NEW ISSUE – BOOK-ENTRY ONLY **Ratings: See "RATINGS" herein.**

STANFORD UNIVERSITY
Taxable Bonds Series 2017
$750,000,000 3.647% Bonds due May 1, 2048 Issue price: 99.998%

The Stanford University Taxable Bonds Series 2017 (the "Bonds") will be issued pursuant to the terms of an Indenture of Trust, dated as of April 1, 2017 (the "Indenture"), by and between The Board of Trustees of the Leland Stanford Junior University (the "University") and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"). The University plans to use the proceeds of the Bonds for general corporate purposes, including without limitation, financing and refinancing capital projects. See "PLAN OF FINANCE" and "ESTIMATED SOURCES AND USES OF PROCEEDS" herein.

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

Interest on the Bonds will be payable on May 1 and November 1 of each year, commencing on November 1, 2017. So long as the Bonds are held by DTC, the principal, Redemption Price or Make-Whole Redemption Price (each as defined herein) of and interest on the Bonds will be payable by wire transfer to DTC, which in turn is required to remit such principal, Redemption Price or Make-Whole Redemption Price and interest to the DTC Participants for subsequent disbursement to the Beneficial Owners of the Bonds, as more fully described in "BOOK-ENTRY SYSTEM" and Appendix D – "DTC BOOK-ENTRY SYSTEM AND GLOBAL CLEARANCE PROCEDURES."

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

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

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

This cover page contains certain information for quick reference only. It is not intended to be a summary of the applicable terms of the Bonds or any other considerations. Investors must read the entire Offering Memorandum to obtain information essential to the making of an informed investment decision.

The Bonds are offered by the Underwriters, when, as and if issued by the University and accepted by the Underwriters, subject to the approval of legality by Ropes & Gray LLP, counsel to the University. In addition, certain other legal matters will be passed upon for the University by Debra Zumwalt, General Counsel to the University, and for the Underwriters by their counsel, Hawkins Delafield & Wood LLP. It is expected that the Bonds will be available for delivery to DTC on or about April 11, 2017.

Goldman, Sachs & Co.

BofA Merrill Lynch **J.P. Morgan** **Morgan Stanley**

Dated: April 4, 2017

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INFORMATION CONCERNING OFFERING RESTRICTIONS IN CERTAIN JURISDICTIONS OUTSIDE THE UNITED STATES

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

MINIMUM UNIT SALES

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

NOTICE TO INVESTORS IN THE EUROPEAN ECONOMIC AREA ("EEA")

THIS OFFERING MEMORANDUM IS NOT A PROSPECTUS FOR THE PURPOSES OF EUROPEAN COMMISSION REGULATION 809/2004 OR EUROPEAN COMMISSION DIRECTIVE 2003/71/EC (AS AMENDED, INCLUDING BY EUROPEAN COMMISSION DIRECTIVE 2010/73/EU, AS APPLICABLE) (THE "PROSPECTUS DIRECTIVE"). IT HAS BEEN PREPARED ON THE BASIS THAT ALL OFFERS OF THE BONDS WILL BE MADE PURSUANT TO AN EXEMPTION UNDER ARTICLE 3 OF THE PROSPECTUS DIRECTIVE, AS IMPLEMENTED IN MEMBER STATES OF THE EEA, FROM THE REQUIREMENT TO PRODUCE A PROSPECTUS FOR SUCH OFFERS. THIS OFFERING MEMORANDUM IS ONLY ADDRESSED TO AND DIRECTED AT PERSONS IN MEMBER STATES OF THE EEA WHO ARE "QUALIFIED INVESTORS" WITHIN THE MEANING OF ARTICLE 2(1)(E) OF THE PROSPECTUS DIRECTIVE AND ANY RELEVANT IMPLEMENTING MEASURE IN EACH MEMBER STATE OF THE EEA ("QUALIFIED INVESTORS"). THIS OFFERING MEMORANDUM MUST NOT BE ACTED ON OR RELIED ON IN ANY SUCH MEMBER STATE OF THE EEA BY PERSONS WHO ARE NOT QUALIFIED INVESTORS. ANY INVESTMENT OR INVESTMENT ACTIVITY TO WHICH THIS OFFERING MEMORANDUM RELATES IS AVAILABLE ONLY TO QUALIFIED INVESTORS IN ANY MEMBER STATE OF THE EEA AND WILL NOT BE ENGAGED IN WITH ANY OTHER PERSONS.

NOTICE TO PROSPECTIVE INVESTORS IN THE UNITED KINGDOM

THIS OFFERING MEMORANDUM HAS NOT BEEN APPROVED FOR THE PURPOSES OF SECTION 21 OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 ("FSMA") AND DOES NOT CONSTITUTE AN OFFER TO THE PUBLIC IN ACCORDANCE WITH THE PROVISIONS OF SECTION 85 OF THE FSMA. IT IS FOR DISTRIBUTION ONLY TO, AND IS DIRECTED SOLELY AT, PERSONS WHO (I) ARE OUTSIDE THE UNITED KINGDOM, (II) ARE INVESTMENT PROFESSIONALS, AS SUCH TERM IS DEFINED IN ARTICLE 19(5) OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (FINANCIAL PROMOTION) ORDER 2005, AS AMENDED (THE "FINANCIAL PROMOTION ORDER"), (III) ARE PERSONS FALLING WITHIN ARTICLE 49(2)(A) TO (D) OF THE FINANCIAL PROMOTION ORDER, OR (IV) ARE PERSONS TO WHOM AN INVITATION OR INDUCEMENT TO ENGAGE IN INVESTMENT ACTIVITY (WITHIN THE MEANING OF SECTION 21 OF THE FSMA) IN CONNECTION WITH THE ISSUE OR SALE OF ANY SECURITIES MAY OTHERWISE BE LAWFULLY COMMUNICATED OR CAUSED TO BE COMMUNICATED (ALL SUCH PERSONS TOGETHER BEING REFERRED TO AS "RELEVANT PERSONS"). THIS OFFERING MEMORANDUM IS DIRECTED ONLY AT RELEVANT PERSONS AND MUST NOT BE ACTED ON OR RELIED ON BY PERSONS WHO ARE NOT RELEVANT PERSONS, INCLUDING IN CIRCUMSTANCES IN WHICH SECTION 21(1) OF THE FSMA APPLIES TO THE UNIVERSITY. ANY INVESTMENT OR INVESTMENT ACTIVITY TO WHICH THIS OFFERING MEMORANDUM RELATES IS AVAILABLE ONLY TO RELEVANT PERSONS AND WILL BE ENGAGED IN ONLY WITH RELEVANT PERSONS. ANY PERSON WHO IS NOT A RELEVANT PERSON SHOULD NOT ACT OR RELY ON THIS OFFERING MEMORANDUM OR ANY OF ITS CONTENTS.

NOTICE TO PROSPECTIVE INVESTORS IN HONG KONG

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

NOTICE TO INVESTORS IN CANADA

NO PROSPECTUS HAS BEEN FILED WITH ANY SECURITIES COMMISSION OR SIMILAR REGULATORY AUTHORITY IN CANADA IN CONNECTION WITH THE OFFERING OF THE BONDS. NO SECURITIES COMMISSION OR SIMILAR REGULATORY AUTHORITY IN CANADA HAS REVIEWED OR IN ANY WAY PASSED UPON THIS OFFERING MEMORANDUM OR THE MERITS OF THE BONDS AND ANY REPRESENTATION TO THE CONTRARY IS AN OFFENCE. THIS OFFERING MEMORANDUM IS NOT, AND UNDER NO CIRCUMSTANCES IS TO BE CONSTRUED AS, AN ADVERTISEMENT OR A PUBLIC OFFERING OF THE BONDS IN CANADA.

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

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

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

UPON RECEIPT OF THIS DOCUMENT, EACH CANADIAN INVESTOR HEREBY CONFIRMS THAT IT HAS EXPRESSLY REQUESTED THAT ALL DOCUMENTS EVIDENCING OR RELATING IN ANY WAY TO THE SALE OF THE BONDS (INCLUDING FOR GREATER CERTAINTY ANY PURCHASE CONFIRMATION OR ANY NOTICE) BE DRAWN UP IN THE ENGLISH LANGUAGE ONLY. PAR LA RÉCEPTION DE CE DOCUMENT, CHAQUE INVESTISSEUR CANADIEN CONFIRME PAR LES PRESENTES QU’IL A EXPRESSEMENT EXIGE QUE TOUS LES DOCUMENTS FAISANT FOI OU SE RAPPORTANT DE QUELQUE MANIERE QUE CE SOIT A LA VENTE DES VALEURS MOBILIERES DECRITES AUX PRESENTES (INCLUANT, POUR PLUS DE CERTITUDE, TOUTE CONFIRMATION D'ACHAT OU TOUT AVIS) SOIENT REDIGES EN ANGLAIS SEULEMENT.

NOTICE TO INVESTORS IN KOREA

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

NOTICE TO INVESTORS IN SWITZERLAND

THE BONDS MAY NOT BE PUBLICLY OFFERED IN SWITZERLAND AND WILL NOT BE LISTED ON THE SIX SWISS EXCHANGE ("SIX") OR ON ANY OTHER STOCK EXCHANGE OR REGULATED TRADING FACILITY IN SWITZERLAND. THIS OFFERING MEMORANDUM HAS BEEN PREPARED WITHOUT REGARD TO THE DISCLOSURE STANDARDS FOR ISSUANCE PROSPECTUSES UNDER ART. 652A OR ART. 1156 OF THE SWISS CODE OF OBLIGATIONS OR THE DISCLOSURE STANDARDS FOR LISTING PROSPECTUSES UNDER ART. 27 FF. OF THE SIX LISTING RULES OR THE LISTING RULES OF ANY OTHER STOCK EXCHANGE OR REGULATED TRADING FACILITY IN SWITZERLAND. NEITHER THIS OFFERING MEMORANDUM NOR ANY OTHER OFFERING OR MARKETING MATERIAL RELATING TO THE BONDS OR THE OFFERING MAY BE PUBLICLY DISTRIBUTED OR OTHERWISE MADE PUBLICLY AVAILABLE IN SWITZERLAND.

NONE OF THIS OFFERING MEMORANDUM OR ANY OTHER OFFERING OR MARKETING MATERIAL RELATING TO THE OFFERING, THE ISSUER OR THE BONDS HAVE BEEN OR WILL BE FILED WITH OR APPROVED BY ANY SWISS REGULATORY AUTHORITY. IN PARTICULAR, THIS OFFERING MEMORANDUM WILL NOT BE FILED WITH, AND THE OFFER OF THE BONDS WILL NOT BE SUPERVISED BY, THE SWISS FINANCIAL MARKET SUPERVISORY AUTHORITY ("FINMA"), AND THE OFFER OF BONDS HAS NOT BEEN AND WILL NOT BE AUTHORIZED UNDER THE SWISS FEDERAL ACT ON COLLECTIVE INVESTMENT SCHEMES ("CISA"). ACCORDINGLY, INVESTORS DO NOT HAVE THE BENEFIT OF THE SPECIFIC INVESTOR PROTECTION PROVIDED UNDER THE CISA.

NOTICE TO INVESTORS IN SINGAPORE

THIS OFFERING MEMORANDUM HAS NOT BEEN AND WILL NOT BE REGISTERED AS AN OFFERING MEMORANDUM WITH THE MONETARY AUTHORITY OF SINGAPORE. ACCORDINGLY, THIS OFFERING MEMORANDUM AND ANY OTHER DOCUMENT OR MATERIAL USED IN CONNECTION WITH THE OFFER OR SALE, OR INVITATION FOR SUBSCRIPTION OR PURCHASE, OF THE BONDS MAY NOT BE CIRCULATED OR DISTRIBUTED, NOR MAY THE BONDS BE OFFERED OR SOLD, OR BE MADE THE SUBJECT OF AN INVITATION FOR SUBSCRIPTION OR PURCHASE, WHETHER DIRECTLY OR INDIRECTLY, TO PERSONS IN SINGAPORE OTHER THAN (I) TO AN INSTITUTIONAL INVESTOR AS DEFINED IN SECTION 4A OF THE SECURITIES AND FUTURES ACT (CHAPTER 289 OF SINGAPORE) (THE "SFA")) PURSUANT TO SECTION 274 OF THE SFA, (II) TO A RELEVANT PERSON (AS DEFINED IN SECTION 275(2) OF THE SFA) PURSUANT TO SECTION 275(1A), AND IN ACCORDANCE WITH THE CONDITIONS SPECIFIED IN SECTION 275; OF THE SFA OR (III) OTHERWISE PURSUANT TO, AND IN ACCORDANCE WITH THE CONDITIONS OF, ANY OTHER APPLICABLE PROVISION OF THE SFA. WHERE THE BONDS ARE SUBSCRIBED OR PURCHASED UNDER SECTION 275 OF THE SFA BY A RELEVANT PERSON THAT IS: (A) A CORPORATION (WHICH IS NOT AN ACCREDITED INVESTOR (AS DEFINED IN SECTION 4A OF THE SFA)) THE SOLE BUSINESS OF WHICH IS TO HOLD INVESTMENTS AND THE ENTIRE SHARE CAPITAL OF WHICH IS OWNED BY ONE OR MORE INDIVIDUALS, EACH OF WHOM IS AN ACCREDITED INVESTOR; OR (B) A TRUST (WHERE THE TRUSTEE IS NOT AN ACCREDITED INVESTOR) WHOSE SOLE PURPOSE IS TO HOLD INVESTMENTS AND EACH BENEFICIARY IS AN ACCREDITED INVESTOR, THEN SECURITIES(AS DEFINED IN SECTION 239(1) OF THE SFA) OF THAT CORPORATION OR THE BENEFICIARIES' RIGHTS AND INTEREST (HOWSOEVER DESCRIBED) IN THAT TRUST SHALL NOT BE TRANSFERRED WITHIN 6 MONTHS AFTER THAT CORPORATION OR THAT TRUST HAS ACQUIRED THE SECURITIES UNDER SECTION 275 OF THE SFA EXCEPT: (I) TO AN INSTITUTIONAL INVESTOR OR TO A RELEVANT PERSON DEFINED IN SECTION 275(2) OF THE SFA, OR TO ANY PERSON ARISING FROM AN OFFER REFERRED TO IN SECTION 275(1A) OR SECTION 276(4)(I)(B) OF THE SFA; (II) WHERE NO CONSIDERATION IS OR WILL BE GIVEN FOR THE TRANSFER; (III) WHERE THE TRANSFER IS BY OPERATION OF LAW; (IV) AS SPECIFIED IN SECTION 276(7) OF THE SFA; OR (V) AS SPECIFIED IN REGULATION 32 OF THE SECURITIES AND FUTURES (OFFERS OF INVESTMENTS) (SHARES AND DEBENTURES) REGULATIONS 2005 OF SINGAPORE.

NOTICE TO INVESTORS IN TAIWAN

EACH UNDERWRITER HAS REPRESENTED AND AGREED THAT THE BONDS HAVE NOT BEEN AND WILL NOT BE REGISTERED WITH THE FINANCIAL SUPERVISORY COMMISSION OF TAIWAN AND/OR OTHER REGULATORY AUTHORITY OF TAIWAN PURSUANT TO RELEVANT SECURITIES LAWS AND REGULATIONS AND MAY NOT BE SOLD, ISSUED OR OFFERED WITHIN TAIWAN THROUGH A PUBLIC OFFERING OR IN CIRCUMSTANCES THAT CONSTITUTE AN OFFER WITHIN THE MEANING OF THE SECURITIES AND EXCHANGE ACT OF TAIWAN OR RELEVANT LAWS AND REGULATIONS THAT REQUIRES A REGISTRATION, FILING OR APPROVAL OF THE FINANCIAL SUPERVISORY COMMISSION OF TAIWAN AND/OR OTHER REGULATORY AUTHORITY OF TAIWAN. NO PERSON OR ENTITY IN TAIWAN HAS BEEN AUTHORIZED TO OFFER, SELL, GIVE ADVICE REGARDING OR OTHERWISE INTERMEDIATE THE OFFERING AND SALE OF THE BONDS IN TAIWAN.

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GENERAL INFORMATION

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

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

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

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

FORWARD-LOOKING STATEMENTS

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

DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO ANY FORWARD-LOOKING STATEMENTS IF OR WHEN ITS EXPECTATIONS CHANGE, OR EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH SUCH STATEMENTS ARE BASED OCCUR. See "CERTAIN INVESTMENT CONSIDERATIONS" herein.

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

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

SUMMARY OF THE OFFERING

Issuer	The Board of Trustees of the Leland Stanford Junior University
Securities Offered	$750,000,000 3.647% Taxable Bonds due May 1, 2048
Interest Payment Dates	May 1 and November 1 of each year, commencing on November 1, 2017
Redemption	The Bonds are subject to optional redemption (i) prior to the Par Call Date, at the Make-Whole Redemption Price, and (ii) on or after the Par Call Date, at the Redemption Price, all as discussed more fully herein. See "THE BONDS – Redemption" herein.
Issuance and Settlement Date	April 11, 2017
Authorized Denominations	$1,000 and any integral multiple thereof
Form and Depository	The Bonds will be delivered solely in book-entry form through the facilities of DTC.
Use of Proceeds	The University plans to use the proceeds of this offering for general corporate purposes, including without limitation, financing and refinancing capital projects. See "PLAN OF FINANCE" and "ESTIMATED SOURCES AND USES OF PROCEEDS" herein.
Ratings	Moody's: Aaa S&P: AAA Fitch: AAA

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OFFERING MEMORANDUM

Relating to

$750,000,000
STANFORD UNIVERSITY
TAXABLE BONDS SERIES 2017

INTRODUCTION

The purpose of this Offering Memorandum, which includes the cover page, the table of contents and appendices, is to provide certain information concerning the sale and delivery by The Board of Trustees of the Leland Stanford Junior University (the "University") of its $750,000,000 aggregate principal amount of Stanford University Taxable Bonds Series 2017 (the "Bonds"). This Introduction contains only a brief summary of certain of the terms of the Bonds being offered and a brief description of the Offering Memorandum. All statements contained in this Introduction are qualified in their entirety by reference to the entire Offering Memorandum.

Purpose of the Bonds

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

The University

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

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

The Bonds

The Bonds are being issued pursuant to an Indenture of Trust, dated as of April 1, 2017 (the "Indenture"), by and between the University and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"). On each Payment Date, until the principal of and interest on the Bonds shall have been paid or provision for such payment shall have been made as provided in the Indenture, the University will pay the Trustee a sum equal to the amount payable on such Payment Date as principal of or interest on the Bonds. See "THE BONDS" herein.

Security for the Bonds

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

Miscellaneous

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

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

PLAN OF FINANCE

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

ESTIMATED SOURCES AND USES OF PROCEEDS

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

SOURCES:

Principal Amount of Bonds	$750,000,000
Original Issue Discount	(15,000)
University Contribution	2,342,674
Total Sources of Funds	$752,327,674

USES:

Finance or Refinance Projects	$749,985,000
Costs of Issuance[(1)]	2,342,674
Total Uses of Funds	$752,327,674

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

THE BONDS

Description of the Bonds

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

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

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

An "Interest Payment Date" for the Bonds will occur on May 1 and November 1 of each year commencing on November 1, 2017. Interest on the Bonds will be payable from the later of (i) the date of original issuance of the Bonds and (ii) the most recent Interest Payment Date to which interest has been paid or duly provided for. Payment of the interest on each Interest Payment Date will be made to the Person whose name appears on the registration books of the Trustee as the holder thereof as of the close of business on the Record Date for each Interest Payment Date, such interest to be paid by check mailed on the applicable Interest Payment Date by first class mail to such holder at its address as it appears on such registration books, or, upon the written request of any holder of at least $1,000,000 in aggregate principal amount of Bonds, submitted to the Trustee at least one (1) Business Day prior to the Record Date, by wire transfer in immediately available funds to an account within the United States designated by such holder in such written request. Notwithstanding the foregoing, as long as Cede & Co. is the holder of all or part of the Bonds in book-entry form, such principal, Redemption Price or Make-Whole Redemption Price and interest payments will be made to Cede & Co. by wire transfer in immediately available funds.

Redemption

Optional Redemption at Par

On or after the applicable Par Call Date, the Bonds will be subject to optional redemption prior to maturity, in whole or in part, at the direction of the University (and, if in part, in Authorized Denominations and on a pro rata basis, subject to the provisions described below under "Selection of Bonds for Redemption"), on any Business Day, as directed by the University, at the Redemption Price. "Redemption Price" means 100% of the principal amount of the Bonds to be redeemed plus accrued and unpaid interest on such Bonds to, but excluding, the redemption date. "Par Call Date" means November 1, 2047 (six months prior to the maturity date of the Bonds).

Optional Redemption at Make-Whole Redemption Price

Prior to the applicable Par Call Date, the Bonds will be subject to optional redemption prior to maturity, in whole or in part, at the direction of the University (and, if in part, in Authorized Denominations and on a pro rata basis, subject to the provisions described below under "Selection of Bonds for Redemption"), on any Business Day, as directed by the University, at the Make-Whole Redemption Price. The University shall retain an independent accounting firm or an independent financial advisor to determine the Make-Whole Redemption Price and perform all actions and make all calculations required to determine the Make-Whole Redemption Price. The Trustee and the University may conclusively rely on such accounting firm's or financial advisor's calculations in connection with, and its determination of, the Make-Whole Redemption Price, and neither the Trustee nor the University will have any liability for such reliance. The determination of the Make-Whole Redemption Price by such accounting firm or financial advisor shall be conclusive and binding on the Trustee, the University and the holders of the Bonds.

"Make-Whole Redemption Price" means the greater of (i) 100% of the principal amount of the Bonds to be redeemed or (ii) the sum of the present values of the remaining scheduled payments of principal and interest to the maturity date of the Bonds to be redeemed (not including any portion of those payments of interest accrued and unpaid as of the date on which such Bonds are to be redeemed), discounted to the date on which such Bonds are to be redeemed on a semi-annual basis assuming a 360-day year consisting of twelve 30-day months at the adjusted Treasury Rate plus ten (10) basis points, plus, in each case, accrued and unpaid interest on such Bonds to, but excluding, the redemption date.

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

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

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

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

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

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

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

Notice of Redemption

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

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

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

Effect of Redemption

Moneys for payment of the Redemption Price or Make-Whole Redemption Price of the Bonds (or portion thereof called for redemption) will be held by the Trustee, and if the conditions specified in the notice of redemption (if any) have been satisfied, shall be paid by the Trustee on the date fixed for redemption designated in such notice. The Bonds (or portion thereof) so called for redemption shall become due and payable at the Redemption Price or the Make-Whole Redemption Price, as applicable, interest on the Bonds so called for redemption shall cease to accrue, such Bonds (or portion thereof) will cease to be entitled to any benefit or security under the Indenture and the holders of such Bonds will have no rights in respect thereof except to receive payment of such Redemption Price or Make-Whole Redemption Price, as applicable, from funds held by the Trustee for such payment.

Selection of Bonds for Redemption

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

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

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

Cancellation of Bonds

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

BOOK-ENTRY SYSTEM

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. Individual purchases of the Bonds will be made in book-entry form only. Principal of, interest on and the Redemption Price or Make-Whole Redemption Price of the Bonds will be payable by the Trustee directly to DTC, as the registered owner of the Bonds. Upon receipt of payments of principal, interest and the Redemption Price or Make-Whole Redemption Price, DTC is to remit such payments to the DTC Participants for subsequent disbursement to the Beneficial Owners (as defined in Appendix D) of the Bonds. One fully registered Bond certificate will be issued for the Bonds, and will be deposited with DTC. Purchasers will not receive certificates representing the Bonds purchased by them. Beneficial interests in the Bonds may be held through DTC, Clearstream Banking, S.A or Euroclear Bank S.A./N.V., as operator of the Euroclear System, directly as a participant or indirectly through organizations that are participants in such system. See Appendix D – "DTC BOOK-ENTRY SYSTEM AND GLOBAL CLEARANCE PROCEDURES."

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

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

SECURITY FOR THE BONDS

General

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

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

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

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

Indenture Fund

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

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

ENFORCEABILITY OF REMEDIES

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

CERTAIN INVESTMENT CONSIDERATIONS

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

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

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

(i) Volatility and dislocations in the global financial markets and other economic factors may reduce the value of the University's investment portfolio, impact investment returns, increase liabilities associated with investments, reduce investment income distributable from the endowment and other expendable funds for operations, affect the ability of donors to pledge resources or meet their pledge obligations, increase demand for financial aid, and increase interest costs on the University's debt. See Notes 6, 7, 8, 10, 11, 12 and 13 to Stanford University's consolidated financial statements as of August 31, 2016 and 2015 and for each of the two years in the period ended August 31, 2016 included in Part II of Appendix A hereto.

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

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

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

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

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

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

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

Because the financial results of the University are reported on a consolidated basis with those of its hospital affiliates (the "Hospitals"), these consolidated financial results will be affected by the financial results of the Hospitals. The Hospitals' financial results, in turn, will be affected not only by the factors set forth above but specifically by demand for the medical services they provide, the amounts of third-party payments received, limitations on and inadequate governmental reimbursements for medical services and graduate medical education, increasing costs of providing indigent care, escalating costs of personnel and equipment and inpatient capacity constraints that limit the Hospitals' ability to absorb increased costs through greater volume. In addition, industry trends, adverse legislative and regulatory developments and government enforcement actions could also negatively impact the Hospitals' results. Among other things, due in part to the Patient Protection and Affordable Care Act (the "ACA") enacted in 2010, the United States health care system has experienced significant changes in recent years affecting the delivery of health care services, the financing of health care costs, reimbursement of health care providers and the legal obligations of health insurers, providers, employers and consumers. These changes are ongoing, continue to be challenged in various venues and could have adverse financial impacts on the Hospitals. Any legislative and regulatory actions to repeal, postpone and replace elements of the ACA create unpredictability for the strategic and business planning efforts of health care providers, which creates additional risks.

For a discussion of certain financial challenges facing the University, see Appendix A – "STANFORD UNIVERSITY (INCLUDING FINANCIAL STATEMENTS AND DISCUSSION OF FINANCIAL RESULTS) – PART I – GENERAL INFORMATION ABOUT STANFORD UNIVERSITY – Capital Improvement Programs," "– Hospitals," "– Investments" and "– Liquidity," and "– PART II, STANFORD UNIVERSITY'S FY2016 ANNUAL FINANCIAL REPORT – Management's Discussion and Analysis – Looking Forward" attached hereto.

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

CERTAIN UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS

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

The summary is not a complete analysis or description of all potential U.S. federal tax considerations that may be relevant to, or of the actual tax effect that any of the matters described herein will have on, particular holders of Bonds and does not address U.S. federal gift or estate tax consequences, alternative minimum tax consequences or foreign, state, local or other tax consequences. This summary does not purport to address special classes of taxpayers (such as S corporations, mutual funds, insurance companies, banks and other financial institutions, small business investment companies, regulated investment companies, real estate mortgage investment conduits, real estate investment trusts, grantor trusts, former citizens of the United States, U.S. Holders (as defined below) whose functional currency is not the U.S. dollar, broker-dealers, traders in securities and tax-exempt organizations) that are subject to special treatment under the federal income tax laws, or persons that hold Bonds as part of a hedge against currency risk, or that are part of a hedge, straddle, conversion, constructive ownership, constructive sale or other risk reduction or integrated transaction. This summary also does not address the tax consequences to a holder of Bonds held through a partnership or other pass-through entity treated as a partnership for U.S. federal income tax purposes. In addition, this discussion is limited to persons purchasing the Bonds for cash in this offering at their "issue price" within the meaning of Section 1273 of the Code (i.e., the first price at which a substantial amount of Bonds are sold to the public for cash), and it does not address the tax consequences to holders that purchase the Bonds after their original issuance. This discussion further assumes that the Bonds will be held by holders as capital assets within the meaning of Section 1221 of the Code.

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

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

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

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

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

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

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

If a Bond is issued at a discount from its stated redemption price at maturity, and the discount is at least the product of one-quarter of one percent (0.25%) of the stated redemption price at maturity of the Bond multiplied by the number of full years to maturity, the Bond will be an "OID Bond." In general, the excess of the stated redemption price at maturity of an OID Bond over its issue price will constitute original issue discount ("OID") for U.S. federal income tax purposes. The stated redemption price at maturity of a Bond is the sum of all scheduled amounts payable on the Bond (other than qualified stated interest). The term "qualified stated interest" generally means stated interest that is unconditionally payable in cash or property (other than debt instruments of the University), or that is treated as constructively received, at least annually at a single fixed rate or. U.S. Holders of OID Bonds will be required to include OID in income for U.S. federal income tax purposes as it accrues, in accordance with a constant yield method based on a compounding of interest (which may be before the receipt of cash payments attributable to such income). Under this method, U.S. Holders generally will be required to include in income increasingly greater amounts of OID in successive accrual periods.

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

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

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

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

Backup withholding is not an additional tax. Amounts withheld under the backup withholding rules may be refunded or credited against the U.S. Holder's federal income tax liability, if any, provided that the required information is timely furnished to the IRS.

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

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

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

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

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

Disposition of the Bonds. Subject to the discussion below concerning backup withholding and FATCA withholding, a Non-U.S. Holder will generally not be subject to U.S. federal income tax or withholding tax on gain recognized on a sale, exchange, redemption, retirement, or other disposition of a Bond. (Such gain does not include proceeds attributable to accrued but unpaid interest on the Bonds, which will be treated as interest.) A Non-U.S. Holder may be subject to U.S. federal income tax on such gain if: (i) the Non-U.S. Holder is a nonresident alien individual who was present in the United States for 183 days or more in the taxable year of the disposition and certain other conditions are met under Section 871(a)(2) of the Code; or (ii) the gain is effectively connected with the conduct of a U.S. trade or business, as provided by applicable U.S. tax rules (in which case the U.S. branch profits tax may also apply), unless an applicable tax treaty provides otherwise.

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

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

Backup withholding is not an additional tax. Amounts withheld under the backup withholding rules may be refunded or credited against the Non-U.S. Holder's U.S. federal income tax liability, if any, provided that the required information is timely furnished to the IRS.

FATCA Withholding

Certain withholding rules imposed under Section 1471 through 1474 of the Code (otherwise known as the "Foreign Account Tax Compliance Act" or "FATCA") generally impose a 30% U.S withholding tax on payments of interest made, and beginning on January 1, 2019, gross proceeds from the sale or other taxable disposition (including a retirement or redemption) of the Bonds made to non-U.S. financial institutions and certain other non-U.S. financial entities (whether such financial institutions or nonfinancial entities are beneficial owners or intermediaries), unless they satisfy certain due diligence and information reporting requirements. An intergovernmental agreement between the United States and the holder's jurisdiction may modify these requirements. Prospective holders are encouraged to consult with their own tax advisors regarding the implications of this legislation and the applicable regulations on their investment in a Bond.

THE FOREGOING SUMMARY IS INCLUDED HEREIN FOR GENERAL INFORMATION ONLY AND DOES NOT DISCUSS ALL ASPECTS OF U.S. FEDERAL INCOME TAXATION THAT MAY BE RELEVANT TO A PARTICULAR HOLDER OF BONDS IN LIGHT OF THE HOLDER'S PARTICULAR CIRCUMSTANCES AND INCOME TAX SITUATION. PROSPECTIVE INVESTORS ARE URGED TO CONSULT THEIR OWN TAX ADVISORS AS TO ANY TAX CONSEQUENCES TO THEM FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF BONDS, INCLUDING THE APPLICATION AND EFFECT OF STATE, LOCAL, FOREIGN AND OTHER TAX LAWS.

ERISA AND OTHER BENEFIT PLAN CONSIDERATIONS

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

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

In addition to the imposition of general fiduciary obligations under ERISA, Section 406 of ERISA and Section 4975 of the Code prohibit a broad range of transactions involving assets of Benefit Plans and persons who have certain specified relationships to the Benefit Plans ("Parties in Interest" or "Disqualified Persons"), unless a statutory or administrative exemption is available. Certain Parties in Interest or

Disqualified Persons that participate in a prohibited transaction may be subject to a penalty or an excise tax imposed pursuant to Section 502(i) of ERISA or Section 4975 of the Code unless a statutory or administrative exemption is available.

Certain transactions involving the purchase, holding or transfer of the Bonds might be deemed to constitute prohibited transactions under ERISA or the Code if assets of the University were deemed to be assets of a Benefit Plan. Under final regulations issued by the United States Department of Labor, as modified by ERISA (the "Plan Assets Regulation"), the assets of the University would be treated as plan assets of a Benefit Plan for the purposes of ERISA and the Code only if the Benefit Plan acquires an "equity interest" in the University and none of the exceptions contained in the Plan Assets Regulation is applicable. An equity interest is defined under the Plan Assets Regulation as an interest in an entity other than an instrument which is treated as indebtedness under applicable local law and which has no substantial equity features. While it is not intended or expected that the Bonds will be equity interests, fiduciaries with respect to Benefit Plans should consult their own advisors as to whether the Bonds are treated as debt for purposes of the Plan Assets Regulation. However, without regard to whether the Bonds are treated as an equity interest for such purposes, the acquisition or holding of Bonds by or on behalf of a Benefit Plan could be considered to give rise to a prohibited transaction if the University or the Trustee, or any of their respective affiliates, is or becomes a Party in Interest or a Disqualified Person with respect to such Benefit Plan. In such case, certain exemptions from the prohibited transaction rules could be applicable depending on the type and circumstances of the plan fiduciary making the decision to acquire a Bond.

Each purchaser and transferee, by its purchase or acceptance of the Bonds, shall be deemed to have represented and covenanted, that either (A) it is not acquiring the Bonds for or on behalf of any Tax-Favored Plan or (B) the purchase and holding of the Bonds for or on behalf of a Tax-Favored Plan or foreign plan, governmental plan or church plan subject to Similar Law will not constitute a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code, or in the case of a foreign plan, governmental plan or church plan that is subject to Similar Law, a violation of such Similar Law

Any ERISA Plan fiduciary considering whether to purchase Bonds on behalf of a Benefit Plan should consult with its counsel regarding the applicability of the fiduciary responsibility and prohibited transaction provisions of ERISA and the Code to such investment and the availability of any of the exemptions referred to above. Persons responsible for investing the assets of Tax-Favored Plans (other than ERISA Plans) or plans that subject to Similar Law should seek similar counsel with respect to the prohibited transaction provisions of the Code and the applicability of any Similar Law.

Nothing set forth in this Offering Memorandum constitutes a recommendation that any person take or refrain from taking any course of action within the meaning of U.S. Department of Labor regulation §2510.3-21(b)(1).

UNDERWRITING

The University has entered into a purchase contract (the "Purchase Contract") with the Underwriters listed on the cover hereof for whom Goldman, Sachs & Co. is acting as representative, and the Underwriters have agreed to purchase the Bonds from the University at a purchase price of $749,985,000, representing the par amount of the Bonds, less original issue discount of $15,000. The Underwriters' compensation is $1,767,183.81, which will be paid by the University from its own funds on the date of issuance of the Bonds. The Purchase Contract provides that the Underwriters will purchase not less than all of the Bonds. The Underwriters' obligation to make such purchase is subject to certain terms and conditions set forth in the Purchase Contract, including the approval of certain legal matters by counsel and certain other conditions.

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

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include sales and trading, commercial and investment banking, lending, advisory, investment management, investment research, principal investment, hedging, market making, brokerage and other financial and non-financial activities and services. Under certain circumstances, the Underwriters and their respective affiliates may have certain creditor and/or other rights against the University and its affiliates in connection with such activities. In addition, the Underwriters and their affiliates may have provided, and may in the future provide, a variety of these services to the University and to persons and entities with relationships with the University, for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Underwriters and their respective affiliates, officers, directors and employees may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of their customers, and such investment and trading activities may involve or relate to assets, securities and/or instruments of the University (directly, as collateral securing other obligations or otherwise) and/or persons and entities with relationships with the University. The Underwriters and their respective affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

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

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

CERTAIN RELATIONSHIPS

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

ANNUAL REPORTS

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

REGULATORY MATTERS AND LITIGATION

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

APPROVAL OF LEGALITY

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

INDEPENDENT ACCOUNTANTS

The consolidated financial statements as of August 31, 2016 and 2015 and for each of the two years in the period ended August 31, 2016 included in Part II of Appendix A of this Offering Memorandum have been audited by PricewaterhouseCoopers LLP, independent accountants, as stated in their report appearing herein.

RATINGS

The Bonds have been given an "Aaa" rating by Moody's Investors Service, Inc. ("Moody's"), an "AAA" rating by S&P Global Ratings ("S&P"), a division of S&P Global Inc., and an "AAA" rating by Fitch Ratings, Inc. ("Fitch"). An explanation of the significance of the ratings given can be obtained from Moody's at 7 World Trade Center at 250 Greenwich Street, Public Finance Group, 23rd Floor, New York, New York 10007, from S&P at 55 Water Street, New York, New York 10041 and from Fitch at 33 Whitehall Street, New York, New York, 10004. Such ratings reflect only the views of Moody's, S&P and Fitch, respectively, and there is no assurance that any of the ratings, if received, will continue for any given period of time or that any of the ratings will not be lowered or withdrawn entirely if, in the judgment of Moody's, S&P or Fitch, circumstances so warrant. None of the University or the Underwriters have undertaken any responsibility either to bring to the attention of the holders of the Bonds any proposed change in or withdrawal of the ratings received or to oppose any such proposed revision. Any such change in or withdrawal of the ratings received could have an adverse effect on the market price of the Bonds.

MISCELLANEOUS

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

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

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

THE BOARD OF TRUSTEES OF
THE LELAND STANFORD JUNIOR UNIVERSITY

April 4, 2017

By: /s/ Karen L. Kearney
Treasurer

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APPENDIX A

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

Part I of this Appendix A contains general information with respect to Stanford University. Part II consists of Stanford University's Annual Financial Report for the fiscal years ended August 31, 2016 and 2015 ("Stanford University's FY2016 Annual Financial Report"), which includes management's discussion and analysis, selected financial and other data, the report of independent auditors, and Stanford University's consolidated financial statements as of August 31, 2016 and 2015 and for each of the two years ended August 31, 2016 ("Stanford University's FY2016 Audited Financial Statements"). Financial information presented in Part I of this Appendix A with respect to Stanford University relates solely to the University; financial information regarding Stanford University and its affiliates is stated both separately and on a consolidated basis in Stanford University's FY2016 Audited Financial Statements.

PART I

GENERAL INFORMATION ABOUT STANFORD UNIVERSITY

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

Academic and Research Programs

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

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

Governance and Management

Board of Trustees. Stanford is a trust with corporate powers under the laws of the State of California. The Internal Revenue Service has determined the University to be a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. Under the provisions of the founding grant of Senator Leland Stanford and Jane Lathrop Stanford and related organizational documents of the University (the "Founding Grant"), the Board of Trustees (the "Board") is custodian of the endowment and all the properties of the University. The Board administers the University's invested funds and has the ultimate authority over the annual budget and policies for operation and control of the University. The powers and duties of the Board derive from a combination of the Founding Grant, amendments to the Founding Grant, and legislation and court decrees specific to Stanford. In addition, the Board operates under its own bylaws and a series of resolutions on major policy. The Board conducts its business primarily through standing committees, currently consisting of the Committees on Audit Compliance and Risk; Development; Finance; Land and Buildings; Student, Alumni and External Affairs; and Trusteeship. The Board consists of a minimum of 25 and a maximum of 38 Trustees, including the President of the University as a Trustee *ex officio* and with voting rights, up to 29 Trustees nominated and elected by the Board, and up to eight Trustees nominated through the Stanford Alumni Association Alumni Committee on Trustee Nominations and elected by the Board.

The following table lists the members of the Board as of February 1, 2017.

Steven A. Denning *(Chair)*	Bernard Liautaud
Fred W. Alvarez	Christy O. MacLear
Mary T. Barra	Susan R. McCaw
Robert M. Bass	Lloyd M. Metz
Brook H. Byers[1]	Kenneth E. Olivier
Bret E. Comolli	Ruth M. Porat
RoAnn Costin	Laurene Powell Jobs
Dipanjan Deb	Jeffrey S. Raikes[2]
Henry A. Fernandez	Mindy B. Rogers
Angela S. Filo	Victoria B. Rogers
Sakurako D. Fisher	Kavitark Ram Shriram
Bradley A. Geier	Ronald P. Spogli
John A. Gunn	Srinija Srinivasan
Gail B. Harris	Gene T. Sykes[3]
Christine U. Hazy	Marc Tessier-Lavigne
Ronald B. Johnson	Vaughn C. Williams
LaTonia G. Karr	

1 Term ends March 31, 2017.

2 Elected Chair effective July 1, 2017.

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

Administration. The Founding Grant prescribes that the Board appoints the President of the University (the "President"). The Board delegates the responsibility to the President to prescribe the duties of professors and teachers, to set the course of study and the mode and manner of teaching and to exercise all other necessary powers relating to the educational, research, financial and business affairs of the University, including the operation of the physical plant. The President appoints, subject to confirmation by the Board, the Provost and the other Officers of the University. Stanford Management Company is the investments office of the University and serves as the fiduciary for the Merged Pool, which comprises the substantial majority of the University's investable assets.

The following table sets forth in summary form certain members of the principal administration of the University as of February 1, 2017.

University Officers

Marc Tessier-Lavigne
President

Persis Drell
Provost

David F. Demarest
Vice President for Public Affairs

Harry J. Elam Jr.
Vice President for the Arts and Senior Vice Provost for Education and Vice Provost for Undergraduate Education

Lisa Lapin
Vice President for University Communications

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

William J. Madia
Vice President for SLAC National Accelerator Laboratory

Robert C. Reidy
Vice President for Land, Buildings and Real Estate

Martin W. Shell
Vice President for Development

Howard E. Wolf
Vice President for Alumni Affairs and President, Stanford Alumni Association

Elizabeth Zacharias
Vice President for Human Resources

Debra L. Zumwalt
Vice President and General Counsel

Academic Leadership

Ann M. Arvin
Vice Provost and Dean of Research

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

Patricia J. Gumport
Vice Provost for Graduate Education

Chi-Chang Kao
Director, SLAC National Accelerator Laboratory

Jon Levin
Dean, Graduate School of Business

M. Elizabeth Magill
Dean, School of Law

Pamela A. Matson[1]
Dean, School of Earth, Energy and Environmental Sciences

Lloyd Minor
Dean, School of Medicine

Richard P. Saller
Dean, School of Humanities and Sciences

Daniel Schwartz
Dean, Graduate School of Education

Jennifer Widom[2]
Dean, School of Engineering

Stanford Management Company

Robert F. Wallace
Chief Executive Officer

1 Dean Matson has announced her intention to step down as Dean on December 31, 2017. Her successor has not yet been appointed.

2 Effective March 13, 2017

Faculty and Staff

For the 2016 fall quarter, the Stanford professoriate had 2,180 members. Of those, 54% hold tenure, and 99% hold the highest degrees in their respective fields. The Academic Council comprises the main body of the faculty. Of its 1,659 members, 1,512 are tenure-line faculty, and 147 are non-tenure line faculty such as Senior Fellows and those holding teaching, research, clinical or performance titles. The student-Academic Council ratio (including only matriculated undergraduate and graduate students) is approximately 9.8 to 1.

As of August 31, 2016, the University, including the SLAC National Accelerator Laboratory, employed 13,681 non-academic staff members. Of these employees, 1,193 were represented by the Service Employees International Union, and 26 were police officers represented by the Stanford Deputy Sheriffs' Association. Contracts between the University and those unions expire on August 31, 2019 and July 31, 2020, respectively.

Students

For the 2016 fall quarter, the University enrolled 7,032 undergraduate and 9,304 graduate students. During academic year 2015-2016, 1,744 bachelor degrees and 3,370 advanced degrees were conferred. The following table provides a summary for the last five academic years of undergraduate and graduate applications, admissions and enrollment.

Academic Year	Undergraduate[(1)(2)]			Graduate[(2)]		
	Applications	Admissions	Enrollment	Applications	Admissions	Enrollment
2012-13	38,144	2,457	1,796	41,855	4,439	2,582
2013-14	40,491	2,241	1,705	41,539	4,479	2,630
2014-15	43,931	2,178	1,707	43,992	4,399	2,625
2015-16	44,520	2,160	1,735	44,437	4,318	2,656
2016-17	45,956	2,160	1,778	45,564	4,530	2,701

(1) Includes both freshman and transfer students.
(2) Fall only.

Tuition, Fees and Financial Aid

Total student revenue includes tuition and fees from undergraduate and graduate programs and room and board; this amount is partially offset by financial aid consisting of assistance in the form of scholarship and fellowship grants that cover a portion of tuition, living and other costs.

One of the University's highest priorities is to remain affordable and accessible to the most talented students, regardless of their financial circumstances. The University's admission process for undergraduate students from the United States is need-blind, which means that students are admitted irrespective of their ability to pay; the University provides the financial aid necessary to make Stanford affordable to every admitted student. For international students, the University is need-aware; Stanford analyzes the need for aid and aims to meet the determined need.

Since 2000, the University has continued to enhance its financial aid programs for both its undergraduate and graduate students.

- Currently, families from the United States with incomes below $125,000 pay no tuition, and those with incomes below $65,000 pay no tuition, room or board. In FY2016, approximately half of all undergraduates were awarded need-based financial aid from Stanford.

- Graduate student financial aid and other support is awarded based on academic merit and the availability of aid. In the face of diminishing federal support, Stanford has assumed more of the financial weight of supporting its graduate students. In FY2016, approximately 82% of graduate students received financial support.

- In 2016, the University announced the Knight-Hennessy Scholars Program, a graduate-level scholarship program to prepare a new generation of global leaders with the skills to address the increasingly complex challenges facing the world. This program will be an additional source of graduate student support when its first cohort of 100 high-achieving students begins their studies in fall 2018. The program provides full funding for three years.

The following table provides a summary of Stanford's undergraduate tuition, room and board charges and average financial aid per undergraduate student for the academic years 2012-13 through 2016-17.

Academic Year	Tuition	Room and Board	Total	Average Financial Aid[1]
2012-13	$41,250	$12,721	$53,971	$18,477
2013-14	42,690	13,166	55,856	18,444
2014-15	44,184	13,631	57,815	19,000
2015-16	45,729	14,107	59,836	19,700
2016-17	47,331	14,601	61,932	20,500[2]

(1) Stanford-funded scholarship aid awarded on the basis of financial need divided by the average number of undergraduate students enrolled in the fall, winter and spring quarters.
(2) Average Financial Aid amount for 2016-17 is an estimate.

Graduate student financial aid is awarded based on academic merit and the availability of funds and consists of scholarships, fellowships, stipends 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 $78.5 million and $81.5 million as of August 31, 2016 and 2015, respectively.

The Stanford Campus and Other Real Property

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

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

Capital Improvement Programs

The University makes a significant investment in its facilities for teaching, research and related activities. The University's Capital Budget and three-year Capital Plan are based on projections of the major capital projects that the University plans to pursue in support of its academic mission. The fiscal year 2017 Capital Budget approved by the Board of Trustees is approximately $1 billion and represents the anticipated capital expenditures in the first year of the rolling three-year Capital Plan. The fiscal year 2017-2019 Capital Plan includes projects with estimated total costs of $4.1 billion, and represents the largest capital program in Stanford's history. Estimated funding sources for projects under this Capital Plan consist of $864.4 million of gifts, $1.32 billion of reserves and other funds, $42.6 million of resources expected to be identified in the course of annual capital planning, and $1.85 billion of debt. Additional debt will be required to bridge timing differences between project expenditures and the receipt of gifts. The Capital Budget and the Capital Plan are both subject to change based on funding availability, budget affordability and University priorities.

In 2000, the Santa Clara County Board of Supervisors approved a General Use Permit (the "2000 GUP") and the Stanford University Community Plan (the "Community Plan"), updating and extending the general use permit and plan previously in force since 1989. These documents govern the use and development of University lands within the County. Any change to either document is subject to the approval of the Santa Clara County Board of Supervisors. The 2000 GUP permits Stanford to develop approximately 2,000,000 square feet of new academic facilities and approximately 3,000 new housing units for students, faculty and staff. The 2000 GUP contains a number of significant restrictions and conditions upon which such developments are contingent. Through August 31, 2016, projects using approximately 1,400,000 square feet of the GUP allotment had been completed or were under construction and approximately 2,400 housing units were added. In March 2016, Stanford requested and Santa Clara County authorized an additional 1,450 housing units to support the Escondido Village Graduate Student Residences project.

In anticipation of completing the academic space and housing authorized by the 2000 GUP and Community Plan, the University filed an application in November 2016 for an updated General Use Permit that would allow additional campus development projected to be completed by 2035. The approval process includes, among other things, community discussions and feedback, which have begun, followed by an environmental impact report and public hearings.

Hospitals

The University is the sole member of Stanford Health Care ("SHC") and Lucile Salter Packard Children's Hospital at Stanford ("LPCH") (collectively, the "Hospitals"). SHC and LPCH are each separate not-for-profit public benefit corporations operating the adult and pediatric hospitals and clinics, respectively, which together with the University's School of Medicine and its clinical faculty, comprise and are known in the marketplace as Stanford Medicine. Each Hospital has its own management with responsibility for its own financial reporting (see Stanford University's FY2016 Annual Financial Report included as Part II of this Appendix A under the caption "Management Responsibility for Financial Statements"). Management of each Hospital reports to the chief executive officer of that Hospital, and the chief executive officer reports to the board of directors appointed for that Hospital. Management of the Hospitals does not report to management of the University. Each Hospital has its own separate liabilities, including debt obligations. The University is not an obligor or guarantor with respect to any of the debt obligations of SHC or LPCH, nor are SHC or LPCH obligors or guarantors with respect to the debt obligations of the University or each other. Both SHC and LPCH receive separate bond ratings from the rating agencies.

The Hospitals have undertaken major capital projects to rebuild and expand their principal facilities in Palo Alto, California. Construction is currently scheduled to be completed in 2017 for LPCH and in 2018 for SHC. The estimated cost is approximately $2.0 billion for SHC. The cost of LPCH's project, initially estimated to be approximately $1.2 billion, is expected to exceed this initial estimate because of cost increases related to changes in technology, change orders, and market availability of subcontractors, among other factors. SHC and LPCH management believe that sources of funding are adequate to cover remaining costs. In the future, SHC and LPCH may also obtain lines of credit. (See also "Certain Investment Considerations" in the forepart of this Offering Memorandum)

Regulatory Matters and Litigation

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

Environmental Matters. On January 29, 2013, two environmental advocacy groups filed a complaint against the University in the United States District Court for the Northern District of California alleging violations of the Endangered Species Act (the "ESA"). A second amended complaint, the operative complaint, was filed on May 20, 2013 and it alleges that the University operates and maintains the Searsville Dam and Reservoir located on its campus and diverts water from the San Francisquito Creek watershed in a manner that violates the ESA by "taking" (which in the ESA means killing or injuring, or creating the likelihood of killing or injuring) three protected species—the Central California Coast ("CCC") steelhead, the San Francisco garter snake and the California red-legged frog—without proper authorization. Litigation on this allegation is currently stayed.

On March 14, 2014, two environmental advocacy groups (the same groups that filed the above complaint) filed a new action against the University in the United States District Court for the Northern District of California against the University. This new complaint alleges violations of both the ESA and the Clean Water Act (the "CWA"). Specifically, it alleges that the University is taking CCC steelhead in violation of the ESA by operating and maintaining certain installations located on the campus and in the San Francisquito watershed without proper authorization. Litigation on this allegation is currently stayed. The complaint also alleges that the University is violating the CWA by discharging sediment and other pollutants into a creek and by placing and maintaining fill materials in a creek without proper authorization. All of the CWA claims have been dismissed.

Both complaints seek declaratory and injunctive relief, as well as attorneys' fees and costs. No determination of materiality has been made regarding either complaint because of the preliminary state of the actions. The University believes that it has not violated the ESA or the CWA and it would vigorously defend itself against all of these claims if the related litigation were to resume.

Title IX. The University is among over 200 colleges and universities currently under investigation or monitoring by the Office for Civil Rights of the United States Department of Education ("OCR"), relating to Title IX concerns. As of March 1, 2017, OCR was reviewing six complaints from complainant students or responding students alleging that the University had not promptly and equitably resolved allegations of sexual assault made by or against them. The University is cooperating in OCR's review. OCR has made no Title IX claims against the University to date; however, it is reasonably possible that one or more such claims will be made in the future. The ultimate cost of these and similar claims to the University is not estimable at this time, although the University believes it is unlikely that it will be material to the University on a consolidated financial basis. The University intends to vigorously defend any such claims that might be brought by OCR based on these or other complaints filed with OCR.

Private actions have been brought against the University by complainant students and a responding student who have previously filed complaints with the OCR alleging Title IX violations and seeking injunctive relief or money damages. The University believes it is reasonably possible that similar claims will be made by complainant and responding students. In addition, other students may bring actions against the University. The University is vigorously defending against the pending claims of the complainant student and one responding student, and believes that the ultimate cost of all such claims will not be material to the University on a consolidated financial basis.

Investments

At August 31, 2016, the University held investments with a fair value of approximately $29.1 billion. The following table summarizes the fair value of the University's investments for each of the past five fiscal years. The table below should be read in conjunction with Stanford University's FY2016 Audited Financial Statements and applicable prior years' financial statements.

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

	2016	**2015**	**2014**	**2013**	**2012**
Total Investments	$29,085,787	$28,766,240	$27,828,590	$24,703,407	$22,246,700
Less: Permanently Restricted Investments	6,703,622	6,281,590	6,037,754	5,681,957	5,440,119
Unrestricted and Temporarily Restricted Investments	$22,382,165	$22,484,650	$21,790,836	$19,021,450	$16,806,581

Liquidity

Management monitors the University's cash, cash equivalents and investments to maintain adequate liquidity to cover its outstanding commitments. The University has significant contractual commitments outstanding to limited partnership and other investment vehicles and major construction projects (see discussion under the caption "Capital Improvement Programs" above and in Note 6, "Investments," and Note 19, "Commitments and Contingencies," to Stanford University's FY2016 Audited Financial Statements included in Part II of this Appendix A).

The University has $500 million unsecured revolving credit capacity and $500 million of taxable commercial paper available to support short-term funding needs.

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PART II

STANFORD UNIVERSITY'S FY2016 ANNUAL FINANCIAL REPORT

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MANAGEMENT'S DISCUSSION AND ANALYSIS

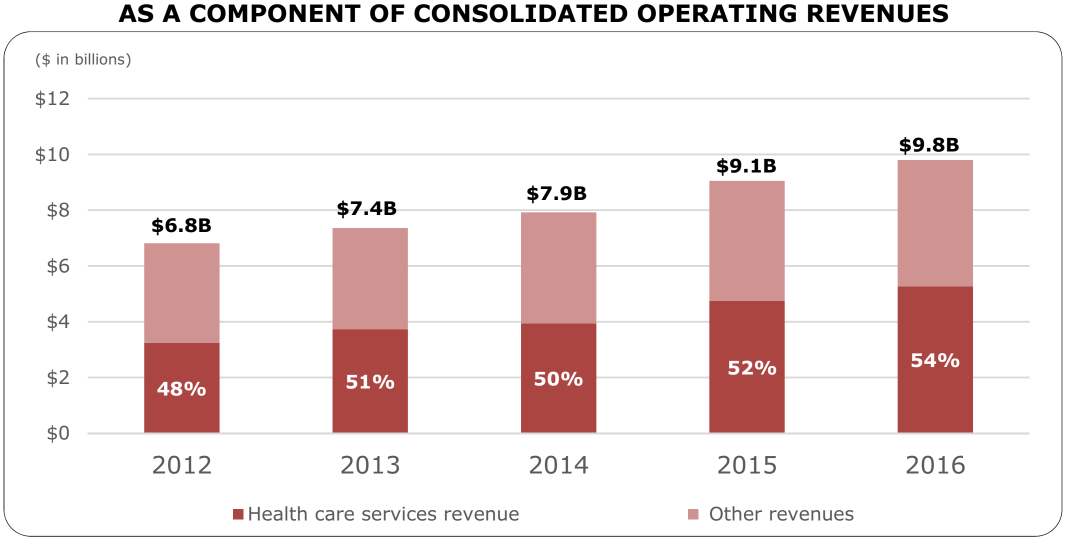
CONSOLIDATED FINANCIAL HIGHLIGHTS

Stanford's FY16 consolidated financial results reflect the combined financial position and results of the University, Stanford Health Care (SHC) and Lucile Salter Packard Children's Hospital at Stanford (LPCH), including their respective controlled affiliates. Operating revenues exceeded expenses by $490 million, compared to $700 million in FY15. Net assets increased $1.4 billion to end the year at $37.0 billion. Stanford achieved positive results through significant growth in health care services revenues, the generosity of its donors, and modest investment performance.

Investment performance. Consolidated investment returns in FY16 were $1.3 billion. Stanford's investment returns in the Merged Pool (MP), the University's primary investment vehicle, were augmented by substantial growth in the value of income-generating properties on Stanford's lands. Total consolidated investments at August 31, 2016 were $31.3 billion, compared to $31.4 billion at August 31, 2015.

Significant growth in health care services revenues. Health care services represented approximately 54% of consolidated revenues in FY16, as shown in Figure 1. Health care services have been the fastest growing revenue component, with a five-year compound annual growth rate (CAGR) of approximately 13%. The partnership among Stanford's School of Medicine (SOM), SHC and LPCH (collectively known as Stanford Medicine) is synergistic. The SOM is a research intensive medical school that provides education, patient care, and interdisciplinary research. Stanford Medicine's tripartite mission is to promote fundamental, clinical, and translational discovery; train the medical leaders of tomorrow; and transform patient care. SHC and LPCH provide the settings where these clinical innovations are delivered to patients. See further discussion in the sections for *Stanford Health Care* and *Lucile Salter Packard Children's Hospital at Stanford*.

FIGURE 1
CONSOLIDATED HEALTH CARE SERVICES REVENUE AS A COMPONENT OF CONSOLIDATED OPERATING REVENUES



Generous donor support. The University's Office of Development reported gifts benefiting the University, SHC and LPCH of $951 million. The dollars represent support from more than 81,000 donors including alumni, parents, friends, and others. This amount includes $32 million and $56 million in support of SHC and LPCH, respectively. These results are evidence of our donors' ongoing commitment to Stanford and its mission.

In February 2016, the University announced the Knight-Hennessy Scholars Program, a graduate-level scholarship program to prepare a new generation of global leaders with the skills to address the increasingly complex challenges facing the world. Each year the program will identify a group of 100 high-achieving students from around the world with demonstrated leadership and civic commitment to receive full funding to pursue a wide-ranging graduate education at Stanford. With $750 million in support, the Knight-Hennessy Scholars Program will be the largest fully endowed scholarship program in the world.

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

UNIVERSITY

FY16 net assets increased 4% to $31.7 billion compared to $30.4 billion in the prior year. With the support of donors and modest investment performance, the University's endowment grew by $175 million after distributing $1.1 billion for operations. The endowment ended the year at an all-time high of $22.4 billion, exceeding last year's $22.2 billion.

UNIVERSITY OPERATING RESULTS

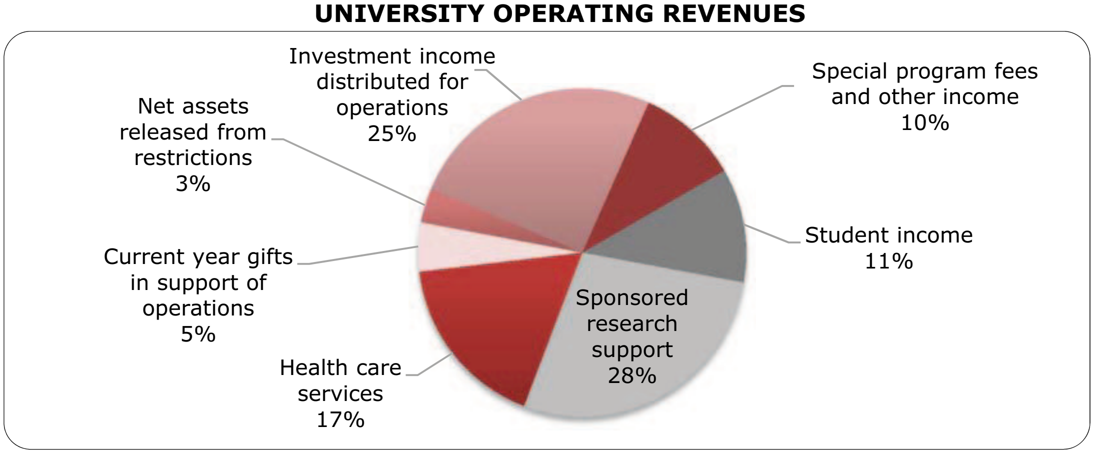
The *Statements of Activities* include results from both operating and non-operating activities of the University. Operating activities include the revenues earned and expenses incurred in the current year to support the University's core activities of teaching, research and other University priorities,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

The University ended the year with a surplus from operating activities of $303 million. The results were essentially flat compared to the FY15 surplus of $313 million. FY16 operating revenues increased $260 million or 5%; operating expenses increased $269 million or 6%. Non-operating activities are discussed in the *University Financial Position* section of this analysis.

UNIVERSITY OPERATING REVENUES

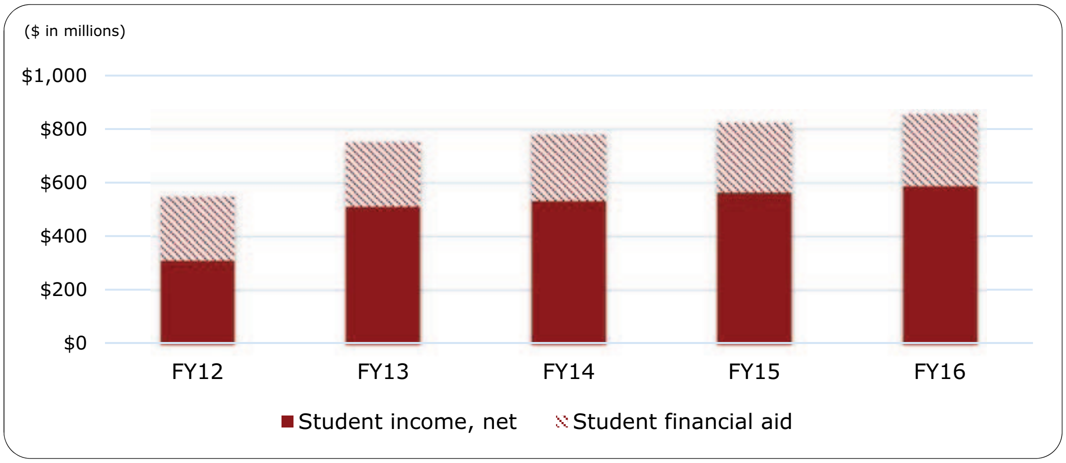
FY16 operating revenues of $5.2 billion were derived from diverse sources, as shown in Figure 2.

FIGURE 2
UNIVERSITY OPERATING REVENUES



Student Income
Total student income, which represents 11% of University operating revenues, increased 4% to $587 million in FY16. Total student income includes tuition and fees from undergraduate and graduate programs and room and board; this amount is partially offset by financial aid consisting of assistance in the form of scholarship and fellowship grants that cover a portion of tuition, living and other costs.

FIGURE 3
UNIVERSITY STUDENT INCOME AND FINANCIAL AID



Student Tuition
Tuition revenue provides half of unrestricted funds which the University receives annually and supports many of the University's core academic and administrative functions, including the undergraduate financial aid program, faculty and staff salaries, student services and the purchase of materials for Stanford's two dozen libraries.

Revenues from student tuition and fees before the deduction for student financial aid increased by $23 million in FY16 primarily as a result of undergraduate and graduate tuition rate increases of 3.5%.

Student Room and Board
Revenues from room and board increased 6% in FY16 due to an increase in room and board rates of 3.5%, an increase in room capacity from opening the new Ng House at Gerhard Casper Quad, and from Stanford's off-campus graduate housing program. The University continues to actively increase its capacity to house more students on campus.

Student Financial Aid and Other Graduate Support
One of the University's highest priorities is to remain affordable and accessible to the most talented students, regardless of their financial circumstances. The University's admission process for undergraduate students from the United States is need-blind, which means that students are admitted irrespective of their ability to pay; the University provides the financial aid necessary to make Stanford affordable to every admitted student. For international students, the University is need-aware: Stanford analyzes the need for aid and aims to meet the determined need.

Since 2000, the University has continued to enhance its financial aid programs for both its undergraduate and graduate students.

- Currently, families from the U.S. with incomes below $125,000 pay no tuition, and those with incomes below $65,000 pay no tuition, room or board. In FY16, approximately half of undergraduates were awarded need-based financial aid from Stanford.

- Graduate student financial aid and other support is awarded based on academic merit and the availability of aid. In the face of diminishing federal support, Stanford has assumed more of the financial weight of supporting its graduate students. In FY16, approximately 82% of graduate students received financial support.

- The Knight-Hennessy Scholars Program will be an additional source of graduate student support when its first cohort begins their studies in fall 2018. The program provides full funding for three years to enable graduate students to pursue advanced degrees and develop the capacity to lead and bring about positive changes in the world.

The University provides financial assistance to students in the form of scholarships, fellowships, and stipends, as well as teaching and research assistantships. Total Student Financial Aid and Other Graduate Support for FY16 and FY15 is as follows (in millions of dollars):

($ in millions)	FY16	FY15
Student Financial Aid		
Undergraduate	$ 163	$ 156
Graduate	107	105
Total Student Financial Aid	270	261
Other Graduate Support		
Stipends	97	90
Assistantships (research and teaching)	103	95
Allowance for tuition (for assistantship recipients)	82	76
Total Other Graduate Support	282	261
Total Student Financial Aid and Other Graduate Support	**$ 552**	**$ 522**

FY16 undergraduate aid and graduate fellowships of $270 million represent an increase of 3% over the prior year and is included in Student Financial Aid in the *Consolidated Financial Statements*. For FY16, the University also provided other graduate student support in the form of stipends of $97 million (included in other operating expenses), and teaching and research assistantships and related allowances for tuition of $185 million (included in salaries and benefits expense).

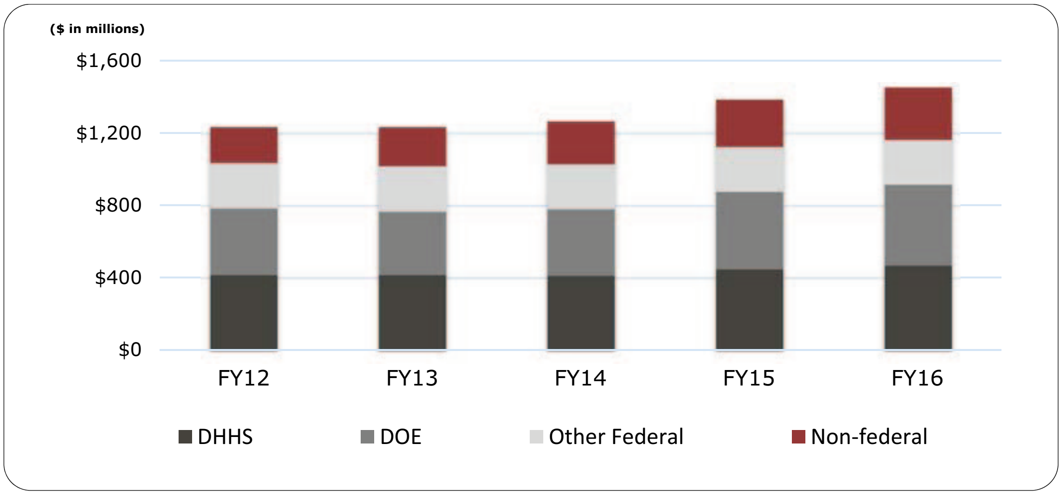
During FY16, sources of the total $552 million of student financial aid and graduate support included approximately $250 million in payout from restricted endowment funds, $200 million from unrestricted University funds and approximately $100 million from grants and contracts.

Sponsored Research Support

FY16 sponsored research support increased to $1.5 billion, nearly 5% over FY15. Sponsored research support represents 28% of the University's operating revenues, the highest source of operating revenue for the University.

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. For FY16, the federal and non-federal indirect cost recovery increased by 4% to $251 million.

FIGURE 4
UNIVERSITY SPONSORED RESEARCH SUPPORT



Approximately 80% of the University's sponsored research support (including support for the SLAC National Accelerator Laboratory—"SLAC") is received directly or indirectly from the federal government (See Figure 4). The largest federal sponsor, the Department of Health and Human Services (DHHS), provided support of $468 million in FY16 compared to $447 million in the prior year, primarily through the National Institutes of Health. Most of these funds support research within the University's SOM.

In FY16, sponsored research support for SLAC was $448 million, up 4% from FY15. The U.S. Department of Energy (DOE) provided substantially all of this support, consisting of funding for ongoing research operations and construction of new facilities or instruments. In FY16, SLAC received $162 million for several construction projects, including $135 million for the Linac Coherent Light Source (LCLS) II project expected to be completed in 2021. LCLS II is a major upgrade to increase the power and capacity of LCLS, the revolutionary X-ray free-electron laser that first became operational in October 2009.

Health Care Services

FY16 health care services revenue represented 17% of University operating revenues, increasing $66 million (8%) to $906 million. This increase primarily reflects increased services at higher rates performed by the University's physicians for SHC and LPCH. SHC and the SOM revised their inter-entity agreement in June 2015.

SOM faculty serve as physicians for the Hospitals. Clinical services are billed and collected by the Hospitals, and a portion is remitted to the University as payment for these physician services. In addition, the Hospitals pay the University for other essential services such as medical direction, and various infrastructure and administrative services. Health care services revenues of $874 million represent the net value of services provided between the University and the Hospitals; these amounts are eliminated in consolidation. The remaining $33 million in health care services revenue is for services provided to other health care systems, primarily the VA Palo Alto Health Care System and Santa Clara Valley Medical Center.

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

Current Year Gifts in Support of Operations and Net Assets Released from Restrictions
Current year gifts in support of operations increased 7% to $251 million in FY16. Net assets released from restrictions, which consisted primarily of pledge payments and gifts released from donor restrictions, increased 11% to $175 million.

Total Investment Income Distributed for Operations
The University distributes investment income for use in operations according to policies approved by the Board of Trustees (Board). Total investment income distributed for operations represented 25% of University operating revenues in FY16, the second highest source of operating revenues for the University.

To the extent that current year returns do not adequately cover the Board approved payout, prior year earnings are used to support payout. This approach enables the University to provide a consistent payout to support operations. See the separate section, *The University's Endowment*.

Endowment income distributed for operations increased 7% to $1.1 billion in FY16. This includes payout from the University's MP based on a Board approved formula, and income received from real estate and other investments not included in the MP. The endowment payout as a percentage of the beginning endowment value was 5.1% for FY16 and 4.9% for FY15.

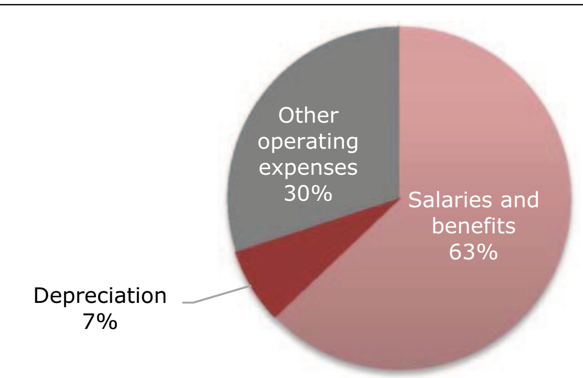
Expendable funds pool and other investment income distributed for operations was $190 million in FY16, compared to $218 million in FY15. This category primarily includes the payout to operations from the Expendable Funds Pool (EFP) and the Endowment Income Funds Pool (EIFP), the principal investment 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. See *Note 7* to the FY16 *Consolidated Financial Statements*.

The EIFP holds previously distributed but unspent endowment payout. These amounts are held, for instance, until there is adequate funding to support a program, scholarship or professorship. These amounts are invested in highly liquid instruments in order to preserve the principal balance. Earnings on these investments are fully distributed to the fund holders. See *Note 7* to the FY16 *Consolidated Financial Statements*.

UNIVERSITY OPERATING EXPENSES
Total expenses increased $269 million, or 6%, to $4.9 billion in FY16. As shown in Figure 5, salaries and benefits comprised 63% of the University's total expenses; depreciation expense was 7% and other operating expenses represented 30%.

FIGURE 5
UNIVERSITY OPERATING EXPENSES



Salaries and benefits increased 9% in FY16 to $3.1 billion. The increase resulted from a combination of factors including additional headcount to support new programs and sponsored research activities, particularly within the SOM, salary programs designed to maintain Stanford's competitive position, and higher benefit costs.

Depreciation expense increased by 3% to $346 million in FY16 from $335 million in FY15. The increase resulted from buildings recently placed in service as described in the *Capital Projects* section below.

Other operating expenses increased slightly by 1% to $1.5 billion in FY16. Increases in expenses for sponsored research support and off-campus housing leases were offset by reduced expenses from the sale of the Stanford Blood Center.

UNIVERSITY FINANCIAL POSITION

Total University assets increased $1.6 billion in FY16 to end the year at $37.8 billion. Total University liabilities increased from $5.8 billion to $6.0 billion.

Cash and Assets Limited as to Use

The University regularly monitors liquidity required to meet its operating needs and other contractual commitments. At the same time, the University strives to optimize the long-term total return while maintaining an appropriate level of risk of its available funds. At August 31, 2016, the University's cash and cash equivalents was $640 million, a decrease of $68 million compared to the prior year. In addition to cash and cash equivalents, there was $985 million in cash and cash equivalents in the University's investments. See *Note 6* to the FY16 *Consolidated Financial Statements*.

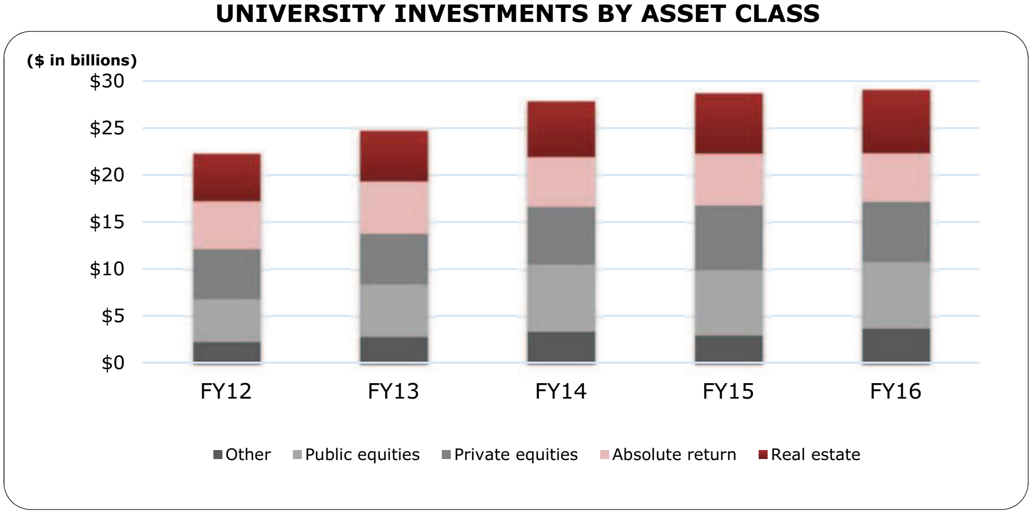
Assets limited as to use nearly doubled to $316 million primarily due to $250 million in proceeds from the issuance of CEFA Series U-7 tax-exempt bonds, less spending on eligible capital projects during the year.

Investments

University investments at August 31, 2016 were $29.1 billion. Investments by asset class are shown in Figure 6.

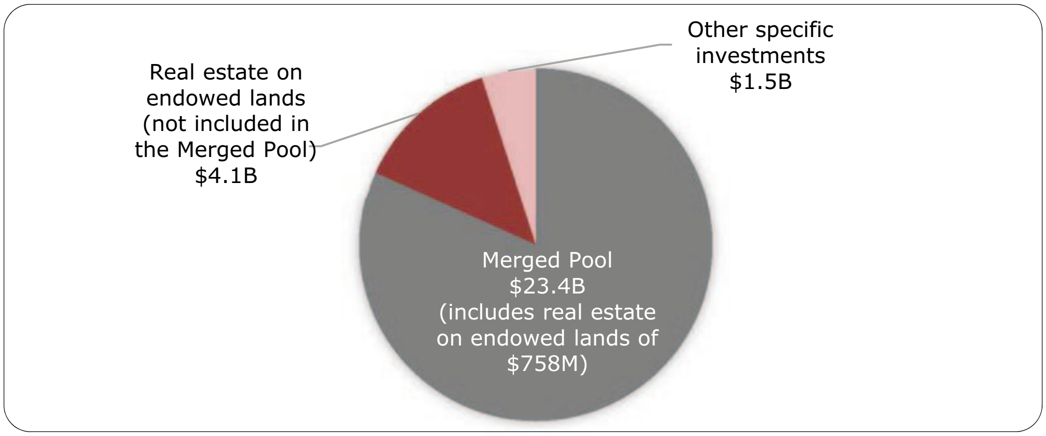
FIGURE 6

UNIVERSITY INVESTMENTS BY ASSET CLASS



There are three primary categories of investments as shown in Figure 7: the MP, real estate investments on endowed lands, and other specific investments.

FIGURE 7
UNIVERSITY INVESTMENTS BY CATEGORY



$23.4 billion of the University's investments was held in the MP at August 31, 2016. The majority of the University's endowment assets are managed through the MP, a diversified portfolio of actively managed public and private equity, absolute return, natural resources and real estate assets. The portfolio is designed to optimize long-term returns, create consistent annual payouts to support the University's operations and preserve purchasing power for future generations of Stanford faculty and students. The MP is managed by the Stanford Management Company (SMC), a division of the University with oversight by a Board of Directors appointed by the University Board of Trustees.

A portion of Stanford's 8,200 acres of endowed lands, including the Stanford Research Park, is designated for the production of income by the Board. As of August 31, 2016, most of Stanford's $4.9 billion of real estate investments (including $758 million in the MP as discussed above) are located on these lands. In FY16, these properties generated $119 million in income, net of expenses, and appreciated in value by $385 million. These lands have been developed for various uses, including research, medical and commercial offices, hotels, retail properties and a regional mall. The University further diversifies this portfolio by employing a variety of structures, including ground leases, direct leases and participation arrangements. In recent years, the value of these properties has benefited from strong dynamics in the regional market including rising investor demand for real estate; high office, hotel and apartment occupancy rates; increased office rents; and strong retail sales. Decreases in the capitalization and discount rates have also contributed to the positive results.

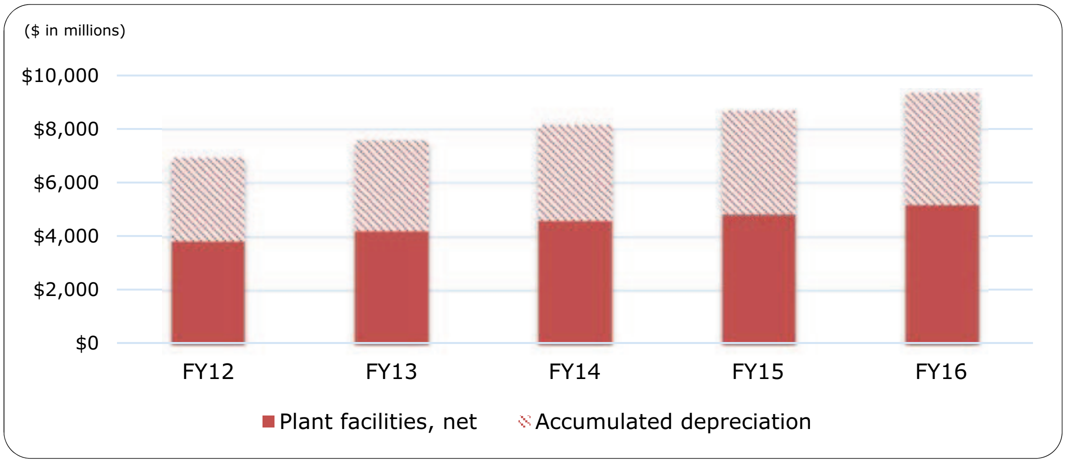
The remaining $1.5 billion of investments are specifically invested for a variety of purposes, in accordance with donor wishes.

Capital Projects

The University continues to invest heavily in its physical facilities to support key academic initiatives, housing and infrastructure, including environmental sustainability. During FY16, the University invested $706 million in capital projects, bringing gross plant facilities before accumulated depreciation to $9.3 billion. Plant facilities, net of accumulated depreciation, increased $373 million to $5.2 billion, as shown in Figure 8.

FIGURE 8

Plant Facilities and Accumulated Depreciation



In recent years, the University's need for housing has outpaced its ability to provide new residences on university-owned land. During FY16, the University completed construction of the new Ng House at Gerhard Casper Quad and two new residences in Lagunita Court, providing more on-campus housing to its undergraduate population. During the year, Stanford also completed construction of the Graduate School of Business (GSB)'s Highland Hall residences, enabling the GSB to offer on-campus housing to nearly all first-year MBA students. Several additional housing initiatives are in the planning phases to address the student, faculty and staff housing constraints on or near campus.

Construction continued on the Anne T. and Robert M. Bass Biology Building, a new laboratory research facility designed to support the University's biochemistry and computational research initiative. In the fall of 2016, the Sapp Center for Science Teaching and Learning opened in the historic Old Chem building. As a center for undergraduate education and anchor for the future Biology Chemistry Quad, the Sapp Center will launch a new era for interdisciplinary science education and research at Stanford by encouraging collaboration across various disciplines, and among students, faculty and staff.

Stanford's plan for an off-site administrative campus in Redwood City is moving forward. Phase 1 of the Stanford in Redwood City project is expected to be completed in 2019, when select administrative staff will relocate to this site in order to make additional core campus space available for the University's academic priorities.

Debt

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

The University is not an obligor or guarantor with respect to any debt obligations of SHC or LPCH, nor are SHC or LPCH obligors or guarantors with respect to debt obligations of the University, or each other.

During FY16, the University issued $250 million in tax-exempt debt ($170 million principal plus bond premium of $80 million) to finance various facilities and infrastructure and to achieve long-term savings in interest costs. The debt was issued with a yield to maturity of 2.71% and matures in 2046. In addition, the University entered into a second $250 million unsecured revolving credit facility in August 2016, bringing the total unsecured revolving credit facilities to $500 million. As of August 31, 2016, the University has drawn down $66 million.

Total debt increased $251 million to $3.3 billion as of August 31, 2016. During FY16, 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.

Net Assets

The University's net assets are classified as unrestricted, temporarily restricted or permanently restricted. See *Note 1* to the *Consolidated Financial Statements*. As previously noted, FY16 net assets increased 4% to $31.7 billion compared to $30.4 billion in the prior year. The increase of $1.3 billion resulted from operating income of $303 million and gifts and pledges of $1.0 billion not included in operating income. A substantial portion of gifts and pledges was received in support of the Knight-Hennessy Scholars Program as previously discussed. Investment income distributed for operations of $1.3 billion exceeded investment returns of $1.2 billion, which reduced net assets by $132 million.

THE UNIVERSITY'S ENDOWMENT

The University's endowment is a collection of gift funds and reserves which is invested to generate income to support the University's teaching and research missions.

The University's endowment is crucial to providing funding for its academic program activities, ensuring affordability for its students and enabling the University to increase the amount spent on student financial aid. At August 31, 2016, the endowment totaled $22.4 billion (See Figure 9) and represented approximately 71% of the University's net assets. The endowment, which includes the University's endowed lands, is comprised of pure endowment funds, term endowment funds and funds functioning as endowment.

FIGURE 9
UNIVERSITY ENDOWMENT

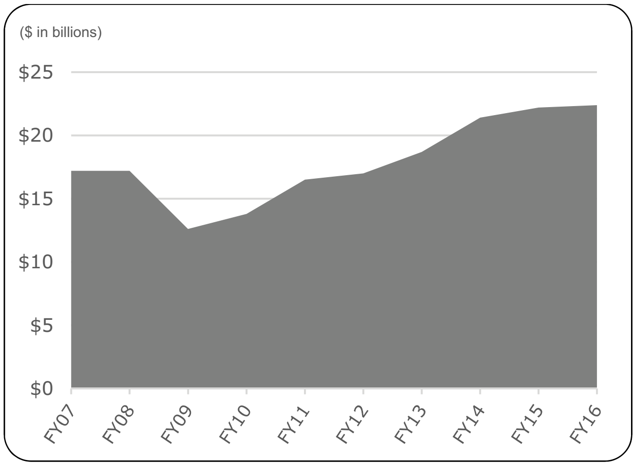
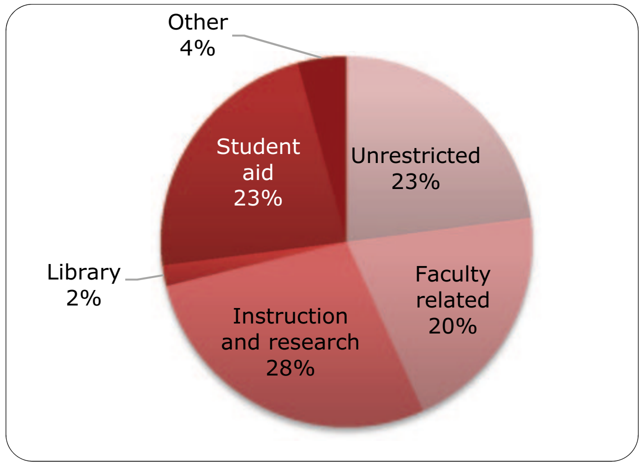


FIGURE 10
ENDOWMENT PAYOUT BY PURPOSE



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

The Board is responsible for setting the payout rate, and continuously evaluating the payout policy to ensure that the endowment can meet the current and future needs of the University. The current Board approved targeted payout rate is 5.5%. Over time, the Board believes this payout rate maximizes the endowment's benefit to our current students and faculty while preserving intergenerational equity – the concept that payout from an endowment fund should remain constant over time, adjusted for inflation, in order to provide for future operations.

Annual payout to operations from the endowment continues to be a significant source of operating revenue for the University, covering approximately 23% of expenses in FY16. In FY16, the endowment payout to operations of $1.1 billion exceeded the investment returns on endowment of $930 million. Despite this, gifts and pledge payments and other funds invested in the endowment helped to increase the endowment slightly to $22.4 billion in FY16.

The University's endowment provides funding annually for a wide variety of important purposes. As shown in Figure 10, a significant portion of the endowment payout (approximately 80%) is restricted as to purpose, and provided funding for instruction and research activities (28%), student aid (23%), and faculty salaries and support (20%), with the remaining amount providing support for the University's libraries and other purposes.

HOSPITALS

The financial results and financial position of Stanford Health Care (SHC) and Lucile Salter Packard Children's Hospital at Stanford (LPCH) and their controlled affiliates, are included in the FY16 *Consolidated Financial Statements*. The University is the sole member of both SHC and LPCH. The University's School of Medicine (SOM) and its clinical faculty, together with SHC and LPCH, constitute and are known in the marketplace as Stanford Medicine.

In FY11, SHC and LPCH received local government approval to rebuild and expand their principal facilities. Construction is projected to be completed in 2017 for LPCH and 2018 for SHC. These improvements will assure that SHC and LPCH have additional inpatient capacity in modern, technologically-advanced and patient-centered facilities, and meet state-mandated earthquake safety standards. The total estimated cost, inclusive of contingencies, is approximately $2.0 billion for SHC. The cost of LPCH's project is expected to exceed its originally estimated amount of $1.2 billion because of cost increases related to changes in technology, change orders, and market availability of subcontractors, among other factors. LPCH management believes that sources of funding are adequate to cover remaining costs.

To improve and expand their services, the Hospitals have established community-based ambulatory clinic organizations—SHC's University HealthCare Alliance (UHA) and LPCH's Packard Children's Health Alliance (PCHA)—that support Stanford Medicine's mission to deliver quality care to the community and conduct research and education. Working collaboratively with their respective hospitals and the SOM faculty, these organizations have acquired multi-specialty practices to form a network of coordinated care throughout the Bay Area.

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

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

STANFORD HEALTH CARE

Stanford Health Care ("SHC") experienced positive financial results in FY16. SHC's FY16 financial results benefited from its operating performance and fundraising.

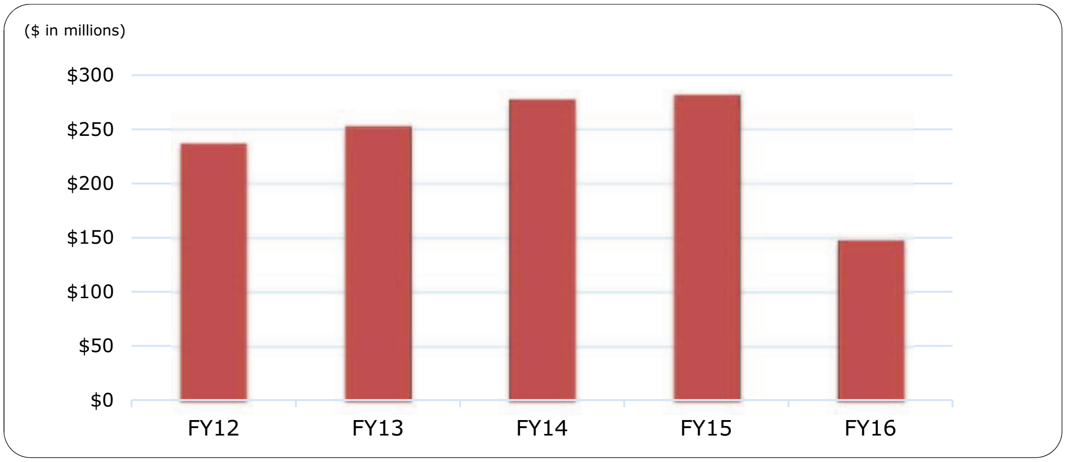
The consolidated results reflect the combined results of SHC and its subsidiaries (see *Note 1* to SHC's separately issued *Consolidated Financial Statements*).

SHC FINANCIAL HIGHLIGHTS

Net assets decreased $6 million to end the year at $3.1 billion. Operating revenues exceeded operating expenses by $148 million, compared to $282 million in FY15. As shown in Figure 11, the change in net assets from operating activities ("operating margin") declined as compared to prior years, primarily due to cost increases incurred to further grow and expand SHC's network of care.

FIGURE 11

SHC OPERATING MARGIN



SHC OPERATING RESULTS

SHC's *Consolidated Statements of Operations and Changes in Net Assets* include results from both operating and non-operating changes in the net assets of SHC. Operating activities include the revenues earned and expenses incurred in the current year to support patient care. FY16 operating revenues increased 15% compared to an increase in operating expenses of 20% during the same period. Expenses grew more than revenues mainly due to the inter-entity agreement with the SOM needed to recruit and retain physicians to provide high quality patient care and support SHC's continued growth. Additional expenses were also incurred for the Stanford Cancer Center South Bay, SHC's first off-campus outpatient clinic for the diagnosis and treatment of cancer, primary care clinics and affiliation with ValleyCare. In addition, SHC has increased its marketing of two new plans: SHC Advantage, a Medicare health plan offered to Santa Clara County residents, and increased membership in SHC Alliance, a benefit plan that allows University employees access to the Stanford network of care.

Other changes in net assets are discussed in the *SHC Financial Position* section of this analysis.

SHC OPERATING REVENUES

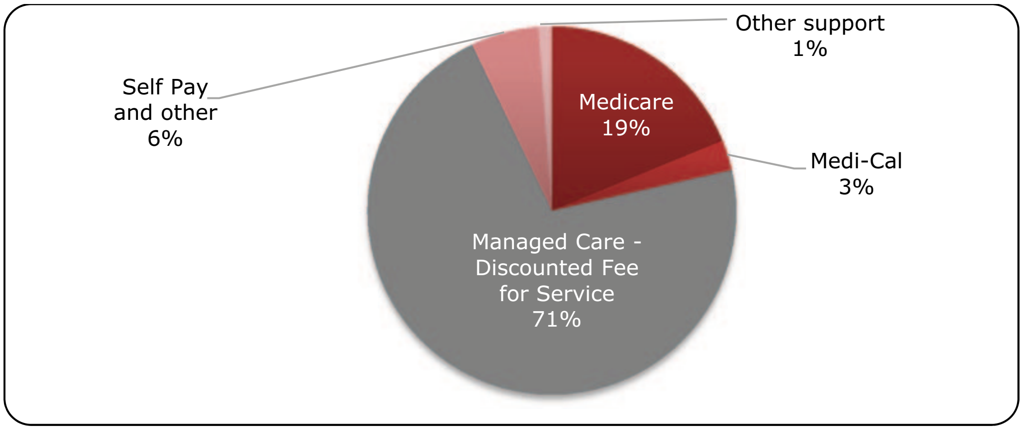
FY16 operating revenues were $4.1 billion, a 15% increase over FY15.

Health Care Services Revenue

FY16 health care services revenue (including capitation/premium revenue) less doubtful accounts increased $509 million, or 15%, from FY15 to $4.0 billion and represented 97% of operating revenues.

Patient care revenue consists of revenue from patient and third-party payers and comprises nearly all of SHC's health care services revenue. Patient care revenue by major payer, net of contractual allowances (but before provision for doubtful accounts), is shown in Figure 12.

FIGURE 12
SHC PATIENT CARE REVENUE



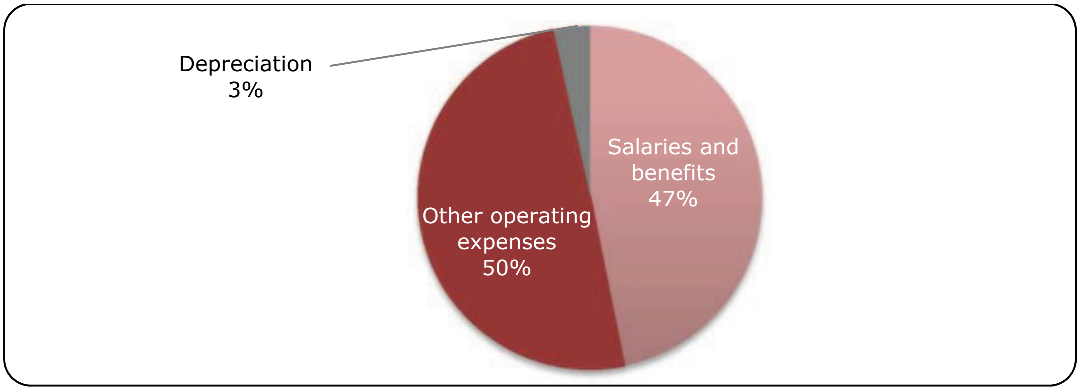
Inpatient and outpatient, which represented 44% and 56% of net patient revenues (including capitation / premium revenue), respectively, grew significantly due to strong volume growth in multiple areas, such as operating rooms, emergency department, pharmacy, cath angio, imaging, clinical labs and other ambulatory care services.

Other Operating Revenues
Other operating revenues, which include revenues from various related entities and outreach clinical activities, increased 25% to $123 million.

Net Assets Released from Restrictions
Net assets released from restrictions for use in operations was $9.4 million in FY16 compared to $15.7 million in FY15 due to lower restricted gift spending.

SHC OPERATING EXPENSES
Total expenses increased $661 million, or 20.1%, to $3.9 billion in FY16, which was primarily due to increased headcount, physician services, the affiliation with ValleyCare in May 2015, and acquisition of the Stanford Blood Center from the University in September 2015.

FIGURE 13
SHC OPERATING EXPENSES



As shown in Figure 13, salaries and benefits comprised 47% of SHC's total expenses, depreciation expense was 3%, and all other operating expenses represented 50%.

- Salaries and benefits increased 30% in FY16 to $1.9 billion. The increase primarily resulted from expanded headcount to support current growth in patient volumes and for future expansion (see the *Capital Projects* section below), the acquisition of the Stanford Blood Center from the University, partial insourcing of information technology services, annual salary increases designed to maintain SHC's position in the competitive market for healthcare professionals and higher benefit costs.

- Depreciation expense increased by 24% to $136 million in FY16 from $110 million in FY15. The increase resulted from buildings and equipment recently placed in service, such as the Stanford Neuroscience Health Center, and a full year of service for the Stanford Cancer Center South Bay, Central Steam Plant, and Beaker Integrated Laboratory System.

- Other operating expenses increased by 12% to $2.0 billion for FY16. The majority of this increase is purchased services related to payments to the University under a revised inter-entity agreement for clinical services provided by the SOM to provide high quality patient care and support continuous growth, and from growth in additional physicians joining the UHA network. In addition, supplies expense increased by 10% to $531 million in response to patient volume growth and inflation.

SHC FINANCIAL POSITION

SHC's *Consolidated Statements of Financial Position* reflect strong operating results and positive investment returns. Total SHC assets increased $239 million in FY16 to end the year at $5.8 billion and total SHC liabilities increased from $2.5 billion in FY15 to $2.7 billion in FY16. As a result, net assets at the end of the year remained essentially unchanged from the previous year end.

Unrestricted Cash and Investments

Unrestricted cash and investments increased to $2.1 billion in FY16 from $2.0 billion at the end of FY15.

Capital Projects

SHC continues to invest in facilities and systems required to remain at the forefront of medicine and to be the provider of choice for complex and network care in the communities it serves. During FY16, SHC invested $620 million in capital projects, bringing property and equipment, net of accumulated depreciation, to $2.4 billion, a $478 million increase from FY15.

The majority of the FY16 spending was for the New Stanford Hospital (to meet State-mandated earthquake safety standards, and provide modern, technologically-advanced hospital facilities), the Stanford Neuroscience Health Center (a five-story, 92,000 square foot facility on the Hoover Medical Campus which will provide comprehensive outpatient neurology, imaging, and neurosurgery services to the community) and the Stanford Health Center in Emeryville (a four-story, 80,000 square foot facility for multi-specialty clinics focused on cardio-vascular care).

Debt

Total debt, including current portions, was $1.5 billion as of August 31, 2016.

A combination of fixed and variable rate debt, of varying maturities, is used to fund SHC's mission. Tax-exempt bonds with fixed interest rates account for 71% of the total, while the remaining 29% have variable rates.

In September and October, 2016, Standard & Poor's, Moody's Investor Service and Fitch Ratings affirmed their previous long-term ratings at AA-/Aa3/AA, respectively.

Net Assets

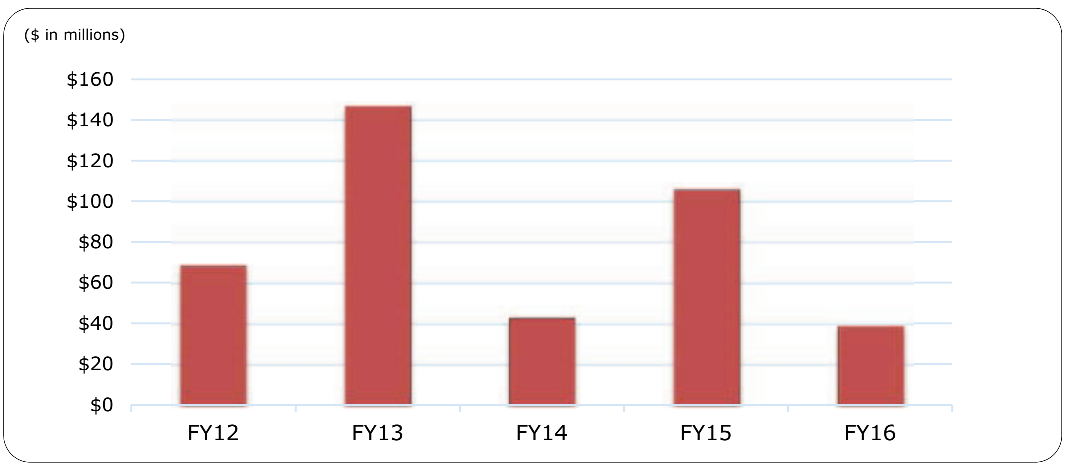
SHC's net assets are classified as unrestricted, temporarily restricted or permanently restricted. See *Note 1* to the *Consolidated Financial Statements*. As previously noted, FY16 net assets were essentially unchanged, ending the year at $3.1 billion. SHC's operating surplus of $148 million, plus an increase of $38 million on investments (majority from the University MP), was offset by a decrease of $116 million on swap valuations. Temporarily restricted net assets increased by $15 million to $577 million in large part due to fundraising commitments for the New Stanford Hospital, while permanently restricted net assets increased modestly by $200 thousand in contributions. These mostly positive changes were offset by transfers to the University of $31 million for the sale of the Stanford Blood Center and $45 million for transfers under the inter-entity agreement with the SOM.

LUCILE SALTER PACKARD CHILDREN'S HOSPITAL AT STANFORD

LPCH FY16 FINANCIAL HIGHLIGHTS

Net assets at August 31, 2016 were $2.2 billion, reflecting an increase of $157 million over FY15. Operating revenues exceeded operating expenses by $39 million in FY16, compared to $106 million in FY15. FY16 operating results experienced pressure due to an increase of 7% in operating expenses as compared to FY15 primarily related to higher personnel costs and physician payments to the University's School of Medicine (SOM) as well as the opening of new outpatient facilities in Sunnyvale and Los Gatos. Figure 14 shows the change in net assets from operating activities ("operating margin") in the past five years.

FIGURE 14
LPCH OPERATING MARGIN



LPCH OPERATING RESULTS

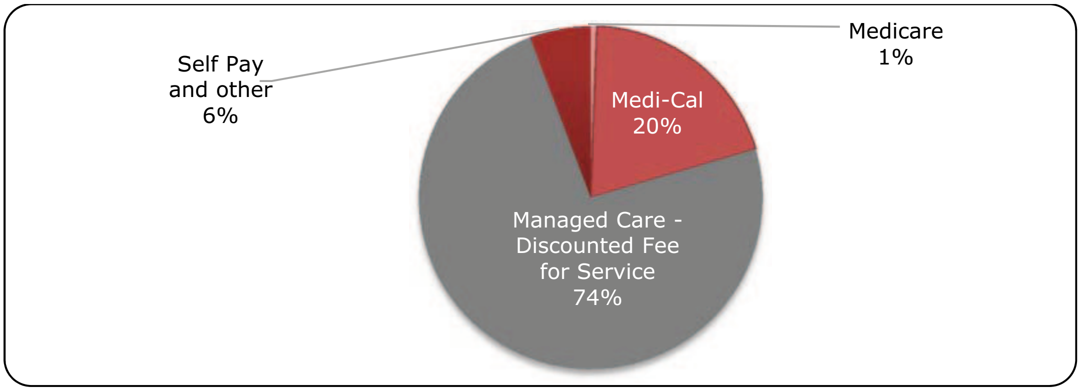
Income from operations was $39 million in FY16, as compared to $106 million in FY15.

LPCH OPERATING REVENUES

FY16 operating revenues increased $22 million, or 2%, compared to the prior year. Patient care revenue increased $9 million from the prior year, mainly due to increased reimbursement from commercial managed care payers, and an increase in outpatient visits. This increase was partially offset by a decrease in the California Hospital Quality Assurance Fee (QAF) Program and Hospital Fee program revenues from $80 million in FY15 to $52 million in FY16. These programs are designed to provide supplemental payments to certain hospitals and support the State's effort to maintain health care coverage for children.

Patient care revenue by major payer, net of contractual allowances (but before provision for doubtful accounts), is shown in Figure 15.

FIGURE 15
LPCH PATIENT CARE REVENUE

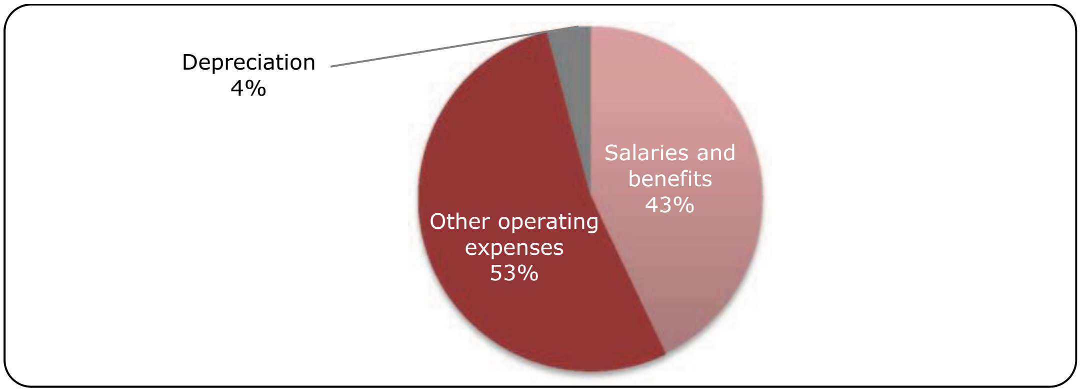


LPCH's community benefits, including services to patients under Medi-Cal and other publicly sponsored programs that reimburse at amounts less than the cost of services, were $214 million in FY16 compared with $222 million in FY15. These amounts also include investments LPCH makes in improving the health of children through a range of community-based programs.

LPCH OPERATING EXPENSES

Operating expenses increased $90 million, or 7%, compared to the prior year. This increase was mainly attributable to the increase in salaries and benefits as LPCH ramps up and prepares for the launch of the new hospital in 2017. In addition, LPCH experienced increases in payments to the SOM for services provided by the physician faculty, and higher costs resulting from the usage of prosthetics and surgical supplies. New center openings in Sunnyvale and Los Gatos also contributed to one-time costs in FY16. The increases were partially offset by a decrease of $19 million in the expense recorded from the QAF and Hospital Fee programs compared to the prior year.

FIGURE 16
LPCH OPERATING EXPENSES



As shown in Figure 16, salaries and benefits comprised 43% of LPCH's total expenses, depreciation expense was 4%, and all other operating expenses represented 53%.

LPCH FINANCIAL POSITION

Statement of Financial Position

Total assets increased by $286 million, or 10%, driven by a combination of cash generated from operations, proceeds from the 2016 Series B Bonds and continued support from the donor community. These cash flows, combined with planned withdrawals from the Merged Pool, were used to fund the ongoing construction of the new hospital expansion. As a result, fixed assets increased $351 million to $1.4 billion as of August 31, 2016.

Total liabilities increased by $129 million, or 16%, primarily due to the issuance of the 2016 Series B Bonds referenced above.

Unrestricted Cash and Investments

Unrestricted cash and investments decreased by $55 million, or 7%, mainly due to funding for the ongoing construction of the Renewal Project.

Capital Projects

LPCH's *Statement of Financial Position* reflects significant investments in the facilities and systems required to continue to provide the highest quality children's hospital services to the community it serves. The majority of the FY16 spending was for LPCH's portion of the Renewal Project, which represented $401 million of the increase in property and equipment.

During the year, LPCH also completed construction on two ambulatory buildings purchased in FY14 in Sunnyvale and Los Gatos, California. Both locations are currently being used for outpatient pediatric specialty services.

Debt

Total debt, including the current portion, increased by $109 million, or 19% from the prior year. In March 2016, California Health Facilities Financing Authority issued, on behalf of LPCH, two series of revenue bonds in the aggregate par amount of $177 million. Proceeds of the Series A bonds were used for the legal defeasance and redemption of the 2008 bonds. The proceeds of the Series B bonds were used to finance a portion of the Renewal Project, and to pay for the cost of issuance.

During FY16, S&P, Fitch and Moody's assigned ratings on the new debt of AA-, AA and Aa3, respectively. In addition, the ratings agencies affirmed their previous ratings on the existing debt with no changes in outlook.

Net Assets

Total net assets increased by $157 million, or 8%, from August 31, 2015 to August 31, 2016, representing income from operations and restricted contributions, as offset by funding its portion of certain projects at the SOM and SHC through equity transfers.

LOOKING FORWARD

Stanford's financial position remains strong. The University's endowment is at an all-time high at the end of the fiscal year. Our donors and alumni continue to embrace Stanford's mission through their generous support of time, talent and financial resources—and this is reflected in our FY16 results. The growth in Stanford's physical infrastructure continues to support the advancement in our academic programs, investment in our students and evolving health care services.

The University begins FY17 under the leadership of a new president, Marc Tessier-Lavigne, who inherits a solid foundation from his predecessor, John Hennessy. Currently, interdisciplinary research and education programs are flourishing and focused on addressing global challenges; the undergraduate curriculum has been redesigned; and the arts and humanities are enjoying renewed appreciation and focus. During President Hennessy's tenure, the academic campus and physical infrastructure were transformed to support new ways of learning and working while conserving natural resources and reducing energy consumption.

Health care service revenues have grown significantly in recent years and Stanford Medicine is well poised to continue on this current growth trajectory. Stanford's history of innovation is reflected in Stanford Medicine's vision of delivering proactive, preemptive and preventive health care. Stanford has created the infrastructure to deliver this vision. Both SHC and LPCH have established a strong local presence in a number of important markets. The new SHC and LPCH hospitals are on track to deliver state of the art facilities to provide exceptional patient care in the next few years. Through precision health, Stanford Medicine is within reach to change the very nature of health care to one of personalized care focused on keeping people healthy, with an emphasis on prediction and prevention as well as precise diagnosis and treatment

The current environment is not without its challenges. Pressure continues on a number of Stanford's most significant revenue sources, including tuition, federal sponsored research and health care services. Weak investment returns are limiting the growth of endowment payout. Bay Area housing costs continue to be one of Stanford's greatest hurdles in recruiting faculty and staff.

Despite these challenges, Stanford is well positioned to face the future, to educate leaders of tomorrow and to help solve the world's global issues. These challenges require us to invest selectively in high priority initiatives and to focus on identifying and implementing efficiencies. Stanford continues to foster interdisciplinary research, identify new funding sources for research and discover new ways and venues for delivering education and patient care. Applying the knowledge gained through research to solve real world problems will be a cornerstone of our future. Encouraged and inspired by the tremendous support of our donors, alumni, faculty, and staff, Stanford faces the future with cautious optimism.

M. Suzanne Calandra

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

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

David Connor
Interim Chief Financial Officer
Stanford Health Care

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

SELECTED FINANCIAL AND OTHER DATA

Fiscal Years Ended August 31

	2016	2015	2014	2013	2012
	(dollars in millions)				
CONSOLIDATED STATEMENT OF ACTIVITIES HIGHLIGHTS:					
Total operating revenues	$ 9,797	$ 9,051	$ 7,924	$ 7,359	$ 6,814
Student income (A)	587	564	534	511	481
Sponsored research support	1,453	1,387	1,266	1,233	1,234
Health care services	5,264	4,744	3,942	3,734	3,245
Investment income distributed for operations	1,338	1,292	1,181	1,019	1,015
Total operating expenses	9,307	8,351	7,389	6,794	6,298
Change in net assets from operating activities	490	700	535	565	516
Other changes in net assets	947	1,034	3,582	2,441	1,043
Net change in total net assets	$ 1,437	$ 1,734	$ 4,117	$ 3,006	$ 1,559
CONSOLIDATED STATEMENT OF FINANCIAL POSITION HIGHLIGHTS:					
Investments at fair value	$ 31,332	$ 31,399	$ 30,464	$ 26,974	$ 24,146
Plant facilities, net of accumulated depreciation	9,000	7,797	6,832	5,995	5,320
Notes and bonds payable	5,402	5,125	5,139	4,782	4,409
Total assets	46,586	44,509	42,547	37,988	34,785
Total liabilities	9,616	8,976	8,748	8,306	8,110
Total net assets	36,970	35,533	33,799	29,682	26,675
UNIVERSITY STATEMENT OF FINANCIAL POSITION HIGHLIGHTS:					
Investments at fair value	$ 29,086	$ 28,766	$ 27,829	$ 24,703	$ 22,247
Plant facilities, net of accumulated depreciation	5,169	4,796	4,559	4,208	3,826
Notes and bonds payable	3,271	3,085	3,265	3,098	2,709
Total assets	37,767	36,214	35,227	31,540	28,981
Total liabilities	6,048	5,780	6,006	5,817	5,476
Total net assets	31,719	30,434	29,221	25,723	23,505
OTHER FINANCIAL DATA AND METRICS:					
University endowment at year end	$ 22,398	$ 22,223	$ 21,446	$ 18,689	$ 17,036
University endowment payout in support of operations	1,132	1,058	985	921	871
As a % of beginning of year University endowment	5.1%	4.9%	5.3%	5.4%	5.3%
As a % of University total expenses	23.0%	22.8%	24.8%	24.5%	24.8%
Total gifts as reported by the Office of Development (B)	951	1,625	976	1,010	1,077
STUDENTS:					
ENROLLMENT: (C)					
Undergraduate	7,032	6,994	7,018	6,980	6,999
Graduate	9,304	9,196	9,118	8,980	8,958
DEGREES CONFERRED:					
Bachelor degrees	1,744	1,671	1,651	1,661	1,715
Advanced degrees	3,370	3,286	3,292	3,365	3,305
FACULTY:					
Total Professoriate (C)	2,180	2,153	2,118	2,043	1,995
ANNUAL UNDERGRADUATE TUITION RATE (IN DOLLARS)	$ 45,729	$ 44,184	$ 42,690	$ 41,250	$ 40,050

(A) Student income is reported net of financial aid in the Consolidated Statements of Activities.
(B) Includes University, SHC and LPCH gifts. The FY15 amount includes $626 million in works of art and special collections. In FY15, the University received a significant collection of artwork which is included with other donations reported by the Office of Development. As stated in Note 1, Stanford does not capitalize works of art and special collections.
(C) Fall quarter immediately following fiscal year end.

MANAGEMENT RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

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

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

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

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

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

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

David Connor
Interim Chief Financial Officer
Stanford Health Care

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

Report of Independent Auditors

To the Board of Trustees of the
Leland Stanford Junior University

We have audited the accompanying consolidated financial statements of the Leland Stanford Junior University and its subsidiaries ("Stanford"), which comprise the consolidated statements of financial position as of August 31, 2016 and 2015, and the related consolidated statements of activities and cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Leland Stanford Junior University and its subsidiaries at August 31, 2016 and 2015, and their changes in net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

December 6, 2016

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

At August 31, 2016 and 2015 (in thousands of dollars)

Includes the separate legal entities of The Leland Stanford Junior University, Stanford Health Care and Lucile Salter Packard Children's Hospital at Stanford and other majority-owned or controlled entities of these organizations

	2016	2015
ASSETS		
Cash and cash equivalents	$ 1,863,584	$ 1,519,782
Assets limited as to use	551,896	830,552
Accounts receivable, net	1,260,796	1,133,476
Prepaid expenses and other assets	318,177	276,420
Pledges receivable, net	1,570,912	921,519
Student loans receivable, net	78,549	81,492
Faculty and staff mortgages and other loans receivable, net	610,026	549,724
Investments at fair value, including securities pledged or on loan of $205,128 and $106,264 for 2016 and 2015, respectively	31,332,231	31,399,176
Plant facilities, net of accumulated depreciation	8,999,916	7,797,306
Works of art and special collections	-	-
TOTAL ASSETS	**$ 46,586,087**	**$ 44,509,447**
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable and accrued expenses	$ 2,034,934	$ 1,738,631
Accrued pension and postretirement benefit obligations	699,464	824,189
Liabilities associated with investments	353,848	212,656
Deferred rental and other income	657,378	652,850
Income beneficiary share of split interest agreements	414,432	435,426
Notes and bonds payable	5,401,768	5,058,743
U.S. government refundable loan funds	54,035	54,081
TOTAL LIABILITIES	**9,615,859**	**8,976,576**
NET ASSETS:		
Unrestricted	21,136,422	20,375,039
Temporarily restricted	8,545,950	8,763,932
Permanently restricted	7,287,856	6,393,900
TOTAL NET ASSETS	**36,970,228**	**35,532,871**
TOTAL LIABILITIES AND NET ASSETS	**$ 46,586,087**	**$ 44,509,447**

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

CONSOLIDATED STATEMENTS OF ACTIVITIES

For the years ended August 31, 2016 and 2015 (in thousands of dollars)

Includes the separate legal entities of The Leland Stanford Junior University, Stanford Health Care and Lucile Salter Packard Children's Hospital at Stanford and other majority-owned or controlled entities of these organizations

	2016	2015
UNRESTRICTED NET ASSETS		
OPERATING REVENUES:		
Student income:		
Undergraduate programs	$ 342,309	$ 330,851
Graduate programs	340,537	329,047
Room and board	174,111	164,304
Student financial aid	(269,613)	(260,616)
TOTAL STUDENT INCOME	**587,344**	**563,586**
Sponsored research support:		
Direct costs - University	753,638	713,831
Direct costs - SLAC National Accelerator Laboratory	447,834	430,365
Indirect costs	251,395	242,572
TOTAL SPONSORED RESEARCH SUPPORT	**1,452,867**	**1,386,768**
HEALTH CARE SERVICES, primarily net patient service revenue	**5,264,433**	**4,743,819**
CURRENT YEAR GIFTS IN SUPPORT OF OPERATIONS	**258,285**	**241,175**
Net assets released from restrictions:		
Payments received on pledges	107,302	123,210
Prior year gifts released from donor restrictions	76,978	51,089
TOTAL NET ASSETS RELEASED FROM RESTRICTIONS	**184,280**	**174,299**
Investment income distributed for operations:		
Endowment	1,147,980	1,072,710
Expendable funds pools and other investment income	190,512	219,037
TOTAL INVESTMENT INCOME DISTRIBUTED FOR OPERATIONS	**1,338,492**	**1,291,747**
SPECIAL PROGRAM FEES AND OTHER INCOME	**711,591**	**649,882**
TOTAL OPERATING REVENUES	**9,797,292**	**9,051,276**
OPERATING EXPENSES:		
Salaries and benefits	5,527,284	4,795,588
Depreciation	538,597	502,635
Other operating expenses	3,241,294	3,052,669
TOTAL OPERATING EXPENSES	**9,307,175**	**8,350,892**
CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES	**$ 490,117**	**$ 700,384**

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

CONSOLIDATED STATEMENTS OF ACTIVITIES, Continued

For the years ended August 31, 2016 and 2015 (in thousands of dollars)

Includes the separate legal entities of The Leland Stanford Junior University, Stanford Health Care and Lucile Salter Packard Children's Hospital at Stanford and other majority-owned or controlled entities of these organizations

	2016	2015
UNRESTRICTED NET ASSETS (continued)		
CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES	**$ 490,117**	**$ 700,384**
NON-OPERATING ACTIVITIES:		
Increase in reinvested gains	167,634	745,722
Donor advised funds, net	21,783	66,734
Current year gifts not included in operations	2,381	1,655
Capital and other gifts released from restrictions	118,490	100,980
Pension and other postemployment benefit related changes other than net periodic benefit expense	182,013	(105,230)
Transfer to permanently restricted net assets, net	(45,651)	(49,998)
Transfer to temporarily restricted net assets, net	(35,082)	(26,223)
Swap interest and change in value of swap agreements	(135,924)	(67,979)
Contribution income from Stanford Health Care-ValleyCare affiliation	-	96,758
Other	(4,378)	(3,919)
NET CHANGE IN UNRESTRICTED NET ASSETS	**761,383**	**1,458,884**
TEMPORARILY RESTRICTED NET ASSETS		
Gifts and pledges, net	435,507	373,951
Decrease in reinvested gains	(337,062)	(70,902)
Change in value of split interest agreements, net	14,866	2,195
Net assets released to operations	(208,619)	(197,186)
Capital and other gifts released to unrestricted net assets	(118,490)	(100,980)
Transfer from unrestricted net assets, net	35,082	26,223
Transfer to permanently restricted net assets, net	(35,551)	(27,999)
Other	(3,715)	(3,829)
NET CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	**(217,982)**	**1,473**
PERMANENTLY RESTRICTED NET ASSETS		
Gifts and pledges, net	769,861	209,058
Increase in reinvested gains	25,566	1,760
Change in value of split interest agreements, net	19,308	(15,756)
Transfer from unrestricted net assets, net	45,651	49,998
Transfer from temporarily restricted net assets, net	35,551	27,999
Other	(1,981)	523
NET CHANGE IN PERMANENTLY RESTRICTED NET ASSETS	**893,956**	**273,582**
NET CHANGE IN TOTAL NET ASSETS	**1,437,357**	**1,733,939**
Total net assets, beginning of year	35,532,871	33,798,932
TOTAL NET ASSETS, END OF YEAR	**$ 36,970,228**	**$ 35,532,871**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended August 31, 2016 and 2015 (in thousands of dollars)

Includes the separate legal entities of The Leland Stanford Junior University, Stanford Health Care and Lucile Salter Packard Children's Hospital at Stanford and other majority-owned or controlled entities of these organizations

	2016	2015
CASH FLOW FROM OPERATING ACTIVITIES		
Change in net assets	$ 1,437,357	$ 1,733,939
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	538,597	502,635
Amortization, loss on disposal of fixed assets and other adjustments	(2,782)	7,319
Provision for doubtful accounts for health care services	123,847	142,075
Net gains on investments and security agreements	(930,428)	(1,691,192)
Changes in fair value of interest rate swaps	132,596	64,519
Changes in split interest agreements	9,172	22,093
Investment income for restricted purposes	(30,815)	(31,828)
Gifts restricted for long-term investments	(888,137)	(354,100)
Gifts of securities and properties	(15,585)	(42,330)
Contribution income from Stanford Health Care-ValleyCare affiliation	-	(96,820)
Premiums received from bond issuance	94,098	5,627
Changes in operating assets and liabilities:		
Accounts receivable, net	(193,954)	(338,920)
Pledges receivable, net	(104,867)	(372)
Prepaid expenses and other assets	(48,914)	(38,447)
Accounts payable and accrued expenses	143,310	194,884
Accrued pension and postretirement benefit obligations	(124,725)	140,614
Deferred rental and other income	4,528	36,275
Other	5,577	35
NET CASH PROVIDED BY OPERATING ACTIVITIES	**148,875**	**256,006**
CASH FLOW FROM INVESTING ACTIVITIES		
Land, building and equipment purchases	(1,693,181)	(1,282,265)
Student, faculty and other loans:		
New loans made	(117,150)	(104,509)
Principal collected	50,335	55,444
Decrease in assets limited as to use	278,788	236,271
Cash acquired from ValleyCare, net of cash paid as consideration	-	(52,539)
Purchases of investments	(14,416,420)	(28,366,613)
Sales and maturities of investments	15,385,843	29,150,703
NET CASH USED FOR INVESTING ACTIVITIES	**(511,785)**	**(363,508)**
CASH FLOW FROM FINANCING ACTIVITIES		
Gifts and reinvested income for restricted purposes	349,969	424,905
Proceeds from borrowing	586,154	535,311
Bond issuance costs and interest rate swaps	(2,154)	(2,528)
Repayment of notes and bonds payable	(322,700)	(543,648)
Increase (decrease) in liabilities associated with investments	98,467	(58,586)
Other	(3,024)	(196)
NET CASH PROVIDED BY FINANCING ACTIVITIES	**706,712**	**355,258**
INCREASE IN CASH AND CASH EQUIVALENTS	**343,802**	**247,756**
Cash and cash equivalents, beginning of year	1,519,782	1,272,026
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 1,863,584**	**$ 1,519,782**
SUPPLEMENTAL DATA:		
Interest paid, net of capitalized interest	$ 173,268	$ 178,078
Cash collateral received under security lending agreements	$ 213,629	$ 110,087
Increase in payables for plant facilities	$ 31,428	$ 46,762

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation and Significant Accounting Policies

BASIS OF PRESENTATION

The consolidated financial statements include the accounts of The Leland Stanford Junior University ("Stanford University" or the "University"), Stanford Health Care (SHC), Lucile Salter Packard Children's Hospital at Stanford (LPCH) and other majority-owned or controlled entities of the University, SHC and LPCH. Collectively, all of these entities are referred to as "Stanford". All significant inter-entity transactions and balances have been eliminated 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 information presented in the consolidated financial statements comprises all of the accounts of the University, including its institutes and research centers, and the Stanford Management Company.

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

Hospitals

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

In September 2014, SHC entered into an affiliation agreement with The Hospital Committee for the Livermore-Pleasanton Areas (dba Stanford Health Care – ValleyCare) ("SHC-VC") to acquire control by becoming the sole corporate member of SHC-VC. On May 18, 2015, with all conditions of the affiliation agreement satisfied and all regulatory approvals obtained, the acquisition of control of SHC-VC by SHC was consummated and became effective. Because of the acquisition of control, for financial reporting purposes SHC is treated as having acquired assets of $233.2 million, including "plant facilities, net of accumulated depreciation" of $135.6 million, and assumed liabilities of $64.3 million during the year ended August 31, 2015. The excess of net assets over consideration paid was $96.8 million and is recorded as contribution income in "non-operating activities" in the *Consolidated Statements of Activities* for the year ended August 31, 2015.

TAX STATUS

The University, SHC and LPCH are exempt from federal and state income taxes to the extent provided by Section 501(c)(3) of the Internal Revenue Code and equivalent state provisions, except with regard to unrelated business income which is 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, SHC or LPCH have any uncertain tax positions that require disclosure or adjustment to the consolidated financial statements. The University, SHC and LPCH are subject to routine audits by taxing jurisdictions. The respective managements of the University, SHC and LPCH believe they are no longer subject to income tax examinations for fiscal years prior to August 31, 2012.

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 Stanford for specific purposes under internal operating and administrative arrangements or be subject to contractual agreements with external parties. Donor-restricted contributions that relate to Stanford's core activities and are received and expended or deemed expended based on the nature of donors' restrictions are classified as unrestricted. All expenses are recorded as a reduction of unrestricted net assets.

The operating activities of Stanford include the revenues earned and expenses incurred in the current year to support teaching, research, and patient care. The non-operating activities of Stanford include increases in reinvested gains, current year gifts not included in operations, capital and other gifts released from restrictions, pension and other postemployment benefit related changes other than net periodic benefit expense, contribution income from the SHC-VC affiliation 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 Stanford, 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 *Note 12*). Donor-restricted resources intended for capital projects are initially recorded as temporarily restricted and then released and reclassified as unrestricted net assets when the asset is placed in service. Also included in this category is Stanford'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 split interest agreements 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, Stanford'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 *Consolidated Statements of Financial Position* consist of U.S. Treasury bills, 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 amortized cost, which approximates fair value. Cash and cash equivalents that are held for investment purposes are classified as investments (see *Note 6*).

ASSETS LIMITED AS TO USE

Assets limited as to use consist primarily of proceeds of tax-exempt bonds issued for the benefit of the University and limited by the terms of indentures to use for qualified capital projects. Assets limited as to use also include trustee-held accounts reflecting proceeds of tax-exempt bonds issued for the benefit of SHC and LPCH and limited by the terms of indentures to use for qualified 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, 2009 are recorded at an applicable risk-adjusted discount rate commensurate with the duration of the donor's payment plan. Pledges recognized in periods prior to September 1, 2009 were recorded at a discount based on the U.S. Treasury rate. Conditional promises, 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 *Consolidated Statements of Activities* (see *Note 6*).

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 flows are subjective, requiring significant judgments such as the amount and timing of future cash flows and the selection of appropriate discount rates that reflect market and credit risks. Stanford management regularly assesses 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, 2016 and 2015 are as follows:

Land improvements	10-25 years
Buildings and building improvements	4-50 years
Furniture, fixtures and equipment	3-20 years
Utilities	5-40 years

WORKS OF ART AND SPECIAL COLLECTIONS

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

DONATED ASSETS

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

DONOR ADVISED FUNDS

The University receives gifts from donors under donor advised fund (DAF) agreements. These funds are owned and controlled by the University and are separately identified by donor. A significant portion of the gift must be designated to the University. At August 31, 2016 and 2015, approximately $413.7 million and $386.0 million, respectively, of DAFs may be used to support other approved charities; the donors have advisory privileges with respect to the distribution of these funds.

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

SPLIT INTEREST AGREEMENTS

Split interest agreements consist of arrangements with donors where Stanford has an interest in assets held by a trustee and receives benefits that are shared with other beneficiaries. Split interest agreements where Stanford is not the trustee are recorded in the "assets held by other trustees" category of "investments" in the *Consolidated Statements of Financial Position* as described in *Note 6*.

The assets held under split interest agreements where Stanford is the trustee were $733.9 million and $733.8 million at August 31, 2016 and 2015, respectively, and were recorded in various "investments" categories; a liability for the discounted present value of any income beneficiary interest is reported as "income beneficiary share of split interest agreements" in the *Consolidated Statements of Financial Position*. At August 31, 2016 and 2015, discount rates of 1.8% and 2% were used, respectively, based on the Charitable Federal Midterm Rate.

During fiscal years 2016 and 2015, the discounted present value of new gifts subject to split interest agreements, and net of any income beneficiary share, was $11.3 million and $40.6 million, respectively, and was included in "gifts and pledges, net" in the *Consolidated Statements of Activities*. Actuarial gains or losses were included in "change in value of split interest agreements, net" in the *Consolidated Statements of Activities*.

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

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

STUDENT INCOME

The University provides financial assistance in the form of scholarship and fellowship grants that cover a portion of tuition, living and other costs that is reflected as a reduction of student income. Graduate student research and teaching assistantship appointments provide the recipient with salary and tuition support, which are reflected as salaries and benefits expense and other operating expense, respectively.

PATIENT CARE AND OTHER SERVICES

Health Care Services

"Patient care, net" is reported in the *Consolidated Statements of Activities* at the estimated net realizable amounts from patients, third-party payers, and others for services rendered. SHC and LPCH derive a majority of patient care revenues from contractual agreements with Medicare, Medi-Cal and other third-party payers. Payments under these agreements and programs are based on a variety of payment models (see *Note 3*).

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

Charity Care

SHC and LPCH provide care to patients who meet certain criteria under their charity care policies without charge or at amounts less than their established rates. The Hospitals do not record revenue for amounts determined to qualify as charity care (see *Note 3*).

RECENT ACCOUNTING PRONOUNCEMENTS

In November 2016, the Financial Accounting Standards Board (FASB) issued an update to the Accounting Standards Codification (ASC) which requires that the amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The new guidance is effective for fiscal year 2020. Stanford is currently evaluating the impact that this guidance will have on the consolidated financial statements.

In August 2016, the FASB issued an update to the ASC which makes several modifications to current reporting requirements for not-for-profit (NFP) entities. The ASC update changes the way NFPs classify net assets and results in significant changes to financial reporting and disclosures for NFPs. The new guidance is effective for fiscal year 2019. Stanford is currently evaluating the impact that this guidance will have on the consolidated financial statements.

In February 2016, the FASB issued an update to the ASC which requires lessees to recognize operating and financing lease liabilities and corresponding right-of use assets on the statement of financial position. The new guidance is effective for fiscal year 2020. Stanford is currently evaluating the impact that this guidance will have on the consolidated financial statements.

In May 2015, the FASB issued an update to the ASC which modifies reporting requirements for investments that are eligible to be measured at fair value using the net asset value (or its equivalent) as a practical expedient. The ASC update removes the requirement to categorize these investments within the fair value hierarchy and make certain disclosures. The new guidance is effective for fiscal year 2018 but early adoption is allowed. Stanford has early adopted this guidance in fiscal year 2016 (see *Note 6*).

In April 2015, the FASB issued an update to the ASC which requires debt issuance costs to be presented in the statement of financial position as a direct deduction from the carrying value of the associated debt liability, consistent with the presentation of a debt discount. The new guidance is effective for fiscal year 2017. In August 2015, the FASB issued a supplemental ASU which allows an entity to present debt issuance costs related to a line of credit arrangement as an asset and subsequently amortize the costs ratably over the term of the line of credit arrangement. The recognition and measurement guidance for debt issuance costs is not affected. Stanford does not expect the new guidance to have a material impact on the consolidated financial statements.

In May 2014, the FASB issued an update to the ASC to improve consistency of revenue recognition practices across industries for economically similar transactions. Subsequently, the FASB has issued several amendments and updates to the original standard. The core principle is that an entity recognizes revenue for goods or services to customers in an amount that reflects the consideration it expects to receive in return. The guidance is effective for fiscal year 2019. Stanford is currently evaluating the impact that this guidance will have on the consolidated financial statements.

2. Accounts Receivable

Accounts receivable, net of bad debt allowances, at August 31, 2016 and 2015, in thousands of dollars, are as follows:

	UNIVERSITY	SHC	LPCH	CONSOLIDATED
2016				
U.S. government sponsors	$ 104,240	$ -	$ -	$ 104,240
Non-federal sponsors and programs	49,282	23,939	15,827	89,048
Pending trades of securities	94,304	-	-	94,304
Accrued interest on investments	10,816	-	-	10,816
Student	7,171	-	-	7,171
Patient and third-party payers:				
Blue Cross	-	117,644	76,551	194,195
Blue Shield	-	73,561	32,356	105,917
Medicare	-	90,980	440	91,420
Medi-Cal	-	17,081	41,533	58,614
Other managed care and payers	-	421,486	128,964	550,450
Other	52,195	58,497	18,233	128,925
	318,008	803,188	313,904	1,435,100
Less bad debt allowances	(1,815)	(160,819)	(11,670)	(174,304)
ACCOUNTS RECEIVABLE, NET	**$ 316,193**	**$ 642,369**	**$ 302,234**	**$ 1,260,796**
2015				
U.S. government sponsors	$ 89,809	$ -	$ -	$ 89,809
Non-federal sponsors and programs	43,245	30,754	15,279	89,278
Pending trades of securities	33,451	-	-	33,451
Accrued interest on investments	9,378	-	-	9,378
Student	6,592	-	-	6,592
Patient and third-party payers:				
Blue Cross	-	105,199	76,424	181,623
Blue Shield	-	97,654	34,062	131,716
Medicare	-	90,184	1,136	91,320
Medi-Cal	-	14,615	42,405	57,020
Other managed care and payers	-	387,924	139,018	526,942
Other	44,663	26,449	13,065	84,177
	227,138	752,779	321,389	1,301,306
Less bad debt allowances	(1,698)	(144,855)	(21,277)	(167,830)
ACCOUNTS RECEIVABLE, NET	**$ 225,440**	**$ 607,924**	**$ 300,112**	**$ 1,133,476**

3. Health Care Services Revenue

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

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

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

Inpatient non-acute services, certain outpatient services and medical education costs related to Medicare beneficiaries are paid based, in part, on a cost reimbursement methodology subject to final settlement after submission of annual cost reports and audits thereof by the Medicare fiscal intermediary. The estimated amounts due to or from the program are reviewed and adjusted annually based on the status of such audits and any subsequent appeals. Differences between final settlements and amounts accrued in previous years are reported as adjustments to net health care services revenue in the year examination is substantially completed. Medicare cost reports have been audited by the Medicare administrative contractor through August 31, 2006 for SHC and August 31, 2014 for LPCH.

Professional services are reimbursed based on a fee schedule.

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

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

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

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

The following table presents health care services revenue, net of contractual allowances (but before provision for doubtful accounts), for the years ended August 31, in thousands of dollars:

	UNIVERSITY	SHC	LPCH	ELIMINATIONS	CONSOLIDATED
2016					
Medicare	$ -	$ 755,658	$ 7,390	$ -	$ 763,048
Medi-Cal	-	106,728	260,368	-	367,096
Managed care	-	2,870,437	967,809	-	3,838,246
Self pay and other	-	239,248	75,384	-	314,632
Premium revenue	-	72,292	-	-	72,292
Physician services and support (see *Note 1*)	873,520	47,214	-	(920,734)	-
Other services and support	32,966	-	-	-	32,966
	906,486	4,091,577	1,310,951	(920,734)	5,388,280
Provision for doubtful accounts	-	(126,280)	2,433	-	(123,847)
HEALTH CARE SERVICES REVENUE	**$ 906,486**	**$ 3,965,297**	**$ 1,313,384**	**$ (920,734)**	**$ 5,264,433**
2015					
Medicare	$ -	$ 732,377	$ 6,831	$ -	$ 739,208
Medi-Cal	-	77,950	271,231	-	349,181
Managed care	-	2,421,560	989,394	-	3,410,954
Self pay and other	-	246,040	47,131	-	293,171
Premium revenue	-	62,893	-	-	62,893
Physician services and support (see *Note 1*)	810,474	47,087	-	(857,561)	-
Other services and support	30,487	-	-	-	30,487
	840,961	3,587,907	1,314,587	(857,561)	4,885,894
Provision for doubtful accounts	-	(131,601)	(10,474)	-	(142,075)
HEALTH CARE SERVICES REVENUE	**$ 840,961**	**$ 3,456,306**	**$ 1,304,113**	**$ (857,561)**	**$ 4,743,819**

SHC recognized net health care services revenue adjustments of $4.3 million and $34.2 million as a result of prior years' favorable developments related to reimbursement and appeals for the years ended August 31, 2016 and 2015, respectively. LPCH had no significant adjustments to revenue for the years ended August 31, 2016 and 2015.

SHC's and LPCH's provisions for doubtful accounts are based upon management's assessment of expected net collections considering historical experience and other collection indicators.

Charity Care

SHC's estimated cost of providing charity care was $19.4 million and $9.7 million, and LPCH's estimated cost of providing charity care was $1.6 million and $2.8 million for the years ended August 31, 2016 and 2015, respectively. This cost is estimated by calculating a ratio of total costs to gross patient service charges at established rates, and then multiplying that ratio by gross uncompensated patient service charges at established rates associated with providing care to charity patients. SHC received $799 thousand and $526 thousand during the years ended August 31, 2016 and 2015, respectively, from contributions that were restricted for the care of indigent patients.

SHC and LPCH also provide services to other patients under the Medicare, Medi-Cal and other publicly sponsored programs, which reimburse at amounts less than the cost of the services provided to the recipients. Estimated costs in excess of reimbursements for the Medicare, Medi-Cal and other publicly sponsored programs for the years ended August 31, 2016 and 2015 were $869.0 million and $610.0 million for SHC, and $212.7 million and $219.6 million for LPCH, respectively.

Provider Fee

The State of California enacted legislation in 2009 through 2016 which established a Hospital Quality Assurance Fee (QAF) Program and a Hospital Fee Program. These programs impose a provider fee on certain California general acute care hospitals that, combined with federal matching funds, is used to provide supplemental payments to certain hospitals and support the State’s effort to maintain health care coverage for children. Provider fee revenue, net of expenses, under these programs for the years ended August 31, in thousands of dollars, is as follows:

	SHC	LPCH	CONSOLIDATED
2016			
Revenues	$ 55,195	$ 51,793	$ 106,988
Expenses	(45,809)	(24,196)	(70,005)
TOTAL	**$ 9,386**	**$ 27,597**	**$ 36,983**
2015			
Revenues	$ 103,667	$ 79,775	$ 183,442
Expenses	(73,585)	(43,156)	(116,741)
TOTAL	**$ 30,082**	**$ 36,619**	**$ 66,701**

4. Pledges Receivable

Pledges are recorded at applicable risk-adjusted discount rates, ranging from 1.1% to 5.7%, commensurate with the duration of the donor's payment plan. At August 31, 2016 and 2015, pledges receivable, net of discounts and allowances, in thousands of dollars, are as follows:

	UNIVERSITY	SHC	LPCH	CONSOLIDATED
2016				
One year or less	$ 151,591	$ 11,531	$ 33,182	$ 196,304
Between one year and five years	997,348	86,428	55,921	1,139,697
More than five years	403,638	11,352	45,369	460,359
	1,552,577	109,311	134,472	1,796,360
Less discounts and allowances	(195,069)	(11,558)	(18,821)	(225,448)
PLEDGES RECEIVABLE, NET	**$ 1,357,508**	**$ 97,753**	**$ 115,651**	**$ 1,570,912**
2015				
One year or less	$ 123,719	$ 19,371	$ 8,372	$ 151,462
Between one year and five years	710,950	106,733	3,836	821,519
More than five years	79,667	18,504	25,000	123,171
	914,336	144,608	37,208	1,096,152
Less discounts and allowances	(153,817)	(14,151)	(6,665)	(174,633)
PLEDGES RECEIVABLE, NET	**$ 760,519**	**$ 130,457**	**$ 30,543**	**$ 921,519**

Conditional pledges for the University, which depend on the occurrence of a specified future and uncertain event, were $6.5 million and $6.7 million at August 31, 2016 and 2015, respectively. SHC and LPCH had no conditional pledges at August 31, 2016 and 2015.

5. Loans Receivable

Loans receivable consist primarily of University student loans receivable and faculty and staff mortgages. University management regularly assesses the adequacy of the allowance for credit losses of its loans by performing ongoing evaluations, 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, 2016 and 2015, in thousands of dollars, are as follows:

	2016	2015
Institutional loans	$ 25,577	$ 24,286
Federally-sponsored loans	53,766	57,853
	79,343	82,139
Less allowance for student loan losses	(794)	(647)
STUDENT LOANS RECEIVABLE, NET	**$ 78,549**	**$ 81,492**

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 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 can be assigned to the federal government in certain non-repayment situations. In these situations, the federal portion of the loan balance is guaranteed.

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

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 $609.3 million and $547.2 million at August 31, 2016 and 2015, respectively, from University faculty and staff are included in "faculty and staff mortgages and other loans receivable, net" in the *Consolidated Statements of Financial Position*. 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.

6. Investments

Investments are measured and recorded at fair value. The valuation methodology, investment categories, fair value hierarchy, certain investment activities and related commitments for fiscal years 2016 and 2015 are discussed below.

Investments held by Stanford at August 31, 2016 and 2015, in thousands of dollars, are as follows:

	UNIVERSITY	SHC	LPCH	CONSOLIDATED
2016				
Cash and cash equivalents	$ 984,795	$ 50,527	$ -	$ 1,035,322
Collateral held for securities loaned	213,629	-	-	213,629
Public equities	7,069,873	-	-	7,069,873
Derivatives	43	-	-	43
Fixed income	1,655,649	163,371	70,642	1,889,662
Real estate	6,741,245	-	-	6,741,245
Natural resources	2,300,633	-	-	2,300,633
Private equities	6,363,481	-	-	6,363,481
Absolute return	5,155,970	-	-	5,155,970
Assets held by other trustees	176,310	-	15,048	191,358
Other	342,571	28,444	-	371,015
Total	31,004,199	242,342	85,690	31,332,231
Hospitals' funds invested in the University's Merged Pool	(1,918,412)	1,310,047	608,365	-
INVESTMENTS AT FAIR VALUE	**$ 29,085,787**	**$ 1,552,389**	**$ 694,055**	**$ 31,332,231**
2015				
Cash and cash equivalents	$ 1,300,474	$ 59,560	$ -	$ 1,360,034
Collateral held for securities loaned	110,087	-	-	110,087
Public equities	6,971,378	-	-	6,971,378
Derivatives	58,992	-	-	58,992
Fixed income	1,350,768	160,088	69,313	1,580,169
Real estate	6,439,576	-	-	6,439,576
Natural resources	2,018,832	-	-	2,018,832
Private equities	6,833,087	-	-	6,833,087
Absolute return	5,529,102	-	-	5,529,102
Assets held by other trustees	192,811	-	16,079	208,890
Other	273,674	15,355	-	289,029
Total	31,078,781	235,003	85,392	31,399,176
Hospitals' funds invested in the University's Merged Pool	(2,312,541)	1,434,886	877,655	-
INVESTMENTS AT FAIR VALUE	**$ 28,766,240**	**$ 1,669,889**	**$ 963,047**	**$ 31,399,176**

VALUATION METHODOLOGY

To the extent available, Stanford's investments are recorded at fair value based on quoted prices in active markets on a trade-date basis. Stanford's investments that are listed on any U.S. or non-U.S. recognized exchanges are valued based on readily available market quotations. When such inputs do not exist, fair value measurements are based on the best available information and usually require a degree of judgment. For alternative investments, which are principally 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 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, 2016 and 2015, 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.

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

For alternative investments which are direct investments, Stanford considers various factors to estimate fair value, such as, but not limited to, the timing of the transaction, the market in which the company operates, comparable transactions, company performance and projections as well as discounted cash flow analysis. The selection of an appropriate valuation technique may be affected by the availability and general reliability of relevant inputs. In some cases, one valuation technique may provide the best indication of fair value while in other circumstances, multiple valuation techniques may be appropriate. Furthermore, Stanford may review the investment's underlying portfolio as well as engage external appraisers, depending on the 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 and restricted cash. 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 8*).

Collateral held for securities loaned is generally received in the form of cash and cash equivalents and is reinvested for income in cash equivalent vehicles. These investments are recorded at amortized cost, which approximates fair value (see *Note 10*).

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

Derivatives are used by Stanford to manage its exposure to certain risks relating to ongoing business and investment operations. Derivatives such as forward currency contracts, options, interest rate swaps, and total return swaps 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 primarily include investments that are actively traded fixed income securities or mutual funds.

Real estate represents directly owned real estate, interests in long-term ground leases and other real estate interests held through limited partnerships. The fair value of real estate directly owned by Stanford, 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 the NAV 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 the NAV reported by the external investment managers and is adjusted as described under *Valuation Methodology* above.

Private equities are investments primarily in venture capital and leveraged buyout strategies. Distributions from these investments are received through liquidation of the underlying assets. 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 the NAV reported by the external investment managers and is adjusted as described under *Valuation Methodology* above.

Assets held by other trustees generally represent Stanford's residual interest in split interest agreements where the University, SHC or LPCH 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.

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

FAIR VALUE HIERARCHY

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

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

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

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 8*).

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

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

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

The following tables summarize Stanford's investment assets within the fair value hierarchy and asset categories at August 31, 2016 and 2015, in thousands of dollars:

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
2016				
Cash and cash equivalents	$ 1,010,174	$ 25,148	$ -	$ 1,035,322
Collateral held for securities loaned	-	213,629	-	213,629
Public equities	2,308,666	189	3,045	2,311,900
Derivatives	-	43	-	43
Fixed income	165,292	1,724,370	-	1,889,662
Real estate	47,805	-	4,956,210	5,004,015
Natural resources	488,596	-	208,655	697,251
Private equities	603	-	71,875	72,478
Absolute return	-	-	25,587	25,587
Assets held by other trustees	-	-	191,358	191,358
Other	200	-	366,342	366,542
INVESTMENTS SUBJECT TO FAIR VALUE LEVELING	**$ 4,021,336**	**$ 1,963,379**	**$ 5,823,072**	**11,807,787**
			Investments measured using Net Asset Value[1]	19,524,444
			CONSOLIDATED TOTAL	**$ 31,332,231**

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
2015				
Cash and cash equivalents	$ 1,259,787	$ 100,247	$ -	$ 1,360,034
Collateral held for securities loaned	-	110,087	-	110,087
Public equities	2,901,037	3,208	-	2,904,245
Derivatives	66,601	(7,609)	-	58,992
Fixed income	169,129	1,411,040	-	1,580,169
Real estate	103,194	-	4,537,715	4,640,909
Natural resources	237,536	-	269,963	507,499
Private equities	10,655	53	64,025	74,733
Absolute return	-	-	-	-
Assets held by other trustees	-	-	208,890	208,890
Other	814	-	284,217	285,031
INVESTMENTS SUBJECT TO FAIR VALUE LEVELING	**$ 4,748,753**	**$ 1,617,026**	**$ 5,364,810**	**11,730,589**
			Investments measured using Net Asset Value[1]	19,668,587
			CONSOLIDATED TOTAL	**$ 31,399,176**

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

The University manages the majority of SHC's and LPCH's investments, including their investments in the Merged Pool (MP). SHC's investments in the MP were $1.3 billion and $1.4 billion, and LPCH's investments in the MP were $608 million and $878 million at August 31, 2016 and 2015, respectively.

For reporting purposes, assets and liabilities of investment entities that are controlled by the University are consolidated. The following table represents the fair value of consolidated investment entity assets and liabilities at August 31, 2016 and 2015, in thousands of dollars:

	2016	2015
Consolidated investment entity assets	$ 166,378	$ 121,478
Consolidated investment entity liabilities	(65,550)	(65,800)
CONSOLIDATED INVESTMENT ENTITY NET ASSETS	**$ 100,828**	**$ 55,678**

SUMMARY OF LEVEL 3 INVESTMENT ACTIVITIES AND TRANSFERS

The following tables present the activities for Level 3 investments for the years ended August 31, 2016 and 2015, in thousands of dollars:

FAIR VALUE MEASUREMENTS USING SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)	BEGINNING BALANCE AS OF SEPTEMBER 1, 2015	PURCHASES	SALES AND MATURITIES	NET REALIZED AND UNREALIZED GAINS (LOSSES)	TRANSFERS IN*	TRANSFERS OUT*	ENDING BALANCE AS OF AUGUST 31, 2016
Public equities	$ -	$ 1,740	$ -	$ 462	$ 843	$ -	$ 3,045
Real estate	4,537,715	68,596	(20,470)	370,364	29	(24)	4,956,210
Natural resources	269,963	13,584	(48,283)	(8,397)	-	(18,212)	208,655
Private equities	64,025	1,629	(1,233)	7,483	-	(29)	71,875
Absolute return	-	4,938	-	2,437	18,212	-	25,587
Assets held by other trustees	208,890	3,913	(11,477)	(7,839)	-	(2,129)	191,358
Other	284,217	144,724	(88,529)	25,906	24	-	366,342
TOTAL	**$ 5,364,810**	**$ 239,124**	**$ (169,992)**	**$ 390,416**	**$ 19,108**	**$ (20,394)**	**$ 5,823,072**

FAIR VALUE MEASUREMENTS USING SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)	BEGINNING BALANCE AS OF SEPTEMBER 1, 2014	PURCHASES	SALES AND MATURITIES	NET REALIZED AND UNREALIZED GAINS (LOSSES)	TRANSFERS IN*	TRANSFERS OUT*	ENDING BALANCE AS OF AUGUST 31, 2015
Public equities	$ 10,127	$ 114	$ (7,239)	$ (2,944)	$ -	$ (58)	$ -
Fixed income	3,960	-	(3,955)	(5)	-	-	-
Real estate	3,882,828	57,273	(51,523)	649,137	-	-	4,537,715
Natural resources	282,518	93,161	(4,932)	(100,784)	-	-	269,963
Private equities	40,988	10,087	(2,143)	15,093	-	-	64,025
Absolute return	4,594	-	(1,698)	(2,896)	-	-	-
Assets held by other trustees	202,130	26,468	(14,594)	(5,114)	-	-	208,890
Other	222,582	123,077	(85,233)	23,733	58	-	284,217
TOTAL	**$ 4,649,727**	**$ 310,180**	**$ (171,317)**	**$ 576,220**	**$ 58**	**$ (58)**	**$ 5,364,810**

**Transfers in (out) are primarily due to reclassification of investments between asset classes.*

Net realized and unrealized gains (losses) in the tables above are included in the *Consolidated Statements of Activities* primarily as increases or decreases in reinvested gains by level of restriction. For the years ended August 31, 2016 and 2015, the change in unrealized gains (losses) for Level 3 investments still held at August 31, 2016 and 2015 was $392 million and $617 million, respectively.

Transfers in (out) include situations where observable inputs have changed. 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, 2016 and 2015.

LEVEL 3 INVESTMENT VALUATION TECHNIQUES AND SIGNIFICANT UNOBSERVABLE INPUTS

The following table summarizes the significant unobservable inputs and valuation methodologies for Level 3 investments as of August 31, 2016 and 2015, in thousands of dollars.

For each investment category and respective valuation technique, the range of the significant unobservable input is dependent on the nature and characteristics of the investment. 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 MIN	RANGE MAX	IMPACT TO VALUATION FROM AN INCREASE IN INPUT[2]
2016						
Real estate	$ 4,493,680	Discounted cash flow	Discount rate	4.8%	20.0%	Decrease
			Capitalization rate	4.5%	9.0%	Decrease
Natural resources	6,769	Market comparables	Weights ascribed to market comparables	20.0%	50.0%	N/A
Other	353,581	Market comparables	Recent transactions	N/A	N/A	N/A
TOTAL AMOUNT WITH SIGNIFICANT UNOBSERVABLE INPUTS	**$ 4,854,030**					
2015						
Real estate	$ 4,065,049	Discounted cash flow	Discount rate	5.3%	11.0%	Decrease
			Capitalization rate	5.3%	7.5%	Decrease
Natural resources	84,671	Market comparables	Weights ascribed to market comparables	20.0%	50.0%	N/A
Other	272,860	Market comparables	Recent transactions	N/A	N/A	N/A
TOTAL AMOUNT WITH SIGNIFICANT UNOBSERVABLE INPUTS	**$ 4,422,580**					

[1] $969.0 and $942.2 million of Level 3 investments at August 31, 2016 and 2015, respectively, are valued using third-party valuations, other market comparables or recent transactions as an approximation of fair value.

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

Stanford is obligated under certain alternative investment agreements to advance additional funding up to specified levels over a period of several years. The following table presents significant terms of such agreements including redemption terms, notice periods, and remaining life for all related alternative investments at August 31, 2016, in thousands of dollars:

ASSET CLASS	FAIR VALUE	UNFUNDED COMMITMENT	REMAINING LIFE (YEARS)	REDEMPTION TERMS
Public equities	$ 4,756,157	$ 80,000	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 30 to 120 days prior notification.
Real estate	1,808,876	1,019,904	0 to 13	Not eligible for redemption
Natural resources	1,776,971	1,136,733	0 to 15	Not eligible for redemption
Private equities	6,362,821	3,208,213	0 to 16	Not eligible for redemption
Absolute return	5,155,970	973,401	0 to 9	Generally, lock-up provisions ranging from 0 to 5 years. After initial lock up expires, redemptions are available on a rolling basis and require 30 to 90 days prior notification.
TOTAL	**$19,860,795**	**$ 6,418,251**		

OFFSETS TO INVESTMENT-RELATED ASSETS AND LIABILITIES

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

Stanford generally maintains master netting agreements and collateral agreements with its counterparties. These agreements provide Stanford the right, in the event of default by the counterparty, such as bankruptcy or a failure to pay or perform, to net a counterparty's rights and obligations under the agreement and to liquidate and offset collateral against any net amount owed by the counterparty.

In the *Consolidated Statements of Financial Position*, derivatives are reflected on a net basis at fair value within the "derivatives" category of "investments". The fair value of assets and obligations associated with collateral under security lending agreements are presented on a gross basis within the "collateral held for securities loaned" category of "investments" as described in this note and in "liabilities associated with investments" as described in *Note 10*, respectively. The following table presents information about the offsetting of these instruments and related collateral amounts as of August 31, 2016 and 2015, in thousands of dollars:

	GROSS AMOUNTS OF ASSETS AND LIABILITIES	GROSS AMOUNTS OFFSET IN THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION	NET AMOUNTS OF ASSETS AND LIABILITIES PRESENTED IN THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION	GROSS AMOUNTS NOT OFFSET IN CONSOLIDATED STATEMENTS OF FINANCIAL POSITION		NET AMOUNT
				FINANCIAL INSTRUMENTS[3]	CASH COLLATERAL RECEIVED[3]	
2016						
Assets:						
Derivatives[1]	$ 545	$ (502)	$ 43	$ -	$ -	$ 43
TOTAL	**545**	**(502)**	**43**	**-**	**-**	**43**
Liabilities:						
Derivatives[1]	502	(502)	-	-	-	-
Securities lending[2]	213,629	-	213,629	213,629	-	-
TOTAL	**$ 214,131**	**$ (502)**	**$ 213,629**	**$ 213,629**	**$ -**	**$ -**
2015						
Assets:						
Derivatives[1]	$ 70,000	$ (11,008)	58,992	-	$ 20,008	38,984
TOTAL	**70,000**	**(11,008)**	**58,992**	**-**	**20,008**	**38,984**
Liabilities:						
Derivatives[1]	11,008	(11,008)	-	-	-	-
Securities lending[2]	110,087	-	110,087	110,087	-	-
TOTAL	**$ 121,095**	**$ (11,008)**	**$ 110,087**	**$ 110,087**	**$ -**	**$ -**

[1] *Gross derivative assets less gross derivative liabilities are presented as "derivatives" in the investment assets table.*
[2] *Refer to Note 10 for details.*
[3] *These amounts are limited to the derivative asset balance and accordingly, do not include any excess collateral received.*

INVESTMENT RETURNS

Total investment returns for the years ended August 31, 2016 and 2015, in thousands of dollars, are as follows:

	UNIVERSITY	SHC	LPCH	CONSOLIDATED
2016				
Investment income	$ 250,478	$ 15,595	$ 2,351	$ 268,424
Net realized and unrealized gains	939,185	27,254	34,820	1,001,259
TOTAL INVESTMENT RETURNS	**$ 1,189,663**	**$ 42,849**	**$ 37,171**	**$ 1,269,683**
Reconciliation to *Statements of Activities:*				
Total investment income distributed for operations	$ 1,321,669	$ 1,361	$ 15,462	$ 1,338,492
Increase in reinvested gains - unrestricted	118,270	39,061	10,303	167,634
Increase (decrease) in reinvested gains - temporarily restricted	(349,476)	2,427	9,987	(337,062)
Change in value of split interest agreements, net - temporarily restricted	14,702	-	164	14,866
Increase in reinvested gains - permanently restricted	25,566	-	-	25,566
Change in value of split interest agreements, net - permanently restricted	18,053	-	1,255	19,308
Adjusted for:				
Returns on split interest agreements paid to beneficiaries - temporarily restricted	13,187	-	-	13,187
Returns on split interest agreements paid to beneficiaries - permanently restricted	27,692	-	-	27,692
TOTAL INVESTMENT RETURNS	**$ 1,189,663**	**$ 42,849**	**$ 37,171**	**$ 1,269,683**
2015				
Investment income	$ 228,617	$ 18,487	$ 2,400	$ 249,504
Net realized and unrealized gains	1,633,778	54,279	59,174	1,747,231
TOTAL INVESTMENT RETURNS	**$ 1,862,395**	**$ 72,766**	**$ 61,574**	**$ 1,996,735**
Reconciliation to *Statements of Activities:*				
Total investment income distributed for operations	$ 1,276,463	$ 1,018	$ 14,266	$ 1,291,747
Increase in reinvested gains - unrestricted	644,855	67,544	33,323	745,722
Increase (decrease) in reinvested gains - temporarily restricted	(89,655)	4,204	14,549	(70,902)
Change in value of split interest agreements, net - temporarily restricted	2,449	-	(254)	2,195
Increase in reinvested gains - permanently restricted	1,760	-	-	1,760
Change in value of split interest agreements, net - permanently restricted	(15,446)	-	(310)	(15,756)
Adjusted for:				
Returns on split interest agreements paid to beneficiaries - temporarily restricted	14,321	-	-	14,321
Returns on split interest agreements paid to beneficiaries - permanently restricted	27,648	-	-	27,648
TOTAL INVESTMENT RETURNS	**$ 1,862,395**	**$ 72,766**	**$ 61,574**	**$ 1,996,735**

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 11*).

FUTURE MINIMUM RENTAL INCOME

As part of its investment portfolio, Stanford holds certain investment properties that it leases to third parties. Future minimum rental income due from the Stanford Shopping Center, the Stanford Research Park and other properties under non-cancelable leases in effect with tenants at August 31, 2016, in thousands of dollars, is as follows:

	FUTURE MINIMUM RENTAL INCOME			
YEAR ENDING AUGUST 31	UNIVERSITY	SHC	LPCH	CONSOLIDATED
2017	$ 111,183	$ 3,324	$ 1,426	$ 115,933
2018	111,026	3,010	1,020	115,056
2019	113,461	2,592	896	116,949
2020	112,507	1,699	629	114,835
2021	109,126	1,182	535	110,843
Thereafter	1,943,038	10,471	1,137	1,954,646
TOTAL	**$ 2,500,341**	**$ 22,278**	**$ 5,643**	**$ 2,528,262**

7. 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, 2016 and 2015, in thousands of dollars:

	2016	2015
Merged Pool	$ 25,337,941	$ 25,931,986
Expendable Funds Pool	3,752,886	3,666,479
Endowment Income Funds Pool	355,022	314,216
Other investment pools	96,643	100,649
Specific investments	5,569,894	5,046,147
	35,112,386	35,059,477
Adjustments:		
Amounts included in "cash and cash equivalents" in the *Statements of Financial Position*	(518,762)	(387,712)
Funds cross-invested in investment pools	(3,582,983)	(3,587,517)
Hospitals' funds not invested in the University's investment pools	321,590	314,928
TOTAL INVESTMENTS	**$ 31,332,231**	**$ 31,399,176**

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 *Consolidated 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 *Consolidated 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, 2016 and 2015, the results of the EFP, in thousands of dollars, are as follows:

	2016	2015
Total investment return of the EFP	$ 95,384	$ 159,143
Less distributions to fund holders and operations	(144,158)	(143,087)
AMOUNTS ADDED TO (WITHDRAWN FROM) FFE	**$ (48,774)**	**$ 16,056**

8. Derivatives

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

INVESTMENT-RELATED DERIVATIVES

The following table presents amounts for investment-related derivatives, including the notional amount, the fair values at August 31, 2016 and 2015, and gains and losses for the years ended August 31, 2016 and 2015, in thousands of dollars:

	AS OF AUGUST 31, 2016			YEAR ENDED AUGUST 31, 2016
	NOTIONAL AMOUNT[1]	GROSS DERIVATIVE ASSETS[2]	GROSS DERIVATIVE LIABILITIES[2]	REALIZED AND UNREALIZED GAINS (LOSSES)[3]
Interest-rate contracts	$ -	$ -	$ -	$ (596)
Foreign exchange contracts	222,815	545	502	(1,589)
Equity contracts	-	-	-	1,163
TOTAL	**$ 222,815**	**$ 545**	**$ 502**	**$ (1,022)**

	AS OF AUGUST 31, 2015			YEAR ENDED AUGUST 31, 2015
	NOTIONAL AMOUNT[1]	GROSS DERIVATIVE ASSETS[2]	GROSS DERIVATIVE LIABILITIES[2]	REALIZED AND UNREALIZED GAINS (LOSSES)[3]
Interest-rate contracts	$ 944,114	$ 69,816	$ -	$ (67,001)
Foreign exchange contracts	35,812	184	362	82,656
Equity contracts	144,552	-	10,646	(12,432)
Credit contracts	-	-	-	563
TOTAL	**$ 1,124,478**	**$ 70,000**	**$ 11,008**	**$ 3,786**

[1] *The notional amount is representative of the volume and activity of the respective derivative type during the years ended August 31, 2016 and 2015.*

[2] *Gross derivative assets less gross derivative liabilities of $43 thousand and $59.0 million as of August 31, 2016 and 2015, respectively, are presented as "derivatives" on the investment table in Note 6.*

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

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, 2016, 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 11*). The agreements, which have a weighted average interest rate of 3.68%, expire November 1, 2039. The notional amount and the fair value of the exchange agreements are included in the table below. Collateral posted with various counterparties was $37.5 million and $16.7 million at August 31, 2016 and 2015, respectively, and is included in the *Consolidated Statements of Financial Position*. In addition, the University issued an irrevocable standby letter of credit of $15.0 million to support collateral requirements at August 31, 2016 and 2015 (see *Note 11*).

At August 31, 2016, 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 $36.2 million and $1.7 million cash collateral required to be posted with counterparties at August 31, 2016 and 2015, respectively.

The following table presents amounts for debt-related derivatives including the notional amount, the fair values at August 31, 2016 and 2015, and gains and losses for the years ended August 31, 2016 and 2015, in thousands of dollars:

	AS OF AUGUST 31, 2016		YEAR ENDED AUGUST 31, 2016	AS OF AUGUST 31, 2015		YEAR ENDED AUGUST 31, 2015
	NOTIONAL AMOUNT[1]	GROSS DERIVATIVE LIABILITIES[2]	UNREALIZED LOSSES[3]	NOTIONAL AMOUNT[1]	GROSS DERIVATIVE LIABILITIES[2]	UNREALIZED LOSSES[3]
Debt-related interest-rate contracts:						
University	$ 97,000	$ 52,222	$ (16,638)	$ 97,000	$ 35,584	$ (5,127)
SHC	576,250	331,334	(115,958)	576,925	215,376	(59,392)
TOTAL	**$ 673,250**	**$ 383,556**	**$ (132,596)**	**$ 673,925**	**$ 250,960**	**$ (64,519)**

[1] *The notional amount is representative of the volume and activity of the respective derivative type during the years ended August 31, 2016 and 2015.*

[2] *Fair value is measured using Level 2 inputs as defined in Note 6. Amounts are included in the Statements of Financial Position in "accounts payable and accrued expenses" and discussed more fully in Note 11.*

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

9. Plant Facilities

Plant facilities, net of accumulated depreciation, at August 31, 2016 and 2015, in thousands of dollars, are as follows:

	UNIVERSITY	SHC	LPCH	CONSOLIDATED
2016				
Land and improvements	$ 517,256	$ 67,816	$ 91,630	$ 676,702
Buildings and building improvements	5,817,312	1,321,441	465,945	7,604,698
Furniture, fixtures and equipment	1,706,663	944,194	310,498	2,961,355
Utilities	832,467	-	-	832,467
Construction in progress	475,327	1,383,279	981,974	2,840,580
	9,349,025	3,716,730	1,850,047	14,915,802
Less accumulated depreciation	(4,180,305)	(1,314,850)	(420,731)	(5,915,886)
PLANT FACILITIES, NET OF ACCUMULATED DEPRECIATION	**$ 5,168,720**	**$ 2,401,880**	**$ 1,429,316**	**$ 8,999,916**
2015				
Land and improvements	$ 513,352	$ 67,541	$ 90,898	$ 671,791
Buildings and building improvements	5,336,952	1,237,008	410,740	6,984,700
Furniture, fixtures and equipment	1,617,442	867,053	294,969	2,779,464
Utilities	830,370	-	-	830,370
Construction in progress	381,745	937,050	645,953	1,964,748
	8,679,861	3,108,652	1,442,560	13,231,073
Less accumulated depreciation	(3,884,297)	(1,185,187)	(364,283)	(5,433,767)
PLANT FACILITIES, NET OF ACCUMULATED DEPRECIATION	**$ 4,795,564**	**$ 1,923,465**	**$ 1,078,277**	**$ 7,797,306**

At August 31, 2016, $1.7 billion, $811.5 million, and $137.1 million of fully depreciated plant facilities were still in use by the University, SHC, and LPCH, respectively, and were included in plant facilities and accumulated depreciation.

10. Liabilities Associated with Investments

At August 31, 2016 and 2015, liabilities associated with investments, in thousands of dollars, are as follows:

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
2016				
Collateral deposits for certain securities loaned temporarily to brokers[1]	$ -	$ 213,629	$ -	$ 213,629
Pending trades of securities	57,406	-	-	57,406
Debt of investment entity	-	65,550	-	65,550
Forward sale and purchase agreements	-	-	17,263	17,263
LIABILITIES ASSOCIATED WITH INVESTMENTS	**$ 57,406**	**$ 279,179**	**$ 17,263**	**$ 353,848**
2015				
Collateral deposits for certain securities loaned temporarily to brokers[1]	$ -	$ 110,087	$ -	$ 110,087
Pending trades of securities	14,431	-	-	14,431
Debt of investment entity	-	65,800	-	65,800
Forward sale and purchase agreements	-	-	22,338	22,338
LIABILITIES ASSOCIATED WITH INVESTMENTS	**$ 14,431**	**$ 175,887**	**$ 22,338**	**$ 212,656**

[1] *The estimated fair value of securities loaned to brokers at August 31, 2016 and 2015 was $205.1 million and $106.3 million, respectively.*

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 equal to a minimum of 102% of the fair market value of the security loaned. The University also has obligations related to pending trades of securities purchased but not settled.

The University also holds controlling interests in several investment entities which are consolidated in the financial statements. The investment assets of these entities are included in "investments" in the *Consolidated Statements of Financial Position*. At August 31, 2016 and 2015, an investment entity held debt of $65.6 million and $65.8 million, respectively, where the University is ultimately liable for principal should the entity default (see *Note 6*).

In addition, the University is party to certain forward sale and purchase agreements.

11. Notes and Bonds Payable

Notes and bonds payable for the University, SHC, and LPCH at August 31, 2016 and 2015, in thousands of dollars, are presented in the table below. The University is not an obligor or guarantor with respect to any obligations of SHC or LPCH, nor are SHC or LPCH obligors or guarantors with respect to obligations of the University or each other.

	YEAR OF MATURITY	EFFECTIVE INTEREST RATE * 2016/2015	OUTSTANDING PRINCIPAL 2016	OUTSTANDING PRINCIPAL 2015
UNIVERSITY:				
Tax-exempt:				
CEFA Fixed Rate Revenue Bonds:				
Series S	2040	3.18%	$ 30,210	$ 30,210
Series T	2023-2039	3.66%-4.30%	188,900	188,900
Series U	2021-2046	1.75%-4.25%	1,167,205	996,855
CEFA Variable Rate Revenue Bonds and Notes:				
Series L	2017-2023	0.62%/0.01%	60,148	69,988
Series S	2040-2051	0.30%-0.47%/0.09%-0.20%	141,200	141,200
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	2019	4.79%	400,000	400,000
Stanford University Series 2012	2042	4.01%	143,235	143,235
Stanford University Series 2013	2044	3.56%	150,115	150,115
Stanford University Series 2014	2054	4.25%	150,000	150,000
Stanford University Series 2015	2047	3.46%	250,000	250,000
Other	2031	Various	484	484
Variable Rate Notes:				
Revolving Credit Facilities	2019	0.72%/0.42%	65,800	41,200
University notes and bonds payable			2,947,297	2,762,187
Unamortized original issue premiums/discounts, net			323,320	257,391
UNIVERSITY TOTAL			**$ 3,270,617**	**$ 3,019,578**
SHC:				
CHFFA Fixed Rate Revenue Bonds:				
2008 Series A-1	2040	5.14%	$ 67,835	$ 68,510
2008 Series A-2	2040	5.25%	100,350	101,350
2008 Series A-3	2040	5.49%	81,140	81,940
2010 Series A	2031	5.46%	124,875	130,220
2010 Series B	2036	5.20%	146,710	146,710
2012 Series A	2051	5.00%	340,000	340,000
2012 Series B	2023	4.71%	47,445	52,880
2015 Series A	2054	4.82%	100,000	100,000
CHFFA Variable Rate Revenue Bonds:				
2008 Series B	2045	0.55%/0.07%	168,200	168,200
2012 Series C	2051	0.78%/0.15%	60,000	60,000
2012 Series D	2051	0.75%/0.53%	100,000	100,000
2015 Series B	2054	0.90%/0.68%	75,000	75,000
Other	2024	4.25%/5.95%	4,870	5,567
SHC notes and bonds payable			1,416,425	1,430,377
Unamortized original issue premiums/discounts, net			46,320	49,102
SHC TOTAL			**$ 1,462,745**	**$ 1,479,479**
LPCH:				
CHFFA Fixed Rate Revenue Bonds:				
2008 Series A	2016	1.41%	$ -	$ 30,340
2008 Series B	2016	1.41%	-	30,340
2008 Series C	2016	1.41%	-	29,610
2012 Series A	2044-2051	4.93%	200,000	200,000
2012 Series B	2016-2027	4.70%	42,195	44,600
2014 Series A	2025-2043	4.74%	100,000	100,000
2016 Series A	2016-2033	4.87%	73,675	-
2016 Series B	2052-2055	4.99%	100,000	-
CHFFA Variable Rate Revenue Bonds:				
2014 Series B	2034-2043	0.66%/0.52%	100,000	100,000
LPCH notes and bonds payable			615,870	534,890
Unamortized original issue premiums/discounts, net			52,536	24,796
LPCH TOTAL			**$ 668,406**	**$ 559,686**
CONSOLIDATED TOTAL			**$ 5,401,768**	**$ 5,058,743**

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

All bonds held at August 31, 2016 and 2015 are classified as Level 2 in the fair value hierarchy as described in *Note 6*. The fair value of the University's, SHC's, and LPCH's debt instruments at August 31, 2016 and 2015, in thousands of dollars, are as follows:

	2016	2015
University	$ 3,792,935	$ 3,193,736
SHC	1,585,366	1,546,143
LPCH	711,846	569,300
TOTAL	**$ 6,090,147**	**$ 5,309,179**

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

The University's long-term ratings of AAA/Aaa/AAA were affirmed in May and June 2016 by Standard & Poor's, Moody's Investors Service and Fitch Ratings, respectively. In September and October 2016, SHC's long-term ratings were affirmed by Standard & Poor's, Moody's Investors Service and Fitch Ratings at AA-/Aa3/AA, respectively. In March 2016, LPCH's long-term ratings were affirmed by Standard & Poor's, Moody's Investors Service and Fitch Ratings at AA-/Aa3/AA, respectively, and the 2016 Notes were assigned the same ratings.

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

UNIVERSITY

Debt issuances and repayment activity

In August 2016, the University entered into a $250.0 million unsecured revolving credit facility. Drawdowns from the revolving credit facility bear interest at a floating rate equal to the applicable LIBOR rate plus a specified margin. There were no amounts outstanding at August 31, 2016.

In June 2016, CEFA Series U-7 bonds were issued in the amount of $170.3 million plus an original issue premium of $79.7 million. The bonds bear interest at a coupon rate of 5.00%, mature on June 1, 2046, and have a yield of 2.71%. Proceeds will be used to finance facilities and infrastructure.

In October 2015, CEFA Series L (third tranche) in the amount of $9.8 million matured and was repaid. In October 2014, CEFA Series L (first and second tranches) in the amounts of $5.1 million and $8.8 million, respectively, matured and were repaid.

In July 2015, the University called and prepaid $250.0 million of the taxable Series 2009A bonds due in 2016.

In May 2015, the University entered into a $250.0 million unsecured revolving credit facility. Drawdowns from the revolving credit facility bear interest at a floating rate equal to the applicable LIBOR rate plus a specified margin. At August 31, 2016 and 2015, $65.8 million and $41.2 million were outstanding, respectively.

In April 2015, the University issued taxable fixed rate Series 2015 bonds in the amount of $250.0 million. The bonds bear interest at a rate of 3.46% and mature on May 1, 2047. Proceeds can be used for general corporate purposes, including financing and refinancing capital projects.

The University's taxable and tax-exempt commercial paper authorized borrowing capacity was $500 million and $300 million, respectively, at both August 31, 2016 and 2015. There were no amounts outstanding at August 31, 2016 and 2015.

Variable rate debt subject to remarketing or tender
The University had $201.3 million of revenue bonds in variable rate mode outstanding at August 31, 2016. 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.

Letters of credit
In December 2010, the University entered into a credit agreement and established a letter of credit facility under which the bank agreed to issue standby letters of credit in a principal amount not to exceed $50.0 million. In June 2016, the University increased the facility to $65.0 million. At August 31, 2016, irrevocable standby letters of credit of $43.9 million were outstanding in the following amounts and for the following respective purposes: (1) $15.0 million to support collateral requirements under certain interest rate exchange agreements discussed in *Note 8*; (2) $28.7 million to serve as security for workers' compensation deductible insurance arrangements; and (3) $0.2 million for other purposes. No amounts have been drawn on these letters of credit at August 31, 2016.

SHC
Debt issuances and repayment activity
In June 2015, CHFFA, for the benefit of SHC, issued two series of revenue bonds in the aggregate principal amount of $175.0 million (the "2015 Bonds"). The 2015 Bonds were comprised of $100.0 million of 2015 Series A bonds, and $75.0 million of Series B bonds. Proceeds of the 2015 Series A and B bonds will be used to finance a portion of the Renewal Project (see *Note 19*).

Variable rate debt subject to remarketing or tender
At August 31, 2016, SHC had $403.2 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 and 2015 Series B bonds are also in a floating index mode with monthly interest rate resets. The 2012 Series D and 2015 Series B bonds are not subject to remarketing or tender until May 13, 2020 and June 28, 2024, respectively.

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

Letters of credit

At August 31, 2016, SHC had irrevocable standby letters of credit in the aggregate amount of $24.1 million posted with certain beneficiaries in the following amounts and for the following respective purposes: (i) $22.0 million to serve as security for the workers' compensation self-insurance arrangement and (ii) $2.1 million to serve as security deposits for certain construction projects being undertaken by SHC including the Renewal Project (see *Note 19*). No amounts have been drawn on these letters of credit at August 31, 2016 and 2015.

LPCH

Debt issuances and repayment activity

In March 2016, CHFFA, on behalf of LPCH, issued two series of revenue bonds (Series A and B) in the aggregate par amount of $177.0 million. A portion of the proceeds were used to redeem the 2008 Series A, B and C revenue bonds, and the remaining amount will be used to finance a portion of the Renewal Project and to pay for the cost of issuance.

Letters of credit

At August 31, 2016, LPCH had irrevocable standby letters of credit in the aggregate amount of $9.0 million posted with certain beneficiaries in the following amounts and for the following respective purposes: (i) $7.6 million to serve as security for the workers' compensation self-insurance arrangement and (ii) $1.4 million to serve as security deposits for certain construction projects being undertaken by LPCH including the Renewal Project (see *Note 19*). No amounts have been drawn on these letters of credit at August 31, 2016 and 2015.

INTEREST

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

	UNIVERSITY	SHC	LPCH	CONSOLIDATED
2016				
Interest expense, gross	$ 110,300	$ 63,365	$ 21,861	$ 195,526
Less:				
Interest income earned on unspent proceeds	(409)	-	-	(409)
Interest capitalized as a cost of construction	(3,717)	(24,190)	(10,897)	(38,804)
Interest expense on Series 2009A bonds which is classified as an investment expense	(13,230)	-	-	(13,230)
INTEREST EXPENSE, NET	**$ 92,944**	**$ 39,175**	**$ 10,964**	**$ 143,083**
2015				
Interest expense, gross	$ 111,806	$ 60,281	$ 18,907	$ 190,994
Less:				
Interest income earned on unspent proceeds	(245)	-	-	(245)
Interest capitalized as a cost of construction	(3,543)	(20,232)	(4,110)	(27,885)
Interest expense on Series 2009A bonds which is classified as an investment expense	(22,350)	-	-	(22,350)
INTEREST EXPENSE, NET	**$ 85,668**	**$ 40,049**	**$ 14,797**	**$ 140,514**

The University and SHC use interest rate exchange agreements to manage the interest rate exposure of their debt portfolios. As described in *Note 1*, settlements (net cash payments less receipts) under the interest rate exchange agreements are recorded in the *Consolidated Statements of Activities* in "swap interest and change in value of swap agreements" for the University and in "other operating expenses" for SHC. University net payments on interest rate exchange agreements were $3.3 million and $3.5 million for the years ended August 31, 2016 and 2015, respectively. SHC net payments on interest rate exchange agreements were $13.5 million and $14.1 million for the years ended August 31, 2016 and 2015, respectively.

PRINCIPAL PAYMENTS

At August 31, 2016, scheduled principal payments on notes, bonds and capital lease obligations, in thousands of dollars, are as follows:

	PRINCIPAL PAYMENTS			
YEAR ENDING AUGUST 31	UNIVERSITY	SHC	LPCH	CONSOLIDATED
2017 Variable debt subject to remarketing	$ 201,348	$ 228,200	$ -	$ 429,548
2017 Other	4	13,756	5,695	19,455
2018	-	13,873	5,800	19,673
2019	465,800	15,067	5,845	486,712
2020	-	14,821	6,135	20,956
2021	124,115	16,656	6,365	147,136
Thereafter	2,156,030	1,114,052	586,030	3,856,112
TOTAL	**$ 2,947,297**	**$ 1,416,425**	**$ 615,870**	**$ 4,979,592**

12. Endowments

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

Stanford 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 $13.6 million and $5.4 million at August 31, 2016 and 2015, respectively.

Endowment funds by net asset classification at August 31, 2016 and 2015, in thousands of dollars, are as follows:

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
2016				
University endowment				
Donor-restricted endowment funds	$ (13,597)	$ 6,119,400	$ 6,067,654	$ 12,173,457
Funds functioning as endowment	10,224,673	-	-	10,224,673
University endowment	10,211,076	6,119,400	6,067,654	22,398,130
SHC donor-restricted endowment funds	-	10,723	7,894	18,617
LPCH donor-restricted endowment funds	-	94,936	211,348	306,284
TOTAL ENDOWMENT FUNDS	**$ 10,211,076**	**$ 6,225,059**	**$ 6,286,896**	**$ 22,723,031**
2015				
University endowment				
Donor-restricted endowment funds	$ (5,394)	$ 6,466,064	$ 5,720,633	$ 12,181,303
Funds functioning as endowment	10,041,654	-	-	10,041,654
University endowment	10,036,260	6,466,064	5,720,633	22,222,957
SHC donor-restricted endowment funds	-	10,666	7,694	18,360
LPCH donor-restricted endowment funds	-	103,166	204,405	307,571
TOTAL ENDOWMENT FUNDS	**$ 10,036,260**	**$ 6,579,896**	**$ 5,932,732**	**$ 22,548,888**

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

UNIVERSITY

Changes in the University's endowment, excluding pledges, for the years ended August 31, 2016 and 2015, in thousands of dollars, are as follows:

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
2016				
Endowment, beginning of year	$ 10,036,260	$ 6,466,064	$ 5,720,633	$ 22,222,957
Investment returns:				
Earned income	170,659	-	-	170,659
Unrealized and realized gains (losses)	1,087,635	(353,178)	25,335	759,792
Total investment returns	1,258,294	(353,178)	25,335	930,451
Amounts distributed for operations	(1,132,105)	-	-	(1,132,105)
Gifts, transfers and other changes in endowment:				
Current year gifts and pledge payments	2,487	15,061	217,248	234,796
Transfers of prior year gifts	21,220	125	60,347	81,692
EFP funds withdrawn from the endowment	(48,774)	-	-	(48,774)
Other funds invested in (withdrawn from) the endowment, net	73,694	(8,672)	44,091	109,113
Total gifts, transfers and other changes in endowment	48,627	6,514	321,686	376,827
Total net increase (decrease) in endowment	174,816	(346,664)	347,021	175,173
ENDOWMENT, END OF YEAR	**$ 10,211,076**	**$ 6,119,400**	**$ 6,067,654**	**$ 22,398,130**
2015				
Endowment, beginning of year	$ 9,405,641	$ 6,574,426	$ 5,465,939	$ 21,446,006
Investment returns:				
Earned income	197,943	-	-	197,943
Unrealized and realized gains (losses)	1,454,383	(100,618)	(334)	1,353,431
Total investment returns	1,652,326	(100,618)	(334)	1,551,374
Amounts distributed for operations	(1,058,025)	-	-	(1,058,025)
Gifts, transfers and other changes in endowment:				
Current year gifts and pledge payments	1,712	1,937	148,683	152,332
Transfers of prior year gifts	-	160	59,742	59,902
EFP funds invested in the endowment	16,056	-	-	16,056
Other funds invested in (withdrawn from) the endowment, net	18,550	(9,841)	46,603	55,312
Total gifts, transfers and other changes in endowment	36,318	(7,744)	255,028	283,602
Total net increase (decrease) in endowment	630,619	(108,362)	254,694	776,951
ENDOWMENT, END OF YEAR	**$ 10,036,260**	**$ 6,466,064**	**$ 5,720,633**	**$ 22,222,957**

Approximately 16% of the University's endowment is invested in real estate on Stanford's lands, including the Stanford Research Park. This portion of the endowment includes the present value of ground leases, and rental properties that have been developed on Stanford lands. The net operating income from these properties is distributed each year for University operations.

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

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

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

SHC AND LPCH

The endowments of SHC and LPCH are intended to generate investment income to support their current operating and strategic initiatives. The Hospitals invest the majority of their endowments in the University's MP. Their endowments are subject to the same investment and spending strategies that the University employs. The Hospitals' Boards of Directors have approved payout policies which provide for annual amounts to be distributed for current use. "Amounts distributed for operations" in the tables below represents SHC's and LPCH's current year endowment payout spent for designated purposes during fiscal years 2016 and 2015.

SHC

Changes in SHC's endowment, excluding pledges, for the years ended August 31, 2016 and 2015, in thousands of dollars, are as follows:

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
2016				
Endowments, beginning of year	$ -	$ 10,666	$ 7,694	$ 18,360
Investment returns:				
Earned income	-	491	-	491
Unrealized and realized losses	-	(21)	-	(21)
Total investment returns	-	470	-	470
Amounts distributed for operations	-	(413)	-	(413)
Gifts and pledge payments	-	-	200	200
Total net increase in endowments	-	57	200	257
ENDOWMENT, END OF YEAR	**$ -**	**$ 10,723**	**$ 7,894**	**$ 18,617**
2015				
Endowments, beginning of year	$ -	$ 10,293	$ 7,692	$ 17,985
Investment returns:				
Earned income	-	478	-	478
Unrealized and realized gains	-	314	-	314
Total investment returns	-	792	-	792
Amounts distributed for operations	-	(419)	-	(419)
Gifts and pledge payments	-	-	2	2
Total net increase in endowments	-	373	2	375
ENDOWMENT, END OF YEAR	**$ -**	**$ 10,666**	**$ 7,694**	**$ 18,360**

LPCH

Changes in LPCH's endowment, excluding pledges, for the years ended August 31, 2016 and 2015, in thousands of dollars, are as follows:

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
2016				
Endowments, beginning of year	$ -	$ 103,166	$ 204,405	$ 307,571
Investment returns:				
Earned income	-	16,134	-	16,134
Unrealized and realized gains (losses)	-	(8,746)	1,255	(7,491)
Total investment returns	-	7,388	1,255	8,643
Amounts distributed for operations	-	(15,462)	-	(15,462)
Gifts and pledge payments	-	-	5,763	5,763
Other	-	(156)	(75)	(231)
Total net increase (decrease) in endowments	-	(8,230)	6,943	(1,287)
ENDOWMENT, END OF YEAR	**$ -**	**$ 94,936**	**$ 211,348**	**$ 306,284**
2015				
Endowments, beginning of year	$ -	$ 105,530	$ 203,342	$ 308,872
Investment returns:				
Earned income	-	15,162	-	15,162
Unrealized and realized losses	-	(2,202)	(310)	(2,512)
Total investment returns	-	12,960	(310)	12,650
Amounts distributed for operations	-	(14,266)	-	(14,266)
Gifts and pledge payments	-	2	850	852
Other	-	(1,060)	523	(537)
Total net increase (decrease) in endowments	-	(2,364)	1,063	(1,301)
ENDOWMENT, END OF YEAR	**$ -**	**$ 103,166**	**$ 204,405**	**$ 307,571**

13. Gifts and Pledges

Gifts and pledges reported for financial statement purposes are recorded on the accrual basis. The Office of Development (OOD), which is the primary fundraising agent for the University and SHC, reports total gifts based on contributions received in cash or property during the fiscal year. Lucile Packard Foundation for Children's Health (LPFCH) is the primary community fundraising agent for LPCH and the pediatric faculty and programs at the University's SOM. The following summarizes gifts and pledges reported for the years ended August 31, 2016 and 2015, per the *Consolidated Statements of Activities*, in thousands of dollars:

	UNIVERSITY	SHC	LPCH	CONSOLIDATED
2016				
Current year gifts in support of operations	$ 250,769	$ 1,776	$ 5,740	$ 258,285
Donor advised funds, net	21,783	-	-	21,783
Current year gifts not included in operations	2,381	-	-	2,381
Temporarily restricted gifts and pledges, net	284,923	20,716	129,868	435,507
Permanently restricted gifts and pledges, net	761,992	200	7,669	769,861
TOTAL	**$ 1,321,848**	**$ 22,692**	**$ 143,277**	**$ 1,487,817**
2015				
Current year gifts in support of operations	$ 233,572	$ 2,049	$ 5,554	$ 241,175
Donor advised funds, net	66,734	-	-	66,734
Current year gifts not included in operations	1,655	-	-	1,655
Temporarily restricted gifts and pledges, net	250,808	52,333	70,810	373,951
Permanently restricted gifts and pledges, net	208,206	2	850	209,058
TOTAL	**$ 760,975**	**$ 54,384**	**$ 77,214**	**$ 892,573**

14. Functional Expenses

Expenses for the years ended August 31, 2016 and 2015 are categorized on a functional basis as follows, in thousands of dollars:

	UNIVERSITY	SHC	LPCH	ELIMINATIONS	CONSOLIDATED
2016					
Instruction and departmental research	$ 1,733,100	$ -	$ -	$ -	$ 1,733,100
Organized research - direct costs	1,092,696	-	-	-	1,092,696
Patient services	-	3,553,997	1,232,211	(860,086)	3,926,122
Auxiliary activities	1,019,270	-	-	-	1,019,270
Administration and general	410,659	384,711	120,601	(50,669)	865,302
Student services	242,693	-	-	-	242,693
Libraries	151,531	-	-	-	151,531
Development	102,528	10,911	10,868	(9,979)	114,328
SLAC construction	162,133	-	-	-	162,133
TOTAL EXPENSES	**$ 4,914,610**	**$ 3,949,619**	**$ 1,363,680**	**$ (920,734)**	**$ 9,307,175**
2015					
Instruction and departmental research	$ 1,611,953	$ -	$ -	$ -	$ 1,611,953
Organized research - direct costs	1,068,039	-	-	-	1,068,039
Patient services	-	2,973,295	1,141,571	(796,944)	3,317,922
Auxiliary activities	960,981	-	-	-	960,981
Administration and general	396,950	305,910	119,105	(51,803)	770,162
Student services	219,733	-	-	-	219,733
Libraries	154,323	-	-	-	154,323
Development	91,927	9,566	13,308	(8,814)	105,987
SLAC construction	141,792	-	-	-	141,792
TOTAL EXPENSES	**$ 4,645,698**	**$ 3,288,771**	**$ 1,273,984**	**$ (857,561)**	**$ 8,350,892**

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

15. University Retirement Plans

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

DEFINED CONTRIBUTION PLAN

The University offers a defined contribution plan to eligible faculty and staff through the *Stanford Contributory Retirement Plan* (SCRP). Employer contributions are based on a percentage of participant annual compensation, participant contributions and years of service. University and participant contributions are primarily invested in annuities and mutual funds. University contributions under the SCRP, which are vested immediately to participants, were approximately $145.8 million and $137.5 million for the years ended August 31, 2016 and 2015, respectively.

DEFINED BENEFIT PLANS

The University provides retirement and postretirement medical and other benefits through the *Staff Retirement Annuity Plan*, the *Faculty Retirement Incentive Program*, and the *Postretirement Benefit Plan* (the "Plans"). The obligations for the Plans, net of plan assets, are recorded in the *Consolidated Statements of Financial Position* as "accrued pension and postretirement benefit obligations". These plans are described 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. Contributions to the plan are made in accordance with the Employee Retirement Income Security Act (ERISA) based on actuarially determined amounts sufficient to meet the benefits to be paid to plan participants.

Faculty Retirement Incentive Program

The University provides a retirement incentive bonus for eligible faculty through the University *Faculty Retirement Incentive Program* (FRIP). The University's faculty may become eligible for the FRIP program if they commit to retire within a designated window of time. At August 31, 2016 and 2015, there were no program assets. The University funds benefit payouts as they are incurred.

Postretirement Benefit Plan

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

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

	SRAP	FRIP	PRBP	TOTAL
2016				
Fair value of plan assets, beginning of year	$ 269,969	$ -	$ 194,978	464,947
Change in plan assets:				
Actual return on plan assets	34,625	-	14,670	49,295
Employer contributions	-	6,014	17,451	23,465
Plan participants' contributions	-	-	12,111	12,111
Benefits and plan expenses paid	(18,920)	(6,014)	(28,636) *	(53,570)
FAIR VALUE OF PLAN ASSETS, END OF YEAR	**285,674**	**-**	**210,574**	**496,248**
Benefit obligation, beginning of year	316,835	207,481	626,467	1,150,783
Change in projected benefit obligation:				
Service cost	2,794	12,637	23,677	39,108
Interest cost	12,124	7,947	27,538	47,609
Plan participants' contributions	-	-	12,111	12,111
Actuarial loss (gain)	33,730	(51,362)	(127,114)	(144,746)
Benefits and plan expenses paid	(18,920)	(6,014)	(28,636) *	(53,570)
BENEFIT OBLIGATION, END OF YEAR	**346,563**	**170,689**	**534,043**	**1,051,295**
NET LIABILITY RECOGNIZED IN THE *STATEMENTS OF FINANCIAL POSITION*	**$ (60,889)**	**$ (170,689)**	**$ (323,469)**	**$ (555,047)**

** Net of Medicare subsidy*

	SRAP	FRIP	PRBP	TOTAL
2015				
Fair value of plan assets, beginning of year	$ 301,314	$ -	$ 203,109	$ 504,423
Change in plan assets:				
Actual return on plan assets	(6,231)	-	(7,067)	(13,298)
Employer contributions	-	4,782	16,205	20,987
Plan participants' contributions	-	-	11,173	11,173
Benefits and plan expenses paid	(25,114)	(4,782)	(28,442) *	(58,338)
FAIR VALUE OF PLAN ASSETS, END OF YEAR	**269,969**	**-**	**194,978**	**464,947**
Benefit obligation, beginning of year	316,165	197,596	556,898	1,070,659
Change in projected benefit obligation:				
Service cost	3,003	12,326	20,079	35,408
Interest cost	11,003	6,923	22,471	40,397
Plan amendments	1,565	-	-	1,565
Plan participants' contributions	-	-	11,173	11,173
Actuarial loss (gain)	10,213	(4,582)	44,288	49,919
Benefits and plan expenses paid	(25,114)	(4,782)	(28,442) *	(58,338)
BENEFIT OBLIGATION, END OF YEAR	**316,835**	**207,481**	**626,467**	**1,150,783**
NET LIABILITY RECOGNIZED IN THE *STATEMENTS OF FINANCIAL POSITION*	**$ (46,866)**	**$ (207,481)**	**$ (431,489)**	**$ (685,836)**

** Net of Medicare subsidy*

The accumulated benefit obligation for the SRAP was $344.7 million and $314.8 million at August 31, 2016 and 2015, respectively.

Net periodic benefit expense and non-operating activities related to the Plans for the years ended August 31, 2016 and 2015, in thousands of dollars, includes the following components:

	SRAP	FRIP	PRBP	TOTAL
2016				
Service cost	$ 2,794	$ 12,637	$ 23,677	$ 39,108
Interest cost	12,124	7,947	27,538	47,609
Expected return on plan assets	(15,349)	-	(13,648)	(28,997)
Amortization of:				
Prior service cost	396	-	849	1,245
Actuarial loss	1,047	4,747	8,625	14,419
NET PERIODIC BENEFIT EXPENSE	**1,012**	**25,331**	**47,041**	**73,384**
Net actuarial loss (gain)	14,454	(51,362)	(128,136)	(165,044)
Amortization of:				
Prior service cost	(396)	-	(849)	(1,245)
Actuarial loss	(1,047)	(4,747)	(8,625)	(14,419)
TOTAL AMOUNTS RECOGNIZED IN NON-OPERATING ACTIVITIES	**13,011**	**(56,109)**	**(137,610)**	**(180,708)**
TOTAL AMOUNT RECOGNIZED IN NET PERIODIC BENEFIT EXPENSE AND NON-OPERATING ACTIVITIES	**$ 14,023**	**$ (30,778)**	**$ (90,569)**	**$ (107,324)**
2015				
Service cost	$ 3,003	$ 12,326	$ 20,079	$ 35,408
Interest cost	11,003	6,923	22,471	40,397
Expected return on plan assets	(18,660)	-	(15,233)	(33,893)
Amortization of:				
Prior service cost	277	-	2,545	2,822
Actuarial loss	-	5,570	5,192	10,762
NET PERIODIC BENEFIT EXPENSE (INCOME)	**(4,377)**	**24,819**	**35,054**	**55,496**
Net actuarial loss (gain)	35,104	(4,582)	66,588	97,110
Prior service cost	1,565	-	-	1,565
Amortization of:				
Prior service cost	(277)	-	(2,545)	(2,822)
Actuarial loss	-	(5,570)	(5,192)	(10,762)
TOTAL AMOUNTS RECOGNIZED IN NON-OPERATING ACTIVITIES	**36,392**	**(10,152)**	**58,851**	**85,091**
TOTAL AMOUNT RECOGNIZED IN NET PERIODIC BENEFIT EXPENSE AND NON-OPERATING ACTIVITIES	**$ 32,015**	**$ 14,667**	**$ 93,905**	**$ 140,587**

Cumulative amounts recognized in non-operating activities, but not yet recognized in net periodic benefit expense in the *Consolidated Statements of Activities*, are presented in the following table for the years ended August 31, 2016 and 2015, in thousands of dollars:

	SRAP	FRIP	PRBP	TOTAL
2016				
Prior service cost	$ 1,206	$ -	$ -	$ 1,206
Net actuarial loss	70,349	32,429	59,660	162,438
ACCUMULATED PLAN BENEFIT COSTS NOT YET RECOGNIZED IN NET PERIODIC BENEFIT EXPENSE	**$ 71,555**	**$ 32,429**	**$ 59,660**	**$ 163,644**
2015				
Prior service cost	$ 1,602	$ -	$ 849	$ 2,451
Net actuarial loss	56,942	88,538	196,421	341,901
ACCUMULATED PLAN BENEFIT COSTS NOT YET RECOGNIZED IN NET PERIODIC BENEFIT EXPENSE	**$ 58,544**	**$ 88,538**	**$ 197,270**	**$ 344,352**

The prior service costs and net actuarial loss expected to be amortized from non-operating activities to net periodic benefit expense in fiscal year 2017, in thousands of dollars, are as follows:

	SRAP	FRIP	PRBP	TOTAL
Prior service cost	$ 390	$ -	$ -	$ 390
Net actuarial loss	$ 1,508	$ 870	$ 464	$ 2,842

ACTUARIAL ASSUMPTIONS

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

	SRAP		FRIP		PRBP	
	2016	2015	2016	2015	2016	2015
BENEFIT OBLIGATIONS						
Discount rate	3.15%	4.00%	3.15%	3.93%	3.56%	4.46%
Covered payroll growth rate	3.00%	3.00%	4.26%	4.45%	N/A	N/A
NET PERIODIC BENEFIT COST						
Discount rate	4.00%	3.64%	3.93%	3.59%	4.46%	4.10%
Expected returns on plan assets	6.00%	6.50%	N/A	N/A	7.00%	7.50%
Covered payroll growth rate	3.00%	3.00%	4.45%	4.45%	N/A	N/A

In 2014, the Society of Actuaries issued a new mortality table (RP-2014) and a new mortality improvement (projection) scale that recognized increases in life expectancy. In selecting its assumptions for determining the benefit obligations as of August 31, 2015, the University adopted a modified version of the RP-2014 mortality table and a projection scale based on the 2014 Trustees Report of the Social Security Administration (SSA). The use of the new mortality table and projection scale resulted in an increase of approximately $20.5 million, $3.9 million, and $84.0 million to the SRAP, FRIP and PRBP benefit obligations as of August 31, 2015, respectively.

The expected long-term rate of return on asset assumptions for the SRAP and PRBP plans is 6.00% and 7.00%, respectively. The assumption is used in determining the expected returns on plan assets, a component of net periodic benefit expense (income), representing the expected return for the upcoming fiscal year on plan assets. This assumption is developed based on future expectations for returns in each asset class, as well as the target asset allocation of the portfolios. The use of expected long-term returns on plan assets may result in income that is greater or less than the actual returns of those plan assets in any given year. Over time, however, the expected long-term returns are designed to approximate the actual long-term returns, and therefore result in a pattern of income and cost recognition that more closely matches the pattern of the services provided by the employees. Differences between actual and expected returns are recognized as a component of non-operating activities and amortized as a component of net periodic benefit expense (income) over the service or life expectancy of the plan participants, depending on the plan, provided such amounts exceed the accounting standards threshold.

To determine the accumulated PRBP obligation at August 31, 2016, a 7.00% annual rate of increase in the per capita cost of covered health care was assumed for calendar year 2016, declining gradually to 4.50% by 2038 and remaining at this rate thereafter. Health care cost trend rate assumptions have a significant effect on the amounts reported for the health care plans.

If the assumed health care cost trend were increased or decreased by 1%, the impact on the PRBP service and interest cost and the accumulated obligation are as follows, in thousands of dollars:

	1% INCREASE IN HEALTH CARE COST TREND RATE	1% DECREASE IN HEALTH CARE COST TREND RATE
Effect on PRBP total service and interest cost	$ 12,339	$ (9,263)
Effect on accumulated PRBP obligation	$ 94,641	$ (74,809)

EXPECTED CONTRIBUTIONS

The University expects to contribute $11.4 million to the FRIP, $5.0 million to the SRAP and does not expect to contribute to the PRBP during the fiscal year ending August 31, 2017.

EXPECTED BENEFIT PAYMENTS

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

			PRBP	
YEAR ENDING AUGUST 31	SRAP	FRIP	EXCLUDING MEDICARE SUBSIDY	EXPECTED MEDICARE PART D SUBSIDY
2017	$ 27,633	$ 11,439	$ 21,177	$ 3,838
2018	25,022	13,621	22,644	4,171
2019	24,486	10,281	23,970	4,515
2020	24,940	10,548	25,367	4,875
2021	24,197	10,836	26,812	5,248
2022 - 2026	108,085	58,827	157,131	32,079

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, 2016, the University did not have concentrations of risk in any single entity, counterparty, sector, industry or country.

PLAN ASSETS AND ALLOCATIONS

Current U.S. GAAP defines a hierarchy of valuation inputs for the determination of the fair value of plan assets as described in *Note 6*. As of August 31, 2016 and 2015, all of the assets of the PRBP and substantially all of the assets of the SRAP were categorized as Level 1 investments. The fair value of plan assets by asset category, in thousands of dollars, at August 31, 2016 and 2015 and actual allocations and weighted-average target allocations at August 31, 2016 are as follows:

	2016	2015	2016 ACTUAL ALLOCATION	2016 TARGET ALLOCATION
SRAP:				
Cash and cash equivalents	$ 1,829	$ 1,179	1%	0%
Public equities	114,544	105,361	40%	41%
Fixed income	169,171	163,205	59%	59%
Private equities	130	224	<1%	0%
TOTAL	**285,674**	**269,969**	**100%**	**100%**
PRBP:				
Public equities	157,937	145,070	75%	75%
Fixed income	52,637	49,908	25%	25%
TOTAL	**210,574**	**194,978**	**100%**	**100%**
TOTAL FAIR VALUE OF PLAN ASSETS	**$ 496,248**	**$ 464,947**		

16. SHC and LPCH Retirement Plans

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

DEFINED CONTRIBUTION PLAN

The Hospitals offer a defined contribution plan to eligible employees. Employer contributions to the defined contribution retirement plan are based on a percentage of participant annual compensation, participant contributions and years of service. SHC and LPCH contributions under the plan, which are vested immediately to participants, were approximately $79.2 million and $63.7 million, and $29.0 million and $27.0 million for the years ended August 31, 2016 and 2015, respectively.

DEFINED BENEFIT PLANS

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

Staff Pension Plan

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

During the fiscal year ending August 31, 2016, the Pension Plan was amended to allow for a temporary lump sum window for deferred vested participants. During the window, eligible participants were contacted and offered an opportunity to take the lump sum value of their benefit, resulting in a $17.2 million lump sum payment from the plan. This large lump sum payment triggered settlement accounting which required a $6.1 million recognition of the plan's deferred losses, and also reduced the projected benefit obligation and assets by $17.2 million.

Postretirement Medical Benefit Plan

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

Frozen Pension Plan

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

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

	STAFF PENSION PLAN	PRMB	LPCH FROZEN PENSION PLAN
2016			
Fair value of plan assets, beginning of year	$ 197,889	$ -	$ 5,664
Change in plan assets:			
Actual return on plan assets	24,034	-	820
Employer contributions	-	6,029	422
Plan participants' contributions	-	1,043	-
Benefits and plan expenses paid	(13,685)	(7,072) *	(516)
Plan settlements	(17,217)	-	-
FAIR VALUE OF PLAN ASSETS, END OF YEAR	**191,021**	**-**	**6,390**
Benefit obligation, beginning of year	249,109	84,751	8,046
Change in projected benefit obligation:			
Service cost	1,644	2,052	-
Interest cost	9,806	3,295	311
Plan participants' contributions	-	1,043	-
Actuarial loss (gain)	26,827	(9,714)	859
Benefits and plan expenses paid	(13,685)	(7,072) *	(516)
Plan settlements	(17,217)	-	-
Plan amendments	-	2,289	-
BENEFIT OBLIGATION, END OF YEAR	**256,484**	**76,644**	**8,700**
NET LIABILITY RECOGNIZED IN THE *STATEMENTS OF FINANCIAL POSITION*	**$ (65,463)**	**$ (76,644)**	**$ (2,310)**

** Net of Medicare subsidy*

	STAFF PENSION PLAN	PRMB	LPCH FROZEN PENSION PLAN
2015			
Fair value of plan assets, beginning of year	$ 214,575	$ -	$ 5,853
Change in plan assets:			
Actual return on plan assets	(4,727)	-	(108)
Employer contributions	-	4,914	300
Plan participants' contributions	-	1,038	-
Benefits and plan expenses paid	(11,959)	(5,952) *	(381)
FAIR VALUE OF PLAN ASSETS, END OF YEAR	**197,889**	**-**	**5,664**
Benefit obligation, beginning of year	245,402	84,616	7,749
Change in projected benefit obligation:			
Service cost	2,006	2,068	-
Interest cost	9,182	2,995	273
Plan participants' contributions	-	1,038	-
Actuarial loss (gain)	4,478	(14)	405
Benefits and plan expenses paid	(11,959)	(5,952) *	(381)
BENEFIT OBLIGATION, END OF YEAR	**249,109**	**84,751**	**8,046**
NET LIABILITY RECOGNIZED IN THE *STATEMENTS OF FINANCIAL POSITION*	**$ (51,220)**	**$ (84,751)**	**$ (2,382)**

** Net of Medicare subsidy*

The net liability for the PRMB includes amounts for both SHC and LPCH employees and is recognized on the Hospitals' respective *Statements of Financial Position*. The table below presents the plan obligations for each entity as of August 31, 2016 and 2015, in thousands of dollars:

	2016	2015
SHC	$ 59,895	$ 66,547
LPCH	16,749	18,204
TOTAL	**$ 76,644**	**$ 84,751**

The accumulated benefit obligation for the Pension Plan and LPCH Frozen Pension Plan was $254.1 million and $247.0 million, and $8.7 million and $8.0 million at August 31, 2016 and 2015, respectively.

Net periodic benefit expense and non-operating activities related to the Plans for the years ended August 31, 2016 and 2015, in thousands of dollars, includes the following components:

	STAFF PENSION PLAN	PRMB	LPCH FROZEN PENSION PLAN
2016			
Service cost	$ 1,644	$ 2,052	$ -
Interest cost	9,806	3,295	311
Expected return on plan assets	(11,909)	-	(295)
Amortization of:			
Prior service cost	-	773	-
Actuarial loss (gain)	2,272	(313)	105
Settlement loss	6,079	-	-
NET PERIODIC BENEFIT EXPENSE	**7,892**	**5,807**	**121**
Net actuarial loss (gain)	14,702	(9,714)	334
New prior service cost	-	2,289	-
Amortization of:			
Prior service cost	-	(773)	-
Actuarial gain (loss)	(2,272)	313	(105)
Settlement loss	(6,079)	-	-
TOTAL AMOUNTS RECOGNIZED IN NON-OPERATING ACTIVITIES	**6,351**	**(7,885)**	**229**
TOTAL AMOUNT RECOGNIZED IN NET PERIODIC BENEFIT EXPENSE AND NON-OPERATING ACTIVITIES	**$ 14,243**	**$ (2,078)**	**$ 350**
2015			
Service cost	$ 2,006	$ 2,068	$ -
Interest cost	9,182	2,995	273
Expected return on plan assets	(13,195)	-	(348)
Amortization of:			
Prior service cost	-	815	-
Actuarial loss (gain)	2,556	(338)	75
NET PERIODIC BENEFIT EXPENSE	**549**	**5,540**	**-**
Net actuarial loss (gain)	22,400	(14)	861
Amortization of:			
Prior service cost	-	(815)	-
Actuarial gain (loss)	(2,556)	338	(75)
TOTAL AMOUNTS RECOGNIZED IN NON-OPERATING ACTIVITIES	**19,844**	**(491)**	**786**
TOTAL AMOUNT RECOGNIZED IN NET PERIODIC BENEFIT EXPENSE AND NON-OPERATING ACTIVITIES	**$ 20,393**	**$ 5,049**	**$ 786**

The net periodic benefit expense and amounts recognized in non-operating activities for the PRMB include amounts for both SHC and LPCH employees and is recognized on the Hospitals' respective *Statements of Activities*. The table below presents the amount for each entity as of August 31, 2016 and 2015, in thousands of dollars:

	SHC	LPCH	TOTAL
2016			
Net periodic benefit expense	$ 4,272	$ 1,535	$ 5,807
Amounts recognized in non-operating activities	(6,271)	(1,614)	(7,885)
TOTAL AMOUNT RECOGNIZED IN NET PERIODIC BENEFIT EXPENSE AND NON-OPERATING ACTIVITIES	**$ (1,999)**	**$ (79)**	**$ (2,078)**
2015			
Net periodic benefit expense	$ 4,189	$ 1,351	$ 5,540
Amounts recognized in non-operating activities	(383)	(108)	(491)
TOTAL AMOUNT RECOGNIZED IN NET PERIODIC BENEFIT EXPENSE AND NON-OPERATING ACTIVITIES	**$ 3,806**	**$ 1,243**	**$ 5,049**

Cumulative amounts recognized in non-operating activities, but not yet recognized in net periodic benefit expense in the *Consolidated Statements of Activities*, are presented in the following table for the years ended August 31, 2016 and 2015, in thousands of dollars:

	STAFF PENSION PLAN	PRMB	LPCH FROZEN PENSION PLAN
2016			
Prior service cost	$ -	$ 4,102	$ -
Net actuarial loss (gain)	91,341	(14,131)	2,686
ACCUMULATED PLAN BENEFIT COSTS NOT YET RECOGNIZED IN NET PERIODIC BENEFIT EXPENSE	**$ 91,341**	**$ (10,029)**	**$ 2,686**
2015			
Prior service cost	$ -	$ 2,586	$ -
Net actuarial loss (gain)	84,990	(4,730)	2,457
ACCUMULATED PLAN BENEFIT COSTS NOT YET RECOGNIZED IN NET PERIODIC BENEFIT EXPENSE	**$ 84,990**	**$ (2,144)**	**$ 2,457**

The prior service cost and net actuarial loss expected to be amortized from non-operating activities to net periodic benefit expense in fiscal year 2017, in thousands of dollars, are as follows:

	STAFF PENSION PLAN	PRMB	LPCH FROZEN PENSION PLAN
Prior service cost	$ -	$ 674	$ -
Net actuarial loss (gain)	$ 3,012	$ (915)	$ 118

ACTUARIAL ASSUMPTIONS

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

	STAFF PENSION PLAN		PRMB		LPCH FROZEN PENSION PLAN	
	2016	2015	2016	2015	2016	2015
BENEFIT OBLIGATIONS						
Discount rate	3.32%	4.20%	3.07%	4.01%	3.18%	4.03%
Covered payroll growth rate	3.00%	3.00%	N/A	N/A	N/A	N/A
NET PERIODIC BENEFIT COST						
Discount rate	4.20%	3.84%	4.01%	3.65%	4.03%	3.66%
Expected return on plan assets	6.50%	7.00%	N/A	N/A	5.50%	6.25%
Covered payroll growth rate	3.00%	3.00%	N/A	N/A	N/A	N/A

In 2014, the Society of Actuaries issued a new mortality table (RP-2014) and a new mortality improvement (projection) scale that recognized increases in life expectancy. In selecting its assumptions for determining the benefit obligations as of August 31, 2015, SHC and LPCH adopted a modified version of the RP-2014 mortality table and a projection scale based on the 2014 Trustees Report of the Social Security Administration (SSA). The use of the new mortality table and projection scale resulted in an increase of approximately $18.4 million, $6.4 million, and $570 thousand to the Pension Plan, PRMB, and LPCH Frozen Pension Plan benefit obligations, as of August 31, 2015, respectively.

The expected long-term rate of return on asset assumptions for the Pension Plan and LPCH Frozen Pension Plan are 6.50% and 5.50%, respectively. The assumption is used in determining the expected returns on plan assets, a component of net periodic benefit expense (income), representing the expected return for the upcoming fiscal year on plan assets based on the calculated market-related value of plan assets. This assumption is developed based on future expectations for returns in each asset class, as well as the target asset allocation of the portfolios. The use of expected long-term returns on plan assets may result in income that is greater or less than the actual returns of those plan assets in any given year. Over time, however, the expected long-term returns are designed to approximate the actual long-term returns, and therefore result in a pattern of income and cost recognition that more closely matches the pattern of the services provided by the employees. Differences between actual and expected returns are recognized as a component of non-operating activities and amortized as a component of net periodic benefit expense (income) over the service or life expectancy of the plan participants, depending on the plan, provided such amounts exceed the accounting standards threshold.

To determine the accumulated PRMB obligation at August 31, 2016, a 7.00% annual rate of increase in the per capita cost of covered health care was assumed for calendar year 2016, declining gradually to 4.50% by 2038 and remaining at this rate thereafter. Health care cost trend rate assumptions have a significant effect on the amounts reported for the health care plan.

If the assumed health care cost trend were increased or decreased by 1%, the impact on PRMB service and interest cost and accumulated obligation are as follows, in thousands of dollars:

	1% INCREASE IN HEALTH CARE COST TREND RATE	1% DECREASE IN HEALTH CARE COST TREND RATE
Effect on PRMB total service and interest cost	$ 130	$ (119)
Effect on accumulated PRMB obligation	$ 1,939	$ (1,789)

EXPECTED CONTRIBUTIONS

SHC expects to contribute $4.5 million to the PRMB during the fiscal year ending August 31, 2017. SHC and LPCH do not expect to contribute to the Pension Plan and LPCH Frozen Pension Plan during the fiscal year ending August 31, 2017.

EXPECTED BENEFIT PAYMENTS

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

YEAR ENDING AUGUST 31	STAFF PENSION PLAN	PRMB EXCLUDING MEDICARE SUBSIDY	PRMB EXPECTED MEDICARE PART D SUBSIDY	LPCH FROZEN PENSION PLAN
2017	$ 13,198	$ 5,760	$ 275	$ 668
2018	13,601	5,882	272	660
2019	13,976	6,040	268	656
2020	14,352	6,189	262	620
2021	14,663	6,300	254	581
2022 - 2026	75,142	30,301	1,111	2,594

INVESTMENT STRATEGY

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

CONCENTRATION OF RISK

SHC and LPCH manage a variety of risks, including market, credit, and liquidity risks, across its plan assets. Concentration of risk is defined as an undiversified exposure to one of the above-mentioned risks that increases the exposure of the loss of plan assets unnecessarily. Risk is minimized by diversifying the Hospitals' exposure to such risks across a variety of instruments, markets, and counterparties. As of August 31, 2016, the Hospitals did not have concentrations of risk in any single entity, counterparty, sector, industry or country.

PLAN ASSETS AND ALLOCATIONS

Current U.S. GAAP defines a hierarchy of valuation inputs for the determination of the fair value of plan assets as described in *Note 6*. The Plans' assets measured at fair value at August 31, 2016 and 2015, are all categorized as Level 1 investments. The fair value of plan assets by asset category, in thousands of dollars, at August 31, 2016 and 2015 and actual allocations and weighted-average target allocations at August 31, 2016 are as follows:

	2016	2015	2016 ACTUAL ALLOCATION	2016 TARGET ALLOCATION
STAFF PENSION PLAN:				
Cash and cash equivalents	$ 1,075	$ 1,288	1%	0%
Public equities	94,079	95,829	49%	50%
Fixed income	95,867	100,772	50%	50%
TOTAL	**$ 191,021**	**$ 197,889**	**100%**	**100%**
LPCH FROZEN PENSION PLAN:				
Cash and cash equivalents	$ 65	$ 40	1%	0%
Public equities	1,894	1,628	30%	30%
Fixed income	4,431	3,996	69%	70%
TOTAL	**$ 6,390**	**$ 5,664**	**100%**	**100%**

17. Operating Leases

Stanford leases certain equipment and facilities under operating leases expiring at various dates. Total rental expense under these leases for the years ended August 31, 2016 and 2015 was $68.6 million and $51.1 million, respectively, for the University, $90.0 million and $65.4 million, respectively, for SHC, and $27.5 million and $26.5 million, respectively, for LPCH.

Net minimum future operating lease payments for periods subsequent to August 31, 2016, in thousands of dollars, are as follows:

	MINIMUM LEASE PAYMENTS			
YEAR ENDING AUGUST 31	UNIVERSITY	SHC	LPCH	CONSOLIDATED
2017	$ 53,683	$ 78,325	$ 23,541	$ 155,549
2018	33,931	73,742	21,534	129,207
2019	26,867	68,716	19,001	114,584
2020	19,008	57,213	13,156	89,377
2021	17,670	49,483	3,920	71,073
Thereafter	83,488	128,962	7,200	219,650
TOTAL	**$ 234,647**	**$ 456,441**	**$ 88,352**	**$ 779,440**

18. Related Party Transactions

Members of the University, SHC, and LPCH boards and senior management may, from time to time, be associated, either directly or indirectly, with companies doing business with Stanford. For senior management, each entity requires annual disclosure of significant financial interests in, or employment or consulting relationships with, entities doing business with its relevant entity. These annual disclosures cover both senior management and their immediate family members. When such relationships exist, measures are taken to manage appropriately the actual or perceived conflict in the best interests of the relevant entity. No such associations are considered to be significant.

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

19. Commitments and Contingencies

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

SPONSORED 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, 2010 to 2016 are subject to audit. The University does not anticipate any adjustments material to the consolidated financial statements.

HEALTH CARE

As described in *Note 3*, cost reports filed under the Medicare program for services based upon cost reimbursement are subject to audit. The estimated amounts due to or from the program are reviewed and adjusted annually based upon the status of such audits and subsequent appeals.

The health care industry is subject to numerous laws and regulations of federal, state and local governments. Compliance with these laws and regulations can be subject to future government review and interpretation, as well as to regulatory actions unknown or unasserted at this time. Government activity with respect to investigations and allegations concerning possible violations of regulations by health care providers could result in the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. SHC and LPCH are subject to similar regulatory reviews, and while such reviews may result in repayments and civil remedies that could have a material effect on their respective financial results of operations in a given period, SHC's and LPCH's management believes that such repayments and civil remedies would not have a material effect on 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, SHC and LPCH 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, SHC or LPCH for a deficiency or regulatory violation, and/or require payment of fines, corrective action, or both. California law also allows a private right to sue for a breach of medical information. The cost of such possible consequences has not been material to date to the University, SHC or LPCH, and management does not believe that any future consequences of these incidents will be material to the consolidated financial statements.

LABOR AGREEMENTS

Approximately 7% of the University's, 31% of SHC's and 40% of LPCH's employees are covered under union contract arrangements and are, therefore, subject to labor stoppages when contracts expire. There are currently no expired contracts under these union contract arrangements. The University's agreements with the Stanford Deputy Sheriffs' Association and the Service Employees International Union (SEIU) will expire in 2020 and 2019, respectively. SHC's and LPCH's agreements with SEIU and the Committee for Recognition of Nursing Achievement (CRONA) will expire in 2017 and 2019, respectively.

GUARANTEES AND INDEMNIFICATIONS

Stanford enters into indemnification agreements with third parties in the normal course of business. The impact of these agreements, individually or in the aggregate, is not expected to be material to the consolidated financial statements. As a result, no liabilities related to guarantees and indemnifications have been recorded at August 31, 2016.

LITIGATION

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

MEDICAL CENTER RENEWAL PROJECT

In July 2011, Stanford obtained local approval for a Renewal Project to rebuild SHC and expand LPCH to assure adequate capacity and provide modern, technologically-advanced hospital facilities. The Renewal Project 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 share of the estimated total cost of the Renewal Project is $2 billion. The cost of LPCH's share, originally estimated to be approximately $1.2 billion, is likely to be exceeded because of cost increases related to changes in technology, change orders, and market availability of subcontractors, among other factors. The sources of funding for the Renewal Project include operating surpluses, gifts, government grants, and bond proceeds. Through August 2016, SHC has recorded $1.2 billion in construction in progress, inclusive of $98.0 million in capitalized interest and LPCH has recorded $966.8 million in construction in progress, inclusive of $15.6 million in capitalized interest, related to this project. Construction of the Renewal Project is currently scheduled to be completed in 2017 for LPCH and 2018 for SHC.

CONTRACTUAL COMMITMENTS

At August 31, 2016, the University had contractual obligations of approximately $332.8 million in connection with major construction projects. Remaining expenditures on construction in progress are estimated to be $902.9 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 $511.9 million for SHC and $188.6 million for LPCH at August 31, 2016.

The University executed an agreement with a solar electricity developer and operator in 2015 to purchase the output from its solar photovoltaic facility, which is expected to be placed in service by January 1, 2017. The minimum energy purchase requirements are well within the University's current consumption. The University's total payment under the agreement over 25 years, undiscounted, is $198.6 million.

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

20. Subsequent Events

Stanford has evaluated subsequent events for the period from August 31, 2016 through December 6, 2016, the date the consolidated financial statements were issued.

The Board of Directors of LPFCH and the Board of Directors of LPCH approved a binding memorandum of understanding pursuant to which LPCH would become the sole member of LPFCH, effective September 1, 2016. The bylaws of LPFCH afford control of LPFCH to LPCH and therefore, the activities of LPFCH will be included in the consolidated financial statements of LPCH starting September 1, 2016.

21. Consolidating Entity Statements

The pages which follow present consolidating statements of financial position as of August 31, 2016 and 2015, and consolidating statements of activities and cash flows for the years then ended, in thousands of dollars.

CONSOLIDATING STATEMENTS OF FINANCIAL POSITION

At August 31, 2016 (in thousands of dollars)

	UNIVERSITY	SHC	LPCH	ELIMINATIONS	CONSOLIDATED
ASSETS					
Cash and cash equivalents	$ 640,224	$ 690,460	$ 532,900	$ -	$ 1,863,584
Assets limited as to use	315,889	235,788	219	-	551,896
Accounts receivable, net	316,193	642,369	302,234	-	1,260,796
Receivables (payables) from SHC and LPCH, net	91,468	-	-	(91,468)	-
Prepaid expenses and other assets	103,043	136,698	82,354	(3,918)	318,177
Pledges receivable, net	1,357,508	97,753	115,651	-	1,570,912
Student loans receivable, net	78,549	-	-	-	78,549
Faculty and staff mortgages and other loans receivable, net	610,026	-	-	-	610,026
Investments at fair value, including securities pledged or on loan of $205,128	29,085,787	1,552,389	694,055	-	31,332,231
Plant facilities, net of accumulated depreciation	5,168,720	2,401,880	1,429,316	-	8,999,916
Works of art and special collections	-	-	-	-	-
TOTAL ASSETS	**$ 37,767,407**	**$ 5,757,337**	**$3,156,729**	**$ (95,386)**	**$ 46,586,087**
LIABILITIES AND NET ASSETS					
LIABILITIES:					
Accounts payable and accrued expenses	$ 742,872	$ 1,115,084	$ 272,364	$ (95,386)	$ 2,034,934
Accrued pension and postretirement benefit obligations	555,047	125,358	19,059	-	699,464
Liabilities associated with investments	353,848	-	-	-	353,848
Deferred rental and other income	657,378	-	-	-	657,378
Income beneficiary share of split interest agreements	414,432	-	-	-	414,432
Notes and bonds payable	3,270,617	1,462,745	668,406	-	5,401,768
U.S. government refundable loan funds	54,035	-	-	-	54,035
TOTAL LIABILITIES	**6,048,229**	**2,703,187**	**959,829**	**(95,386)**	**9,615,859**
NET ASSETS:					
Unrestricted	17,255,819	2,469,170	1,411,433	-	21,136,422
Temporarily restricted	7,394,745	577,086	574,119	-	8,545,950
Permanently restricted	7,068,614	7,894	211,348	-	7,287,856
TOTAL NET ASSETS	**31,719,178**	**3,054,150**	**2,196,900**	**-**	**36,970,228**
TOTAL LIABILITIES AND NET ASSETS	**$ 37,767,407**	**$ 5,757,337**	**$3,156,729**	**$ (95,386)**	**$ 46,586,087**

CONSOLIDATING STATEMENTS OF FINANCIAL POSITION

At August 31, 2015 (in thousands of dollars)

	UNIVERSITY	SHC	LPCH	ELIMINATIONS	CONSOLIDATED
ASSETS					
Cash and cash equivalents	$ 708,204	$ 475,677	$ 335,901	$ -	$ 1,519,782
Assets limited as to use	160,351	580,701	89,500	-	830,552
Accounts receivable, net	225,440	607,924	300,112	-	1,133,476
Receivables (payables) from SHC and LPCH, net	89,045	-	-	(89,045)	-
Prepaid expenses and other assets	77,303	129,766	73,376	(4,025)	276,420
Pledges receivable, net	760,519	130,457	30,543	-	921,519
Student loans receivable, net	81,492	-	-	-	81,492
Faculty and staff mortgages and other loans receivable, net	549,724	-	-	-	549,724
Investments at fair value, including securities pledged or on loan of $106,264	28,766,240	1,669,889	963,047	-	31,399,176
Plant facilities, net of accumulated depreciation	4,795,564	1,923,465	1,078,277	-	7,797,306
Works of art and special collections	-	-	-	-	-
TOTAL ASSETS	**$ 36,213,882**	**$ 5,517,879**	**$2,870,756**	**$ (93,070)**	**$ 44,509,447**
LIABILITIES AND NET ASSETS					
LIABILITIES:					
Accounts payable and accrued expenses	$ 719,979	$ 860,925	$ 250,797	$ (93,070)	$ 1,738,631
Accrued pension and postretirement benefit obligations	685,836	117,767	20,586	-	824,189
Liabilities associated with investments	212,656	-	-	-	212,656
Deferred rental and other income	652,850	-	-	-	652,850
Income beneficiary share of split interest agreements	435,426	-	-	-	435,426
Notes and bonds payable	3,019,578	1,479,479	559,686	-	5,058,743
U.S. government refundable loan funds	54,081	-	-	-	54,081
TOTAL LIABILITIES	**5,780,406**	**2,458,171**	**831,069**	**(93,070)**	**8,976,576**
NET ASSETS:					
Unrestricted	16,507,624	2,490,372	1,377,043	-	20,375,039
Temporarily restricted	7,744,051	561,642	458,239	-	8,763,932
Permanently restricted	6,181,801	7,694	204,405	-	6,393,900
TOTAL NET ASSETS	**30,433,476**	**3,059,708**	**2,039,687**	**-**	**35,532,871**
TOTAL LIABILITIES AND NET ASSETS	**$ 36,213,882**	**$ 5,517,879**	**$2,870,756**	**$ (93,070)**	**$ 44,509,447**

CONSOLIDATING STATEMENTS OF ACTIVITIES

For the year ended August 31, 2016 (in thousands of dollars)

	UNIVERSITY	SHC	LPCH	ELIMINATIONS	CONSOLIDATED
UNRESTRICTED NET ASSETS					
OPERATING REVENUES:					
Student income:					
Undergraduate programs	$ 342,309	$ -	$ -	$ -	$ 342,309
Graduate programs	340,537	-	-	-	340,537
Room and board	174,111	-	-	-	174,111
Student financial aid	(269,613)	-	-	-	(269,613)
TOTAL STUDENT INCOME	**587,344**	**-**	**-**	**-**	**587,344**
Sponsored research support:					
Direct costs - University	753,638	-	-	-	753,638
Direct costs - SLAC National Accelerator Laboratory	447,834	-	-	-	447,834
Indirect costs	251,395	-	-	-	251,395
TOTAL SPONSORED RESEARCH SUPPORT	**1,452,867**	**-**	**-**	**-**	**1,452,867**
Health care services:					
Net patient service revenue	-	3,893,005	1,313,384	(47,214)	5,159,175
Premium revenue	-	72,292	-	-	72,292
Physicians' services and support - SHC and LPCH, net	873,520	-	-	(873,520)	-
Physicians' services and support - other facilities, net	32,966	-	-	-	32,966
TOTAL HEALTH CARE SERVICES	**906,486**	**3,965,297**	**1,313,384**	**(920,734)**	**5,264,433**
CURRENT YEAR GIFTS IN SUPPORT OF OPERATIONS	**250,769**	**1,776**	**5,740**	**-**	**258,285**
Net assets released from restrictions:					
Payments received on pledges	104,599	2,703	-	-	107,302
Prior year gifts released from donor restrictions	70,819	3,532	2,627	-	76,978
TOTAL NET ASSETS RELEASED FROM RESTRICTIONS	**175,418**	**6,235**	**2,627**	**-**	**184,280**
Investment income distributed for operations:					
Endowment	1,132,105	413	15,462	-	1,147,980
Expendable funds pools and other investment income	189,564	948	-	-	190,512
TOTAL INVESTMENT INCOME DISTRIBUTED FOR OPERATIONS	**1,321,669**	**1,361**	**15,462**	**-**	**1,338,492**
SPECIAL PROGRAM FEES AND OTHER INCOME	**523,506**	**122,996**	**65,089**	**-**	**711,591**
TOTAL OPERATING REVENUES	**5,218,059**	**4,097,665**	**1,402,302**	**(920,734)**	**9,797,292**
OPERATING EXPENSES:					
Salaries and benefits	3,091,657	1,850,124	585,503	-	5,527,284
Depreciation	345,977	136,166	56,454	-	538,597
Other operating expenses	1,476,976	1,963,329	721,723	(920,734)	3,241,294
TOTAL OPERATING EXPENSES	**4,914,610**	**3,949,619**	**1,363,680**	**(920,734)**	**9,307,175**
CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES	**$ 303,449**	**$ 148,046**	**$ 38,622**	**$ -**	**$ 490,117**

CONSOLIDATING STATEMENTS OF ACTIVITIES, Continued

For the year ended August 31, 2016 (in thousands of dollars)

	UNIVERSITY	SHC	LPCH	ELIMINATIONS	CONSOLIDATED
UNRESTRICTED NET ASSETS (continued)					
CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES	**$ 303,449**	**$ 148,046**	**$ 38,622**	**$ -**	**$ 490,117**
NON-OPERATING ACTIVITIES:					
Increase in reinvested gains	118,270	39,061	10,303	-	167,634
Donor advised funds, net	21,783	-	-	-	21,783
Current year gifts not included in operations	2,381	-	-	-	2,381
Equity and fund transfers from Hospitals, net	104,944	(92,242)	(12,702)	-	-
Capital and other gifts released from restrictions	117,490	973	27	-	118,490
Pension and other postemployment benefit related changes other than net periodic benefit expense	180,708	(80)	1,385	-	182,013
Transfer to permanently restricted net assets, net	(45,651)	-	-	-	(45,651)
Transfer to temporarily restricted net assets, net	(35,082)	-	-	-	(35,082)
Swap interest and change in value of swap agreements	(19,966)	(115,958)	-	-	(135,924)
Other	(131)	(1,002)	(3,245)	-	(4,378)
NET CHANGE IN UNRESTRICTED NET ASSETS	**748,195**	**(21,202)**	**34,390**	**-**	**761,383**
TEMPORARILY RESTRICTED NET ASSETS					
Gifts and pledges, net	284,923	20,716	129,868	-	435,507
Increase (decrease) in reinvested gains	(349,476)	2,427	9,987	-	(337,062)
Change in value of split interest agreements, net	14,702	-	164	-	14,866
Net assets released to operations	(175,418)	(9,372)	(23,829)	-	(208,619)
Capital and other gifts released to unrestricted net assets	(117,490)	(973)	(27)	-	(118,490)
Gift transfers to Hospitals, net	(2,927)	2,646	281	-	-
Transfer from unrestricted net assets, net	35,082	-	-	-	35,082
Transfer to permanently restricted net assets, net	(35,551)	-	-	-	(35,551)
Other	(3,151)	-	(564)	-	(3,715)
NET CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	**(349,306)**	**15,444**	**115,880**	**-**	**(217,982)**
PERMANENTLY RESTRICTED NET ASSETS					
Gifts and pledges, net	761,992	200	7,669	-	769,861
Increase in reinvested gains	25,566	-	-	-	25,566
Change in value of split interest agreements, net	18,053	-	1,255	-	19,308
Transfer from unrestricted net assets, net	45,651	-	-	-	45,651
Transfer from temporarily restricted net assets, net	35,551	-	-	-	35,551
Other	-	-	(1,981)	-	(1,981)
NET CHANGE IN PERMANENTLY RESTRICTED NET ASSETS	**886,813**	**200**	**6,943**	**-**	**893,956**
NET CHANGE IN TOTAL NET ASSETS	**1,285,702**	**(5,558)**	**157,213**	**-**	**1,437,357**
Total net assets, beginning of year	30,433,476	3,059,708	2,039,687	-	35,532,871
TOTAL NET ASSETS, END OF YEAR	**$ 31,719,178**	**$ 3,054,150**	**$ 2,196,900**	**$ -**	**$ 36,970,228**

CONSOLIDATING STATEMENTS OF ACTIVITIES

For the year ended August 31, 2015 (in thousands of dollars)

	UNIVERSITY	SHC	LPCH	ELIMINATIONS	CONSOLIDATED
UNRESTRICTED NET ASSETS					
OPERATING REVENUES:					
Student income:					
Undergraduate programs	$ 330,851	$ -	$ -	$ -	$ 330,851
Graduate programs	329,047	-	-	-	329,047
Room and board	164,304	-	-	-	164,304
Student financial aid	(260,616)	-	-	-	(260,616)
TOTAL STUDENT INCOME	**563,586**	**-**	**-**	**-**	**563,586**
Sponsored research support:					
Direct costs - University	713,831	-	-	-	713,831
Direct costs - SLAC National Accelerator Laboratory	430,365	-	-	-	430,365
Indirect costs	242,572	-	-	-	242,572
TOTAL SPONSORED RESEARCH SUPPORT	**1,386,768**	**-**	**-**	**-**	**1,386,768**
Health care services:					
Net patient service revenue	-	3,393,413	1,304,113	(47,087)	4,650,439
Premium revenue	-	62,893	-	-	62,893
Physicians' services and support - SHC and LPCH, net	810,474	-	-	(810,474)	-
Physicians' services and support - other facilities, net	30,487	-	-	-	30,487
TOTAL HEALTH CARE SERVICES	**840,961**	**3,456,306**	**1,304,113**	**(857,561)**	**4,743,819**
CURRENT YEAR GIFTS IN SUPPORT OF OPERATIONS	**233,572**	**2,049**	**5,554**	**-**	**241,175**
Net assets released from restrictions:					
Payments received on pledges	120,653	2,557	-	-	123,210
Prior year gifts released from donor restrictions	37,518	10,039	3,532	-	51,089
TOTAL NET ASSETS RELEASED FROM RESTRICTIONS	**158,171**	**12,596**	**3,532**	**-**	**174,299**
Investment income distributed for operations:					
Endowment	1,058,025	419	14,266	-	1,072,710
Expendable funds pools and other investment income	218,438	599	-	-	219,037
TOTAL INVESTMENT INCOME DISTRIBUTED FOR OPERATIONS	**1,276,463**	**1,018**	**14,266**	**-**	**1,291,747**
SPECIAL PROGRAM FEES AND OTHER INCOME	**498,804**	**98,718**	**52,360**	**-**	**649,882**
TOTAL OPERATING REVENUES	**4,958,325**	**3,570,687**	**1,379,825**	**(857,561)**	**9,051,276**
OPERATING EXPENSES:					
Salaries and benefits	2,848,708	1,428,100	518,780	-	4,795,588
Depreciation	334,592	109,511	58,532	-	502,635
Other operating expenses	1,462,398	1,751,160	696,672	(857,561)	3,052,669
TOTAL OPERATING EXPENSES	**4,645,698**	**3,288,771**	**1,273,984**	**(857,561)**	**8,350,892**
CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES	**$ 312,627**	**$ 281,916**	**$ 105,841**	**$ -**	**$ 700,384**

CONSOLIDATING STATEMENTS OF ACTIVITIES, Continued

For the year ended August 31, 2015 (in thousands of dollars)

	UNIVERSITY	SHC	LPCH	ELIMINATIONS	CONSOLIDATED
UNRESTRICTED NET ASSETS (continued)					
CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES	**$ 312,627**	**$ 281,916**	**$ 105,841**	**$ -**	**$ 700,384**
NON-OPERATING ACTIVITIES:					
Increase in reinvested gains	644,855	67,544	33,323	-	745,722
Donor advised funds, net	66,734	-	-	-	66,734
Current year gifts not included in operations	1,655	-	-	-	1,655
Equity and fund transfers from Hospitals, net	89,963	(39,858)	(50,105)	-	-
Capital and other gifts released from restrictions	96,693	2,288	1,999	-	100,980
Pension and other postemployment benefit related changes					
other than net periodic benefit expense	(85,091)	(19,461)	(678)	-	(105,230)
Transfer to permanently restricted net assets, net	(49,998)	-	-	-	(49,998)
Transfer to temporarily restricted net assets, net	(26,223)	-	-	-	(26,223)
Swap interest and change in value of swap agreements	(8,587)	(59,392)	-	-	(67,979)
Contribution income from Stanford Health Care-ValleyCare affiliation	-	96,758	-	-	96,758
Other	(2,693)	(116)	(1,110)	-	(3,919)
NET CHANGE IN UNRESTRICTED NET ASSETS	**1,039,935**	**329,679**	**89,270**	-	**1,458,884**
TEMPORARILY RESTRICTED NET ASSETS					
Gifts and pledges, net	250,808	52,333	70,810	-	373,951
Increase (decrease) in reinvested gains	(89,655)	4,204	14,549	-	(70,902)
Change in value of split interest agreements, net	2,449	-	(254)	-	2,195
Net assets released to operations	(158,171)	(15,663)	(23,352)	-	(197,186)
Capital and other gifts released to unrestricted net assets	(96,693)	(2,288)	(1,999)	-	(100,980)
Gift transfers to Hospitals, net	(4,073)	4,043	30	-	-
Transfer from unrestricted net assets, net	26,223	-	-	-	26,223
Transfer to permanently restricted net assets, net	(27,999)	-	-	-	(27,999)
Other	(3,002)	81	(908)	-	(3,829)
NET CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	**(100,113)**	**42,710**	**58,876**	-	**1,473**
PERMANENTLY RESTRICTED NET ASSETS					
Gifts and pledges, net	208,206	2	850	-	209,058
Increase in reinvested gains	1,760	-	-	-	1,760
Change in value of split interest agreements, net	(15,446)	-	(310)	-	(15,756)
Transfer from unrestricted net assets, net	49,998	-	-	-	49,998
Transfer from temporarily restricted net assets, net	27,999	-	-	-	27,999
Other	-	-	523	-	523
NET CHANGE IN PERMANENTLY RESTRICTED NET ASSETS	**272,517**	**2**	**1,063**	-	**273,582**
NET CHANGE IN TOTAL NET ASSETS	**1,212,339**	**372,391**	**149,209**	-	**1,733,939**
Total net assets, beginning of year	29,221,137	2,687,317	1,890,478	-	33,798,932
TOTAL NET ASSETS, END OF YEAR	**$ 30,433,476**	**$ 3,059,708**	**$ 2,039,687**	**$ -**	**$ 35,532,871**

CONSOLIDATING STATEMENTS OF CASH FLOWS

For the year ended August 31, 2016 (in thousands of dollars)

	UNIVERSITY	SHC	LPCH	CONSOLIDATED
CASH FLOW FROM OPERATING ACTIVITIES				
Change in net assets	$ 1,285,702	$ (5,558)	$ 157,213	$ 1,437,357
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:				
Depreciation	345,977	136,166	56,454	538,597
Amortization, loss on disposal of fixed assets and other adjustments	335	(1,664)	(1,453)	(2,782)
Provision for doubtful accounts for health care services	-	126,280	(2,433)	123,847
Net losses (gains) on investments and security agreements	(908,896)	(25,346)	3,814	(930,428)
Changes in fair value of interest rate swaps	16,638	115,958	-	132,596
Changes in split interest agreements	10,591	-	(1,419)	9,172
Investment income for restricted purposes	(30,815)	-	-	(30,815)
Gifts restricted for long-term investments	(848,262)	(9,832)	(30,043)	(888,137)
Equity and fund transfers from Hospitals	(102,017)	89,599	12,418	-
Gifts of securities and properties	(15,585)	-	-	(15,585)
Premiums received from bond issuance	79,651	-	14,447	94,098
Changes in operating assets and liabilities:				
Accounts receivable, net	(41,134)	(160,251)	7,431	(193,954)
Pledges receivable, net	(21,036)	(951)	(82,880)	(104,867)
Prepaid expenses and other assets	(28,154)	(6,021)	(14,739)	(48,914)
Accounts payable and accrued expenses	6,123	129,967	7,220	143,310
Accrued pension and postretirement benefit obligations	(130,789)	7,591	(1,527)	(124,725)
Deferred rental and other income	4,528	-	-	4,528
Other	-	-	5,577	5,577
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	**(377,143)**	**395,938**	**130,080**	**148,875**
CASH FLOW FROM INVESTING ACTIVITIES				
Land, building and equipment purchases	(699,868)	(619,570)	(373,743)	(1,693,181)
Student, faculty and other loans:				
New loans made	(117,150)	-	-	(117,150)
Principal collected	50,335	-	-	50,335
Decrease (increase) in assets limited as to use	(155,538)	344,913	89,413	278,788
Purchases of investments	(14,341,974)	(74,446)	-	(14,416,420)
Sales and maturities of investments	14,898,551	217,292	270,000	15,385,843
NET CASH USED FOR INVESTING ACTIVITIES	**(365,644)**	**(131,811)**	**(14,330)**	**(511,785)**
CASH FLOW FROM FINANCING ACTIVITIES				
Gifts and reinvested income for restricted purposes	281,663	44,026	24,280	349,969
Equity and fund transfers from Hospitals	110,829	(77,419)	(33,410)	-
Proceeds from borrowing	486,154	-	100,000	586,154
Bond issuance costs and interest rate swaps	(966)	-	(1,188)	(2,154)
Repayment of notes and bonds payable	(301,044)	(15,951)	(5,705)	(322,700)
Increase in liabilities associated with investments	98,467	-	-	98,467
Other	(296)	-	(2,728)	(3,024)
NET CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES	**674,807**	**(49,344)**	**81,249**	**706,712**
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(67,980)**	**214,783**	**196,999**	**343,802**
Cash and cash equivalents, beginning of year	708,204	475,677	335,901	1,519,782
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 640,224**	**$ 690,460**	**$ 532,900**	**$ 1,863,584**
SUPPLEMENTAL DATA:				
Interest paid, net of capitalized interest	$ 120,891	$ 41,427	$ 10,950	$ 173,268
Cash collateral received under security lending agreements	$ 213,629	$ -	$ -	$ 213,629
Increase (decrease) in payables for plant facilities	$ 6,485	$ (8,128)	$ 33,071	$ 31,428

CONSOLIDATING STATEMENTS OF CASH FLOWS

For the year ended August 31, 2015 (in thousands of dollars)

	UNIVERSITY	SHC	LPCH	CONSOLIDATED
CASH FLOW FROM OPERATING ACTIVITIES				
Change in net assets	$ 1,212,339	$ 372,391	$ 149,209	$ 1,733,939
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:				
Depreciation	334,592	109,511	58,532	502,635
Amortization, loss on disposal of fixed assets and other adjustments	9,950	(1,702)	(929)	7,319
Provision for doubtful accounts for health care services	-	131,601	10,474	142,075
Net gains on investments and security agreements	(1,613,337)	(52,858)	(24,997)	(1,691,192)
Changes in fair value of interest rate swaps	5,127	59,392	-	64,519
Changes in split interest agreements	21,529	-	564	22,093
Investment expense (income) for restricted purposes	(34,034)	-	2,206	(31,828)
Gifts restricted for long-term investments	(252,404)	(40,014)	(61,682)	(354,100)
Equity and fund transfers from Hospitals	(85,890)	35,815	50,075	-
Gifts of securities and properties	(42,330)	-	-	(42,330)
Contribution income from Stanford Health Care- ValleyCare affiliation	-	(96,820)	-	(96,820)
Premiums received from bond issuance	-	5,627	-	5,627
Changes in operating assets and liabilities:				
Accounts receivable, net	(26,145)	(233,049)	(79,726)	(338,920)
Pledges receivable, net	(1,324)	(2,111)	3,063	(372)
Prepaid expenses and other assets	(9,761)	(17,931)	(10,755)	(38,447)
Accounts payable and accrued expenses	85,525	60,951	48,408	194,884
Accrued pension and postretirement benefit obligations	119,600	20,528	486	140,614
Deferred rental and other income	36,275	-	-	36,275
Other	-	35	-	35
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	**(240,288)**	**351,366**	**144,928**	**256,006**
CASH FLOW FROM INVESTING ACTIVITIES				
Land, building and equipment purchases	(583,531)	(447,635)	(251,099)	(1,282,265)
Student, faculty and other loans:				
New loans made	(104,509)	-	-	(104,509)
Principal collected	55,444	-	-	55,444
Decrease (increase) in assets limited as to use	140,215	(74,101)	170,157	236,271
Cash acquired from ValleyCare, net of cash paid as consideration	-	(52,539)	-	(52,539)
Purchases of investments	(28,157,549)	(208,307)	(757)	(28,366,613)
Sales and maturities of investments	28,864,206	196,497	90,000	29,150,703
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	**214,276**	**(586,085)**	**8,301**	**(363,508)**
CASH FLOW FROM FINANCING ACTIVITIES				
Gifts and reinvested income for restricted purposes	229,727	153,464	41,714	424,905
Equity and fund transfers from Hospitals	99,656	(72,109)	(27,547)	-
Proceeds from borrowing	291,200	244,111	-	535,311
Bond issuance costs and interest rate swaps	(957)	(1,571)	-	(2,528)
Repayment of notes and bonds payable	(457,119)	(81,154)	(5,375)	(543,648)
Decrease in liabilities associated with investments	(58,586)	-	-	(58,586)
Other	81	-	(277)	(196)
NET CASH PROVIDED BY FINANCING ACTIVITIES	**104,002**	**242,741**	**8,515**	**355,258**
INCREASE IN CASH AND CASH EQUIVALENTS	**77,990**	**8,022**	**161,744**	**247,756**
Cash and cash equivalents, beginning of year	630,214	467,655	174,157	1,272,026
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 708,204**	**$ 475,677**	**$ 335,901**	**$ 1,519,782**
SUPPLEMENTAL DATA:				
Interest paid, net of capitalized interest	$ 120,743	$ 42,481	$ 14,854	$ 178,078
Cash collateral received under security lending agreements	$ 110,087	$ -	$ -	$ 110,087
Increase (decrease) in payables for plant facilities	$ (15,493)	$ 43,861	$ 18,394	$ 46,762

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APPENDIX B

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

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

Definitions

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

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

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

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

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

"*Bonds*" means Stanford University Taxable Bonds Series 2017 authorized by, and at any time Outstanding pursuant to, the Indenture.

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

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

"'*Certificate*', '*Statement*' or '*Request' of the Institution*" mean, respectively, a written certificate, statement or request signed in the name of the Institution by an Authorized Representative. Any such instrument and supporting opinions or representations, if any, may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined shall be read and construed as a single instrument. If and to the extent required by the Indenture, each such instrument shall include the statements provided for in the Indenture.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

“*Interest Payment Date”* means May 1 and November 1 of each year, commencing on November 1, 2017.

“*Investment Securities*” means any of the following: (1) direct nonprepayable, noncallable obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury of the United States of America) or direct nonprepayable, noncallable obligations the timely payment of the principal of and interest on which is fully and unconditionally guaranteed by the United States of America, including instruments evidencing a direct ownership interest in securities described in this clause such as CATS, TIGRs, and Stripped Treasury Coupons rated or assessed in the highest Rating Categories by S&P and Moody’s and held by a custodian for safekeeping on behalf of holders of such securities and (2) money market funds registered under the Investment Company Act of 1940, as amended (the “*Investment Company Act*”), the shares in which are registered under the Securities Act of 1933, as amended (the “*Securities Act*”) and that have a rating by S&P of AAAm-G, AAAm or AAm, including such funds for which the Trustee or its affiliates provide investment advisory or other management services, including those for which the Trustee or an affiliate receives and retains a fee for services provided to the fund, whether as a custodian, transfer agent, investment advisor or otherwise, (3) commercial paper having, at the time of investment or contractual commitment to invest therein, a rating from Moody’s and S&P, of A1 and P1, respectively, (4) repurchase and reverse repurchase agreements collateralized with securities described in clause (1) of this definition, including those of the Trustee or any of its affiliates, and (5) bank deposit products, demand deposits, including interest bearing money market accounts, time deposits, trust funds, trust accounts, overnight bank deposits, interest-bearing deposits, and certificates of deposit, including those placed by a third party pursuant to an agreement between the Trustee and the Institution, or bankers acceptances of depository institutions, including the Trustee or any of its affiliates, which are fully FDIC-insured.

“Make-Whole Redemption Price” means the greater of (1) 100% of the principal amount of the Bonds to be redeemed; or (2) the sum of the present values of the remaining scheduled payments of principal and interest to the maturity date of the Bonds to be redeemed (not including any portion of those payments of interest accrued and unpaid as of the redemption date), discounted to the redemption date on a semi-annual basis assuming a 360-day year consisting of twelve 30-day months at the adjusted Treasury Rate plus 10 basis points, plus, in each case, accrued and unpaid interest on such Bonds to, but excluding, the redemption date.

“*Moody’s*” means Moody’s Investors Service, Inc., a corporation organized and existing under the laws of the State of Delaware, and any successor to its securities rating agency business, or, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, any other nationally recognized securities rating agency designated by the Institution upon notice to the Trustee.

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

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

"*Par Call Date*" means, with respect to the Bonds maturing on May 1, 2048, November 1, 2047.

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

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

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

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

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

"*Principal Payment Date*" means the date of maturity of the Bonds: May 1, 2048.

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

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

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

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

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

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

"*S&P*" means S&P Global Inc., a corporation organized and existing under the laws of the State of New York, and any successor to its securities rating agency business, or, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, any other nationally recognized securities rating agency designated by the Institution upon notice to the Trustee.

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

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

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

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

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

"*Underwriters*" means Goldman, Sachs & Co., Merrill Lynch, Pierce, Fenner & Smith Incorporated, J.P. Morgan Securities LLC and Morgan Stanley & Co. LLC.

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

Establishment and Pledge of Indenture Fund

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

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

Funds and Accounts

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

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

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

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

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

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

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

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

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

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

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

Validity of Bonds

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

Additional Bonds

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

Redemption of Bonds

Terms of Redemption. On or after the applicable Par Call Date, the Bonds are subject to optional redemption prior to maturity, in whole or in part, at the written direction of the Institution to the Trustee. Such redemption shall be in accordance with the terms of the Bonds as directed by the Institution, at the Redemption Price, as described in the Bonds. Prior to the applicable Par Call Date, the Bonds are also subject to optional redemption prior to maturity, in whole or in part, at the written direction of the Institution to the Trustee. Such redemption shall be in accordance with the terms of the Bonds as directed by the Institution, at the Make-Whole Redemption Price, as described in the Bonds. The Institution shall retain an independent accounting firm or an independent financial advisor to determine the Make-Whole Redemption Price of the Bonds to be redeemed and perform all actions and make all calculations required to determine such Make-Whole Redemption Price. The Make-Whole Redemption Price will be calculated by an independent accounting firm or financial advisor retained by the Institution at its expense. The Trustee and the Institution may conclusively rely on such accounting firm's or financial advisor's calculations in connection with, and its determination of, the Make-Whole Redemption Price, and neither the Trustee nor the Institution shall have any liability for such reliance. The determination of the Make-Whole Redemption Price by such accounting firm or financial advisor shall be conclusive and binding on the Trustee, the Institution and the Holders of the Bonds. The Bonds are redeemable prior to maturity at the written direction of the Institution to the Trustee not less than five (5) Business Days nor more than sixty (60) days prior to the date that notice of redemption is due to be given by the Trustee in accordance with the Indenture.

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

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

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

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

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

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

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

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

Use of Securities Depository

Notwithstanding any provision of the Indenture to the contrary:

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

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

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

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

Particular Covenants

Punctual Payment. The Institution shall punctually pay the principal, Redemption Price or Make-Whole Redemption Price and interest to become due in respect of all the Bonds, in compliance with the terms of the Bonds and the Indenture. When and as paid in full, all Bonds shall be delivered to the Trustee and shall thereafter be cancelled by the Trustee and delivered to, or upon the order of, the Institution.

Power to Issue Bonds. The Institution is duly authorized to issue the Bonds and to enter into the Indenture and perform the transactions hereunder in the manner and to the extent provided in the

Indenture. The Bonds are and will be the legal, valid and binding obligations of the Institution in accordance with their terms, and the Institution and the Trustee shall at all times, to the extent permitted by law, defend, preserve such obligations and all the rights of the Bondholders under the Indenture against all claims and demands of all Persons, subject to the limitations set forth in the Indenture relating to the Trustee.

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

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

Events of Default and Remedies of Bondholders

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

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

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

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

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

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

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

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

Second: To the payment to the Persons entitled thereto of the unpaid principal, Redemption Price or Make-Whole Redemption Price of any Bonds which shall have become due, whether at maturity or by call for redemption, in the order of their due dates, with interest on the overdue principal at the rate borne by the Bonds, and, if the amount available shall not be sufficient to pay in full all the Bonds due on any date, together with such interest, then to the payment thereof ratably, according to the amounts of principal, Redemption Price or Make-Whole Redemption Price due on such date to the Persons entitled thereto, without any discrimination or preference.

(2) If the principal of all of the Bonds shall have become or have been declared due and payable, to the payment of the principal and interest then due and unpaid upon the Bonds, with interest on the overdue principal at the rate borne by the Bonds, and, if the amount available shall not be sufficient to pay in full the whole amount so due and unpaid, then to the payment

thereof ratably, without preference or priority of principal over interest, or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, according to the amounts due respectively for principal and interest, to the Persons entitled thereto without any discrimination or preference.

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

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

Limitation on Bondholders' Right to Sue. No Holder of any Bond shall have the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under the Indenture or any applicable law with respect to such Bond, unless (1) such Holder shall have given to the Trustee written notice of the occurrence of an Event of Default; (2) the Holders of not less than a majority in aggregate principal amount of the Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers granted in the Indenture or to institute such suit, action or proceeding in its own name; (3) such Holder or Holders shall have offered to the Trustee indemnity reasonably satisfactory to it against the costs, expenses and liabilities to be incurred in compliance with such request; and (4) the Trustee shall have refused or omitted to comply with such request for a period of sixty (60) days after such written request shall have been received by, and such offer of indemnity shall have been made to, the Trustee.

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

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

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

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

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

Waiver of Past Defaults. The Trustee may, and upon request of the Holders of not less than a majority in aggregate principal amount of the Outstanding Bonds shall, on behalf of the Holders of all the Bonds waive any past Default under the Indenture and its consequences, except a Default: (A) In the payment of the principal, Redemption Price or Make-Whole Redemption Price of or interest on any Bond, or (B) in respect of a covenant or other provision of the Indenture which, pursuant to the Indenture, cannot be modified or amended without the consent of the Holder of each Outstanding Bond affected. Upon any such waiver, such Default shall cease to exist, and any Event of Default arising therefrom shall be deemed to have been cured, for every purpose of the Indenture, but no such waiver shall extend to any subsequent or other Default or impair any right consequent thereon.

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

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

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

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

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

The Trustee

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

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

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

Any removal or resignation of the Trustee and appointment of a successor Trustee shall become effective upon acceptance of appointment by the successor Trustee. If no successor Trustee shall have been appointed and have accepted appointment within thirty (30) days of giving notice of removal or notice of resignation as aforesaid, the outgoing Trustee or any Bondholder (on behalf of itself and all other Bondholders) may petition any court of competent jurisdiction for the appointment of a successor Trustee, and such court may thereupon, after such notice (if any) as it may deem proper, appoint such successor Trustee. Any successor Trustee appointed under the Indenture shall signify its acceptance of such appointment by executing and delivering to the Institution and to its predecessor Trustee a written acceptance thereof, and thereupon such successor Trustee, without any further act, deed or conveyance, shall become vested with all the moneys, estates, properties, rights, powers, trusts, duties and obligations of such predecessor Trustee, with like effect as if originally named Trustee in the Indenture; but, nevertheless at the request of the successor Trustee, such predecessor Trustee shall execute and deliver any and all instruments of conveyance or further assurance and do such other things as may reasonably be required for more fully and certainly vesting in and confirming to such successor Trustee all the right, title and interest of such predecessor Trustee in and to any property held by it under the Indenture and shall pay over, transfer, assign and deliver to the successor Trustee any money or other property subject to the trusts and conditions set forth in the Indenture. Upon request of the successor Trustee, the Institution shall execute and deliver any and all instruments as may be reasonably required for more fully and certainly vesting in and confirming to such successor Trustee all such moneys, estates, properties, rights, powers, trusts, duties and obligations. Upon acceptance of appointment by a successor Trustee as provided in this paragraph, the Institution shall mail or cause to be mailed (at the expense of the Institution) a notice of the succession of such Trustee to the trusts under the Indenture to the Bondholders at the addresses shown on the registration books of the Trustee. If the Institution fails to mail such notice within fifteen (15) days after acceptance of appointment by the successor Trustee, the successor Trustee shall cause such notice to be mailed at the expense of the Institution.

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

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

Modification or Amendment of the Indenture

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

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

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

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

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

Defeasance

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

If the Institution shall also pay or cause to be paid all other sums payable under the Indenture by the Institution, then and in that case at the election of the Institution (evidenced by a Certificate of the Institution filed with the Trustee signifying the intention of the Institution to discharge all such indebtedness and the Indenture and upon receipt by the Trustee of an Opinion of Counsel to the effect that the obligations under the Indenture and the Bonds have been discharged), and notwithstanding that any

Bonds shall not have been surrendered for payment, the Indenture and the pledge of the Indenture Fund and all amounts held therein made under the Indenture and all covenants, agreements and other obligations of the Institution under the Indenture (except as otherwise provided in the Indenture) shall cease, terminate, become void and be completely satisfied and discharged and the Bonds shall be deemed paid. In such event, upon the request of the Institution, the Trustee shall promptly cause an accounting for such period or periods as may be requested by the Institution to be prepared and sent to the Institution and shall execute and deliver to the Institution all such instruments as may be necessary to evidence such satisfaction and discharge, and the Trustee shall pay over, transfer, assign or deliver to the Institution all moneys or securities or other property held by it pursuant to the Indenture that are not required for the payment or redemption of Bonds not theretofore surrendered for such payment or redemption.

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

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

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

Limitation of Rights to Parties and Bondholders

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

Evidence of Rights of Bondholders

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

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

Waiver of Personal Liability

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

Governing Law; Venue

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

CUSIP Numbers

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

APPENDIX C

PROPOSED FORM OF OPINION OF COUNSEL TO THE UNIVERSITY

April 11, 2017

Goldman, Sachs & Co.,
as Representative of the Underwriters
New York, New York

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

Ladies and Gentlemen:

We have been requested to furnish you with an opinion in connection with the issuance by The Board of Trustees of the Leland Stanford Junior University (the "University") of $750,000,000 aggregate principal amount of Stanford University Taxable Bonds Series 2017 (the "Bonds").

We have examined executed copies of the Indenture of Trust dated as of April 1, 2017 (the "Indenture") between the University and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"), specimen bonds as executed on behalf of the University and authenticated by the Trustee, and a certified copy of proceedings of the University authorizing the execution of the Indenture, certain other documents and the issuance of the Bonds.

In addition, we have reviewed such other documents and have made such investigation of fact and such examination of law as we have deemed appropriate in order to enable us to render the opinions set forth herein.

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

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

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

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

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

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

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

Very truly yours,

Ropes & Gray LLP

APPENDIX D

DTC BOOK-ENTRY SYSTEM AND GLOBAL CLEARANCE PROCEDURES

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

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

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

DTC Book-Entry Only System

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered Bond certificate will be issued for the Bonds in their aggregate principal amount and will be deposited with DTC.

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

The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

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

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

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

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

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

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the University or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, such Bond certificates are required to be printed and delivered. The University may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, the Bond certificates will be printed and delivered to DTC.

Each person for whom a Participant acquires an interest in the Bonds, as nominee, may desire to make arrangements with such Participant to receive a credit balance in the records of such Participant, and may desire to make arrangements with such Participant to have all notices of redemption or other communications to DTC, which may affect such persons, to be forwarded in writing by such Participant and to have notification made of all interest payments. NONE OF THE UNIVERSITY, THE UNDERWRITERS OR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO SUCH PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE BONDS.

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

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

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

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

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

Euroclear and Clearstream Banking

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

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

Clearing and Settlement Procedures

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

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

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

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

Initial Settlement

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

Secondary Market Trading

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

General

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

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

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