

Stanford University Annual Financial Report

August 31, 2013 and 2012

STANFORD UNIVERSITY ANNUAL FINANCIAL REPORT

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Stanford experienced strong financial results in fiscal year 2013 (FY13). Consolidated net assets increased \$3.0 billion to end the year at \$26.7 billion. Consolidated operating revenues exceeded expenses by \$565 million, compared to \$516 million in FY12. Stanford's FY13 financial results benefitted from excellent investment returns and health care services revenues, and continued strong support from donors.

These consolidated results reflect the combined financial position and results of the University and the Hospitals. Below are additional details about the University's and Hospitals' financial position, financial results and operations.

University

FY13 net assets increased 9.4% to \$25.7 billion compared to \$23.5 billion in the prior year. The University's FY13 endowment ended the year at \$18.7 billion, exceeding 2008's previous high of \$17.2 billion.

FY13 FINANCIAL HIGHLIGHTS

Excellent investment performance. University investment returns in FY13 were \$2.5 billion, nearly double the \$1.3 billion in FY12. The FY13 results reflect strong returns in U.S. and other developed world equity markets which outweighed returns from emerging market equities and fixed income funds.

Record number of donors. FY13 gifts as reported by the University's Office of Development,

were \$932 million, second only to the \$1.0 billion received in FY12. The University continues to benefit from the generosity and encouragement of its donors. More than 82,000 alumni, parents, students, and supporters contributed the largest number of gifts in Stanford's history. These results are a strong endorsement of Stanford's efforts to address complex global problems.

In May 2012, Stanford announced the launch of a \$1 billion Campaign for Stanford Medicine to transform health care at a local, national and global level. In FY13, the Campaign raised \$235 million in new gifts and pledges.

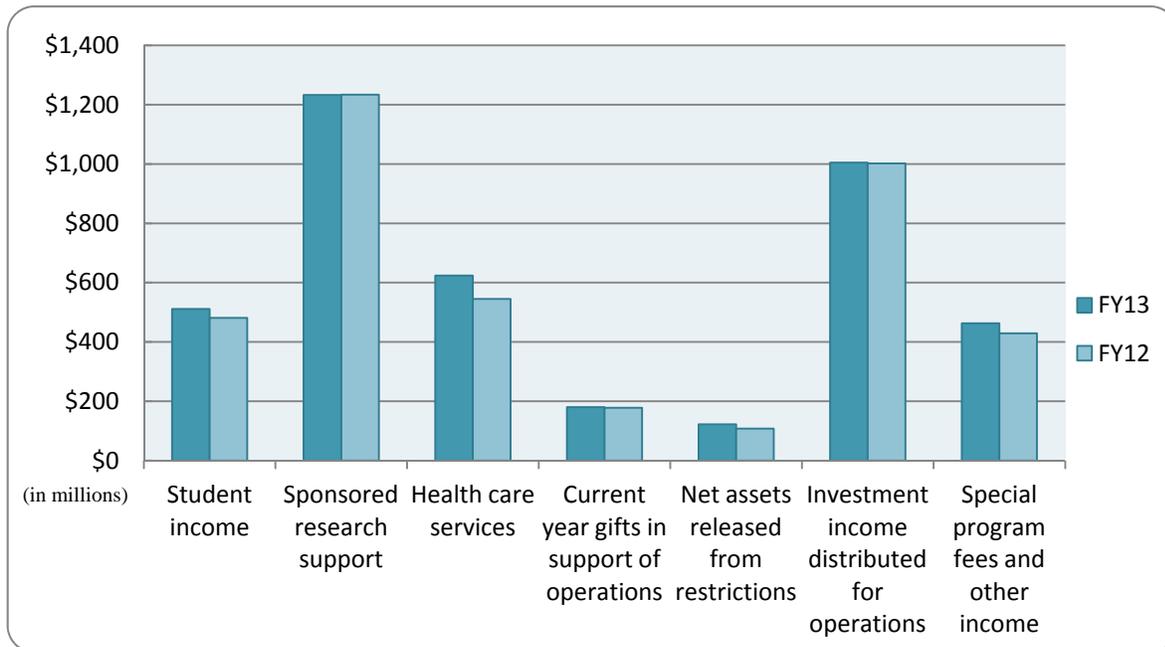
OPERATING RESULTS

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

The University ended the year with a surplus from operations of \$165 million in FY13 compared to \$211 million in FY12. FY13 operating revenues increased 4% compared to an increase in expenses of 5% during the same period.

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

**FIGURE 1
OPERATING REVENUES**



OPERATING REVENUES

FY13 operating revenues were \$4.1 billion, reflecting a 4% increase over FY12. The University’s operating revenue categories are shown in Figure 1 above.

Student Income

Total student income, which represents 12% of University operating revenues, increased 6% to \$511 million in FY13. Total student income includes tuition and fees from undergraduate and graduate programs and room and board; this amount is partially offset by financial aid. Revenues from student tuition and fees increased 4% in FY13 primarily as a result of undergraduate and graduate tuition increases ranging from 3.0% to 3.8% and a slight increase in undergraduate student enrollment. Revenues from room and board increased 7% in FY13 primarily due to a 3.5% increase in room and board rates and higher graduate student occupancy.

Financial aid increased \$863 thousand or 0.4% in FY13 to \$242 million, reflecting less need for aid as the economy continues to strengthen. Stanford’s commitment to provide an affordable education for all students remains unchanged.

Stanford is committed to a policy of “need-blind” admission for eligible U.S. citizens and permanent resident undergraduate students. For FY13, approximately 50% of undergraduates were awarded need-based scholarships and grants from Stanford. Eligible Stanford undergraduates receive other financial assistance in the form of athletic scholarships, research grants, student employment and low-interest student loans.

Graduate student financial aid is awarded based on need, academic merit and the availability of funds and consists of fellowships, stipends, and trainee/assistantships. Approximately 85% of graduate students receive financial support, including University, federal and privately funded fellowships, and teaching and research assistantships.

Stanford participates in the Federal Perkins student loan program, available to undergraduate, graduate and professional students. Stanford also provides a gift funded institutional loan program. Student loan receivables, net of allowances for doubtful accounts, were \$78 million and \$77 million as of August 31, 2013 and 2012, respectively.

Sponsored Research Support

Sponsored research support represents 30%--nearly one third—of the University’s operating revenues. FY13 sponsored research support of \$1.2 billion remained at the same level as FY12. A reduction of \$18 million in direct support for the SLAC National Accelerator Laboratory (SLAC) resulted from the spend down of final remaining ARRA funding and the effects of sequestration. The reduction primarily limited new construction.

The majority of the University’s sponsored research support (82% including SLAC) is received directly or indirectly from the federal government. The largest federal sponsor, the Department of Health and Human Services, provided revenue of \$414 million in FY13 compared to \$417 million in the prior year. Most of these funds support research within the University’s School of Medicine.

In addition to payment for the direct costs of performing research, the University receives an amount from sponsors for facilities and administrative costs, known as indirect costs. This amount covers costs related to facilities, utilities and administrative costs incurred in connection with sponsored research. For FY13, the federal and non-federal indirect cost recovery decreased slightly to \$226 million as a result of lower indirect cost recovery from SLAC.

Health Care Services

FY13 health care services revenue represented 15% of operating revenues for the University and increased \$79 million to \$624 million. School of Medicine faculty serve as physicians for the Hospitals. Clinical revenue is collected by the Hospitals, and a portion is remitted to the University for these physician services. In addition, the Hospitals pay the University for other essential services such as medical direction, telecommunication, legal and internal audit services. Health care services revenues of \$600 million represent the net value of services provided by the University to the Hospitals; these amounts are eliminated in consolidation.

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

Current year gifts in support of operations increased 1% to \$180 million in FY13. Net assets

THE UNIVERSITY’S ENDOWMENT

The University’s endowment is a collection of gift funds and reserves which are set aside and invested to support the University’s teaching and research missions. At August 31, 2013, the endowment totaled \$18.7 billion and represented approximately 73% of the University’s net assets. The endowment includes pure endowment funds (which include endowed lands), term endowment funds and funds functioning as endowment.

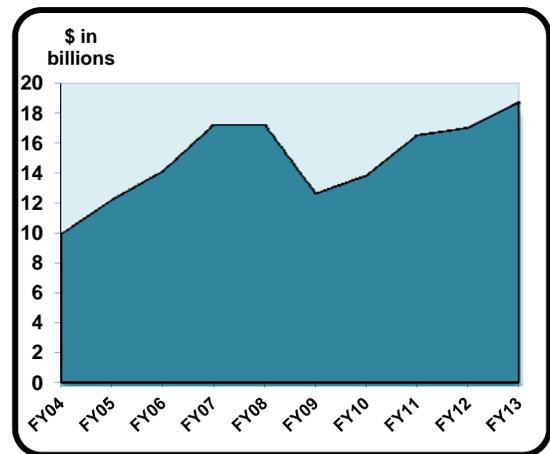
Gifts and pledge payments, investment returns, and other invested funds added \$2.6 billion to the endowment in FY13.

Payout to operations from the endowment--\$921 million in FY13--continues to be a significant source of operating revenue for the University, covering approximately 23% of expenses in FY13.

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

Approximately 30% funds instruction and research activities, 23% goes to student aid, 20% covers faculty salaries and support, 22% is unrestricted and the remainder is split between library support and other purposes.

UNIVERSITY ENDOWMENT BY YEAR



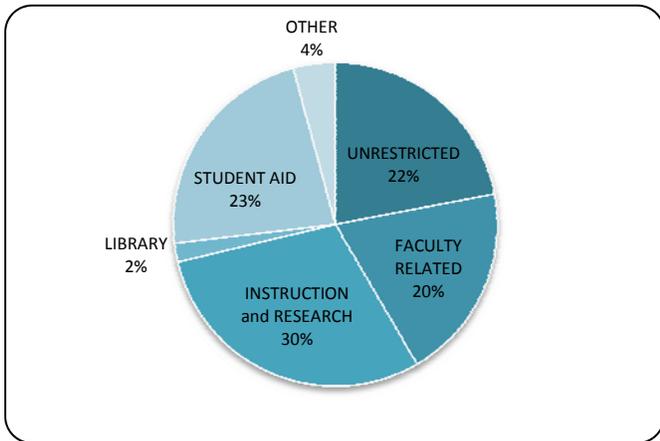
released from restrictions increased 13% to \$122 million.

Total Investment Income Distributed for Operations

Total investment income distributed for operations represented 24%--nearly one quarter--of University revenue, the second highest source of operating revenue for the University.

- Endowment income distributed for operations increased 6% to \$921 million in FY13. The endowment payout as a percentage of the beginning endowment value was 5.4% for FY13 and 5.3% for FY12.

**FIGURE 2
ENDOWMENT PAYOUT BY PURPOSE**



- Expendable funds pools and other investment income distributed for operations was \$84 million in FY13, compared to \$131 million in FY12. This category primarily includes the payout to operations from the Expendable Funds Pool (EFP) and the Endowment Income Funds Pool (EIFP), the principal investment vehicles for the University's expendable funds.
- The EFP policy provides a variable payout to certain funds that support operations based on the prior year's investment returns. Positive returns in both FY12 and FY11 resulted in the payouts to these funds over the past two years. However, lower returns in FY12 contributed to the reduction in the FY13 payout. See *Note 6* to the FY13 Consolidated Financial Statements.
- The EIFP holds previously distributed but unspent endowment payouts. These amounts are invested in highly liquid instruments in

order to preserve the principal balance.

Earnings on these investments are distributed to the fund holders. See *Note 6* to the FY13 Consolidated Financial Statements.

OPERATING EXPENSES

Total expenses increased \$207 million, or 5%, to slightly less than \$4.0 billion in FY13. Salaries and benefits comprised 63% of the University's total expenses; depreciation expense was 7% and other operating expenses represented 30%.

- Salaries and benefits increased 7% in FY13 to \$2.5 billion. The increase resulted from a combination of modest salary programs designed to maintain Stanford's competitive position, higher benefit costs, and increases in headcount to support new programs and facilities recently placed in service.
- Depreciation expense increased by 5% to \$292 million in FY13 from \$277 million in FY12. The increase in this category resulted from buildings recently placed in service as described in the Capital Projects section below.
- Other operating expenses increased slightly by 2% to \$1.2 billion in FY13 due to additional expenses incurred in support of new programs and facilities.

FINANCIAL POSITION

The University's *Statements of Financial Position* reflect strong donor support, excellent investment returns and positive operating results over the past three years. Total University assets increased \$2.6 billion in FY13 to end the year at \$31.5 billion. Total University liabilities increased slightly from \$5.5 billion to \$5.8 billion.

Cash and Cash Equivalents

The University closely monitors liquidity required to meet operating and contractual commitments. As economic conditions have continued to improve since the 2008 financial crisis, changes in the University's investment policies have allowed additional funds to be invested. At August 31, 2013, the University's cash and cash equivalents was \$784 million, a decrease of \$356 million compared to the prior year.

Investments

Total consolidated investments at August 31, 2013 were \$27.0 billion, up 12% (or \$2.8 billion) over

the prior year. University investments increased by \$2.5 billion, up 11% from FY12.

The majority of the consolidated investments, \$22.6 billion as of August 31, 2013, are invested in the Merged Pool (MP), including \$20.6 billion of the University's endowment and expendable fund assets and \$2.0 billion of the Hospitals' investments. The MP is a diversified portfolio of actively managed public and private equity, absolute return, natural resources and real estate assets. An analysis of the MP investment strategy and performance is included in the Report from the Stanford Management Company.

In addition to the MP, \$2.3 billion of the University's investments are Stanford's endowed lands that have been designated for the production of income by the Board of Trustees. This real estate portfolio includes a combination of direct owned assets and income-producing ground leases, including Stanford Research Park properties. In recent years, the value of these properties has benefitted from strong dynamics in the local real estate market including low vacancy rates and rising rents.

Remaining investments of \$2.1 billion are specifically invested for a variety of purposes.

Capital Projects

The University continues to invest heavily in its physical facilities to support key academic initiatives, housing and infrastructure. During FY13, the University invested \$673 million in capital projects, bringing gross plant facilities before accumulated depreciation to \$7.6 billion. Plant facilities, net of accumulated depreciation, increased \$382 million to \$4.2 billion.

During FY13, the Bing Concert Hall opened and completed its inaugural season to numerous sold-out performances. Ground broke on two other structures in the art district: the new gallery that will house the Anderson Collection and the McMurtry Art and Art History Building. Construction also continued on the Bioengineering/Chemical Engineering Building.

Sustainability is a core value at Stanford and the University continues to make significant

investments in sustainability on all fronts. The University has undertaken major initiatives to reduce energy and water use, apply stringent environmental standards to all new buildings, encourage sustainable living, conserve natural resources and decrease waste. During FY13 construction commenced on a new central energy facility—the Stanford Energy Systems Innovation (SESI)—which will reduce overall energy consumption and use cleaner energy sources.

Debt

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

During FY13, the University issued \$481 million in taxable and tax-exempt debt to finance various facilities and infrastructure, including a portion of the SESI project and to refinance certain tax-exempt bonds and commercial paper notes and achieve savings in interest costs. The debt was issued with yields-to-maturity ranging from 3.18%-3.20% on tax-exempt bonds with maturities of 26 and 30 years and 3.56% on taxable bonds with a maturity of 31 years.

Total debt increased \$390 million to \$3.1 billion as of August 31, 2013. During FY13, Standard and Poor's, Moody's and Fitch affirmed the University's debt ratings in the highest rating categories for short and long-term debt.

Unrestricted Net Assets

In total, unrestricted net assets of the University increased \$1.4 billion to \$13.5 billion, with \$165 million resulting from operating activities. The most significant components of non-operating changes in unrestricted net assets in FY13 were the \$899 million increase in realized and unrealized investment gains and a \$146 million income benefit in pension related costs due to lower discount rates.

Temporarily Restricted Net Assets

Temporarily restricted net assets increased \$580 million to \$6.6 billion in FY13. An increase in realized and unrealized investment gains of \$527 million, new temporarily restricted gifts and pledges of \$346 million were the major factors in this result. The results were partially offset by \$315 million in transfers relating to capital and other gifts released from their restrictions for assets placed in service and for operating activities.

Permanently Restricted Net Assets

Permanently restricted net assets increased \$238 million to \$5.6 billion during FY13. The increase was driven by \$164 million in new gifts and pledges and \$32 million of transfers from other net asset categories primarily due to donor redesignations and matching funds added to donor gift funds. The principal value of these assets must be invested in perpetuity to generate endowment income to be used only for the purposes designated by donors.

Hospitals

The financial results and financial position of Stanford Hospital and Clinics (SHC) and Lucile Salter Packard Children's Hospital at Stanford (LPCH) are combined in the FY13 Consolidated Financial Statements under the "Hospitals" column. The University is the sole member of each of the Hospitals.

In FY11, the Hospitals received local government approval to rebuild and expand their principal facilities. SHC broke ground in May 2013 and construction is now well underway at LPCH. Based on current estimates, management expects these facilities to be completed by 2017. These improvements will assure that the Hospitals have adequate inpatient capacity in modern, technologically-advanced and patient centered facilities, and meet State-mandated earthquake safety standards. The total estimated cost, inclusive of owner's reserves, is approximately \$2.0 billion for SHC and \$1.2 billion for LPCH.

To improve and expand their services, the Hospitals have established physician practice management organizations—SHC's University HealthCare Alliance (UHA) and LPCH's Packard Children's Health Alliance (PCHA)—that support Stanford University Medical Center's mission to deliver quality care to

the community and conduct research and education. Working collaboratively with the Hospitals and School of Medicine faculty, these organizations have acquired multi-specialty practices in outlying communities to form a network of coordinated care throughout the Bay Area.

The following discussion summarizes the individual financial results of SHC and LPCH as shown in the FY13 Consolidated Financial Statements.

STANFORD HOSPITAL AND CLINICS

SHC produced solid operating results in FY13, generating income from operations of \$253 million compared to \$237 million in FY12. SHC's favorable operating results were due in part to the growth in the number of physicians performing clinical services at the hospital. Net assets grew by \$553 million, or 32%, to \$2.3 billion mainly due to the solid results from operations, returns on investments, favorable swap valuations and fundraising commitments for the new Stanford Hospital.

Operating Results

Operating revenues increased by 12% to \$2.7 billion. Net patient revenues accounted for \$2.6 billion of operating revenues. Both inpatient and outpatient revenues (including capitation revenue), which represent 48% and 52% of patient revenues, respectively, grew significantly due to overall strong volume growth and physician recruitment, including the acquisition of medical practices by UHA. Net revenues over expenses from both the Hospital Quality Assurance Fee (QAF) Program and the Hospital Fee Program contributed \$21 million and \$6 million to the FY13 and FY12 results, respectively.

Operating expenses, including salaries and benefits, were up 12% to \$2.5 billion in FY13. Salaries and benefits increased primarily in response to growth in patient volumes (including UHA) and to maintain SHC's position in the competitive market for health care professionals.

Physicians' services and support increased by 16% to \$427 million. This category includes all payments to the University for services provided by the School of Medicine for its clinical services. Other operating expenses were up by 12% to \$833 million as a result of costs related to increased patient activity (including UHA), enhanced IT infrastructure, and other SHC initiatives.

Statement of Financial Position (Balance Sheet)

SHC's *Statement of Financial Position* reflected continued investments in the facilities and systems required to remain at the forefront of medicine and to be the provider of choice for complex care in the communities it serves. Gross property and equipment increased \$263 million to \$2.1 billion during FY13. As of August 31, 2013, SHC has recorded \$350 million in construction in progress related to the new Stanford Hospital. SHC also renovated Hoover Pavilion, the original Palo Alto Hospital, which reopened for business in December 2012. The Hoover Pavilion is now the home of Stanford primary care and subspecialty clinics.

Other SHC highlights

Costs of charity care and uncompensated costs including those related to services provided to patients under Medi-Cal and Medicare in excess of reimbursement, were \$418 million in FY13, up 14% from FY12.

Once again, SHC continued to receive positive quality, safety and patient experience outcomes. In FY13, for the fourth year in a row, SHC was one of 92 hospitals in the nation named a 2012 Top Hospital by The Leapfrog Group, an honor that rewards medical centers for quality and efficiency, including success in such areas as infection rates, safety practices, mortality rates for common procedures and measures of efficiency.

LUCILE SALTER PACKARD CHILDREN'S HOSPITAL AT STANFORD

In FY13, LPCH generated income from operations of \$147 million compared to \$69 million in FY12. The increase is mainly due to higher census, favorable payer mix and expense containment measures. Net assets at August 31, 2013 were \$1.7 billion, reflecting an increase of

\$236 million over FY12. These results reflect solid operating results, positive investment performance and strong donor support.

Operating Results

Operating revenues increased by \$176 million or 18% in FY13 to \$1.2 billion. This increase is attributable, in part, to continued expansion of PCHA, which purchased eight physician practices in FY13 and generated \$30 million of net patient revenue, as compared to \$0.6 million in FY12. Net revenues over expenses from both the QAF Program and the Hospital Fee Program contributed \$59 million and \$35 million to the FY13 and FY12 results, respectively.

Operating expenses increased by 11% in FY13. The majority of the growth was caused by increased salaries and benefits and higher supply costs due in part to the higher volume of patients, and increased payments to the University for purchased services, including physician services.

Statement of Financial Position (Balance Sheet)

LPCH's *Statement of Financial Position* reflects significant donor contributions and investments in the facilities and systems required to continue to provide the highest quality children's hospital services to the community it serves. Gross property and equipment increased \$160 million during FY13, including \$123 million in construction in progress, primarily for the construction of LPCH's portion of the Renewal Project.

Other LPCH Highlights

LPCH's community benefits, including services to patients under Medi-Cal and other publicly sponsored programs that reimburse at amounts less than the cost of services, were \$169 million in FY13 compared with \$230 million in FY12. The decrease was primarily due to fewer Medi-Cal patients in relation to the total hospital patients and higher Medi-Cal charges in relation to applicable costs. These amounts also include investments LPCH makes in improving the health of the children through a range of community-based programs.

HEALTH CARE REFORM

In March 2010, the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 (the "Acts") were signed into law. These Acts broadly affect the health care industry, including a significant expansion of health care coverage. Some provisions were effective immediately; others will be phased in through 2014 and later years. The impacts of these Acts will significantly affect SHC and LPCH. Management continues to assess and plan for the impact of the Acts and other significant changes in the health care industry.

Looking Forward

Stanford's strong financial position, together with our existing physical infrastructure and planned capital improvements provide a solid foundation to further develop and enhance our core teaching, research and patient care missions. We continue to target avenues to deliver a quality Stanford education through efforts such as online learning, entrepreneurship education, and investments in the arts and humanities. The Hospitals' affiliations with multi-specialty physician practice organizations

throughout the Bay Area enable Stanford to provide excellent primary and specialty patient services to a broader population through this expanded network.

As we look forward, however, we remain vigilant of the significant risks and challenges that exist and navigate our future cautiously. The outlook for federal research funding continues to be uncertain as the Federal government continues to address significant budget issues. We remain committed to providing strong financial aid programs to offset continuing financial pressures on students and their families. The Stanford Medical Center faces significant uncertainty as it plans for the impact of existing and imminent healthcare reform. These challenges remain at the forefront of our planning approach.

As we approach the opportunities and challenges ahead, Stanford is optimistic about the future of higher education, research and health care and is grateful for the continued commitment, trust and support of the Stanford community.



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



M. Suzanne Calandra
Senior Associate Vice President for Finance
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Daniel J. Morissette
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Stanford Hospital and Clinics



Timothy W. Carmack
Chief Financial Officer
Lucile Salter Packard Children's Hospital
at Stanford

SELECTED FINANCIAL AND OTHER DATA

Fiscal Years Ended August 31

	2013	2012	2011	2010	2009
	(dollars in millions)				
CONSOLIDATED STATEMENT OF ACTIVITIES HIGHLIGHTS:					
Total Revenues (D)	\$ 7,359	\$ 6,814	\$ 6,289	\$ 5,707	\$ 5,542
Student income (A)	511	481	458	436	401
Sponsored research support	1,233	1,234	1,247	1,143	1,031
Health care services (D)	3,734	3,245	2,902	2,542	2,364
Total Expenses (D)	6,794	6,298	5,774	5,345	5,033
Change in net assets from operating activities	565	516	515	362	509
Other changes in net assets	2,441	1,043	3,194	1,131	(5,450)
Net change in total net assets	\$ 3,006	\$ 1,559	\$ 3,709	\$ 1,493	\$ (4,941)
CONSOLIDATED STATEMENT OF FINANCIAL POSITION HIGHLIGHTS:					
University					
Investments at fair value	\$ 24,703	\$ 22,247	\$ 21,189	\$ 17,804	\$ 16,501
Plant facilities, net of accumulated depreciation	4,208	3,826	3,674	3,584	3,270
Notes and bonds payable	3,098	2,709	2,727	2,816	2,517
Total assets	31,540	28,981	27,698	24,553	22,672
Total liabilities	5,817	5,476	5,143	5,118	4,633
Total net assets	25,723	23,505	22,555	19,435	18,039
Hospitals					
Investments at fair value	2,271	1,899	1,796	1,359	1,257
Plant facilities, net of accumulated depreciation	1,787	1,494	1,333	1,283	1,260
Notes and bonds payable	1,684	1,700	983	992	999
Total assets	6,448	5,803	4,283	3,658	3,472
Total liabilities	2,489	2,633	1,722	1,686	1,597
Total net assets	3,959	3,170	2,561	1,972	1,875
OTHER UNIVERSITY FINANCIAL DATA AND METRICS:					
Total endowment at year end	\$ 18,689	\$ 17,036	\$ 16,503	\$ 13,851	\$ 12,619
Endowment payout in support of operations	921	871	785	855	957
As a % of beginning of year endowment	5.4%	5.3%	5.7%	6.8%	5.6%
As a % of total expenses	23.2%	23.1%	22.4%	25.9%	30.6%
Total gifts (B)	932	1,035	709	599	640
STUDENTS:					
ENROLLMENT: (C)					
Undergraduate	6,980	6,999	6,927	6,887	6,878
Graduate	8,897	8,871	8,796	8,779	8,441
DEGREES CONFERRED:					
Bachelor degrees	1,661	1,715	1,670	1,671	1,680
Advanced degrees	3,365	3,305	3,199	3,046	2,932
FACULTY:					
Total Professoriate	1,995	1,934	1,903	1,910	1,876
ANNUAL UNDERGRADUATE TUITION RATE (IN DOLLARS)	\$ 41,250	\$ 40,050	\$ 38,700	\$ 37,380	\$ 36,030

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

(B) As reported by the Office of Development (See Note 14). Beginning in 2009, reported amounts include SHC gifts.

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

(D) Certain prior year amounts have been reclassified to conform to the current year's presentation.

MANAGEMENT RESPONSIBILITY FOR FINANCIAL STATEMENTS

The University is the sole member of Stanford Hospital and Clinics and Lucile Packard Children's Hospital at Stanford; however, each of the Hospitals has its own separate management with responsibility for its own financial reporting.

Management of the University and the Hospitals is responsible for the integrity and objectivity of their respective portions of these financial statements. The University oversees the process of consolidating the Hospitals' information into the consolidated financial statements. Management of each entity represents that, with respect to its financial information, the consolidated financial statements in this annual report have been prepared in conformity with accounting principles generally accepted in the United States of America.

In accumulating and controlling financial data, management of the University and the Hospitals maintains separate systems of internal accounting controls. Management of the respective entities believes that effective internal controls are maintained and communication of accounting and business policies, by selection and training of qualified personnel and by programs of internal audits, give reasonable assurance, at reasonable cost, that assets are protected and that transactions and events are recorded properly.

The accompanying consolidated financial statements have been audited by the University's and Hospitals' independent auditors, PricewaterhouseCoopers LLP. Their report expresses an informed judgment as to whether the consolidated financial statements, considered in their entirety, present fairly, in conformity with accounting principles generally accepted in the United States of America, the consolidated financial position and changes in net assets and cash flows. The independent auditors' opinion is based on audit procedures described in their report, which include obtaining an understanding of systems, procedures and internal accounting controls, and performing tests and other audit procedures to provide reasonable assurance that the financial statements are neither materially misleading nor contain material errors. While the independent auditors test procedures and controls, it is neither practical nor necessary for them to scrutinize a large portion of transactions.

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



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Vice President for Business Affairs
and Chief Financial Officer
Stanford University



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



Daniel J. Morissette
Chief Financial Officer
Stanford Hospital and Clinics



Timothy W. Carmack
Chief Financial Officer
Lucile Salter Packard Children's Hospital
at Stanford



Independent Auditor's Report

To the Board of Trustees
Stanford University

We have audited the accompanying consolidated financial statements of Stanford University and its subsidiaries ("Stanford"), which comprise the consolidated balance sheets as of August 31, 2013 and 2012, and the related consolidated statements of activities and cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Stanford University and its subsidiaries at August 31, 2013 and 2012, and the results of their activities and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink, appearing to read "PricewaterhouseCoopers LLP", is written over a dotted line.

December 11, 2013

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

At August 31, 2013 and 2012 (in thousands of dollars)

	2013			2012
	UNIVERSITY	HOSPITALS	CONSOLIDATED	CONSOLIDATED
ASSETS				
Cash and cash equivalents	\$ 784,443	\$ 637,240	\$ 1,421,683	\$ 1,734,848
Assets limited as to use, held by trustees	165,238	730,944	896,182	728,324
Accounts receivable, net	358,483	649,855	1,008,338	1,070,545
Receivables (payables) from SHC and LPCH, net	81,649	(81,649)	-	-
Prepaid expenses and other assets	62,223	136,885	199,108	180,649
Pledges receivable, net	644,811	316,923	961,734	1,068,254
Student loans receivable, net	78,437	-	78,437	76,699
Faculty and staff mortgages and other loans receivable, net	453,330	-	453,330	459,382
Investments at fair value, including securities pledged or on loan of \$55,355 and \$97,788 for 2013 and 2012, respectively	24,703,407	2,271,068	26,974,475	24,145,684
Plant facilities, net of accumulated depreciation	4,207,927	1,786,689	5,994,616	5,320,445
Works of art and special collections	-	-	-	-
TOTAL ASSETS	\$ 31,539,948	\$ 6,447,955	\$ 37,987,903	\$ 34,784,830
LIABILITIES AND NET ASSETS				
LIABILITIES:				
Accounts payable and accrued expenses	\$ 653,413	\$ 678,724	\$ 1,332,137	\$ 1,368,085
Accrued pension and post retirement benefit cost	542,924	126,661	669,585	803,545
Pending trades of securities	405,748	-	405,748	410,120
Liabilities under security lending agreements	84,048	-	84,048	141,199
Deferred rental and other income	584,067	-	584,067	556,728
Income beneficiary share of split interest agreements	394,195	-	394,195	367,037
Notes and bonds payable	3,098,433	1,684,045	4,782,478	4,409,133
U.S. government refundable loan funds	54,019	-	54,019	53,783
TOTAL LIABILITIES	5,816,847	2,489,430	8,306,277	8,109,630
NET ASSETS:				
Unrestricted	13,485,411	2,943,726	16,429,137	14,338,345
Temporarily restricted	6,612,755	806,467	7,419,222	6,742,962
Permanently restricted	5,624,935	208,332	5,833,267	5,593,893
TOTAL NET ASSETS	25,723,101	3,958,525	29,681,626	26,675,200
TOTAL LIABILITIES AND NET ASSETS	\$ 31,539,948	\$ 6,447,955	\$ 37,987,903	\$ 34,784,830

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

CONSOLIDATED STATEMENTS OF ACTIVITIES

For the years ended August 31, 2013 and 2012 (in thousands of dollars)

	2013			2012
	UNIVERSITY	HOSPITALS	CONSOLIDATED	CONSOLIDATED
UNRESTRICTED NET ASSETS				
OPERATING REVENUES:				
Student income:				
Undergraduate programs	\$ 311,027	\$ -	\$ 311,027	\$ 298,049
Graduate programs	297,042	-	297,042	287,225
Room and board	144,887	-	144,887	135,879
Student financial aid	(241,512)	-	(241,512)	(240,649)
TOTAL STUDENT INCOME	511,444	-	511,444	480,504
Sponsored research support:				
Direct costs - University	657,296	-	657,296	639,630
Direct costs - SLAC National Accelerator Laboratory	350,406	-	350,406	368,187
Indirect costs	225,500	-	225,500	226,424
TOTAL SPONSORED RESEARCH SUPPORT	1,233,202	-	1,233,202	1,234,241
Health care services:				
Patient care, net	-	3,710,326	3,710,326	3,220,020
Physicians' services and support - SHC and LPCH, net	600,346	(600,346)	-	-
Physicians' services and support - other facilities, net	23,250	-	23,250	25,019
TOTAL HEALTH CARE SERVICES	623,596	3,109,980	3,733,576	3,245,039
CURRENT YEAR GIFTS IN SUPPORT OF OPERATIONS	180,071	5,074	185,145	184,519
Net assets released from restrictions:				
Payments received on pledges	80,197	1,584	81,781	81,873
Prior year gifts released from donor restrictions	41,791	3,440	45,231	30,850
TOTAL NET ASSETS RELEASED FROM RESTRICTIONS	121,988	5,024	127,012	112,723
Investment income distributed for operations:				
Endowment	920,672	13,631	934,303	883,425
Expendable funds pools and other investment income	83,848	610	84,458	132,069
TOTAL INVESTMENT INCOME DISTRIBUTED FOR OPERATIONS	1,004,520	14,241	1,018,761	1,015,494
SPECIAL PROGRAM FEES AND OTHER INCOME	463,450	85,978	549,428	542,102
TOTAL OPERATING REVENUES	4,138,271	3,220,297	7,358,568	6,814,622
OPERATING EXPENSES:				
Salaries and benefits	2,498,157	1,530,865	4,029,022	3,711,908
Depreciation	291,732	133,853	425,585	406,568
Other operating expenses	1,182,960	1,156,177	2,339,137	2,179,670
TOTAL OPERATING EXPENSES	3,972,849	2,820,895	6,793,744	6,298,146
CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES	\$ 165,422	\$ 399,402	\$ 564,824	\$ 516,476

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

CONSOLIDATED STATEMENTS OF ACTIVITIES, Continued

For the years ended August 31, 2013 and 2012 (in thousands of dollars)

	2013			2012
	UNIVERSITY	HOSPITALS	CONSOLIDATED	CONSOLIDATED
UNRESTRICTED NET ASSETS (continued)				
CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES	\$ 165,422	\$ 399,402	\$ 564,824	\$ 516,476
Non-operating activities:				
Increase in reinvested gains	899,321	178,458	1,077,779	445,626
Donor advised funds, net	1,930	-	1,930	38,998
Current year gifts not included in operations	2,902	-	2,902	253,390
Equity and fund transfers from Hospitals, net	29,002	(29,002)	-	-
Capital and other gifts released from restrictions	192,676	8,807	201,483	130,730
Pension and other post employment benefit related changes other than net periodic benefit expense	145,927	32,153	178,080	(122,071)
Transfer to permanently restricted net assets, net	(37,010)	-	(37,010)	(36,361)
Transfer to temporarily restricted net assets, net	(19,621)	-	(19,621)	(21,032)
Swap interest and change in value of swap agreements	17,682	102,928	120,610	(91,415)
Other	821	(1,006)	(185)	(12,417)
NET CHANGE IN UNRESTRICTED NET ASSETS	1,399,052	691,740	2,090,792	1,101,924
TEMPORARILY RESTRICTED NET ASSETS				
Gifts and pledges, net	345,526	96,193	441,719	604,581
Increase (decrease) in reinvested gains	526,818	31,879	558,697	(205,327)
Change in value of split interest agreements, net	1,121	317	1,438	5,703
Net assets released to operations	(121,988)	(24,339)	(146,327)	(132,086)
Capital and other gifts released to unrestricted net assets	(192,676)	(8,807)	(201,483)	(130,730)
Gift transfers to Hospitals, net	(152)	152	-	-
Transfer from unrestricted net assets, net	19,621	-	19,621	21,032
Transfer from (to) permanently restricted net assets, net	4,744	-	4,744	(19,448)
Other	(2,774)	625	(2,149)	1,271
NET CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	580,240	96,020	676,260	144,996
PERMANENTLY RESTRICTED NET ASSETS				
Gifts and pledges, net	164,102	758	164,860	227,499
Increase in reinvested gains	17,261	-	17,261	4,612
Change in value of split interest agreements, net	23,623	1,364	24,987	24,465
Fund transfers from Hospitals, net	1,140	(1,140)	-	-
Transfer from unrestricted net assets, net	37,010	-	37,010	36,361
Transfer (to) from temporarily restricted net assets, net	(4,744)	-	(4,744)	19,448
NET CHANGE IN PERMANENTLY RESTRICTED NET ASSETS	238,392	982	239,374	312,385
NET CHANGE IN TOTAL NET ASSETS	2,217,684	788,742	3,006,426	1,559,305
Total net assets, beginning of year	23,505,417	3,169,783	26,675,200	25,115,895
TOTAL NET ASSETS, END OF YEAR	\$ 25,723,101	\$ 3,958,525	\$ 29,681,626	\$ 26,675,200

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended August 31, 2013 and 2012 (in thousands of dollars)

	2013			2012
	UNIVERSITY	HOSPITALS	CONSOLIDATED	CONSOLIDATED
CASH FLOW FROM OPERATING ACTIVITIES				
Change in net assets	\$ 2,217,684	\$ 788,742	\$ 3,006,426	\$ 1,559,305
Adjustments to reconcile change in net assets to net cash provided by operating activities:				
Depreciation	291,732	133,853	425,585	406,568
Amortization, loss on disposal of fixed assets and other adjustments	17,093	(4,944)	12,149	18,802
Net gains on investments and security agreements	(2,209,297)	(156,589)	(2,365,886)	(980,011)
Net losses (gains) on derivatives	(34,407)	-	(34,407)	87,084
Changes in split interest agreements	28,705	(1,681)	27,024	8,912
Investment gains for restricted purposes	(13,190)	(14,056)	(27,246)	(7,656)
Gifts restricted for long-term investments	(158,086)	(109,195)	(267,281)	(610,010)
Equity and fund transfers from Hospitals	(29,990)	29,990	-	-
Gifts of securities and properties	(116,980)	-	(116,980)	(355,313)
Premiums received from bond issuance	113,731	-	113,731	81,048
Changes in operating assets and liabilities:				
Accounts receivable, pledges receivable and receivables from SHC and LPCH, net	(61,938)	(14,477)	(76,415)	(152,492)
Prepaid expenses and other assets	20,802	(35,530)	(14,728)	(20,302)
Accounts payable and accrued expenses	47,202	(112,113)	(64,911)	130,786
Accrued pension and post retirement benefit costs	(106,394)	(27,566)	(133,960)	140,599
Deferred rental and other income	27,339	-	27,339	8,365
Other	1,115	(4,241)	(3,126)	(5,019)
NET CASH PROVIDED BY OPERATING ACTIVITIES	35,121	472,193	507,314	310,666
CASH FLOW FROM INVESTING ACTIVITIES				
Land, building and equipment purchases	(622,131)	(410,246)	(1,032,377)	(686,652)
Student, faculty and other loans:				
New loans made	(70,684)	-	(70,684)	(56,060)
Principal collected	70,077	-	70,077	56,852
Increase in assets limited as to use, held by trustees	(165,238)	(2,620)	(167,858)	(728,324)
Purchases of investments	(19,997,639)	(254,994)	(20,252,633)	(13,149,999)
Sales and maturities of investments	19,997,579	53,648	20,051,227	13,439,894
NET CASH USED FOR INVESTING ACTIVITIES	(788,036)	(614,212)	(1,402,248)	(1,124,289)
CASH FLOW FROM FINANCING ACTIVITIES				
Gifts and reinvested income for restricted purposes	152,393	218,657	371,050	278,412
Equity and fund transfers from Hospitals	21,335	(21,335)	-	-
Proceeds from borrowing	496,719	-	496,719	1,248,871
Bond issuance costs and interest rate swaps	(2,229)	-	(2,229)	(8,809)
Repayment of notes and bonds payable	(214,033)	(12,823)	(226,856)	(623,413)
Decrease in liabilities under security lending agreements	(57,151)	-	(57,151)	(40,828)
Other	236	-	236	23
NET CASH PROVIDED BY FINANCING ACTIVITIES	397,270	184,499	581,769	854,256
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(355,645)	42,480	(313,165)	40,633
Cash and cash equivalents, beginning of year	1,140,088	594,760	1,734,848	1,694,215
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 784,443	\$ 637,240	\$ 1,421,683	\$ 1,734,848
SUPPLEMENTAL DATA:				
Interest paid during the year	\$ 117,622	\$ 84,010	\$ 201,632	\$ 167,072
Cash collateral received under security lending agreements	\$ 57,810	\$ -	\$ 57,810	\$ 106,581
Increase in payables for plant facilities	\$ 51,152	\$ 16,237	\$ 67,389	\$ 47,208

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation and Significant Accounting Policies

BASIS OF PRESENTATION

The consolidated financial statements include the accounts of Stanford University (the "University"), Stanford Hospital and Clinics (SHC), Lucile Salter Packard Children's Hospital at Stanford (LPCH) and other majority-owned or controlled entities. All significant inter-entity transactions and balances have been eliminated upon consolidation. Certain prior year amounts have been reclassified to conform to the current year's presentation. These reclassifications had no impact on the change in net assets or total net assets.

University

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

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

Hospitals

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

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

TAX STATUS

The University and the Hospitals are exempt from federal and state income taxes to the extent provided by Section 501(c)(3) of the Internal Revenue Code and equivalent state provisions, except with regard to unrelated business income which is taxed at corporate income tax rates.

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

BASIS OF ACCOUNTING

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

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

Unrestricted Net Assets

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

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

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

Temporarily Restricted Net Assets

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

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

Permanently Restricted Net Assets

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

CASH AND CASH EQUIVALENTS

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

ASSETS LIMITED AS TO USE, HELD BY TRUSTEES

Assets limited as to use include various accounts for the University and Hospitals held by trustees in accordance with indenture requirements. The indenture terms require that the trustees control the expenditure of bond proceeds for University and Hospitals capital projects. Assets limited as to use consist of cash and cash equivalents and short-term investments, recorded at cost, which approximates fair value.

ACCOUNTS AND LOANS RECEIVABLE

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

PLEDGES RECEIVABLE

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

INVESTMENTS

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

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

PLANT FACILITIES

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

The useful lives used in calculating depreciation for the years ended August 31, 2013 and 2012 are as follows:

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

WORKS OF ART AND SPECIAL COLLECTIONS

Works of art, historical treasures, literary works and artifacts, which are preserved and protected for educational, research and public exhibition purposes, are not capitalized. Donations of such collections are not recorded for financial statement purposes; rather, purchases of such collections are recorded as operating expenses in the period in which they are acquired.

DONATED ASSETS

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

DONOR ADVISED FUNDS

The University receives gifts from donors under donor advised fund (DAF) agreements. These funds are owned and controlled by the University and are separately identified by donor. A substantial portion of the gift must be designated to the University. The balance may be used to support other approved charities. The donors have advisory privileges with respect to the distribution of certain amounts in the funds. Current year gifts under the DAF agreements are included in the *Statements of Activities* as "donor advised funds, net" at the full amount of the gift. Transfers of funds to other charitable organizations are included in the *Statements of Activities* as a reduction to "donor advised funds, net" at the time the transfer is made. At August 31, 2013 and 2012, approximately \$268.1 million and \$251.0 million, respectively, of DAFs are not designated to the University.

SPLIT INTEREST AGREEMENTS

Split interest agreements consist of arrangements with donors where the University and the Hospitals have an interest in assets held by the trustee and receive benefits that are shared with other beneficiaries. Split interest agreements where the University and the Hospitals are not the trustee are recorded in the "assets held by other trustees" category of "investments" in the *Statements of Financial Position* as described in *Note 5*.

The assets held under split interest agreements where the University is the trustee were \$679.7 million and \$632.2 million at August 31, 2013 and 2012, respectively, and were recorded in various categories in "investments" and the discounted present value of any income beneficiary interest is reported as "income beneficiary share of split interest agreements" in the *Statements of Financial Position*. The discount rates used, which range from 1% to 6%, are established in the year the gift was received and are based on tables established by the Internal Revenue Service.

During fiscal years 2013 and 2012, the discounted present value of new gifts subject to split interest agreements where the University is the trustee, net of the income beneficiary share, were \$21.2 million and \$31.2 million, respectively, and were included in "gifts and pledges, net" in the *Statements of Activities*. Actuarial gains or losses are included in "change in value of split interest agreements, net" in the *Statements of Activities*.

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

SELF-INSURANCE

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

INTEREST RATE EXCHANGE AGREEMENTS

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

STUDENT INCOME

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

PATIENT CARE AND OTHER SERVICES

Health Care Services

The Hospitals derive a majority of patient care revenues from contractual agreements with Medicare, Medi-Cal and other third-party payers. Payments under these agreements and programs are based on a variety of payment models. "Patient care, net" is reported in the *Statements of Activities* at the estimated net realizable amounts from patients, third-party payers, and others for services rendered, including estimated retroactive audit adjustments under reimbursement agreements with third-party payers. Retroactive adjustments are estimated and recorded in the period the related services are rendered and adjusted in future periods, as final settlements are determined. Contracts, laws and regulations governing the Medicare and Medi-Cal programs are complex and subject to interpretation. As a result, it is reasonably possible that recorded estimates may change by a material amount in the near term. The provision for doubtful accounts is based upon management's assessment of expected net collections considering historical experience and other collection indicators.

The University has entered into various operating agreements with the Hospitals for the professional services of faculty members from the SoM, telecommunications services and other services and facilities charges.

Charity Care

The Hospitals provide care to patients who meet certain criteria under their charity care policies without charge or at amounts less than their established rates. The Hospitals do not record revenue for amounts determined to qualify as charity care.

The estimated cost of providing charity care was \$21.3 million and \$27.8 million for the years ended August 31, 2013 and 2012, respectively. This cost is estimated by calculating a ratio of total costs to gross patient service charges at established rates, and then multiplying that ratio by gross uncompensated patient service charges at established rates associated with providing care to charity patients.

The Hospitals did not receive any funding to subsidize the costs of providing charity care for the years ended August 31, 2013 and 2012. The Hospitals also provide services to other patients under Medicare, Medi-Cal and other publicly sponsored programs, which reimburse at amounts less than the cost of the services provided to the recipients. Estimated costs in excess of reimbursements for Medicare, Medi-Cal and other publicly sponsored programs for the years ended August 31, 2013 and 2012 were \$565.7 million and \$568.1 million, respectively.

Provider Fee

The State of California enacted legislation in 2009 through 2013 which established a Hospital Quality Assurance Fee (QAF) Program and a Hospital Fee Program. These programs imposed a provider fee on certain California general acute care hospitals that, combined with federal matching funds, would be used to provide supplemental payments to certain hospitals and support the State's effort to maintain health care coverage for children.

For the years ended August 31, 2013 and 2012, the Hospitals recorded \$52.6 million and \$76.5 million, respectively, in "other operating expenses" and recognized \$133.0 million and \$117.6 million, respectively, in "patient care, net" revenue under these programs.

Electronic Health Records Program

The Hospitals are participating in the Medicare and Medicaid Electronic Health Records (EHR) Incentive Programs, which provide payments to eligible professionals, eligible hospitals and critical access hospitals as they adopt, implement, upgrade or demonstrate meaningful use of certified EHR technology. For the years ended August 31, 2013 and 2012, the Hospitals recognized \$12.1 million and \$13.4 million, respectively, of revenue under these programs in "special program fees and other income."

RECENT ACCOUNTING PRONOUNCEMENTS

In October 2012, the Financial Accounting Standards Board (FASB) issued an update to the Accounting Standards Codification (ASC) to improve consistency in practice about how to classify cash receipts arising from the sale of certain donated financial assets, such as securities, in the statement of cash flows. The guidance is effective for interim periods beginning after June 15, 2013. The University and Hospitals are currently evaluating the impact that this guidance will have on its consolidated financial statements.

In December 2011, the FASB issued an update to the ASC which expanded the required disclosures about offsetting and related arrangements of an entity's financial assets and liabilities. The disclosures are intended to provide additional information to assist financial statement users in understanding the effect of those arrangements on the entity's financial position. This guidance is effective for annual periods beginning after January 1, 2013. The University and Hospitals are currently evaluating the impact that this guidance will have on its consolidated financial statements.

In May 2011, the FASB issued an update to the ASC to ensure a consistent definition of fair value, fair value measurements and disclosure requirements under both U.S. GAAP and International Financial Reporting Standards. This guidance is effective for annual periods beginning after December 15, 2011. Key provisions include (1) additional information about Level 3 fair value measurements, including quantitative information about unobservable inputs, a description of the valuation process used, and a description of the sensitivity of fair value measurement to changes in inputs; and (2) for public entities, disclosure of all transfers between investments classified in the Level 1 and Level 2 fair value hierarchy. The University and the Hospitals have adopted this guidance for the year ended August 31, 2013.

2. Accounts Receivable

Accounts receivable, net of bad debt allowances, at August 31, 2013 and 2012, in thousands of dollars, are as follows:

	2013			2012
	UNIVERSITY	HOSPITALS	CONSOLIDATED	CONSOLIDATED
U.S. government sponsors	\$ 77,613	\$ -	\$ 77,613	\$ 72,194
Non-federal sponsors and programs	34,950	40,674	75,624	187,767
Pending trades of securities	194,331	-	194,331	241,458
Accrued interest on investments	8,659	-	8,659	7,255
Student	6,808	-	6,808	6,984
Patient and third-party payers	-	704,409	704,409	586,828
Other	38,544	19,568	58,112	71,242
	360,905	764,651	1,125,556	1,173,728
Less bad debt allowances	(2,422)	(114,796)	(117,218)	(103,183)
ACCOUNTS RECEIVABLE, NET	\$ 358,483	\$ 649,855	\$ 1,008,338	\$ 1,070,545

3. Pledges Receivable

Pledges are recorded at applicable risk-adjusted discount rates, ranging from 1.1% to 6.0% for the University and Hospitals, commensurate with the duration of the donor's payment plan. At August 31, 2013 and 2012, pledges receivable, net of discounts and allowances, in thousands of dollars, are as follows:

	2013			2012
	UNIVERSITY	HOSPITALS	CONSOLIDATED	CONSOLIDATED
One year or less	\$ 126,092	\$ 32,957	\$ 159,049	\$ 193,953
Between one year and five years	623,496	230,957	854,453	931,410
More than five years	78,182	88,160	166,342	193,634
	827,770	352,074	1,179,844	1,318,997
Less discounts and allowances	(182,959)	(35,151)	(218,110)	(250,743)
PLEDGES RECEIVABLE, NET	\$ 644,811	\$ 316,923	\$ 961,734	\$ 1,068,254

Conditional pledges for the University, which depend on the occurrence of a specified future and uncertain event, were \$9.0 million and \$10.7 million at August 31, 2013 and 2012, respectively. The Hospitals had conditional pledges of \$119.6 million and \$136.6 million at August 31, 2013 and 2012, respectively. The majority of these conditional pledges are related to construction or time defined milestones related to the Medical Center Renewal Project. Lucile Packard Foundation for Children's Health is the primary community fundraising agent for LPCH and the pediatric faculty and programs at the University's SoM.

4. Loans Receivable

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

STUDENT LOANS RECEIVABLE

Student loans receivable consist of institutional and federally-sponsored loans due from both current and former students. Student loans and allowance for student loan losses at August 31, 2013 and 2012, in thousands of dollars, are as follows:

	2013	2012
Institutional loans	\$ 20,144	\$ 19,350
Federally-sponsored loans	58,838	57,935
	78,982	77,285
Less allowance for student loan losses	(545)	(586)
STUDENT LOANS RECEIVABLE, NET	\$ 78,437	\$ 76,699

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

Federally-sponsored loans are funded primarily by advances to the University primarily under the Federal Perkins Loan Program (the "Program"). Loans to students under the Program are subject to mandatory interest rates and significant restrictions, and loans issued under the Program can be assigned to the federal government in certain non-repayment situations. In these situations, the federal portion of the loan balance is guaranteed.

Amounts received under the Program are ultimately refundable to the federal government in the event the University no longer participates in the Program, and accordingly, have been reported as an obligation in the *Statements of Financial Position* as "U.S. government refundable loan funds".

FACULTY AND STAFF MORTGAGES

In a program to attract and retain excellent faculty and senior staff, the University provides home mortgage financing assistance, primarily in the form of subordinated loans. Notes receivable amounting to \$450.6 million and \$456.6 million at August 31, 2013 and 2012, respectively, from University faculty and staff are included in "faculty and staff mortgages and other loans receivable, net" in the *Statements of Financial Position*. These loans and mortgages are collateralized by deeds of trust on properties concentrated in the region surrounding the University. Management has determined that no allowance is necessary.

5. Investments

Investments held by the University and the Hospitals are measured and recorded at fair value. The valuation methodology, investment categories, fair value hierarchy, certain investment activities and related commitments for fiscal years 2013 and 2012 are discussed below.

Investments held by the University and the Hospitals at August 31, 2013 and 2012, in thousands of dollars, are as follows:

	2013			2012
	UNIVERSITY	HOSPITALS	CONSOLIDATED	CONSOLIDATED
Cash and cash equivalents	\$ 1,303,199	\$ 83,215	\$ 1,386,414	\$ 1,035,203
Collateral held for securities loaned	57,810	-	57,810	106,581
Public equities	5,545,012	114,180	5,659,192	4,695,764
Derivatives	5,942	-	5,942	(12,999)
Fixed income	1,273,525	49,636	1,323,161	916,857
Real estate	5,337,236	-	5,337,236	4,988,534
Natural resources	1,796,786	-	1,796,786	1,688,315
Private equities	5,361,599	-	5,361,599	5,196,771
Absolute return	5,579,275	-	5,579,275	5,157,640
Assets held by other trustees	172,605	14,858	187,463	168,066
Other	279,597	-	279,597	204,952
	26,712,586	261,889	26,974,475	24,145,684
Hospital funds invested in the University's Merged Pool	(2,009,179)	2,009,179	-	-
INVESTMENTS AT FAIR VALUE	\$ 24,703,407	\$ 2,271,068	\$ 26,974,475	\$ 24,145,684

VALUATION METHODOLOGY

To the extent available, the University's investments are recorded at fair value based on quoted prices in active markets. The University's investments that are listed on any U.S. or non-U.S. recognized exchanges are valued based on readily available market quotations. When such inputs do not exist, fair value measurements are based on the best available information and usually require a degree of judgment. For alternative investments, which are principally limited partnership investments in private equity, real estate, natural resources and hedge funds, the value is primarily based on the Net Asset Value (NAV) of the underlying investments. The NAV is reported by the external investment managers, including general partners, in accordance with their policies as described in their respective financial statements and offering memoranda. The most recent NAV reported is adjusted for capital calls, distributions and significant known valuation changes, if any, of its related portfolio through August 31, 2013 and 2012, respectively. These investments are generally less liquid than other investments, and the value reported may differ from the values that would have been reported had a ready market for these investments existed.

The University exercises due diligence in assessing the policies, procedures, and controls implemented by its external investment managers and believes the University's proportionate share of the carrying amount of these alternative investments is a reasonable estimate of fair value. Such due diligence procedures include, but are not limited to, ongoing communication, on-site visits, and review of information from the external investment managers as well as review of performance. In conjunction with these procedures, estimated fair value is determined by consideration of a wide range of factors, including market conditions, redemption terms and restrictions, and risks inherent in the inputs of the external investment managers' valuation.

For alternative investments which are direct investments, the University considers various factors to estimate fair value, such as the timing of the transaction, the market in which the company operates, comparable transactions, company performance and projections as well as discounted cash flow analysis. The selection of an appropriate valuation technique may be affected by the availability and general reliability of relevant inputs. In some cases, one valuation technique may provide the best indication of fair value while in other circumstances, multiple valuation techniques may be appropriate. Furthermore, the University may review the investment's underlying portfolio as well as engage external appraisers, depending on the nature of the investment.

INVESTMENT CATEGORIES

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

Cash and cash equivalents categorized as investments include money market funds, overnight receivables on repurchase agreements and restricted cash. Overnight receivables on repurchase agreements are valued based on cost, which approximates fair value. Money market funds are valued based on reported unit values. Restricted cash includes collateral provided to or received from counterparties related to investment-related derivative contracts (see *Note 7*).

Collateral held for securities loaned originates in the form of cash and cash equivalents and is reinvested for income in cash equivalent vehicles. These investments are recorded at cost, which approximates fair value (see *Note 9*).

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

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

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

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

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

Private equities are investments that participate primarily in venture capital and leveraged buyout strategies. Distributions from these investments are received through liquidation of the underlying asset. The fair value of these types of alternative investments is based on the NAV reported by the external investment managers and is adjusted as described under *Valuation Methodology* above.

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

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

FAIR VALUE HIERARCHY

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

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

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

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

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

Privately negotiated over-the-counter (OTC) derivatives such as forward currency contracts, CDS, total return swaps, and interest rate swaps are typically classified as Level 2 (see *Note 7*). In instances where quotations received from counterparties or valuation models are used, the value of an OTC derivative depends upon the contractual terms of the instrument as well as the availability and reliability of

observable inputs. Such inputs include market prices for reference securities, yield curves, and credit curves.

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

The following tables summarize the University's and the Hospitals' investments and other assets within the fair value hierarchy and asset categories at August 31, 2013 and 2012, in thousands of dollars:

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

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

	AS OF			
	AUGUST 31, 2012	LEVEL 1	LEVEL 2	LEVEL 3
UNIVERSITY*				
Cash and cash equivalents	\$ 993,908	\$ 898,162	\$ 95,746	\$ -
Collateral held for securities loaned	106,581	-	106,581	-
Public equities	4,580,668	2,209,678	265,186	2,105,804
Derivatives	(12,999)	23	(13,022)	-
Fixed income	916,857	325,271	591,586	-
Real estate	4,988,534	-	-	4,988,534
Natural resources	1,688,315	281,334	-	1,406,981
Private equities	5,196,771	33,617	-	5,163,154
Absolute return	5,157,640	156,269	1,790,422	3,210,949
Assets held by other trustees	154,462	-	-	154,462
Other	204,952	4	903	204,045
TOTAL	23,975,689	3,904,358	2,837,402	17,233,929
HOSPITALS				
Cash and cash equivalents	41,295	37,141	4,154	-
Public equities	115,096	66,907	48,189	-
Assets held by other trustees	13,604	-	-	13,604
TOTAL	169,995	104,048	52,343	13,604
CONSOLIDATED TOTAL	\$ 24,145,684	\$ 4,008,406	\$ 2,889,745	\$ 17,247,533

* Amounts include the Hospitals' cross investment in the University's investment pools of \$1.7 billion.

The University manages the majority of the Hospitals' investments, including the Hospitals' investment in the Merged Pool (MP), with a combined fair value of \$2.0 billion and \$1.7 billion at August 31, 2013 and 2012, respectively.

SUMMARY OF LEVEL 3 INVESTMENT ACTIVITIES AND TRANSFERS

The following tables present the activities for Level 3 investments for the years ended August 31, 2013 and 2012, in thousands of dollars:

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

FAIR VALUE MEASUREMENTS USING SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)	BEGINNING BALANCE AS OF SEPTEMBER 1, 2011	SALES AND PURCHASES	NET REALIZED AND UNREALIZED GAINS (LOSSES)	TRANSFERS IN	TRANSFERS OUT	ENDING BALANCE AS OF AUGUST 31, 2012	
UNIVERSITY							
Public equities	\$ 1,818,837	\$ 144,949	\$ (196,660)	\$ 246,955	\$ 91,723	\$ -	\$ 2,105,804
Real estate	4,500,588	455,238	(404,832)	437,540	-	-	4,988,534
Natural resources	1,465,589	164,985	(189,785)	(29,685)	-	(4,123)	1,406,981
Private equities	5,304,442	694,159	(739,224)	50,447	-	(146,670)	5,163,154
Absolute return	3,390,273	263,678	(611,871)	(7,156)	176,025	-	3,210,949
Assets held by other trustees	163,044	61,238	(61,798)	(8,022)	-	-	154,462
Other	180,775	24,156	(10,283)	9,397	-	-	204,045
TOTAL	16,823,548	1,808,403	(2,214,453)	699,476	267,748	(150,793)	17,233,929
HOSPITALS							
Assets held by other trustees	13,972	-	-	(368)	-	-	13,604
TOTAL	13,972	-	-	(368)	-	-	13,604
CONSOLIDATED TOTAL	\$ 16,837,520	\$ 1,808,403	\$ (2,214,453)	\$ 699,108	\$ 267,748	\$ (150,793)	\$ 17,247,533

Net realized and unrealized gains (losses) in the tables above are included in the *Statements of Activities* primarily as "increase (decrease) in reinvested gains" by level of restriction. For the years ended August 31, 2013 and 2012, the change in unrealized gains (losses) for Level 3 investments still held at August 31, 2013 and 2012 was \$1.8 billion and \$436.7 million, respectively.

Transfers in (out) include investments which have been reclassified to Level 2 as the University has the ability to redeem these at NAV in the near term. Transfers in (out) also include situations where observable inputs have changed, such as when Level 3 investments make distributions from an underlying asset with a fair value based on quoted market prices. All transfer amounts are based on the fair value at the beginning of the fiscal year. There were no transfers between Level 1 and Level 2 during the years ended August 31, 2013 and 2012.

LEVEL 3 INVESTMENT VALUATION TECHNIQUES AND SIGNIFICANT UNOBSERVABLE INPUTS

The following table presents the University's Level 3 investments, the valuation techniques used to measure the fair value of those investments, and the range of the significant unobservable inputs as of August 31, 2013. Level 3 investment fair value measurement may include both observable and unobservable inputs. The classification of an investment within Level 3 is based on the extent of the significance of unobservable inputs to the overall valuation. The observable inputs used in the valuation techniques, as presented below, are not included in the table.

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

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

¹ The following Level 3 asset categories were excluded from the above quantitative disclosure as their fair value is primarily based on the NAV reported by the external investment managers and is adjusted as described under Valuation Methodology above. Public equities of \$1.8 billion, real estate of \$2.3 billion, natural resources of \$1.5 billion, private equity of \$5.3 billion, absolute return of \$3.2 billion and assets held by other trustees of \$0.2 billion were excluded and were valued at a total of \$14.3 billion as of August 31, 2013.

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

INVESTMENT-RELATED COMMITMENTS

The University is obligated under some alternative investment agreements to advance additional funding up to specified levels over a period of several years. The following table presents significant terms of such agreements for all related alternative investments at August 31, 2013, in thousands of dollars:

ASSET CLASS	FAIR VALUE	UNFUNDED COMMITMENT	REMAINING LIFE (YEARS)	REDEMPTION TERMS AND RESTRICTIONS
Public equities	\$ 2,999,728	\$ 43,896	0 to 5	Generally, lock-up provisions ranging from 0 to 5 years. After initial lock up expires, redemptions are available on a rolling basis and require 3 to 180 days prior notification.
Real estate	2,040,881	898,765	0 to 13	Not eligible for redemption
Natural resources	1,416,490	830,179	0 to 15	Not eligible for redemption
Private equities	5,357,460	1,735,781	0 to 16	Not eligible for redemption
Absolute return	5,413,154	649,154	0 to 7	Generally, lock-up provisions ranging from 0 to 6 years. After initial lock up expires, redemptions are available on a rolling basis and require 2 to 180 days prior notification.
TOTAL	\$17,227,713	\$ 4,157,775		

INVESTMENT RETURNS

Total investment returns for the years ended August 31, 2013 and 2012, in thousands of dollars, are as follows:

	2013			2012
	UNIVERSITY	HOSPITALS	CONSOLIDATED	CONSOLIDATED
Investment income	\$ 292,668	\$ 16,808	\$ 309,476	\$ 290,990
Net realized and unrealized gains	2,216,714	209,451	2,426,165	1,022,286
TOTAL INVESTMENT RETURNS	\$ 2,509,382	\$ 226,259	\$ 2,735,641	\$ 1,313,276
<i>Reconciliation to Statements of Activities:</i>				
Total investment income distributed for operations	\$ 1,004,520	\$ 14,241	\$ 1,018,761	\$ 1,002,436
Increase in reinvested gains - unrestricted	899,321	178,458	1,077,779	445,626
Increase (decrease) in reinvested gains - temporarily restricted	526,818	31,879	558,697	(205,327)
Change in value of split interest agreements, net - temporarily restricted	1,121	317	1,438	5,703
Increase in reinvested gains - permanently restricted	17,261	-	17,261	4,612
Change in value of split interest agreements, net - permanently restricted	23,623	1,364	24,987	24,465
Adjusted for:				
Returns on split interest agreements paid to beneficiaries - temporarily restricted	11,031	-	11,031	9,507
Returns on split interest agreements paid to beneficiaries - permanently restricted	25,687	-	25,687	26,254
TOTAL INVESTMENT RETURNS	\$ 2,509,382	\$ 226,259	\$ 2,735,641	\$ 1,313,276

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

FUTURE MINIMUM RENTAL INCOME

As part of its investment portfolio, the University holds certain investment properties that it leases to third parties. Future minimum rental income due from the Stanford Shopping Center, the Stanford Research Park and other properties under non-cancelable leases in effect with tenants at August 31, 2013, in thousands of dollars, is as follows:

<u>YEAR ENDING AUGUST 31</u>	<u>FUTURE MINIMUM RENTAL INCOME</u>
2014	\$ 94,841
2015	91,415
2016	84,995
2017	78,957
2018	69,374
Thereafter	1,800,398
TOTAL	\$ 2,219,980

6. Investment Pools

The University's investments are held in various investment pools or in specific investments to comply with donor requirements as indicated in the following table, at August 31, 2013 and 2012, in thousands of dollars:

	2013	2012
UNIVERSITY		
Merged Pool	\$ 22,600,862	\$ 20,253,370
Expendable Funds Pool	3,181,451	3,004,565
Endowment Income Funds Pool	342,622	368,868
Other Investment Pools	86,525	394,407
Specific Investments	4,025,199	3,327,430
	<u>30,236,659</u>	<u>27,348,640</u>
Less:		
Amounts included in "cash and cash equivalents" in the <i>Statements of Financial Position</i>	(450,202)	(698,433)
Funds cross-invested in investment pools	(3,069,263)	(2,670,364)
Hospital funds invested in the University's investment pools	(2,013,787)	(1,733,143)
TOTAL	<u>24,703,407</u>	<u>22,246,700</u>
HOSPITALS		
Investments	2,271,068	1,898,984
TOTAL	<u>2,271,068</u>	<u>1,898,984</u>
CONSOLIDATED TOTAL	<u>\$ 26,974,475</u>	<u>\$ 24,145,684</u>

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

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

The Board has established a policy for the distribution of the investment returns of the EFP. The difference between the actual return of this investment pool and the approved payout is deposited in, or withdrawn from, funds functioning as endowment (FFE) (see *Note 12*). For the years ended August 31, 2013 and 2012, the results of the EFP, in thousands of dollars, are as follows:

	2013	2012
Total investment return of the EFP	\$ 336,148	\$ 85,052
Less distributions to fund holders and operations	(60,927)	(95,483)
AMOUNTS ADDED TO (WITHDRAWN FROM) FFE	<u>\$ 275,221</u>	<u>\$ (10,431)</u>

7. Derivatives

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

Foreign currency forward contracts, interest rate swaps, securities lending, and repurchase agreements entail counterparty credit risk. The University seeks to control this risk by entering into transactions with quality counterparties, by establishing and monitoring credit limits and by requiring collateral in certain situations.

INVESTMENT-RELATED DERIVATIVES

The following table presents amounts for investment-related derivatives, including the notional amount, the fair values at August 31, 2013 and 2012, and gains and losses for the years ended August 31, 2013 and 2012, in thousands of dollars:

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

	AS OF AUGUST 31, 2012			YEAR ENDED AUGUST 31, 2012
	NOTIONAL AMOUNT ¹	GROSS DERIVATIVE ASSETS ²	GROSS DERIVATIVE LIABILITIES ²	REALIZED AND UNREALIZED GAINS (LOSSES) ³
Interest-rate contracts	\$ 1,149,827	\$ 240	\$ 10,059	\$ (669)
Foreign exchange contracts	271,698	261	10,122	9,230
Equity contracts	112,677	4,799	20	(14,329)
Credit contracts	191,996	2,507	605	(6,860)
TOTAL	\$ 1,726,198	\$ 7,807	\$ 20,806	\$ (12,628)

¹ The notional amount is representative of the volume and activity of the respective derivative type during the years ended August 31, 2013 and 2012.

² Gross derivative assets less gross derivative liabilities are presented as "derivatives" on the investment table in Note 5.

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

Credit Default Swaps

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

The tables below summarize certain information regarding protection sold through CDS at August 31, 2013 and 2012, in thousands of dollars:

CREDIT RATINGS OF THE REFERENCE OBLIGATION ²	MAXIMUM POTENTIAL PAYOUT (NOTIONAL AMOUNT ¹) / YEARS TO MATURITY			FAIR VALUE ASSET/ (LIABILITY)
	LESS THAN 3	OVER 3	TOTAL	
2013				
Single name credit default swaps:				
A- to AA+	\$ 7,900	\$ 1,500	\$ 9,400	\$ 188
BBB- to BBB+	300	5,512	5,812	(431)
Total single name credit default swaps	8,200	7,012	15,212	(243)
Index credit default swaps ³	-	500	500	(2)
TOTAL CREDIT DEFAULT SWAPS SOLD	\$ 8,200	\$ 7,512	\$ 15,712	\$ (245)
2012				
Single name credit default swaps:				
A- to AA+	\$ 8,787	\$ 13,800	\$ 22,587	\$ 203
BBB- to BBB+	2,100	2,575	4,675	(257)
Total single name credit default swaps	10,887	16,375	27,262	(54)
Index credit default swaps ³	-	500	500	(11)
TOTAL CREDIT DEFAULT SWAPS SOLD	\$ 10,887	\$ 16,875	\$ 27,762	\$ (65)

¹ The notional amount is representative of the volume and activity of the respective derivative type during the years ended August 31, 2013 and 2012.

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

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

DEBT-RELATED DERIVATIVES

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

At August 31, 2013, the University had interest rate exchange agreements related to \$97.0 million of the outstanding balance of the CEFA Series S bonds in variable rate mode (see *Note 10*). The agreements, which have an interest rate of 3.68%, expire November 1, 2039. The notional amount and the fair value of the exchange agreements are included in the table below. Collateral posted with various counterparties was \$11.0 million and \$37.5 million at August 31, 2013 and 2012, respectively, and is included in the *Statements of Financial Position*. In addition, the University issued an irrevocable standby letter of credit of \$15.0 million to support collateral requirements at August 31, 2013 and 2012 (see *Note 10*). In December 2012, the University terminated certain interest rate exchange agreements and recognized a loss of \$13.0 million in "non-operating activities" in the *Statements of Activities* for the year ended August 31, 2013.

At August 31, 2013, SHC had interest rate exchange agreements expiring through November 2051 (see *Note 11*). The agreements require SHC to pay fixed interest rates to the counterparties varying from 3.37% to 4.08% in exchange for variable rate payments from the counterparties based on a percentage of the One Month London Interbank Offered Rate (LIBOR). The notional amount and the fair value of the exchange agreements are included in the table below. There was no collateral required to be posted with counterparties at August 31, 2013. The amount of collateral required to be posted with counterparties was \$27.5 million at August 31, 2012 and was met by the posting of a standby letter of credit in the aggregate amount of \$30.0 million at August 31, 2012, which may only be drawn upon in the event of a default by SHC. This standby letter of credit was terminated in February 2013. In July 2012, SHC terminated certain interest rate exchange agreements and recognized a loss of \$1.3 million in "non-operating activities" in the *Statements of Activities* for the year ended August 31, 2012.

The following table presents amounts for debt-related derivatives including the notional amount, the fair values at August 31, 2013 and 2012, and gains and losses for the years ended August 31, 2013 and 2012, in thousands of dollars:

	AS OF AUGUST 31, 2013		YEAR ENDED AUGUST 31, 2013	AS OF AUGUST 31, 2012		YEAR ENDED AUGUST 31, 2012
	NOTIONAL AMOUNT ¹	GROSS DERIVATIVE LIABILITIES ²	REALIZED AND UNREALIZED GAINS ³	NOTIONAL AMOUNT ¹	GROSS DERIVATIVE LIABILITIES ²	REALIZED AND UNREALIZED LOSSES ³
Debt-related interest-rate contracts:						
University	\$ 97,000	\$ 21,840	\$ 34,407	\$ 130,000	\$ 56,247	\$ (17,279)
Hospitals	746,100	133,255	102,928	747,150	236,183	(69,805)
TOTAL	\$ 843,100	\$ 155,095	\$ 137,335	\$ 877,150	\$ 292,430	\$ (87,084)

¹ The notional amount is representative of the volume and activity of the respective derivative type during the years ended August 31, 2013 and 2012.

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

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

8. Plant Facilities

Plant facilities, net of accumulated depreciation, at August 31, 2013 and 2012, in thousands of dollars, are as follows:

	2013			2012
	UNIVERSITY	HOSPITALS	CONSOLIDATED	CONSOLIDATED
Land and improvements	\$ 507,743	\$ 94,479	\$ 602,222	\$ 592,408
Buildings and building improvements	4,640,680	1,284,771	5,925,451	5,555,633
Furniture, fixtures and equipment	1,490,315	934,043	2,424,358	2,285,254
Utilities	382,102	-	382,102	308,393
Construction in progress	550,314	772,911	1,323,225	859,301
	7,571,154	3,086,204	10,657,358	9,600,989
Less accumulated depreciation	(3,363,227)	(1,299,515)	(4,662,742)	(4,280,544)
PLANT FACILITIES, NET OF ACCUMULATED DEPRECIATION	\$ 4,207,927	\$ 1,786,689	\$ 5,994,616	\$ 5,320,445

At August 31, 2013, \$1.3 billion and \$748.3 million of fully depreciated plant facilities were still in use by the University and the Hospitals, respectively, and were included in plant facilities and accumulated depreciation.

9. Liabilities Under Security Lending Agreements

The University receives short-term U.S. government obligations or cash and cash equivalents as collateral deposits for certain securities loaned temporarily to brokers. It is the University's policy to require receipt of collateral on securities lending contracts and repurchase agreements equal to a minimum of 102% of the fair market value of the security loaned. In addition, the University is party to certain forward sale and purchase agreements. At August 31, 2013 and 2012, these amounts, in thousands of dollars, are as follows:

	2013	2012
Collateral deposits for certain securities loaned temporarily to brokers ^{1, 2}	\$ 57,810	\$ 106,581
Forward sale and purchase agreements ¹	26,238	34,618
LIABILITIES UNDER SECURITY LENDING AGREEMENTS	\$ 84,048	\$ 141,199

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

² The estimated fair value of securities loaned to brokers at August 31, 2013 and 2012 was \$55.4 million and \$97.8 million, respectively.

10. University Notes and Bonds Payable

Notes and bonds payable for the University at August 31, 2013 and 2012, in thousands of dollars, are as follows:

	YEAR OF MATURITY	INTEREST RATE * 2013/2012	OUTSTANDING PRINCIPAL	
			2013	2012
Tax-exempt:				
CEFA Fixed Rate Revenue Bonds:				
Series P	2013	5.25%	\$ -	\$ 51,260
Series S	2039	5.00%	30,210	-
Series T	2014-2039	4.00% - 5.00%	361,310	361,310
Series U	2032-2043	5.00% - 5.25%	593,760	293,135
CEFA Variable Rate Revenue Bonds and Notes:				
Series L	2014-2022	0.06%/0.13%	83,818	83,818
Series S	2039-2050	0.17%-0.20%/0.19%-0.22%	141,200	181,200
Commercial Paper	2013	0.08%/0.16%	72,070	92,682
Taxable:				
Fixed Rate Notes and Bonds:				
Stanford University Bonds	2024	6.88%	150,000	150,000
Medium Term Note	2026	7.65%	50,000	50,000
Stanford University Series 2009A	2014-2019	3.63% - 4.75%	1,000,000	1,000,000
Stanford University Series 2012A	2042	4.01%	143,235	143,235
Stanford University Series 2013A	2044	3.56%	150,115	-
Other	2013-2015	Various	68,347	68,291
Variable Rate Notes:				
Commercial Paper	2013	0.13%/0.21%	70,656	157,000
University notes and bonds payable			2,914,721	2,631,931
Unamortized original issue premiums/discounts, net			183,712	76,775
TOTAL			\$ 3,098,433	\$ 2,708,706

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

At August 31, 2013 and 2012, the fair value of these debt instruments was approximately \$3.1 billion. All bonds held at August 31, 2013 and 2012 are considered to be Level 2 fair value measurements.

The University borrows at tax-exempt rates through the California Educational Facilities Authority (CEFA). CEFA debt is a general unsecured obligation of the University. Although CEFA is the issuer, the University is responsible for the repayment of the tax-exempt debt. The University's long-term ratings of AAA/Aaa/AAA were affirmed in April 2013 by Standard and Poor's, Moody's Investors Service and Fitch Ratings, respectively.

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

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

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

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

In April 2012, CEFA Series U-2 bonds were issued in the amount of \$77.8 million plus an original issue premium of \$21.4 million. The bonds bear interest at a rate of 5.00% and mature on October 1, 2032. Proceeds were used to (1) refinance commercial paper notes which were issued to redeem CEFA Series Q bonds in February 2012; and (2) pay bond issuance costs.

In April 2012, the University issued taxable fixed rate Series 2012A bonds in the amount of \$143.2 million. The bonds bear interest at a rate of 4.01% and mature on May 1, 2042. Proceeds were used to (1) refinance commercial paper notes which were issued to redeem CEFA Series O bonds in December 2011; (2) refinance the outstanding CEFA Series R bonds which were redeemed in November 2011; and (3) pay bond issuance costs.

In December 2010, the University entered into a \$50.0 million line of credit agreement to issue irrevocable standby letters of credit to support various collateral posting obligations. At August 31, 2013, irrevocable standby letters of credit of \$32.5 million were outstanding in the following amounts and for the following respective purposes: (1) \$15.0 million to support collateral requirements under certain interest rate exchange agreements discussed in *Note 7*; and (2) \$17.5 million to serve as security for workers' compensation deductible insurance arrangements. No amounts have been drawn on these letters of credit at August 31, 2013.

Stanford holds controlling interests in several investment entities which were consolidated in the financial statements in fiscal years 2013 and 2012. At August 31, 2013 and 2012, taxable debt included \$67.8 million and \$66.2 million, respectively, of debt where Stanford is ultimately liable for principal should the investees default.

The University's taxable and tax-exempt commercial paper facilities and related information at August 31, 2013 and 2012, in thousands of dollars, are as follows:

COMMERCIAL PAPER	POTENTIAL BORROWINGS	OUTSTANDING BALANCE AT AUGUST 31	WEIGHTED AVERAGE DAYS TO MATURITY	WEIGHTED AVERAGE EFFECTIVE INTEREST RATE
2013				
Taxable	\$ 500,000	\$ 70,656	93.1	0.22%
Tax-exempt	\$ 300,000	\$ 72,070	65.0	0.13%
2012				
Taxable	\$ 500,000	\$ 157,000	44.1	0.21%
Tax-exempt	\$ 300,000	\$ 92,682	35.9	0.16%

The University had \$225.0 million of revenue bonds in variable rate mode outstanding in addition to commercial paper notes at August 31, 2013. CEFA Series L bonds bear interest at a weekly rate and CEFA Series S bonds bear interest at a commercial paper municipal rate and are outstanding for various interest periods of 270 days or less. In the event the University receives notice of any optional tender of these bonds, or if the bonds become subject to mandatory tender, the purchase price of the bonds will be paid from the remarketing of such bonds. However, if the remarketing proceeds are insufficient, the University will have a current obligation to purchase the bonds tendered. The University has identified several sources of funding including cash, money market funds, U.S. treasury securities and agencies' discount notes to provide for the full and timely purchase price of any bonds tendered in the event of a failed remarketing.

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

	2013	2012
Interest expense, gross	\$ 101,016	\$ 96,190
Less:		
Interest income earned on unspent proceeds	(253)	(433)
Interest capitalized as a cost of construction	(3,845)	(1,071)
Interest expense on Series 2009A bonds which is classified as an investment expense	(24,649)	(22,907)
Interest expense, net	\$ 72,269	\$ 71,779

The University uses interest rate exchange agreements to manage the interest rate exposure of its debt portfolio. Net payments on interest rate exchange agreements, which are included in "swap interest and change in value of swap agreements" in the *Statements of Activities*, were \$16.7 million and \$4.3 million for the years ended August 31, 2013 and 2012, respectively, including the loss on the termination of certain interest rate exchange agreements in 2013 (see *Note 7*).

At August 31, 2013, scheduled principal payments on notes and bonds, in thousands of dollars, are as follows:

YEAR ENDING AUGUST 31	PRINCIPAL PAYMENTS
2014 Commercial paper	\$ 142,726
2014 Variable debt subject to remarketing	225,018
2014 Other	524,672
2015	55
2016	315,550
2017	-
2018	-
Thereafter	1,706,700
TOTAL	\$ 2,914,721

11. Hospitals Notes and Bonds Payable

Notes, bonds and capital lease obligations for the Hospitals at August 31, 2013 and 2012, in thousands of dollars, are as follows:

	YEAR OF MATURITY	INTEREST RATE* 2013/2012	OUTSTANDING PRINCIPAL	
			2013	2012
SHC:				
CHFFA Fixed Rate Revenue Bonds:				
2008 Series A-1	2040	2.25%-5.15%	\$ 69,485	\$ 69,760
2008 Series A-2	2040	1.00%-5.25%	102,775	103,200
2008 Series A-3	2040	1.00%-5.50%	83,065	83,415
2010 Series A	2031	4.00%-5.75%	140,200	144,860
2010 Series B	2036	4.50%-5.75%	146,710	146,710
2012 Series A	2051	5.00%	340,000	340,000
2012 Series B	2023	2.00%-5.00%	63,555	68,320
Promissory Note	2014	7.03%	174	363
CHFFA Variable Rate Revenue Bonds:				
2008 Series B	2045	0.11%/0.17%	168,200	168,200
2012 Series C	2051	0.14%/0.25%	60,000	60,000
2012 Series D	2051	0.74%/0.78%	100,000	100,000
LPCH:				
CHFFA Fixed Rate Revenue Bonds:				
2008 Series A	2027-2033	1.45%	30,340	30,340
2008 Series B	2027-2033	1.45%	30,340	30,340
2008 Series C	2015-2023	1.45%	32,770	32,770
2012 Series A	2044-2051	5.00%	200,000	200,000
CHFFA Variable Rate Revenue Bonds:				
2012 Series B	2014-2027	3.00%/3.00%	49,015	51,045
Hospitals notes, bonds and capital lease obligations			1,616,629	1,629,323
Unamortized original issue premiums/discounts, net			67,416	71,104
TOTAL			\$ 1,684,045	\$ 1,700,427

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

At August 31, 2013 and 2012, the fair value of these debt instruments was approximately \$1.6 billion and \$1.8 billion, respectively. All bonds held at August 31, 2013 and 2012 are considered to be Level 2 fair value measurements.

The Hospitals borrow at tax-exempt rates through the California Health Facilities Financing Authority (CHFFA). CHFFA debt is a general obligation of the Hospitals. Payments of principal and interest on the Hospitals' bonds are collateralized by a pledge of the revenues of the respective hospitals. Although CHFFA is the issuer, the Hospitals are responsible for the repayment of the tax-exempt debt. The University is not an obligor or guarantor with respect to any obligations of SHC or LPCH, nor are SHC or LPCH obligors or guarantors with respect to obligations of the University.

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

SHC

In May 2012, CHFFA, on behalf of SHC, issued four series of revenue bonds in the aggregate principal amount of \$568.3 million. The bonds were comprised of \$340.0 million of 2012 Series A bonds, \$68.3

million of 2012 Series B bonds, \$60.0 million of 2012 Series C bonds and \$100.0 million of 2012 Series D bonds. Proceeds of the 2012 Series A, C and D bonds will be used to finance a portion of the Renewal Project (*see Note 20*). Proceeds of the 2012 Series B bonds were used to advance refund the 2003 Series A bonds. As a result of the refunding, the unamortized bond issuance costs and original issue premium of \$2.5 million related to the 2003 Series A bonds were included in "non-operating activities" in the *Statements of Activities* for the year ended August 31, 2012.

At August 31, 2013, SHC has \$328.2 million revenue bonds in variable rate mode outstanding. The 2008 Series B-1 bonds bear interest at a weekly rate, and bondholders have the option to tender their bonds on a weekly basis. The 2008 Series B-2 bonds bear interest at the commercial paper rate for each commercial paper period of 270 days or less. Bondholders in commercial paper mode have the option to tender their bonds only at the end of the commercial paper rate period.

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

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

At August 31, 2013, SHC has irrevocable standby letters of credit in the aggregate amount of \$26.7 million posted with certain beneficiaries in the following amounts and for the following respective purposes: (i) \$16.7 million to serve as security for the workers' compensation self-insurance arrangement and (ii) \$10.0 million to serve as security deposits for certain construction projects being undertaken by SHC including the Renewal Project. No amounts have been drawn on these letters of credit at August 31, 2013 and 2012.

LPCH

In March 2012, CHFFA, on behalf of LPCH, issued 2012 Series A bonds and 2012 Series B bonds in the aggregate principal amount of \$251.0 million. Proceeds of the 2012 Series A bonds will be used to finance a portion of the Renewal Project and to pay bond issuance costs. Proceeds of the 2012 Series B bonds were used to advance refund the 2003 Series C bonds and to pay bond issuance costs. As a result of the refunding, the unamortized bond issuance costs and original issue premium of \$3.7 million related to the 2003 Series C bonds were included in "non-operating activities" in the *Statements of Activities* for the year ended August 31, 2012.

In March 2012, LPCH converted the 2008 Series A, B and C revenue bonds in the aggregate principal amount of \$93.4 million from weekly variable rate mode to five-year fixed rate put bonds.

At August 31, 2013, LPCH has irrevocable standby letters of credit in the aggregate amount of \$13.8 million posted with certain beneficiaries in the following amounts and for the following respective purposes: (i) \$7.2 million to serve as security for the workers' compensation self-insurance arrangement and (ii) \$6.6 million to serve as security deposits for certain construction projects being undertaken by LPCH including the Renewal Project. No amounts have been drawn on these letters of credit at August 31, 2013 and 2012.

INTEREST

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

	2013	2012
Interest expense, gross, excluding settlements under the interest rate exchange agreements	\$ 59,614	\$ 42,435
Settlements under the interest rate exchange agreements	19,674	19,926
Less:		
Interest capitalized as a cost of construction	(19,074)	(7,246)
Interest expense, net	\$ 60,214	\$ 55,115

PRINCIPAL PAYMENTS

At August 31, 2013, scheduled principal payments on notes, bonds and capital lease obligations, in thousands of dollars, are as follows:

YEAR ENDING AUGUST 31	PRINCIPAL PAYMENTS
2014 Variable debt subject to remarketing	\$ 228,200
2014 Other	14,854
2015	17,075
2016	18,930
2017	19,065
2018	19,395
Thereafter	1,299,110
TOTAL	\$ 1,616,629

12. University Endowment

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

The University classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment and (b) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are authorized for expenditure. In the absence of donor stipulations or law to the contrary, net unrealized losses on permanently restricted endowment funds first reduce related appreciation on temporarily restricted net assets and then on unrestricted net assets, as needed, until the fair value of the fund equals or exceeds historic value. The aggregate amount by which fair value was below historic value was \$20.3 million and \$37.5 million at August 31, 2013 and 2012, respectively.

Endowment funds by net asset classification at August 31, 2013 and 2012, in thousands of dollars, are as follows:

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
2013				
Donor-restricted endowment funds	\$ (20,278)	\$ 5,528,171	\$ 5,174,848	\$ 10,682,741
Funds functioning as endowment	8,006,127	-	-	8,006,127
TOTAL ENDOWMENT FUNDS	\$ 7,985,849	\$ 5,528,171	\$ 5,174,848	\$ 18,688,868
2012				
Donor-restricted endowment funds	\$ (37,537)	\$ 5,016,796	\$ 4,951,569	\$ 9,930,828
Funds functioning as endowment	7,104,976	-	-	7,104,976
TOTAL ENDOWMENT FUNDS	\$ 7,067,439	\$ 5,016,796	\$ 4,951,569	\$ 17,035,804

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

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

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

The current Board approved targeted spending rate is 5.5%. The sources of payout are earned income on endowment assets (interest, dividends, rents and royalties), realized capital gains and FFE, as needed and as available.

Changes in the University's endowment, excluding pledges, for the years ended August 31, 2013 and 2012, in thousands of dollars, are as follows:

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
2013				
Endowment, beginning of year	\$ 7,067,439	\$ 5,016,796	\$ 4,951,569	\$ 17,035,804
Investment returns:				
Earned income	232,016	-	-	232,016
Unrealized and realized gains	729,859	1,006,324	17,099	1,753,282
Total investment returns	961,875	1,006,324	17,099	1,985,298
Amounts distributed for operations	(413,429)	(507,243)	-	(920,672)
Gifts, transfers and other changes in endowment:				
Current year gifts and pledge payments	2,902	2,441	165,232	170,575
Transfers of prior year gifts	3,732	354	28,002	32,088
EFP funds invested in the endowment	275,221	-	-	275,221
Other funds invested in the endowment, net	88,109	9,499	12,946	110,554
Total gifts, transfers and other changes in endowment	369,964	12,294	206,180	588,438
Total net increase in endowment	918,410	511,375	223,279	1,653,064
ENDOWMENT, END OF YEAR	\$ 7,985,849	\$ 5,528,171	\$ 5,174,848	\$ 18,688,868
2012				
Endowment, beginning of year	\$ 6,641,749	\$ 5,215,842	\$ 4,645,015	\$ 16,502,606
Investment returns:				
Earned income	208,731	-	-	208,731
Unrealized and realized gains	507,530	280,109	4,076	791,715
Total investment returns	716,261	280,109	4,076	1,000,446
Amounts distributed for operations	(390,375)	(480,731)	-	(871,106)
Gifts, transfers and other changes in endowment:				
Current year gifts and pledge payments	3,390	26,490	234,530	264,410
Transfers of prior year gifts	50,255	95	18,030	68,380
EFP funds withdrawn from the endowment	(10,431)	-	-	(10,431)
Other funds invested in (withdrawn from) the endowment, net	56,590	(25,009)	49,918	81,499
Total gifts, transfers and other changes in endowment	99,804	1,576	302,478	403,858
Total net increase (decrease) in endowment	425,690	(199,046)	306,554	533,198
ENDOWMENT, END OF YEAR	\$ 7,067,439	\$ 5,016,796	\$ 4,951,569	\$ 17,035,804

13. Hospitals Endowments

The endowments of SHC and LPCH are intended to generate investment income to support their current operating and strategic initiatives. The following table summarizes each hospital's share of the Hospitals endowments at August 31, 2013 and 2012, in thousands of dollars:

	2013	2012
LPCH	\$ 280,799	\$ 266,393
SHC	16,133	14,822
TOTAL ENDOWMENT FUNDS	\$ 296,932	\$ 281,215

The Hospitals invest the majority of their endowments in the University's MP. Their endowments are subject to the same investment and spending strategies that the University employs as described in *Note 12*. The Hospitals' Boards of Directors have approved payout policies which provide for annual amounts to be distributed for current use. "Amounts distributed for operations" in the table below represents the Hospitals' current year endowment payout spent for designated purposes during fiscal years 2013 and 2012.

The Hospitals classify as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment and (b) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are authorized for expenditure. In the absence of donor stipulations or law to the contrary, net unrealized losses on permanently restricted endowment funds first reduce related appreciation on temporarily restricted net assets and then on unrestricted net assets, as needed, until the fair value of the fund equals or exceeds historic value. The aggregate amount by which fair value was below historic value was approximately \$12 thousand and \$216 thousand at August 31, 2013 and 2012, respectively.

Changes in Hospitals endowments, for the years ended August 31, 2013 and 2012, in thousands of dollars, are as follows:

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
2013				
Endowments, beginning of year	\$ (216)	\$ 74,081	\$ 207,350	\$ 281,215
Investment returns:				
Earned income	-	14,694	-	14,694
Unrealized and realized gains	204	14,812	1,364	16,380
Total investment returns	204	29,506	1,364	31,074
Amounts distributed for operations	-	(13,631)	-	(13,631)
Gifts and pledge payments	-	-	1,185	1,185
Other	-	(1,344)	(1,567)	(2,911)
Total net increase in endowments	204	14,531	982	15,717
ENDOWMENTS, END OF YEAR	\$ (12)	\$ 88,612	\$ 208,332	\$ 296,932
2012				
Endowments, beginning of year	\$ (277)	\$ 78,808	\$ 205,350	\$ 283,881
Investment returns:				
Earned income	-	13,786	-	13,786
Unrealized and realized gains (losses)	61	(5,728)	481	(5,186)
Total investment returns	61	8,058	481	8,600
Amounts distributed for operations	-	(12,319)	-	(12,319)
Gifts and pledge payments	-	45	777	822
Other	-	(511)	742	231
Total net increase (decrease) in endowments	61	(4,727)	2,000	(2,666)
ENDOWMENTS, END OF YEAR	\$ (216)	\$ 74,081	\$ 207,350	\$ 281,215

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

14. University Gifts and Pledges

The University's Office of Development (OOD) reports total gifts based on contributions received in cash or property during the fiscal year. Gifts and pledges reported for financial statement purposes are recorded on the accrual basis. The following summarizes gifts and pledges reported for the years ended August 31, 2013 and 2012, per the *Statements of Activities* reconciled to the cash basis reported by OOD, in thousands of dollars:

	2013	2012
Current year gifts in support of operations	\$ 180,071	\$ 178,214
Donor advised funds, net	1,930	38,998
Current year gifts not included in operations	2,902	253,390
Temporarily restricted gifts and pledges, net	345,526	229,441
Permanently restricted gifts and pledges, net	164,102	227,079
TOTAL PER STATEMENTS OF ACTIVITIES	694,531	927,122
Adjustments to arrive at gift total as reported by OOD:		
New pledges	(247,611)	(265,141)
Payments made on pledges	282,948	259,402
Pledge discounts and other adjustments	27,225	29,560
Donor advised funds not designated for Stanford	10,669	(35,811)
Non-cash gifts	2,962	4,982
Non-government grants, recorded as sponsored research support when earned	85,098	79,243
SHC gifts	73,673	33,357
Other	2,072	2,135
TOTAL AS REPORTED BY OOD	\$ 931,567	\$ 1,034,849

15. Functional Expenses

Expenses for each of the years ended August 31, 2013 and 2012 are categorized on a functional basis as follows, in thousands of dollars:

	2013			2012
	UNIVERSITY	HOSPITALS	CONSOLIDATED	CONSOLIDATED
Instruction and departmental research	\$ 1,400,573	\$ -	\$ 1,400,573	\$ 1,248,489
Organized research - direct costs	1,040,952	-	1,040,952	1,021,531
Patient services	-	2,593,116	2,593,116	2,289,310
Auxiliary activities	790,917	-	790,917	756,216
Administration and general	325,666	212,364	538,030	550,929
Libraries	148,334	-	148,334	143,833
Student services	167,551	-	167,551	154,084
Development	75,329	15,415	90,744	92,961
SLAC construction	23,527	-	23,527	40,793
TOTAL EXPENSES	\$ 3,972,849	\$ 2,820,895	\$ 6,793,744	\$ 6,298,146

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

16. University Retirement Plans

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

DEFINED CONTRIBUTION PLAN

The University offers a defined contribution plan to eligible faculty and staff through the *Stanford Contributory Retirement Plan* (SCRCP). University and participant contributions are primarily invested in annuities and mutual funds. University contributions under the SCRCP, which are vested immediately to participants, were approximately \$117.6 million and \$110.7 million for the years ended August 31, 2013 and 2012, respectively.

DEFINED BENEFIT PLANS

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

Staff Retirement Annuity Plan

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

Faculty Retirement Incentive Program

The University also provides a retirement incentive bonus for eligible faculty through the University *Faculty Retirement Incentive Program* (FRIP). The University's faculty may become eligible for the FRIP program if they commit to retire within a designated window of time. At August 31, 2013 and 2012, there were no program assets. The University funds benefit payouts as they are incurred.

Postretirement Benefit Plan

The University also provides certain health care benefits for retired employees through its *Postretirement Benefit Plan* (PRBP). The University's employees and their covered dependents may become eligible for the PRBP upon the employee's retirement. Retiree health plans are paid for, in part, by retiree contributions, which are adjusted annually. Health benefits provided and the gross premiums charged (before University subsidies) to retirees under age 65 are the same as those provided to active employees. The University subsidy varies depending on whether the retiree is covered under the traditional design or the defined dollar benefit design. Medicare supplement options are provided for retirees over age 65.

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

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

* Net of Medicare subsidy

2012

Change in plan assets:				
Fair value of plan assets, beginning of year	\$ 258,896	\$ -	\$ 128,991	\$ 387,887
Actual return on plan assets	43,856	-	10,251	54,107
Employer contributions	10,211	3,256	26,005	39,472
Plan participants' contributions	-	-	6,854	6,854
Benefits and plan expenses paid	(22,706)	(3,256)	(22,303) *	(48,265)
FAIR VALUE OF PLAN ASSETS, END OF YEAR	290,257	-	149,798	440,055
Change in projected benefit obligation:				
Benefit obligation, beginning of year	293,397	145,543	470,454	909,394
Service cost	3,298	9,419	13,221	25,938
Interest cost	13,110	6,812	24,388	44,310
Plan participants' contributions	-	-	6,854	6,854
Actuarial loss	62,027	21,151	67,964	151,142
Benefits and plan expenses paid	(22,706)	(3,256)	(22,303) *	(48,265)
BENEFIT OBLIGATION, END OF YEAR	349,126	179,669	560,578	1,089,373
NET LIABILITY RECOGNIZED IN THE STATEMENTS OF FINANCIAL POSITION	\$ (58,869)	\$ (179,669)	\$ (410,780)	\$(649,318)

* Net of Medicare subsidy

The accumulated benefit obligation for the SRAP was \$307.8 million and \$345.0 million at August 31, 2013 and 2012, respectively.

Net periodic benefit expense and non-operating activities related to the Plans for the years ended August 31, 2013 and 2012, in thousands of dollars, includes the following components:

	STAFF RETIREMENT ANNUITY PLAN (SRAP)	FACULTY RETIREMENT INCENTIVE PROGRAM (FRIP)	POST RETIREMENT BENEFIT PLAN (PRBP)	TOTAL
2013				
Service cost	\$ 3,831	\$ 11,734	\$ 18,349	\$ 33,914
Interest cost	11,256	5,867	20,861	37,984
Expected return on plan assets	(19,478)	-	(10,530)	(30,008)
Amortization of:				
Prior service cost	540	-	2,569	3,109
Actuarial loss	2,970	7,464	11,165	21,599
NET PERIODIC BENEFIT EXPENSE	(881)	25,065	42,414	66,598
Net actuarial gain during period	(15,870)	(17,717)	(87,632)	(121,219)
Amortization of:				
Prior service cost	(540)	-	(2,569)	(3,109)
Actuarial loss	(2,970)	(7,464)	(11,165)	(21,599)
TOTAL AMOUNTS RECOGNIZED IN NON-OPERATING ACTIVITIES	(19,380)	(25,181)	(101,366)	(145,927)
TOTAL AMOUNT RECOGNIZED IN NET PERIODIC BENEFIT EXPENSE AND NON-OPERATING ACTIVITIES	\$ (20,261)	\$ (116)	\$ (58,952)	\$ (79,329)
2012				
Service cost	\$ 3,298	\$ 9,419	\$ 13,221	\$ 25,938
Interest cost	13,110	6,812	24,388	44,310
Expected return on plan assets	(17,296)	-	(10,480)	(27,776)
Amortization of:				
Prior service cost	534	-	2,569	3,103
Actuarial loss	-	6,485	8,214	14,699
NET PERIODIC BENEFIT EXPENSE	(354)	22,716	37,912	60,274
Net actuarial loss during period	35,467	21,151	67,900	124,518
Amortization of:				
Prior service cost	(534)	-	(2,569)	(3,103)
Actuarial loss	-	(6,485)	(8,214)	(14,699)
TOTAL AMOUNTS RECOGNIZED IN NON-OPERATING ACTIVITIES	34,933	14,666	57,117	106,716
TOTAL AMOUNT RECOGNIZED IN NET PERIODIC BENEFIT EXPENSE AND NON-OPERATING ACTIVITIES	\$ 34,579	\$ 37,382	\$ 95,029	\$ 166,990

Cumulative amounts recognized in non-operating activities, but not yet recognized in net periodic benefit expense in the *Statements of Activities*, are presented in the following table for the years ended August 31, 2013 and 2012, in thousands of dollars:

	STAFF RETIREMENT ANNUITY PLAN (SRAP)	FACULTY RETIREMENT INCENTIVE PROGRAM (FRIP)	POST RETIREMENT BENEFIT PLAN (PRBP)	TOTAL
2013				
Prior service cost	\$ 854	\$ -	\$ 5,939	\$ 6,793
Net actuarial loss	38,886	96,837	128,697	264,420
ACCUMULATED PLAN BENEFIT COSTS NOT YET RECOGNIZED IN NET PERIODIC BENEFIT EXPENSE				
	\$ 39,740	\$ 96,837	\$ 134,636	\$ 271,213
2012				
Prior service cost	\$ 1,394	\$ -	\$ 8,564	\$ 9,958
Net actuarial loss	57,726	122,018	227,438	407,182
ACCUMULATED PLAN BENEFIT COSTS NOT YET RECOGNIZED IN NET PERIODIC BENEFIT EXPENSE				
	\$ 59,120	\$ 122,018	\$ 236,002	\$ 417,140

The prior service costs and net actuarial loss expected to be amortized from non-operating activities to net periodic benefit expense in fiscal year 2014, in thousands of dollars, are as follows:

	STAFF RETIREMENT ANNUITY PLAN (SRAP)	FACULTY RETIREMENT INCENTIVE PROGRAM (FRIP)	POST RETIREMENT BENEFIT PLAN (PRBP)	Total
Prior service cost	\$ 540	\$ -	\$ 2,545	\$ 3,085
Net actuarial loss	\$ 349	\$ 5,679	\$ 5,111	\$ 11,139

ACTUARIAL ASSUMPTIONS

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

	STAFF RETIREMENT ANNUITY PLAN (SRAP)		FACULTY RETIREMENT INCENTIVE PROGRAM (FRIP)		POST RETIREMENT BENEFIT PLAN (PRBP)	
	2013	2012	2013	2012	2013	2012
Discount rate	4.31%	3.36%	4.30%	3.33%	4.77%	3.78%
Covered payroll growth rate	3.50%	3.54%	4.41%	4.42%	N/A	N/A

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

	STAFF RETIREMENT ANNUITY PLAN (SRAP)		FACULTY RETIREMENT INCENTIVE PROGRAM (FRIP)		POST RETIREMENT BENEFIT PLAN (PRBP)	
	2013	2012	2013	2012	2013	2012
Discount rate	3.36%	4.67%	3.33%	4.74%	3.78%	5.14%
Expected returns on plan assets	7.00%	7.00%	N/A	N/A	7.00%	8.00%
Covered payroll growth rate	3.54%	4.41%	4.42%	4.43%	N/A	N/A

The expected long-term rate of return on asset assumptions for both the SRAP and PRBP plans is 7%. Expected returns on plan assets, a component of net periodic (income)/benefit cost, represent the long-term return on plan assets based on the calculated market-related value of plan assets. These rates of return are developed using an arithmetic average and are tested for reasonableness against historical returns, and the future expectations for returns in each asset class, as well as the target asset allocation of the portfolios. The use of expected long-term returns on plan assets may result in income that is greater or less than the actual returns of those plan assets in any given year. Over time, however, the expected long-term returns are designed to approximate the actual long-term returns, and therefore result in a pattern of income and cost recognition that more closely matches the pattern of the services provided by the employees. Differences between actual and expected returns are recognized as a component of non-operating activities and amortized as a component of net periodic (income)/benefit cost over the service life expectancy of the plan participants, depending on the plan, provided such amounts exceed the accounting standards threshold.

To determine the accumulated PRBP obligation at August 31, 2013, a 7.25% annual rate of increase in the per capita costs of covered health care was assumed for the year ending August 31, 2014, declining gradually to 4.75% by 2024 and remaining at this rate thereafter. Health care cost trend rate assumptions have a significant effect on the amounts reported for the health care plans. Increasing the health care cost trend rate by 1% in each future year would increase the accumulated PRBP obligation by \$82.4 million and the aggregate annual service and interest cost by \$9.7 million. Decreasing the health care cost trend rate by 1% in each future year would decrease the accumulated PRBP obligation by \$65.9 million and the aggregate annual service and interest cost by \$7.3 million.

EXPECTED CONTRIBUTIONS

The University expects to contribute \$0, \$8.2 million, and \$1.0 million to its SRAP, FRIP, and PRBP, respectively, during the year ending August 31, 2014.

EXPECTED BENEFIT PAYMENTS

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

YEAR ENDING AUGUST 31	STAFF RETIREMENT ANNUITY PLAN (SRAP)	FACULTY RETIREMENT INCENTIVE PROGRAM (FRIP)	POST RETIREMENT BENEFIT PLAN (PRBP)	
			EXCLUDING MEDICARE SUBSIDY	EXPECTED MEDICARE PART D SUBSIDY
2014	\$ 26,981	\$ 8,176	\$ 18,276	\$ 3,037
2015	24,466	11,793	19,618	3,329
2016	24,209	13,671	20,834	3,649
2017	23,782	13,399	22,307	3,981
2018	23,967	14,112	23,837	4,336
2019 - 2023	109,913	79,562	141,243	28,077

INVESTMENT STRATEGY

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

CONCENTRATION OF RISK

The University manages a variety of risks, including market, credit, and liquidity risks, across its plan assets. Concentration of risk is defined as an undiversified exposure to one of the above-mentioned risks that increases the exposure of the loss of plan assets unnecessarily. Risk is minimized by predominately investing in broadly diversified index funds for public equities and fixed income. As of August 31, 2013, the University did not have concentrations of risk in any single entity, counterparty, sector, industry or country.

PLAN ASSET ALLOCATIONS

Actual allocations by asset category at August 31, 2013 and 2012 are as follows:

ASSET CATEGORY	STAFF RETIREMENT ANNUITY PLAN (SRAP)		POST RETIREMENT BENEFIT PLAN (PRBP)	
	2013	2012	2013	2012
Cash and cash equivalents	<1%	<1%	0%	0%
Public equities	44%	44%	75%	75%
Fixed income	56%	56%	25%	25%
Private equities	<1%	<1%	0%	0%
TOTAL PORTFOLIO	100%	100%	100%	100%

For fiscal years 2013 and 2012, the weighted-average target allocations by asset category are as follows:

ASSET CATEGORY	STAFF RETIREMENT ANNUITY PLAN (SRAP)		POST RETIREMENT BENEFIT PLAN (PRBP)	
	2013	2012	2013	2012
Public equities	45%	45%	75%	75%
Fixed income	55%	55%	25%	25%
Private equities	<1%	<1%	0%	0%
TARGET PORTFOLIO	100%	100%	100%	100%

FAIR VALUE OF PLAN ASSETS

Current U.S GAAP defines a hierarchy of valuation inputs for the determination of the fair value of plan assets as described in *Note 5*. The plan assets measured at fair value at August 31, 2013 and 2012, in thousands of dollars, are as follows:

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

	AS OF AUGUST 31, 2012	LEVEL 1	LEVEL 2	LEVEL 3
SRAP:				
Cash and cash equivalents	\$ 1,111	\$ 1,111	\$ -	\$ -
Public equities	126,913	126,913	-	-
Fixed income	161,804	157,804	4,000	-
Private equities	429	-	-	429
TOTAL	\$ 290,257	\$ 285,828	\$ 4,000	\$ 429
PRBP:				
Public equities	\$ 112,239	\$ 112,239	\$ -	\$ -
Fixed income	37,559	37,559	-	-
TOTAL	\$ 149,798	\$ 149,798	\$ -	\$ -
TOTAL FAIR VALUE OF PLAN ASSETS	\$ 440,055	\$ 435,626	\$ 4,000	\$ 429

17. Hospitals Retirement Plans

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

DEFINED CONTRIBUTION PLAN

Employer contributions to the defined contribution retirement plan are based on a percentage of participant annual compensation. Employer contributions to this plan amounted to approximately \$71.6 million and \$68.1 million for the years ended August 31, 2013 and 2012, respectively.

DEFINED BENEFIT PLANS

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

POST RETIREMENT MEDICAL BENEFIT PLAN

The Hospitals currently provide health insurance coverage for certain retired employees through its *Post Retirement Medical Benefit Plan* (PRMB). The Hospitals' employees and their covered dependents may become eligible for the PRMB upon the employee's retirement as early as age 55, with years of service as defined by specific criteria. Retiree health plans are paid, in part, by retiree contributions, which are adjusted annually. The Hospitals provide a subsidy which varies depending on whether the retiree is covered under the traditional design or the defined dollar benefit design. A Medicare supplement option is provided for retirees over age 65. The obligation for these benefits has been recorded in the *Statements of Financial Position* as "accrued pension and post retirement benefit cost".

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

	STAFF PENSION PLAN	POST RETIREMENT MEDICAL BENEFIT PLAN (PRMB)	TOTAL
2013			
Change in plan assets:			
Fair value of plan assets, beginning of year	\$ 190,704	\$ -	\$ 190,704
Actual return on plan assets	3,772	-	3,772
Employer contributions	3,986	5,163	9,149
Plan participants' contributions	-	1,859	1,859
Benefits and plan expenses paid	(10,935)	(7,022)	(17,957)
FAIR VALUE OF PLAN ASSETS, END OF YEAR	187,527	-	187,527
Change in projected benefit obligation:			
Benefit obligation, beginning of year	257,781	87,150	344,931
Service cost	2,708	2,075	4,783
Interest cost	9,117	2,911	12,028
Plan participants' contributions	-	1,859	1,859
Actuarial gain	(27,329)	(5,751)	(33,080)
Benefits and plan expenses paid	(10,935)	(7,022)	(17,957)
Plan amendments	-	1,624	1,624
BENEFIT OBLIGATION, END OF YEAR	231,342	82,846	314,188
NET LIABILITY RECOGNIZED IN THE STATEMENTS OF FINANCIAL POSITION	\$ (43,815)	\$ (82,846)	\$ (126,661)
2012			
Change in plan assets:			
Fair value of plan assets, beginning of year	\$ 159,583	\$ -	\$ 159,583
Actual return on plan assets	29,548	-	29,548
Employer contributions	11,025	3,617	14,642
Plan participants' contributions	-	1,152	1,152
Benefits and plan expenses paid	(9,452)	(4,769)	(14,221)
FAIR VALUE OF PLAN ASSETS, END OF YEAR	190,704	-	190,704
Change in projected benefit obligation:			
Benefit obligation, beginning of year	212,816	88,206	301,022
Service cost	2,589	2,528	5,117
Interest cost	10,436	4,108	14,544
Plan participants' contributions	-	1,152	1,152
Actuarial loss (gain)	41,392	(4,075)	37,317
Benefits and plan expenses paid	(9,452)	(4,769)	(14,221)
BENEFIT OBLIGATION, END OF YEAR	257,781	87,150	344,931
NET LIABILITY RECOGNIZED IN THE STATEMENTS OF FINANCIAL POSITION	\$ (67,077)	\$ (87,150)	\$ (154,227)

The accumulated benefit obligation for the Pension Plan was \$228.7 million and \$253.4 million at August 31, 2013 and 2012, respectively.

Net periodic benefit expense and non-operating activities related to the plans for the years ended August 31, 2013 and 2012, in thousands of dollars, includes the following components:

	STAFF PENSION PLAN	POST RETIREMENT MEDICAL BENEFIT PLAN (PRMB)	TOTAL
2013			
Service cost	\$ 2,708	\$ 2,075	\$ 4,783
Interest cost	9,117	2,911	12,028
Expected return on plan assets	(13,993)	-	(13,993)
Amortization of:			
Prior service cost	-	312	312
Actuarial loss (gain)	10,677	(71)	10,606
NET PERIODIC BENEFIT EXPENSE	8,509	5,227	13,736
Prior service cost during period	-	1,624	1,624
Net actuarial gain during period	(17,108)	(5,751)	(22,859)
Amortization of:			
Prior service cost	-	(312)	(312)
Actuarial (loss) gain	(10,677)	71	(10,606)
TOTAL AMOUNTS RECOGNIZED IN NON-OPERATING ACTIVITIES	(27,785)	(4,368)	(32,153)
TOTAL AMOUNT RECOGNIZED IN NET PERIODIC BENEFIT EXPENSE AND NON- OPERATING ACTIVITIES	\$ (19,276)	\$ 859	\$ (18,417)
2012			
Service cost	\$ 2,589	\$ 2,528	\$ 5,117
Interest cost	10,436	4,108	14,544
Expected return on plan assets	(13,708)	-	(13,708)
Amortization of:			
Prior service cost	-	264	264
Actuarial loss	5,613	245	5,858
NET PERIODIC BENEFIT EXPENSE	4,930	7,145	12,075
Net actuarial loss (gain) during period	25,552	(4,075)	21,477
Amortization of:			
Prior service cost	-	(264)	(264)
Actuarial loss	(5,613)	(245)	(5,858)
TOTAL AMOUNTS RECOGNIZED IN NON-OPERATING ACTIVITIES	19,939	(4,584)	15,355
TOTAL AMOUNT RECOGNIZED IN NET PERIODIC BENEFIT EXPENSE AND NON- OPERATING ACTIVITIES	\$ 24,869	\$ 2,561	\$ 27,430

Cumulative amounts recognized in non-operating activities, but not yet recognized in net periodic benefit expense in the *Statements of Activities*, are presented in the following table for the years ended August 31, 2013 and 2012, in thousands of dollars:

	STAFF PENSION PLAN	POST RETIREMENT MEDICAL BENEFIT PLAN (PRMB)	TOTAL
2013			
Prior service cost	\$ -	\$ 4,216	\$ 4,216
Net actuarial loss (gain)	73,317	(6,644)	66,673
ACCUMULATED PLAN BENEFIT COSTS NOT YET RECOGNIZED IN NET PERIODIC BENEFIT EXPENSE			
	\$ 73,317	\$ (2,428)	\$ 70,889
2012			
Prior service cost	\$ -	\$ 2,904	\$ 2,904
Net actuarial loss (gain)	101,102	(964)	100,138
ACCUMULATED PLAN BENEFIT COSTS NOT YET RECOGNIZED IN NET PERIODIC BENEFIT EXPENSE			
	\$ 101,102	\$ 1,940	\$ 103,042

The prior service cost and net actuarial loss expected to be amortized from non-operating activities to net periodic benefit expense in fiscal year 2014, in thousands of dollars, are as follows:

	STAFF PENSION PLAN	POST RETIREMENT MEDICAL BENEFIT PLAN (PRMB)	TOTAL
Prior service cost	\$ -	\$ 815	\$ 815
Net actuarial loss (gain)	\$ 2,431	\$ (463)	\$ 1,968

ACTUARIAL ASSUMPTIONS

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

	STAFF PENSION PLAN		POST RETIREMENT MEDICAL BENEFIT PLAN (PRMB)	
	2013	2012	2013	2012
Discount rate	4.37% - 4.59%	3.42% - 3.62%	4.37%	3.43%
Covered payroll growth rate	3.00%	5.50%	N/A	N/A

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

	STAFF PENSION PLAN		POST RETIREMENT MEDICAL BENEFIT PLAN (PRMB)	
	2013	2012	2013	2012
Discount rate	3.42% - 3.62%	4.83% - 5.03%	3.43%	4.79%
Expected return on plan assets	6.25% - 8.00%	6.25% - 8.00%	N/A	N/A
Covered payroll growth rate	5.50%	5.50%	N/A	N/A

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

To determine the accumulated PRMB obligation at August 31, 2013, a 7.5% annual rate of increase in the pre-65 per capita costs, a 7.5% annual rate of increase in the post-65 prescription drug per capita costs, and a 6.5% rate of increase in the post-65 per capita cost of all other medical benefits was assumed for 2013, all declining gradually to 4.75% by 2024 and remaining at this rate thereafter.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. Increasing the health care cost trend rate by 1% in each future year would increase the accumulated PRMB obligation by \$2.7 million and the aggregate annual service and interest cost by \$146 thousand. Decreasing the health care cost trend rate by 1% in each future year would decrease the accumulated PRMB obligation by \$2.5 million and the aggregate annual service and interest cost by \$132 thousand.

EXPECTED CONTRIBUTIONS

The Hospitals expect to contribute \$5.6 million to their Pension Plan and \$4.5 million to their PRMB during the fiscal year ending August 31, 2014.

EXPECTED BENEFIT PAYMENTS

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

YEAR ENDING AUGUST 31	STAFF PENSION PLAN	POST RETIREMENT MEDICAL BENEFIT PLAN (PRMB)	
		EXCLUDING MEDICARE SUBSIDY	EXPECTED MEDICARE PART D SUBSIDY
2014	\$ 11,959	\$ 5,499	\$ 290
2015	12,759	5,726	289
2016	13,419	6,020	287
2017	13,985	6,317	282
2018	14,502	6,585	275
2019 - 2023	77,471	35,680	1,230

INVESTMENT STRATEGY

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

CONCENTRATION OF RISK

The Hospitals manage a variety of risks, including market, credit, and liquidity risks, across its plan assets. Concentration of risk is defined as an undiversified exposure to one of the above-mentioned risks that increases the exposure of the loss of plan assets unnecessarily. Risk is minimized by diversifying the Hospitals' exposure to such risks across a variety of instruments, markets, and counterparties. As of August 31, 2013, the Hospitals did not have concentrations of risk in any single entity, counterparty, sector, industry or country.

PLAN ASSETS

Actual allocations by asset category at August 31, 2013 and 2012 are as follows:

ASSET CATEGORY	STAFF PENSION PLAN	
	2013	2012
Cash equivalents	1%	0%
Public equities	52%	48%
Fixed income	47%	52%
TOTAL PORTFOLIO	100%	100%

The Hospitals' investment policy is to invest in assets that result in a favorable long-term rate of return from a diversified portfolio. For fiscal years 2013 and 2012, the weighted-average target allocations by asset category are as follows:

ASSET CATEGORY	STAFF PENSION PLAN	
	2013	2012
Public equities	50%	50%
Fixed income	50%	50%
TARGET PORTFOLIO	100%	100%

FAIR VALUE OF PLAN ASSETS

Current U.S. GAAP defines a hierarchy of valuation inputs for the determination of the fair value of plan assets as described in *Note 5*. The Pension Plan assets measured at fair value at August 31, 2013 and 2012, in thousands of dollars, are as follows:

	AS OF			
	AUGUST 31, 2013	LEVEL 1	LEVEL 2	LEVEL 3
Cash and cash equivalents	\$ 1,128	\$ 1,128	\$ -	\$ -
Public equities	97,661	97,661	-	-
Fixed income	88,738	88,738	-	-
TOTAL FAIR VALUE OF PENSION PLAN ASSETS	\$ 187,527	\$ 187,527	\$ -	\$ -

	AS OF			
	AUGUST 31, 2012	LEVEL 1	LEVEL 2	LEVEL 3
Cash and cash equivalents	\$ 902	\$ 902	\$ -	\$ -
Public equities	91,411	91,411	-	-
Fixed income	98,378	98,378	-	-
Other	13	13	-	-
TOTAL FAIR VALUE OF PENSION PLAN ASSETS	\$ 190,704	\$ 190,704	\$ -	\$ -

18. Operating Leases

The University and the Hospitals lease certain equipment and facilities under operating leases expiring at various dates. Total rental expense under these leases for the years ended August 31, 2013 and 2012 was \$37.8 million and \$36.4 million, respectively, for the University and \$76.7 million and \$63.6 million, respectively, for the Hospitals.

Net minimum future operating lease payments and related present value, assuming a 5.2% discount rate for periods subsequent to August 31, 2013, in thousands of dollars, are as follows:

YEAR ENDING AUGUST 31	MINIMUM LEASE PAYMENTS		PRESENT VALUE OF MINIMUM LEASE PAYMENTS	
	UNIVERSITY	HOSPITALS	UNIVERSITY	HOSPITALS
2014	\$ 26,160	\$ 64,263	\$ 24,867	\$ 61,087
2015	20,691	57,309	18,696	51,783
2016	19,424	52,105	16,684	44,754
2017	19,594	51,536	15,998	42,077
2018	19,254	48,201	14,943	37,409
Thereafter	74,663	153,921	44,931	92,712
TOTAL	\$ 179,786	\$ 427,335	\$ 136,119	\$ 329,822

19. Related Party Transactions

Members of the University's Board and senior management may, from time to time, be associated, either directly or indirectly, with companies doing business with the University. For senior management, the University requires annual disclosure of significant financial interests in, or employment or consulting relationships with, entities doing business with the University. These annual disclosures cover both senior management and their immediate family members. When such relationships exist, measures are taken to appropriately manage the actual or perceived conflict in the best interests of the University. The University has a written conflict of interest policy that requires, among other things, that no member of the Board can participate in any decision in which he or she (or an immediate family member) has a material financial interest. Each trustee is required to certify compliance with the conflict of interest policy on an annual basis and indicate whether the University does business with an entity in which a trustee has a material financial interest. When such relationships exist, measures are taken to mitigate any actual or perceived conflict, including requiring that such transactions be conducted at arm's length, for good and sufficient consideration, based on terms that are fair and reasonable to and for the benefit of the University, and in accordance with applicable conflict of interest laws. No such associations are considered to be significant.

20. Commitments and Contingencies

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

SPONSORED RESEARCH

The University conducts substantial research for the federal government pursuant to contracts and grants from federal agencies and departments. The University records reimbursements of direct and indirect costs (facilities and administrative costs) from grants and contracts as operating revenues. The Office of Naval Research is the University's cognizant federal agency for determining indirect cost rates charged to federally sponsored agreements. It is supported by the Defense Contract Audit Agency, which has the responsibility for auditing direct and indirect charges under those agreements. Costs recovered by the University in support of sponsored research are subject to audit and adjustment. Fringe benefit costs for the fiscal years ended August 31, 2007 to 2013 are still subject to audit. The University does not anticipate that any adjustments will be material to the consolidated financial statements.

HEALTH CARE

Cost reports filed under the Medicare program for services based upon cost reimbursement are subject to audit. The estimated amounts due to or from the program are reviewed and adjusted annually based upon the status of such audits and subsequent appeals. Differences between final settlements and amounts accrued in previous years are reported as adjustments to "patient care, net" revenue in the year the examination is substantially completed. Medicare cost reports have been audited by the Medicare fiscal intermediary through August 31, 2005 for SHC and August 31, 2011 for LPCH.

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

INFORMATION SECURITY AND PRIVACY

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

LABOR AGREEMENTS

Approximately 10% of the University's, 34% of SHC's and 45% of LPCH's employees are covered under union contract arrangements and are, therefore, subject to labor stoppages when contracts expire. There are currently no expired contracts under these union contract arrangements. The University's agreements with the Service Employees International Union (SEIU) and the Stanford Deputy Sheriffs' Association will expire in 2014 and 2015, respectively. The Hospitals' agreements with SEIU and the Committee for Recognition of Nursing Achievement (CRONA) will expire in 2014 and 2016, respectively.

GUARANTEES AND INDEMNIFICATIONS

The University and the Hospitals enter into indemnification agreements with third parties in the normal course of business. The impact of these agreements is not expected to be material. As a result, no liabilities related to guarantees and indemnifications have been recorded at August 31, 2013.

LITIGATION

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

MEDICAL CENTER RENEWAL PROJECT

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

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

SHC's and LPCH's share of the estimated total cost of the Renewal Project is \$2 billion and \$1.2 billion, respectively. The source of funding for the Renewal Project includes operating surpluses, gifts, government grants, and bond proceeds. Through August 2013, the Hospitals have recorded \$589 million in construction in progress related to this project. Based on current estimated schedules, management currently projects that the Renewal Project construction will be complete in 2017.

CONTRACTUAL COMMITMENTS

At August 31, 2013, the University had contractual obligations of approximately \$375.7 million in connection with major construction projects. Remaining expenditures on construction in progress are estimated to be \$564.9 million, which will be financed with certain unexpended plant funds, gifts and debt. Commitments on contracts for the construction and remodeling of Hospital facilities were approximately \$1.3 billion at August 31, 2013. As described in *Note 5*, the University is obligated under certain alternative investment agreements to advance additional funding up to specified levels over a period of years.

21. Subsequent Events

The University and the Hospitals have evaluated subsequent events for the period from August 31, 2013 through December 11, 2013, the date the consolidated financial statements were available to be issued, and determined that there were no subsequent events requiring adjustment or disclosure in the consolidated financial statements.

Report from the Stanford Management Company

The Stanford Management Company (SMC) was established in 1991 to manage Stanford's financial assets. SMC is a division of the University with oversight by a Board of Directors appointed by the University Board of Trustees. The SMC Board consists of investment professionals, the University president, the University chief financial officer, the chairman of the Board of Trustees and the CEO of SMC. The Board approves SMC asset allocation targets, oversees the hiring of external asset managers, evaluates the performance of SMC investments and professionals, and oversees management of significant portions of endowment, trust assets and expendable funds for the University and the Hospitals.

The majority of the University's endowment assets are invested through the Merged Pool (MP), which is a diversified portfolio of actively managed financial and real estate assets valued at approximately \$21.9 billion as of June 30, 2013. To facilitate the comparison of returns with other endowments and foundations, MP performance measurements are calculated on the 12 months ending June 30, 2013. The following discussion of endowment performance relates solely to investments in the MP. The MP realized a 12.2% investment gain for the 12 months ending June 30, 2013. Over the past 10 years, the MP achieved an annualized rate of return of 10.0%, growing from \$8.2 billion to \$21.9 billion.

The MP portfolio is constructed on a foundation of modern portfolio theory and strategic asset allocation. The portfolio is designed to optimize long-term returns, create consistent annual payouts to the University's operating budget and preserve purchasing power for future generations of Stanford faculty and students.

SMC, with assistance from its Board of Directors, actively manages the MP, primarily through selecting third-party managers to deploy the MP's capital. Stanford University's brand and SMC's reputation as a stable long-term source of capital enable SMC to gain access to the best third-party managers in the world. Within each business unit, we endeavor to place capital with a diversified set of managers across geographies and investment strategies. SMC also seeks to add value through effective risk management, tactical portfolio rebalancing and opportunistic investment tilts.

STANFORD MP ASSET ALLOCATION Given the perpetual nature of the University, SMC's investment horizon is long-term. Our objective is to generate maximum total returns for an appropriate level of risk. SMC and the Board regularly reevaluate portfolio asset allocation targets, as well as expected risks, returns and correlations across business units. In addition, SMC reviews positioning relative to long-term policy targets on an ongoing basis and adjusts the portfolio in the context of current market conditions and relative opportunities. The strategic asset allocation targets for the MP as of June 30, 2013 are listed below:

LONG-TERM POLICY TARGETS

Business Unit	Long Term Policy Target
Public Equity	25%
Private Equity	23%
Absolute Return	22%
Natural Resources	12%
Real Estate	8%
Fixed Income	10%

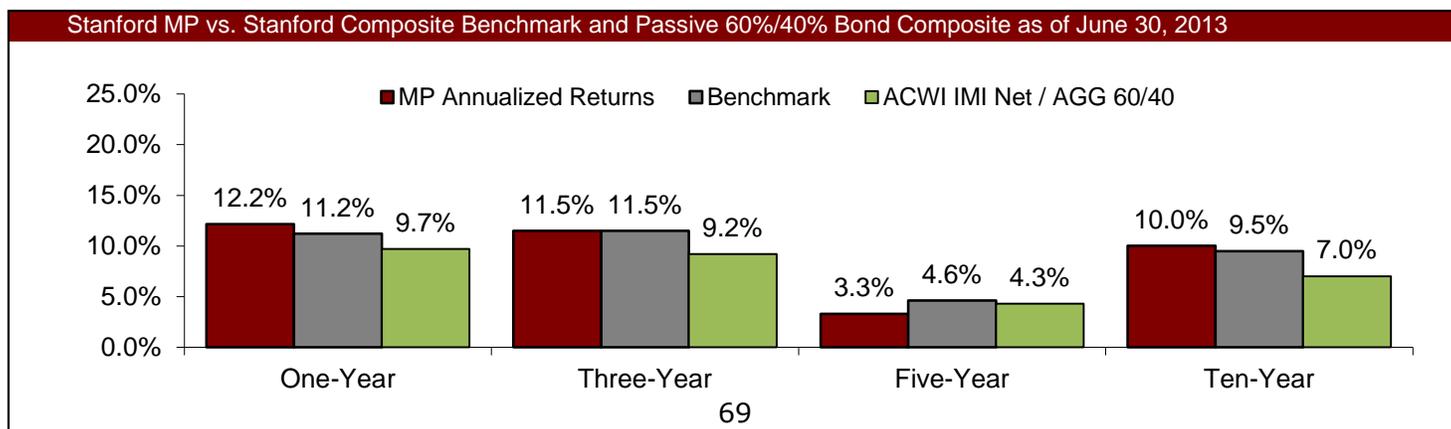
STANFORD MP PERFORMANCE COMPARED TO INFLATION The table below outlines annualized returns for various periods ending June 30, 2013.

MP Performance Compared to Inflation				
	One-Year	Three-Year	Five-Year	Ten-Year
Nominal Endowment Return	12.2%	11.5%	3.3%	10.0%
GDP Deflator	1.4%	1.7%	1.4%	2.1%
Real Endowment Return	10.8%	9.8%	1.9%	7.9%

STANFORD MP PERFORMANCE COMPARED TO BENCHMARKS SMC reviews overall MP performance against the composite benchmark return, which represents a blend of the benchmark returns for each business unit weighted by the strategic allocations above. The relative one-year performance of the MP versus the benchmark was 1.0%. In the table below, actual performance, net of management fees, is compared to the composite benchmark along with a 60% stock/40% bond portfolio for periods ended June 30, 2013.

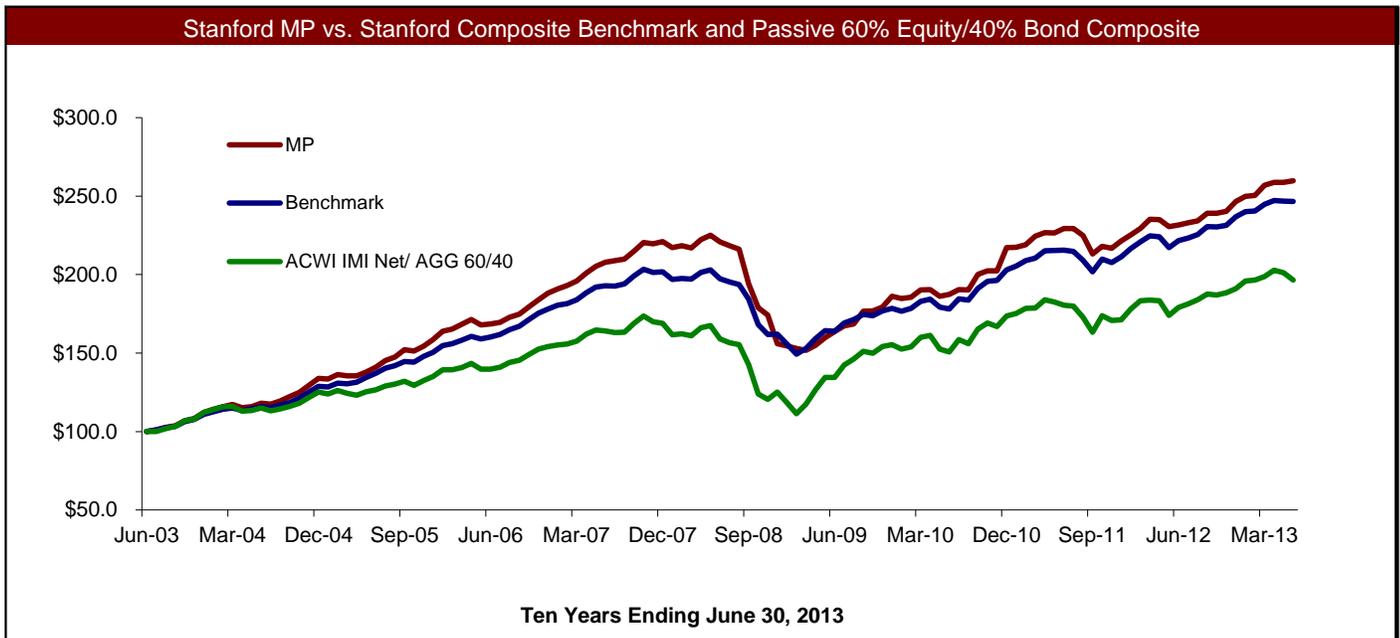
In the 12 months through June 30, 2013, the Merged Pool returns were 12.2%. During the same period, the MSCI ACWI IMI Net Index returned 17.1%, the Barclays Aggregate returned -0.7%, and a 60/40 equity/fixed income mix would have returned 9.7%. Following a period of synchronized global monetary policy, macroeconomic forces are finally leading to differentiation across asset types and regions. In our view, the upside to global equities has moderated, given the dramatic re-rating they have experienced over the past year. Both earnings growth from an improving global economy and potential further multiple expansion may drive returns from here. Equities remain attractive relative to developed market sovereign debt and liquid credit, where rate risks are asymmetric and spreads remain tight. We are preserving flexibility to respond to and take advantage of an increase in volatility as interest rates begin to normalize. Despite the lack of overly compelling opportunities from a top-down perspective, there continue to be compelling idiosyncratic opportunities; and we are confident in our managers' ability to identify such situations.

STANFORD MP VS. STANFORD COMPOSITE BENCHMARK

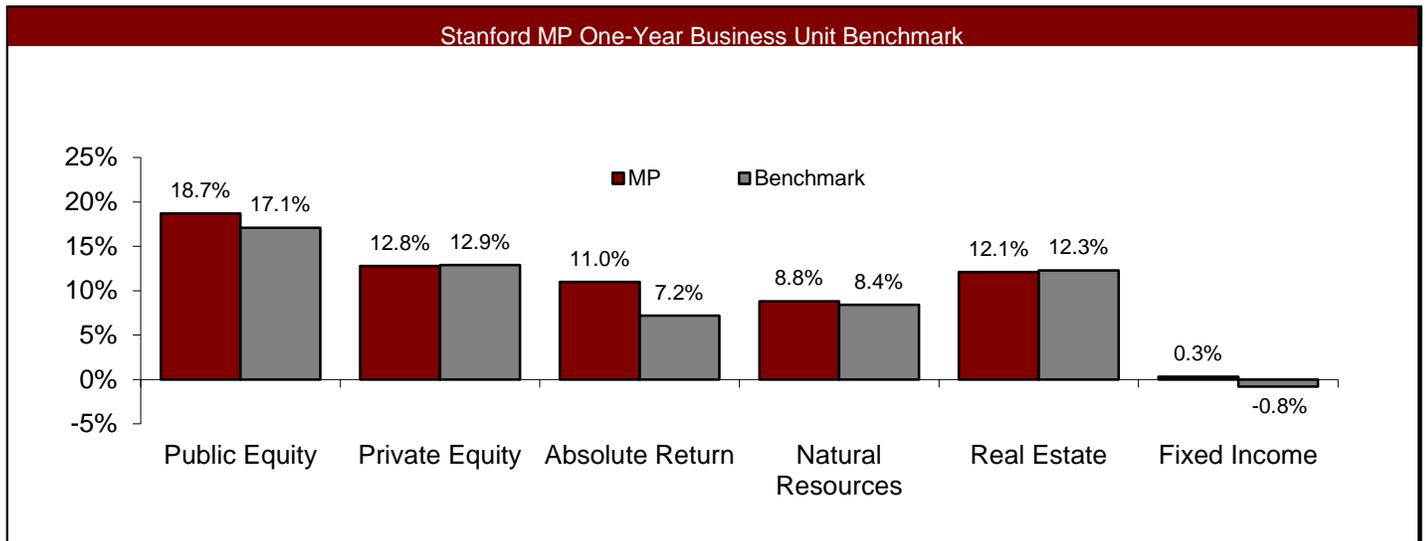


SMC's effectiveness in implementing its investment strategies through top-level manager selection has resulted in consistent and long-term outperformance versus relevant benchmarks. The cumulative return chart below compares the growth of \$100 in Stanford's MP, a composite benchmark portfolio, and a 60% stock/40% bond portfolio over the past 10 years:

STANFORD MP VS. STANFORD COMPOSITE BENCHMARK AND PASSIVE 60%EQUITY/40%BOND COMPOSITE

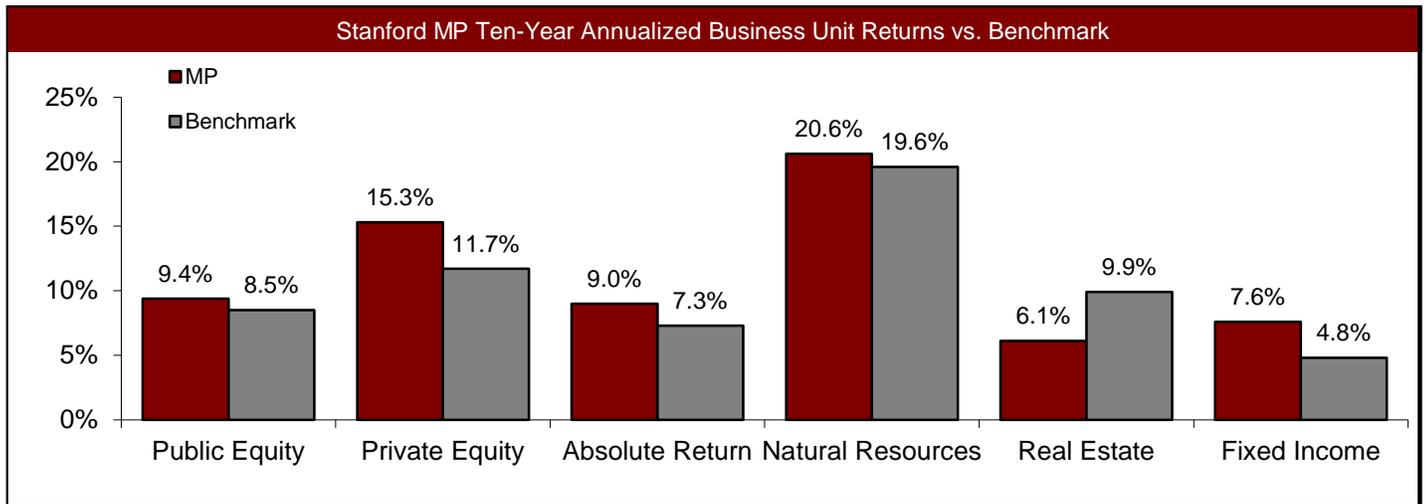


INDIVIDUAL BUSINESS UNIT PERFORMANCE SMC evaluates investment manager performance by comparing manager returns to respective, SMC Board approved benchmarks. The performance of individual business units for the 12 months ended June 30, 2013, relative to each business unit benchmark, is illustrated in the graph below:



As outlined below, the results of 10-year asset class returns, relative to benchmark, illustrate the value of SMC's ability to shift investment styles/strategies and identify outstanding managers in each business unit:

STANFORD MP TEN-YEAR BUSINESS UNIT RETURNS VS. BENCHMARK



The endowment provides valuable resources to support the University's mission through funding financial aid, faculty research, and innovative programs. Over the past ten years, the MP has grown from \$8.2 billion to \$21.9 billion, through strong investment returns and the generous support of alumni and friends. SMC is committed to building on past success to further improve our investment performance and enhance the University's mission of educating current students and future generations.

JOHN F. POWERS
President and Chief Executive Officer
Stanford Management Company