mortgage financing assistance. Notes amounting to \$62,972,000 and \$58,965,000 at August 31, 1995 and 1994, respectively, from University faculty and staff are collateralized by first and junior deeds of trust on properties concentrated in the region surrounding the University.

### 5. Investments:

Investments held by the University at August 31, 1995 and 1994 are reported principally at market value, as follows, in thousands of dollars:

	1995	1994
Bonds	\$ 969,160	\$ 891,268
Corporate stocks	2,291,766	2,074,655
Assets held by other trustees*	73,098	68,317
Real estate and improvements:		
Stanford Shopping Center	139,988	141,427
Other*	124,126	66,290
Limited partnership investments	540,600	401,412
Participatory mortgage loans	25,003	25,003
Other loans receivable of the endowment*	2,318	3,299
Other*	22,646	16,829
	<u>\$ 4,188,705</u>	<u>\$ 3,688,500</u>

\*Includes investments stated at cost or fair value at date of donation.

The University's endowed equity is invested through various investment pools with varying investment objectives, comprising the following at August 31, 1995 and 1994, in thousands of dollars:

	1995	1994
Merged Pool A	\$ —	\$ 583,062
Merged Endowment Pool (previously Merged Pool B)	3,053,223	2,105,812
Merged Pool C	73,879	64,038
Other investments of the endowment	581,879	534,384
Less operating equity invested through endowment pools	<u>(306,156)</u>	<u>(252,763)</u>
	<u>\$ 3,402,825</u>	<u>\$ 3,034,533</u>

In fiscal year 1995 Merged Pool A was combined with Merged Pool B and named the Merged Endowment Pool. These holdings are invested for total return and a prudent portion of the realized gain may be expended. Merged Pool C primarily serves funds functioning as endowment for which the major objective is capital appreciation rather than current yield. The distributions of certain endowments whose gift terms allow only yield to be expended are appropriately limited to current yield.

The University's policy governing the amounts to be paid from the endowment pools to support current operations is designed to protect the value of the endowment against the expected impact of inflation and to provide real growth of the endowment funds, while also funding a relatively constant portion of the University's current operating expenditures. The payout rate, set annually by the Board, is based upon an estimate of total investment returns and the expected impact of inflation on the endowment funds. The sources of the payout are earned income on the endowment funds (interest, dividends, rents and royalties), previously reinvested income and a portion of realized capital gains.

The Board approved an increased rate of 6.75% for fiscal year 1994 as a means of funding operating deficits resulting from reductions in the allowed rate for indirect cost recovery and costs that the University incurred in responding to federal government audits of indirect cost recovery. The Board decreased the target rate to 5.25% for fiscal year 1995. To meet the Board-authorized payout rate, previously reinvested income and realized gains were withdrawn, net of reinvestment, in thousands of dollars, as follows:

	1995	1994
Merged Endowment Pool	\$ 49,226	\$ 65,323
Merged Pool C	<u>2,405</u>	<u>3,334</u>
Total Income Withdrawn	<u>\$ 51,631</u>	<u>\$ 68,657</u>

Individual funds subscribe to or dispose of shares of the endowment pools on the basis of market value per share as of the most recent valuation date. Information on shares and data per share for the merged pools is as follows:

	1995	1994
<b>Merged Pool A:</b>		
Total market value (in \$000's)	\$ —	\$ 583,062
Number of shares outstanding (in 000's)	—	11,690
Market value per share	—	\$ 49.879
 Payout amount per share		
Current earned income	—	\$ 1,434
Previously reinvested income withdrawn	—	1,506
Total	—	<u>\$ 2,940</u>
 <b>Merged Endowment Pool</b> (previously Merged Pool B):		
Total market value (in \$000's)	\$ 3,053,223	\$ 2,105,812
Number of shares outstanding (in 000's)	54,084	41,020
Market value per share	\$ 56.453	\$ 51.336
 Payout amount per share:		
Current earned income	\$ 1,692	\$ 1,511
Previously reinvested income withdrawn	.998	1,589
Total	<u>\$ 2,690</u>	<u>\$ 3,100</u>
 <b>Merged Pool C:</b>		
Total market value (in \$000's)	\$ 73,879	\$ 64,038
Number of shares outstanding (in 000's)	3,969	4,292
Market value per share	\$ 18.612	\$ 14.920
 Payout amount per share:		
Current earned income	\$ .244	\$ .247
Previously reinvested income withdrawn	.566	.723
Total	<u>\$ .810</u>	<u>\$ .970</u>

The University enters into foreign currency forward contracts primarily for the purpose of minimizing the risk to the University from adverse changes in the relationship between currencies. A forward currency contract is an obligation to purchase or sell a currency against another currency at a future date and price as agreed upon by the parties. Forward contracts are traded over-the-counter and not on organized commodities or securities exchanges. The University intends to cover the commitments to deliver currency under these contracts by acquiring a sufficient amount of the underlying currency. In connection with these contracts, unrealized gains of \$650,000 and \$56,000 have been recorded by the University as of August 31, 1995 and 1994, respectively.

The University invests in options and futures contracts for the purposes of reducing the risk level of its investments or serving as a temporary surrogate for investment in stocks and bonds. An option is a contract which grants the right, but not the obligation, to execute a specific sales transaction at a stated exercise price. A futures contract is a standardized agreement between two parties to buy and sell an asset at a set price on a future date. Upon entering into futures contracts, the University is required to pledge to the broker an amount of cash or securities equal to the minimum initial margin requirements of the exchange on which the contracts are traded. At August 31, 1995, total initial margin pledged was \$6,394,000. The unrealized loss associated with open options and futures contracts of \$2,604,000 as of August 31, 1995, and \$2,751,000 as of August 31, 1994, has been recorded by the University.



The University uses interest rate swaps to manage the interest rate exposure of its commercial paper program. An interest rate swap is an agreement between counterparties to exchange periodic interest payments based on specific interest rate differentials applied to a specified notional amount. A swap allows one party to effectively change the interest rate structure of a debt obligation or an investment through the exchange of payments with another party. Swaps enable participants to obtain financing from the cheapest markets and simultaneously hedge unwanted risk. The contracts executed by the University are structured to minimize any mismatch between the commercial paper rate paid and the short-term rate received. At August 31, 1995, the total notional principal amount of swap instruments held was \$32,000,000.

Forwards, options, futures, swaps and other off-balance sheet financial instruments necessarily involve counterparty credit exposure. The University seeks to control this risk through counterparty credit evaluations and approvals, counterparty credit limits, and exposure monitoring. Additionally, the terms of swap agreements provide that collateral may be posted or appropriate guarantees obtained between the University and the counterparty in order to minimize credit exposure to or from the counterparty.

## 6. Plant Facilities:

Plant facilities, at August 31, 1995 and 1994, in thousands of dollars, are as follows:

	1995	1994
Land and improvements	\$ 77,666	\$ 72,566
Buildings	977,308	956,464
Equipment and books	767,409	728,610
Construction in progress	<u>117,933</u>	<u>53,784</u>
	1,940,316	1,811,424
Less accumulated depreciation	<u>881,962</u>	<u>812,057</u>
Plant facilities	<u>\$ 1,058,354</u>	<u>\$ 999,367</u>

Fully depreciated assets, mainly equipment, that are still in use by the University amounted to \$378 million and \$331 million at August 31, 1995 and 1994, respectively.

## 7. Notes and Bonds Payable:

Notes and bonds payable, at August 31, 1995 and 1994, in thousands of dollars, are as follows:

	1995	1994
California Educational Facilities Authority (CEFA)		
Revenue Bonds, Series B,C,F,G,H,I,J,K and Pooled Facilities due serially to 2019, with interest from 4.0 % to 8.0%	\$ 337,344	\$ 346,121
Revenue Bonds, Series L-1 and L-2, with variable interest rates	13,830	5,055
Stanford University Notes due 1998, with interest of 8.0%	30,000	30,000
Department of Education Bonds of 1959 to 1984 due serially to 2024 with interest from 3.0% to 3.5%	7,475	8,151
Stanford University Bonds due 2024, with fixed interest of 6.875%	150,000	150,000
Note Payable to Stanford Health Services, with interest of 7.2%	9,559	9,719
Commercial Paper, with variable interest rates	108,069	118,410
Other, with variable interest rates	<u>4,895</u>	<u>10,768</u>
	<u>\$ 661,172</u>	<u>\$ 678,224</u>

At August 31, 1995, the fair value of these debt instruments approximates the recorded value of the related debt obligations.

The University incurred interest expense of \$39,900,000 and \$33,130,000 for fiscal years 1995 and 1994, respectively, of which \$1,559,000 and \$1,678,000, respectively, has been capitalized as a cost of construction.

Scheduled principal and interest payments on notes and bonds for the fiscal years 1996 through 2000 are approximately:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
1996	\$ 11,415,000	\$ 32,594,000	\$ 44,009,000
1997	10,426,000	32,000,000	42,426,000
1998	42,361,000	31,350,000	73,711,000
1999	15,158,000	30,167,000	45,325,000
2000	15,908,000	29,271,000	45,179,000

The \$9,559,000 Stanford Health Services note, which is callable under certain circumstances, is amortized in the above table over the full term of the note to fiscal year 2018.

The collateral for the annual debt service on certain CEFA Revenue Bonds consists of a pledge of annual tuition revenue of approximately \$1,900,000, and investments of approximately \$5,253,000 (at market) which were on deposit with a trustee at August 31, 1995. The University is in compliance with its CEFA bond covenants.

During fiscal year 1994, the University established a program of issuing variable rate demand notes to refinance current CEFA principal payments. This program preserves University access to more favorable tax exempt financing, which would otherwise have been restricted had the amounts due been paid in cash. In December 1993 and October 1994, the University issued \$5,055,000 and \$8,775,000 in CEFA L-1 and L-2 Refunding Revenue bonds; initial interest rates of these bonds were 2.9% and 3.0%, respectively. In October 1995, the University issued \$9,840,000 in CEFA L-3 Refunding Revenue bonds at an initial interest rate of 3.4%.

On February 16, 1994, the University issued \$150,000,000 in taxable bonds with a fixed interest rate of 6.875% and a maturity date of February 1, 2024. A significant portion of the net proceeds of \$148,206,000 (after payment of \$1,794,000 in underwriting fees and accrued interest) is being used for capital projects and deferred maintenance, including seismic repairs and improvements. Net proceeds were also used to retire approximately \$48,500,000 of outstanding commercial paper, which had also been used for such purpose.

The University has a commercial paper credit facility which provides for borrowings up to \$200,000,000. The outstanding balance at August 31, 1995 was \$108,069,000. The weighted average days to maturity is 82 and the weighted average effective interest rate is 5.88%.

The University has advance refunded and defeased a total of \$203,590,000 in CEFA bond debt over a period of several years. At August 31, 1995, \$187,833,000 of this debt remained outstanding. An escrow agent holds sufficient U.S. Government securities to meet all required debt service payments on these bonds. As a result, the liability for these bonds has been excluded from the balance sheet.

#### **8. Collateral for Security Lending Agreements:**

At August 31, 1995 and 1994, the University held \$91,231,000 and \$72,747,000, respectively, of short-term U.S. Government obligations and cash as collateral deposits for certain securities loaned temporarily to brokers. Also, at August 31, 1995 and 1994, certain security loans were collateralized by lines of credit of \$5,310,000 and \$59,553,000, respectively. Securities on loan at August 31, 1995 and 1994 had estimated market values of \$93,962,000 and \$130,050,000, respectively.

The University also lends securities under security repurchase agreements. These transactions are not treated as sales of securities but rather are treated as financings, with the dollar amount of the underlying securities remaining in the balance sheet as assets and the obligation to repurchase securities being shown as a liability. As of August 31, 1994, the University had received \$23,169,000 of cash collateral deposits for certain U.S. Treasury notes and mortgage-backed certificates sold under agreements to repurchase the same or substantially similar securities. Securities sold under these agreements had an estimated market value at August 31, 1994 of \$23,315,000. The cash collateral received was invested by the University in short-term securities and money market funds. At August 31, 1995, no securities were loaned under security repurchase agreements.

The University records the change of ownership of bonds and stocks on the day a trade is made. Cash settlement generally follows three working days after the trade. During the period between trade date and cash settlement date, the cash receivable from the broker from sales or due to the broker from buys is recorded as a pending trade. As of August 31, 1995 and 1994, the pending trade position with brokers was a net payable of \$4,649,000 and \$14,562,000, respectively, for the endowment, and \$6,645,000 at August 31, 1994 for the operating accounts. The University had no such unsettled positions for the operating accounts at August 31, 1995.

#### 9. Current Restricted Funds:

Externally restricted funds may only be utilized in accordance with the purposes established by the sources of these funds. The sources of revenue supporting restricted expenditures for the years ended August 31, 1995 and 1994, in thousands of dollars, are as follows:

	1995	1994
Investment income	\$ 97,669	\$ 95,737
Gifts and non-government grants	99,331	99,559
Government grants	162,193	163,145
Stanford Linear Accelerator Center	175,780	167,140
Government and other contracts	85,869	77,163
	<u>\$ 620,842</u>	<u>\$ 602,744</u>

#### 10. Operating Equity:

The University has aggregated fund balances in its operating equity at August 31, 1995 and 1994 which consist of the following categories of fund balances, in thousands of dollars:

	1995	1994
Unrestricted:		
Current unrestricted funds	\$ 3,208	\$ 3,151
Current designated funds	228,904	215,386
Loan funds	6,066	5,079
Plant funds	66,419	54,997
Restricted:		
Current funds	314,096	297,770
Loan funds	38,661	33,879
Plant funds	76,502	55,347
Investment in plant	<u>636,798</u>	<u>602,921</u>
	<u>\$ 1,370,654</u>	<u>\$ 1,268,530</u>

## 11. Endowed Equity

Stanford's endowment consists of more than 4,500 separate funds established over many years for a wide variety of restricted and unrestricted purposes. Restricted purposes include named professorships, support of research, library book funds, and scholarships. The income from unrestricted endowments supports the general activities of the University. Endowed equity as of August 31, 1995 and 1994 consists of the following categories of fund balances, in thousands of dollars:

	1995	1994
Expendable funds:		
Funds functioning as endowment:		
Unrestricted	\$ 327,151	\$ 274,074
Restricted as to use of income	754,273	651,663
Term endowments subject to living trust agreements	57,867	55,415
	<u>1,139,291</u>	<u>981,152</u>
Nonexpendable funds:		
Endowment funds:		
Unrestricted	439,827	389,435
Restricted as to use of income	1,567,040	1,435,602
Endowment funds subject to living trust agreements	256,667	228,344
	<u>2,263,534</u>	<u>2,053,381</u>
	<u>\$ 3,402,825</u>	<u>\$ 3,034,533</u>

## 12. Gifts

Gifts were received in each of the fiscal years as follows, in thousands of dollars:

	1995	1994
Current funds:		
Unrestricted	\$ 8,699	\$ 16,490
Restricted	91,628	78,126
Non-government grants	27,732	29,694
Loan funds	2,777	317
Plant funds	45,791	36,150
Endowment funds	64,341	65,345
	<u>\$ 240,968</u>	<u>\$ 226,122</u>

### 13. Functional Expenses

Expenses for each of the fiscal years were categorized as follows, in thousands of dollars:

	1995	1994
Current funds		
Instruction and departmental research	\$ 360,115	\$ 349,989
Organized research	370,777	373,952
Libraries	45,783	42,079
Student aid	69,433	67,881
Student services	29,050	29,579
Plant operations and maintenance	75,830	72,764
Administration	61,112	59,232
Development and general	50,565	52,127
SLAC construction	40,091	18,999
Auxiliary activities	139,959	159,624
Plant and loan funds	40,419	52,053
	<u>\$ 1,283,134</u>	<u>\$ 1,278,279</u>

### 14. Pension Plans:

The University provides retirement benefits, through both contributory and noncontributory pension plans, for substantially all of its employees. The University's policy is to fund pension costs in accordance with Employee Retirement Income Security Act minimum funding requirements. Total pension expense for the years ended August 31, 1995 and 1994 is approximately \$35,375,000 and \$35,750,000, respectively, including expense of \$3,691,000 and \$4,982,000, respectively, for the University's defined benefit pension plan.

Retirement benefits for nonexempt employees are provided through a noncontributory defined benefit pension plan. Net pension expense related to this plan for 1995 and 1994, in thousands of dollars, included the following components:

	1995	1994
Service cost (benefits earned for the period)	\$ 5,765	\$ 7,395
Interest cost on projected benefit obligation	11,567	10,968
Actual earnings on plan assets	(23,458)	(10,764)
Amortization of transition asset	(902)	(902)
Prior service cost	23	23
Deferral of asset gain (loss)	10,696	(1,738)
Net pension expense	<u>\$ 3,691</u>	<u>\$ 4,982</u>

The gain or loss on plan assets is the difference between the actual return on plan assets and the expected return based on actuarial assumptions. This gain or loss has been deferred in accordance with the provisions of Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions," and accordingly is not considered in the calculation of pension expense for the current period.

The excess of the plan assets over projected benefit obligation, in thousands of dollars, was as follows at August 31, 1995 and 1994:

	1995	1994
Plan assets at fair value	\$ 169,303	\$ 154,351
Actuarial present value of benefit obligation:		
Vested benefit obligation	148,316	130,823
Nonvested benefit obligation	<u>2,131</u>	<u>1,435</u>
	150,447	132,258
Additional benefit related to future compensation levels	<u>17,651</u>	<u>16,700</u>
Projected benefit obligation	<u>168,098</u>	<u>148,958</u>
Excess of plan assets over projected benefit obligation	<u>\$ 1,205</u>	<u>\$ 5,393</u>

The following table provides a reconciliation of the excess of plan assets over projected benefit obligation to the amount recognized in the balance sheet, in thousands of dollars:

	1995	1994
Accrued pension cost recorded in the balance sheet	\$ (17,244)	\$ (13,792)
Unrecognized net gain	12,252	12,109
Unrecognized portion of transitional net asset at September 1, 1987 (date of SFAS No. 87 adoption) being amortized to expense over 15 years	6,313	7,215
Unamortized prior service costs	<u>(116)</u>	<u>(139)</u>
Excess of plan assets over projected benefit obligation	<u>\$ 1,205</u>	<u>\$ 5,393</u>

In 1995 and 1994 the discount rates used in determining the actuarial present value of the projected benefit obligation were 7.5% and 8.0%, respectively. The expected long-term rate of return on assets was 8.5% in 1995 and 1994. Increases in covered payroll were assumed to be 5.25% in 1995 and 1994. Mortality was assumed to follow the 1983 Group Annuity Mortality Table with ages set back two years.

The University offers a defined contribution pension plan to eligible faculty and staff. University and participant contributions are invested in annuities and mutual funds. University contributions under this plan amounted to \$32,000,000 and \$31,000,000 for the years ended August 31, 1995 and 1994, respectively.

## 15. Postretirement Benefits Other Than Pensions

In addition to providing pension benefits, the University provides certain health care benefits for retired employees. Substantially all of the University's employees may become eligible for those benefits if they reach a qualifying retirement age while working for the University. Retiree health plans are paid for in part by employee contributions, which are adjusted annually. Benefits are provided through various insurance companies whose charges are based either on the benefits paid during the year or annual premiums. Health benefits are provided to retirees, their covered dependents and beneficiaries.

The University adopted Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits other than Pensions" effective September 1, 1993. This statement requires the accrual basis of accounting for recognizing the cost of postretirement benefits other than pensions during the periods that employees render service. The University elected to recognize the transition obligation prospectively and amortize it over 20 years.

The accrued postretirement benefit cost for August 31, 1995 and 1994, in thousands of dollars, was as follows:

	1995	1994
Accumulated postretirement benefit obligation:		
Retirees and beneficiaries	\$ 34,571	\$ 37,782
Fully eligible active participants	13,338	13,712
Other active participants	19,720	21,250
Total accumulated postretirement benefit obligation	<u>67,629</u>	<u>72,744</u>
Plan assets at fair value	<u>8,867</u>	<u>4,720</u>
Unfunded accumulated postretirement benefit obligation	<u>58,762</u>	<u>68,024</u>
Unrecognized accumulated postretirement benefit obligation:		
Transition obligation	68,425	72,084
Net gain from effects of changes in discount rate and health care cost assumptions	<u>(18,510)</u>	<u>(7,838)</u>
Total unrecognized accumulated postretirement benefit obligation	<u>49,915</u>	<u>64,246</u>
Accrued postretirement benefit cost	<u>\$ 8,847</u>	<u>\$ 3,778</u>

The net periodic postretirement benefit cost components at August 31, 1995, in thousands of dollars, were comprised of the following :

Service cost (benefits earned for the period)	\$ 2,956
Interest cost on accumulated postretirement benefit obligation	5,672
Amortization of transition obligation	3,801
Amortization of actuarial gain	(33)
Expected return on plan assets	<u>(378)</u>
Total net periodic postretirement benefit cost	<u>\$ 12,018</u>

The discount rates used in determining the accumulated postretirement benefit obligation were 7.5% and 8.0% for August 31, 1995 and 1994, respectively.

The assumed health care trend rate used to measure the accumulated postretirement benefit obligation was 6.0% at August 31, 1995, gradually decreasing to 5.0% by 2004. Increasing the health care cost trend rate by one percent in each future year would increase the accumulated postretirement benefit obligation by \$9,650,000 and the aggregate service and interest cost by \$1,477,000.

## 16. Cash Flow Reconciliation

The change in University operating and endowed equity is reconciled to net cash provided by operations for the years ended 1995 and 1994 as follows, in thousands of dollars:

	1995	1994
Change in operating and endowed equity	\$ 479,339	\$ 206,514
(Increase) decrease in SHS net equity	(8,923)	12,423
Depreciation	94,889	98,705
Increase in U.S. Government refundable loan funds	1,621	2,181
Increase in accounts payable	31,278	15,271
Decrease (increase) in accounts receivable	6,158	(4,609)
Decrease (increase) in inventories and prepaid expenses	(8,490)	9,090
Gifts, grants and reinvested income of student loan, endowment and plant net assets	(142,948)	(114,338)
Realized and unrealized gains on investments	(345,302)	(118,928)
Net cash provided by operations	<u>\$ 107,622</u>	<u>\$ 106,309</u>

## 17. Commitments and Contingencies:

**Contractual Commitments:** At August 31, 1995, remaining authorized expenditures on construction and renovation projects are estimated to be \$196,600,000 which will be financed with certain unexpended plant funds, gifts and debt. Of this amount, \$63,700,000 relates to earthquake repair and renovation projects. Actual contractual obligations relating to major construction projects were \$49,619,000 at August 31, 1995, of which \$12,430,000 relates to earthquake repair and renovation.

**Contingencies Associated with Sponsored Projects:** The University conducts substantial research for the federal government pursuant to contracts and grants from federal agencies and departments. The Office of Naval Research (ONR) is the cognizant federal agency for determining indirect cost rates charged to federally sponsored agreements at Stanford. It is supported by the Defense Contract Audit Agency (DCAA), which has the responsibility for auditing direct and indirect charges under those agreements.

During 1990, disagreements arose between the University and ONR and DCAA over the appropriateness of some of the University's indirect and similar charges as well as the methods used to allocate specific indirect costs to those agreements. In October 1994, the University settled its contractual disputes with the federal government pursuant to an agreement with ONR. Under the agreement the parties settled all disputes between them for fiscal years 1981-1992. The settlement agreement states that the previously existing Memoranda of Understanding (MoUs) were "valid and binding agreements between the Government and Stanford" and concludes that ONR "does not have a claim that Stanford engaged in fraud, misrepresentation, or other wrongdoing with respect to the MoUs, costs, submissions, claims, or any other matters covered by" the settlement agreement. The University agreed to pay \$1,200,000 and dismiss its claims before the Armed Services Board of Contract Appeals for underrecovery.

The University is still defending a qui tam action filed under the False Claims Act by a former government employee, alleging inappropriate allocations and billings of indirect costs for the years 1981 through 1993. The U.S. Department of Justice announced its intention not to intervene in this False Claims Act suit in December of 1993. The University believes it has meritorious defenses and intends vigorously to contest any such claims or litigation. The University believes that resolution of this suit will not have a material adverse effect on its financial position.



**General Contingencies:** The University is a defendant in a number of other 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 University's financial position.

**Facilities Renovations and Earthquake Damages:** As a result of changes in federal regulations, state and building codes and a major earthquake in October 1989, the University has committed to make seismic improvements, code upgrades and repairs to campus buildings. The University estimates that approximately \$157,100,000 of repairs and upgrades remain to be made. A number of campus buildings suffered structural damage in the earthquake which forced their closure. In connection with state and local legislation, the University has submitted a plan to Santa Clara County to strengthen certain unreinforced masonry buildings by September 2000. The University has determined that certain other (non-seismic) improvements, while technically required only for new construction, are important to conform campus buildings to the current Uniform Building Code.

The University is identifying existing funds and budget reallocations which could be available to pay for these projects. In addition, the University has established a fundraising campaign and will use receipts from previous debt financings to pay for additional projects. As of August 31, 1995, the Federal Emergency Management Agency (FEMA) has reimbursed \$27,248,000 to the University and has agreed to pay the University an additional \$32,058,000.

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**\$50,000,000**

**Stanford University**

**7.65% Notes due June 15, 2026**



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