**REOFFERING – NOT A NEW ISSUE** | **BOOK-ENTRY ONLY**

**Ratings: See "RATINGS" herein**

*At the original issuance of the Bonds on June 24, 2004, Orrick, Herrington & Sutcliffe LLP, Bond Counsel, delivered an opinion to the effect that based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. It was the further opinion of Bond Counsel that interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observed that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expressed no opinion regarding any other tax consequences related to the ownership or disposition of or the accrual or receipt of interest on, the Bonds. See "TAX MATTERS" herein. In connection with the modification of the Indenture pursuant to the First Supplemental Indenture and the Conversion of the Bonds to bear interest at a Long Term Rate, Orrick, Herrington & Sutcliffe LLP, Bond Counsel, will deliver its opinion that such modification of the Indenture and Conversion in accordance with the provisions of the Indenture as so modified will not, in and of themselves, result in the inclusion of interest on the Bonds in gross income for purposes of federal income tax purposes. Bond Counsel is not rendering any opinion on the current tax status of the Bonds. See "TAX MATTERS" herein for additional information.*

# $30,210,000
# CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY
## Revenue Bonds (Stanford University)
## Series S-2

**Scheduled Conversion Date: May 15, 2013** | **Due: November 1, 2039**

The Series S-2 Bonds (the "Bonds") were issued on June 24, 2004 by the California Educational Facilities Authority (the "Authority") on behalf of The Board of Trustees of the Leland Stanford Junior University (the "University") pursuant to an Indenture, dated as of June 1, 2004, as supplemented by the First Supplemental Indenture, dated as of May 1, 2013 (as supplemented, the "Indenture"), by and between the Authority and The Bank of New York Mellon Trust Company, N.A. (the "Trustee"), as successor to U.S. Bank National Association. The Bonds are being converted to bear interest in the Long Term Rate Interest Rate Mode (the "Long Term Rate Mode"). Upon the Conversion currently scheduled on May 15, 2013, interest on the Bonds will be payable on each May 1 and November 1, commencing November 1, 2013. For a summary of certain of the terms of the Bonds while in the Long Term Rate Mode, see the inside cover hereof. **This Reoffering Circular is only intended to describe Bonds in a Long Term Rate Mode and no other Interest Rate Mode.** This Reoffering Circular has been prepared by the University and has not been prepared, reviewed or approved by the Authority.

The Bonds are subject to redemption prior to maturity as described herein.

The Bonds are in book-entry form. While in the Long Term Rate Mode, the Bonds will be in denominations of $5,000 or any integral multiple thereof. The Bonds are registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC acts as securities depository for the Bonds. Principal of and interest on the Bonds will be payable directly to DTC, as the registered owner of the Bonds, by the Trustee. For so long as DTC or its nominee, Cede & Co., is the registered owner of the Bonds, all notices, including any notice of redemption, will be mailed only to Cede & Co. See Appendix C – "BOOK-ENTRY SYSTEM" herein.

The Bonds are limited obligations of the Authority payable only out of Revenues as defined in the Indenture and other amounts held in the funds established by the Indenture. The Revenues consist primarily of loan payments to be made under a Loan Agreement (as defined herein) by

## STANFORD UNIVERSITY

The obligation of the University to make loan payments under the Loan Agreement is an unsecured general obligation of the University. The University has other unsecured general obligations outstanding. Moreover, the University is not restricted by the Loan Agreement from incurring additional indebtedness. Such additional indebtedness, if issued, may be either secured or unsecured and may be entitled to payment prior to the loan payments due under the Loan Agreement. See "SECURITY FOR THE BONDS" herein.

THE BONDS SHALL NOT BE DEEMED TO CONSTITUTE A DEBT OR LIABILITY OF THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF OTHER THAN THE AUTHORITY OR A PLEDGE OF THE FAITH AND CREDIT OF THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF, BUT SHALL BE PAYABLE SOLELY FROM THE FUNDS THEREFOR PROVIDED. NEITHER THE STATE OF CALIFORNIA NOR THE AUTHORITY SHALL BE OBLIGATED TO PAY THE PRINCIPAL OF THE BONDS OR THE PREMIUM, IF ANY, OR THE INTEREST THEREON EXCEPT FROM THE FUNDS PROVIDED UNDER THE LOAN AGREEMENT AND THE OTHER ASSETS PLEDGED UNDER THE INDENTURE, AND NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR THE PREMIUM, IF ANY, OR THE INTEREST ON THE BONDS. THE ISSUANCE OF THE BONDS SHALL NOT DIRECTLY OR INDIRECTLY OR CONTINGENTLY OBLIGATE THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF TO LEVY OR TO PLEDGE ANY FORM OF TAXATION WHATEVER THEREFOR OR TO MAKE ANY APPROPRIATION FOR THEIR PAYMENT. THE AUTHORITY HAS NO TAXING POWER.

This cover page contains certain information for quick reference only. It is not a summary of this issue. Capitalized terms used on this cover page not otherwise defined will have the meanings set forth herein.

**See the Inside Cover for a Summary of Certain Terms of the Bonds Upon Conversion**

*The Bonds will be reoffered by the Remarketing Agents subject to certain conditions. Certain legal matters will be passed upon by Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority. Certain legal matters will be passed upon for the Remarketing Agents by Hawkins Delafield & Wood LLP, and for the University by its General Counsel. It is expected that the Bonds will be available for delivery through the facilities of DTC in New York, New York on or about May 15, 2013.*

**Goldman, Sachs & Co.** | **Barclays**

**Citigroup** | **J.P. Morgan** | **Prager & Co., LLC** | **Wells Fargo Securities**

Dated: May 1, 2013

**Summary of Certain Terms of the Bonds**
**in the Long Term Rate Mode**

**$30,210,000**
**Series S-2**

| Conversion Date | Length of Long Term Rate Period | Interest Payment Dates | Maturity Date | Interest Rate | Yield | CUSIP[†] |
|---|---|---|---|---|---|---|
| May 15, 2013 | From Conversion Date to October 31, 2039 | May 1 and November 1 of each year | November 1, 2039 | 5.00% | 3.18% | 130178X68 |

† CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard and Poor's Financial Services LLC on behalf of the American Bankers Association. CUSIP numbers are provided for convenience of reference only. None of the Authority, the University or the Underwriters take any responsibility for the accuracy of such numbers.

This Reoffering Circular 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 the University or the Remarketing Agents 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.

The Remarketing Agents have provided the following sentence for inclusion in this Reoffering Circular. The Remarketing Agents have reviewed the information in this Reoffering Circular in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Remarketing Agents do not guarantee the accuracy or completeness of such information.

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 Reoffering Circular nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the University since the date hereof. See "CERTAIN INVESTMENT CONSIDERATIONS" herein.

In connection with this remarketing, the Remarketing Agents may overallot or effect transactions that stabilize or maintain the market price of the Bonds at levels above those which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

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**$30,210,000**
**CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY**
**Revenue Bonds (Stanford University)**
**Series S-2**

## INTRODUCTION

This Introduction does not purport to be complete, and reference is made to the remainder of this Reoffering Circular, the Appendices and the documents referred to herein for more complete statements with respect to the matters summarized. Capitalized terms not otherwise defined will have the meanings set forth in Appendix B – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Definitions of Certain Terms."

### General

This Reoffering Circular, including the cover page and Appendices hereto (this "Reoffering Circular"), provides certain information in connection with the Conversion and remarketing of $30,210,000 aggregate principal amount of California Educational Facilities Authority Revenue Bonds (Stanford University) Series S-2 (the "Bonds").

The Bonds have been issued pursuant to the provisions of the California Educational Facilities Authority Act, constituting Chapter 2 (commencing with Section 94100) of Part 59 of Division 10 of Title 3 of the Education Code of the State of California, as amended (the "Act"), and the Indenture, dated as of June 1, 2004 (the "Original Indenture"), as supplemented by the First Supplemental Indenture, dated as of May 1, 2013 (the "First Supplemental Indenture" and, the Original Indenture as supplemented, the "Indenture"), between the California Educational Facilities Authority (the "Authority") and The Bank of New York Mellon Trust Company, N.A. (the "Trustee"), as successor to U.S. Bank National Association.

The Bonds have been issued pursuant to and are secured by the Indenture. The Authority loaned the original proceeds of the Bonds to The Board of Trustees of the Leland Stanford Junior University (the "University") pursuant to a Loan Agreement, dated as of June 1, 2004 (the "Loan Agreement"), between the Authority and the University.

This Reoffering Circular has been prepared by the University and has not been prepared, reviewed or approved by the Authority.

### Plan of Finance

The Bonds were originally issued and delivered on June 24, 2004. The initial Interest Rate Mode for the Bonds was the Auction Rate. On May 2, 2008, the Interest Rate Mode for the Bonds was converted to the Commercial Paper Rate. The Bonds are being converted to bear interest in the Long Term Rate Interest Rate Mode (the "Long Term Rate Mode"). The Long Term Rate Period will begin on the date the Bonds are converted and remarketed, as shown on the cover page hereof (the "Conversion Date"), and end on the day before the maturity date of the Bonds. Upon Conversion of the Bonds to the Long Term Rate Mode as provided in this Reoffering Circular, the Bonds will not be subject to conversion to any other Interest Rate Mode or Long Term Rate Period. **This Reoffering Circular is only intended to describe Bonds in a Long Term Rate Mode and no other Interest Rate Mode.** It is expected that the Bonds will be available for delivery through the facilities of the Depository Trust Company ("DTC") in New York, New York on the Conversion Date. See "PLAN OF FINANCE" herein.

### The University

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

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

### The Bonds

The Bonds are being converted to and remarketed in the Long Term Rate Mode. Upon Conversion of the Bonds to the Long Term Rate Mode as provided in this Reoffering Circular, the Bonds will not be subject to Conversion to any other Interest Rate Mode or Long Term Rate Period but will be redeemable as set forth in the Indenture and summarized herein. See "THE BONDS" herein.

The Bonds are registered in the name of Cede & Co., as nominee of DTC. DTC acts as securities depository of the Bonds. Individual purchases of the Bonds will be made in book-entry form only. Principal of and interest on, the Bonds will be payable by the Trustee directly to DTC, as the registered owner of the Bonds. Upon receipt of payments of principal and interest, DTC is to remit such principal and interest to the DTC Participants for subsequent disbursement to the beneficial owners of the Bonds. Purchasers will not receive certificates representing the Bonds purchased by them. See Appendix C – "BOOK-ENTRY SYSTEM" herein.

### Security for the Bonds

The Bonds are payable from loan payments to be paid by the University to the Trustee pursuant to the Loan Agreement. The obligation of the University to make loan payments under the Loan Agreement is an unsecured general obligation of the University. The University has other unsecured general obligations outstanding. The Loan Agreement contains certain covenants for the protection of the Holders of the Bonds and the Authority. See Appendix B – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Loan Agreement." The Bonds are not secured by a reserve fund, or a lien on, or security interests in, any funds, revenues or other assets of the University, except to the extent pledged pursuant to the Indenture as described below. The affiliates of the University described in Appendix A hereto are not obligated with respect to the payment of debt service on the Bonds and their assets and revenues are not pledged and are not expected to be available to the University or the Bondholders for such purpose.

The Indenture provides that all Revenues and any other amounts (including proceeds of the sale of Bonds) held in any fund or account held by the Trustee and established pursuant to the Indenture (other than the Rebate Fund and the Purchase Fund) are to be held in trust and are exclusively and irrevocably pledged for the security and payment of the principal of, premium, if any, and interest on, the Bonds. See "SECURITY FOR THE BONDS."

For additional information concerning the provisions of the Indenture and the Loan Agreement, see Appendix B – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS."

**Continuing Disclosure**

The University will undertake in a Continuing Disclosure Agreement, for the benefit of the Holders of the Bonds, to provide to the Trustee certain annual information and notices required to be provided by Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended. See "CONTINUING DISCLOSURE" and Appendix E – "FORM OF CONTINUING DISCLOSURE AGREEMENT."

**Miscellaneous**

Included in this Reoffering Circular and the Appendices hereto are descriptions of the University, the Bonds, the Indenture and the Loan Agreement. All references herein to the Indenture and the Loan Agreement 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 effecting the enforcement of creditors' rights. The agreements of the Authority with the Holders of the Bonds are fully set forth in the Indenture, and neither any advertisement of the Bonds nor this Reoffering Circular is to be construed as constituting an agreement with the Holders of the Bonds. Insofar as any statements are made in this Reoffering Circular involving matters of opinion, regardless of whether expressly so stated, they are intended merely as such and not as representations of fact. The information and expressions of opinion herein speak only as of their date and are subject to change without notice. Neither delivery of this Reoffering Circular nor any sale made hereunder nor any future use of this Reoffering Circular shall, under any circumstances, create any implication that there has been no change in the affairs of the University.

Additional information regarding this Reoffering Circular 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, (650) 723-5660. In addition, certain documents referred to herein may be obtained on-line at http://bondholder-information.stanford.edu/home.html. The information on the University's website is not a part of this Reoffering Circular.

## PLAN OF FINANCE

The Bonds are being converted to and remarketed pursuant to the Indenture as Bonds in the Long Term Rate Mode. The proceeds of the remarketing of the Bonds will be used to pay the purchase price of Bonds subject to mandatory tender on the Conversion Date shown on the cover hereof. The Bonds are being converted from the Commercial Paper Rate Mode.

On or about May 9, 2013, the University plans to issue its Taxable Bonds Series 2013 (the "2013 Taxable Bonds") in the aggregate principal amount of $150,115,000. The University plans to use the proceeds of the 2013 Taxable Bonds for general corporate purposes of the University including, without limitation, financing and refinancing capital expenditures, and to pay costs of issuance of the 2013 Taxable Bonds. If issued, the 2013 Taxable Bonds will be unsecured general obligations of the University.

On or about May 15, 2013, the University plans to request the Authority to issue its Revenue Bonds (Stanford University) Series U-3 and Series U-4 for the benefit of the University (the "Series U Bonds") in the aggregate principal amount of $300,625,000. The University plans to use the proceeds of the Series U Bonds to finance or refinance certain capital projects of the University (the "Series U Project"), advance refund certain outstanding bonds issued by the Authority for the benefit of the

University, and pay certain costs of issuance related to the Series U Bonds. If issued, the Series U Bonds will be unsecured general obligations of the University.

## THE BONDS

The following provides certain limited information on the terms of the Bonds applicable while the Bonds bear interest at a Long Term Rate. Upon Conversion of the Bonds to the Long Term Rate Mode as provided in this Reoffering Circular, the Bonds will not be subject to Conversion to any other Interest Rate Mode or Long Term Rate Period. **This Reoffering Circular is only intended to describe Bonds while the Interest Rate Mode is the Long Term Rate and no other Interest Rate Mode.**

### General

The Bonds are being remarketed in the Long Term Rate Mode in the aggregate principal amount and with the maturity date shown on the cover page hereof. The Long Term Rate Period will begin on the Conversion Date and end on the day before the maturity date of the Bonds. Interest on the Bonds while in the Long Term Rate Mode will be payable on each May 1 and November 1, commencing November 1, 2013. Interest accruing on the Bonds while in the Long Term Rate Mode will be computed on the basis of a 360-day year, consisting of twelve 30-day months. Bonds bearing interest at the Long Term Rate will be in denominations of $5,000 or any integral multiple thereof.

The Bonds were originally issued and will continue to be issued only in book-entry form and registered in the name of Cede & Co. or such other name as may be requested by an authorized representative of DTC, as nominee of DTC. DTC acts as securities depository for the Bonds. See Appendix C – "BOOK-ENTRY SYSTEM." Except as described in Appendix C – "BOOK-ENTRY SYSTEM," Beneficial Owners (as defined in Appendix C – "BOOK-ENTRY SYSTEM") of the Bonds will not receive or have the right to receive physical delivery of certificates representing their ownership interests in the Bonds. For so long as any purchaser is the Beneficial Owner of a Bond, such purchaser must maintain an account with a broker or dealer who is or acts through a Direct Participant (as defined in Appendix C – "BOOK-ENTRY SYSTEM") to receive payment of the principal and interest on such Bond.

Interest payable on any Interest Payment Date will be payable to the registered owner of the Bonds as of the Record Date for such payment. So long as the Bonds are held in the book-entry system, the principal of and interest on the Bonds will be paid through the facilities of DTC (or a successor securities depository). Otherwise, the principal of the Bonds is payable upon presentation and surrender thereof at the corporate trust office of the Trustee, and interest on the Bonds is payable by check mailed on each Interest Payment Date to the Holders of the Bonds at the close of business on the Record Date in respect of such Interest Payment Date at the registered addresses of Holders as appears on the registration books of the Trustee. In the case of any Holder of Bonds with an aggregate principal amount in excess of $1,000,000 as shown on the registration books of the Trustee bearing interest at the Long Term Rate who, prior to the Record Date next preceding any Interest Payment Date, has provided the Trustee with written wire transfer instructions, interest payable on such Bonds will be paid in accordance with the wire transfer instructions provided by the Holder of such Bond and at the Holder's risk and expense.

Except as provided in the Indenture, the Trustee will not be required to register the transfer or exchange of any Bond during the 15 days before any mailing of a notice of redemption of such Bond or after such Bond has been called for redemption. The Trustee will require the Bondholder requesting such transfer or exchange to pay any tax or other charge required to be paid with respect to such transfer or exchange, and the Trustee also may require the Bondholder requesting such transfer or exchange to pay a reasonable sum to cover expenses incurred by the Trustee or the Authority in connection with such transfer or exchange.

**No Conversion**

Upon Conversion of the Bonds to the Long Term Rate Mode as provided in this Reoffering Circular, the Bonds will not be subject to Conversion to any other Interest Rate Mode or Long Term Rate Period.

**Redemption**

***Mandatory Redemption.*** The Bonds are not subject to mandatory redemption prior to their stated maturity.

***Make-Whole Redemption.*** The Bonds will be subject to optional redemption prior to their stated maturity, as a whole or in part on any date, by the Authority at the direction of the University, from any moneys received by the Trustee from the University pursuant to the Loan Agreement and deposited in the Optional Redemption Account, at a redemption price equal to the greater of:

- one hundred percent (100%) of the Amortized Value (as defined below) of such Bonds to be redeemed, plus accrued and unpaid interest to the date of redemption; or

- an amount equal to the sum of the present values of the remaining unpaid payments of principal and interest to be paid on such Bonds to be redeemed from and including the date of redemption to the stated maturity date of such Bonds, discounted to the date of redemption on a semiannual basis at a discount rate equal to the Applicable Tax-Exempt Municipal Bond Rate (as defined below) for such Bonds minus twenty-five basis points (0.25%).

The "Applicable Tax-Exempt Municipal Bond Rate" for such Bonds will be the "Comparable AAA General Obligations" yield curve rate for the stated maturity date of such Bonds as published by Municipal Market Data five business days prior to the date of redemption. If no such yield curve rate is established for the applicable year, the "Comparable AAA General Obligations" yield curve rate for the two published maturities most closely corresponding to the applicable year will be determined, and the "Applicable Tax-Exempt Municipal Bond Rate" will be interpolated or extrapolated from those yield curve rates on a straight-line basis.

In calculating the Applicable Tax-Exempt Municipal Bond Rate, should Municipal Market Data no longer publish the "Comparable AAA General Obligations" yield curve rate, then the Applicable Tax-Exempt Municipal Bond Rate will equal the Consensus Scale yield curve rate published by Municipal Market Advisors for the applicable year.

In the further event that Municipal Market Advisors no longer publishes the Consensus Scale, the Applicable Tax-Exempt Municipal Bond Rate will be determined by Goldman, Sachs & Co., as the quotation agent, based upon the rate per annum equal to the semiannual equivalent yield to maturity of those tax-exempt general obligation bonds rated in the highest rating category by Moody's Investors Service and Standard & Poor's Rating Services with a maturity date equal to the stated maturity date of such Bonds having characteristics (other than the ratings) most comparable to those of such Bonds in the judgment of the quotation agent. The quotation agent's determination of the Applicable Tax-Exempt Municipal Bond Rate pursuant to this provision will be final and binding in the absence of manifest error.

The "Amortized Value" will equal the principal amount of the Bonds to be redeemed multiplied by the price of such Bonds expressed as a percentage, calculated based on the industry standard method of calculating bond prices, with a delivery date equal to the date of redemption, a maturity date equal to the stated maturity date of such Bonds and a yield equal to such Bonds' original reoffering yield as set forth on the cover of this Reoffering Circular.

The redemption price of the Bonds described above will be determined by an independent accounting firm, investment banking firm or financial advisor (which accounting firm or financial advisor shall be retained by the University at the expense of the University) to calculate such redemption price. The Trustee, the Authority and the University may conclusively rely on such accounting firm's, investment banking firm's or financial advisor's determination of such redemption price and will bear no liability for such reliance.

***Selection of Bonds for Redemption.*** Whenever provision is made in the Indenture for the redemption of less than all of the Bonds, the Trustee will select the Bonds to be redeemed, from all Bonds subject to redemption or such given portion thereof not previously called for redemption, by lot in any manner which the Trustee in its sole discretion deems appropriate and fair.

***Notice of Redemption.*** Notice of redemption will be mailed by the Trustee by first class mail, not less than 30 days nor more than 60 days prior to the date fixed for redemption, to the respective Holders of any Bonds designated for redemption at their addresses appearing on the bond registration books of the Trustee. 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. Any notice of redemption may be rescinded by written notice given to the Trustee by the University no later than five Business Days prior to the date fixed for redemption. The Trustee will give notice of such rescission as soon thereafter as practicable in the same manner, and to the same persons, as notice of such redemption was given.

So long as the book-entry system is in effect, the Trustee will send each notice of redemption to Cede & Co., as nominee of DTC, and not to the Beneficial Owners. So long as DTC or its nominee is the sole registered owner of the Bonds under the book-entry system, any failure on the part of DTC or a Direct Participant or Indirect Participant to notify the Beneficial Owner so affected will not affect the validity of the redemption.

***Partial Redemption of Bonds.*** Upon surrender of any Bond redeemed in part only, the Authority will execute and the Trustee will authenticate and deliver to the Holder thereof, at the expense of the University, a new Bond or Bonds of authorized denominations, equal in aggregate principal amount to the unredeemed portion of the Bond surrendered.

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

## SECURITY FOR THE BONDS

The Bonds are payable from loan payments to be paid by the University to the Trustee pursuant to the Loan Agreement. The obligation of the University to make loan payments under the Loan Agreement is an unsecured general obligation of the University. The Loan Agreement contains certain covenants for the protection of the Holders of the Bonds and the Authority. See Appendix B – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Loan Agreement." The Bonds are not secured by a reserve fund, or a lien on, or security interests in, any funds, revenues or other assets of the University, except to the extent pledged pursuant to the Indenture as described below. The hospital affiliates of the University described in Appendix A – "STANFORD UNIVERSITY (INCLUDING FINANCIAL STATEMENTS AND DISCUSSION OF FINANCIAL RESULTS)" hereto are not obligated with respect to the payment of debt service on the Bonds and their assets and revenues are not pledged and are not expected to be available to the University or the Bondholders for such purpose.

The Indenture provides that all Revenues and any other amounts (including proceeds of the sale of Bonds) held in any fund or account held by the Trustee and established pursuant to the Indenture (other than the Rebate Fund and the Purchase Fund) are to be held in trust and are exclusively and irrevocably pledged for the security and payment of the principal of, premium, if any, and interest on, the Bonds.

The Loan Agreement does not contain any financial covenants limiting the ability of the University to incur indebtedness or any other similar covenants. Further, the University is not required by the Loan Agreement to produce revenues at any specified level. The Loan Agreement contains certain covenants limiting the ability of the University to encumber or dispose of its Bond-financed property, but it does not contain general financial covenants limiting encumbrance or disposal of University property.

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 Loan Agreement from incurring additional indebtedness. Such additional indebtedness, if issued, may be either secured or unsecured and may be entitled to payment prior to the loan payments due under the Loan Agreement.

For additional information concerning the provisions of the Indenture and the Loan Agreement, see Appendix B – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS."

The Bonds shall not be deemed to constitute a debt or liability of the State of California or of any political subdivision thereof other than the Authority or a pledge of the faith and credit of the State of California or of any political subdivision thereof, but shall be payable solely from the funds therefor provided. Neither the State of California nor the Authority shall be obligated to pay the principal of the Bonds or the premium, if any, or the interest thereon except from Revenues and the other assets pledged under the Indenture and neither the faith and credit nor the taxing power of the State of California or of any political subdivision thereof is pledged to the payment of the principal of or the premium, if any, or the interest on the Bonds. The issuance of the Bonds shall not directly or indirectly or contingently obligate the State of California or any political subdivision thereof to levy or to pledge any form of taxation whatever therefor or to make any appropriation for their payment. The Authority has no taxing power.

## ENFORCEABILITY OF REMEDIES

The remedies available to the Trustee or the Holders of the Bonds upon an event of default under the Indenture or the Loan Agreement 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 the Authority, by or against the University or by or against any of their 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 Loan Agreement or 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 that were or will be delivered in connection with the Bonds (including Bond Counsel's approving opinion) were or 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 Reoffering Circular 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 including, among others:

(i) Volatility and dislocations in the global financial markets and other economic factors may reduce the value of the University's endowment, impact investment returns, reduce investment income distributable from the endowment for operations and affect the ability of donors to contribute resources to support University operations and capital needs. See Notes 5, 6, 7, 12 and 14 to the consolidated financial statements of the University for the years ended August 31, 2012 and 2011 (the "University's FY2012 Audited Financial Statements") included in Part II of Appendix A hereto.

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

(iii) Developments in the regional, national and global economies, such as a protracted economic recession, variations in economic growth, changes in monetary policy and the related impact on the University's investment portfolio; federal research funding; increased demand for financial aid; extension of pledge payments; and increased interest rates and the associated impact on debt service.

(iv) Legislation and regulation by governmental authorities, including developments affecting the tax-exempt status of educational institutions such as the University, changes in levels of governmental research funding and reimbursement for administrative overhead and infrastructure, regulation of tuition levels and endowment payout, and conditions and limitations imposed by the Santa Clara County 2000 General Use Permit on the University's expansion and use of facilities.

(v) Ability to recruit and retain faculty and staff in light of the high regional cost of living and the limited availability of affordable housing within reasonable commuting distance.

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

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

Because the financial results of the University are reported on a consolidated basis with those of its hospital affiliates (the "Hospitals"), these consolidated financial results will be affected by the financial results of the Hospitals. The Hospitals' financial results, in turn, will be affected not only by the factors set forth above but specifically by demand for the medical services they provide, inadequate third-party payments, limitations on and inadequate governmental reimbursement for medical services and graduate medical education, increasing costs of providing indigent care, escalating costs of personnel and equipment and inpatient capacity constraints which limit the Hospitals' ability to absorb these increased costs through greater volume. In addition, adverse legislative and regulatory developments and government enforcement actions could negatively impact the Hospitals' results. Among other things, the Patient Protection and Affordable Care Act (the "ACA") enacted in 2010 and upheld by the U.S. Supreme Court on June 28, 2012 is expected to bring about substantial changes in the United States health care system, 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. Attempts to repeal provisions of the ACA are pending in Congress while the constitutionality of the ACA continues to be challenged in the courts. The ultimate outcome of legislative attempts to repeal or amend the ACA and legal challenges to the ACA is unknown. The ACA could have an adverse financial impact on the Hospitals.

For a discussion of certain financial challenges facing the University, see Appendix A – "STANFORD UNIVERSITY (INCLUDING FINANCIAL STATEMENTS AND DISCUSSION OF FINANCIAL RESULTS) – PART I – GENERAL INFORMATION ABOUT STANFORD UNIVERSITY – Capital Improvement Programs," "– Hospitals," "– Investments" and "– Liquidity," and "– PART II, PORTIONS OF THE UNIVERSITY'S FY2012 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.

## REGULATORY MATTERS AND LITIGATION

There is no litigation pending (with service of process having been accomplished) concerning the validity of the Bonds. The University is, however, a party to certain litigation which is described in "Regulatory Matters and Litigation" in Appendix A.

## FORWARD-LOOKING STATEMENTS

This Reoffering Circular, which includes all Appendices hereto, contains forward-looking statements that involve risks and uncertainties. Any statements that express, or involve discussions as to expectations, beliefs, plans, objectives, assumptions, future events or performance (often, but not always, through the use of words or phrases such as "will result," "expects to," "will continue," "anticipates," "plans," "intends," "estimated," "projects" and "outlook") are not historical and may be forward-looking. Forward-looking statements are subject to known and unknown risks, uncertainties and other factors, including, but not limited to, the risks described under the heading "CERTAIN INVESTMENT CONSIDERATIONS" which may cause actual results to be materially different from those expressed or implied by such forward-looking statements. Although the University believes that the expectations reflected in the forward-looking statements are reasonable, the University cannot guarantee future results, levels of activity, performance or achievements. Moreover, neither the University nor any other person assumes responsibility for the accuracy or completeness of these statements. Accordingly, investors should not rely on forward-looking statements in this Reoffering Circular. The University undertakes no obligation to publicly update or revise any forward-looking statements in this Reoffering Circular, whether as a result of new information, future events or otherwise.

## TAX MATTERS

At the original issuance of the Bonds on June 24, 2004, Orrick, Herrington & Sutcliffe LLP ("Bond Counsel"), delivered an opinion (the "Original Opinion") to the effect that, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code") and is exempt from State of California personal income taxes. The text of the Original Opinion is attached hereto in Appendix D. The Original Opinion stated that interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observed that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income.

Prior to the Conversion Date, the Authority and the Trustee entered into the First Supplemental Indenture, which sets forth alternative optional redemption provisions to become applicable upon conversion of the Bonds to the Long Term Rate Period, together with certain additional modifications of the Original Indenture relating to procedures for such conversion (the "Modifications"). On the Conversion Date, Bond Counsel will deliver its opinion (the "No Adverse Tax Opinion") to the effect that the Modifications, and the Conversion of the Bonds to a Long Term Rate Mode in accordance with the provisions of the Indenture, will not, in and of themselves, result in the inclusion of interest on the Bonds in gross income for purposes of federal income tax purposes. The text of the No Adverse Tax Opinion to be delivered by Bond Counsel is also included in Appendix D. Bond Counsel is not rendering any opinion on the current tax status of the Bonds.

As described in the Official Statement relating to the original issuance of the Bonds, the Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. The Authority and the University made certain representations and covenanted to comply with certain restrictions designed to ensure that interest on the Bonds will not be included in federal gross income. As described in the Official Statement relating to the original issuance of the Bonds, inaccuracy of these representations or failure to comply with these covenants may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The Original Opinion assumed the accuracy of these representations and compliance with these covenants. Bond Counsel, in the Original Opinion, did not undertake to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Bonds might adversely affect the value of, or the tax status of interest on, the Bonds. Accordingly, the Original Opinion was not intended to, and may not, be relied upon in connection with any such actions, events or matters.

In addition, as described in the Official Statement relating to the original issuance of the Bonds, Bond Counsel, in delivering the Original Opinion, relied, among other things, on the opinion of the University's General Counsel regarding the then current qualification of the University as an organization described in Section 501(c)(3) of the Code and the intended operation of the facilities to be financed by the Bonds as substantially related to the University's charitable purpose under Section 513 of the Code. Such opinion was subject to a number of qualifications and limitations. Further, the University's General Counsel did not give any opinion or assurance concerning Section 513(a) of the Code nor about the future activities of the University after the date of issuance of the Bonds, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or changes in enforcement thereof by the Internal Revenue Service ("IRS"). As described in the Official Statement relating to the original issuance of the Bonds, failure of the University to be organized and operated in accordance with the IRS's requirements for the maintenance of its status as an organization described in Section 501(c)(3) of the Code, or to operate the facilities financed and refinanced by the Bonds in a manner that is substantially related the University's charitable purpose under Section 513(a) of the Code, may result in interest payable with respect to the Bonds being included in federal gross income, possibly from the date of the original issuance of the Bonds.

Although Bond Counsel was of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, as described in the Official Statement relating to the original issuance of the Bonds, the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may otherwise affect a Beneficial Owner's federal or state tax liability, and the nature and extent of these other tax consequences will depend upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Bond Counsel expressed no opinion regarding any such other tax consequences.

As described in the Official Statement relating to the original issuance of the Bonds, future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. As described in the Official Statement relating to the original issuance of the Bonds, the introduction or enactment of any such future legislative proposals, clarification of the Code or court decisions may also affect the market price for, or marketability of, the Bonds. As described in the Official Statement relating to the original issuance of the Bonds, prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expressed no opinion.

The Original Opinion of Bond Counsel was, and the No Adverse Tax Opinion is, based on current legal authority. Further, the Original Opinion covered, and the No Adverse Tax Opinion covers, certain matters not directly addressed by such authorities. The Original Opinion represented, and the No Adverse Tax Opinion represents Bond Counsel's judgment as to the proper treatment of the Bonds for federal income tax purposes. As described in the Official Statement relating to the original issuance of the Bonds, the Original Opinion was not binding on the IRS or the courts, nor is the No Adverse Tax Opinion binding on the IRS or the courts. Furthermore, neither in the Original Opinion nor in the No Adverse Tax Opinion, did or will Bond Counsel give any opinion or assurance about the future activities of the Authority or the University, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The Authority and the University covenanted, however, to comply with the requirements of the Code.

As described in the Official Statement relating to the original issuance of the Bonds, Bond Counsel's engagement with respect to the Bonds ended with the original issuance of the Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the Authority, the University or the Beneficial Owners regarding the tax-exempt status of the Bonds in the event of an audit examination by the IRS; Bond Counsel's rendering of the No Adverse Tax Opinion does not represent such a separate engagement. As described in the Official Statement relating to the original issuance of the Bonds, under current procedures, parties other than the Authority, the University and their appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the Authority or the University legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Bonds, and may cause the Authority, the University or the Beneficial Owners to incur significant expense.

## LEGAL MATTERS

The Conversion of the Bonds is subject to the delivery of the No Adverse Tax Opinion of Orrick, Herrington & Sutcliffe LLP, acting as Bond Counsel. A proposed form of such legal opinion is attached hereto in Appendix D – "FORMS OF OPINIONS OF BOND COUNSEL." Certain legal matters will be passed upon for the Remarketing Agents by Hawkins Delafield & Wood LLP and for the University by its General Counsel. None of the counsel mentioned above undertakes any responsibility to Holders of the Bonds for the accuracy, completeness or fairness of this Reoffering Circular.

## INDEPENDENT ACCOUNTANTS

The financial statements as of August 31, 2012 and 2011 and for the years then ended, included in Part II of Appendix A of this Reoffering Circular, have been audited by PricewaterhouseCoopers LLP, independent accountants, as stated in their report appearing herein.

## REMARKETING

The University has entered into a settlement agreement with the Remarketing Agents listed on the cover hereof for whom Goldman, Sachs & Co. is acting as representative, and the Remarketing Agents have agreed to purchase the Bonds from the University for a purchase price of $39,916,687.63 (being the principal amount of the Bonds, plus original issue premium of $9,786,529.50, and less an underwriters' discount of $79,841.87).

Wells Fargo Securities is the trade name for certain securities-related capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association. Wells Fargo Bank, National Association ("WFBNA"), one of the remarketing agents of the Bonds, has entered into an agreement (the "Distribution Agreement") with its affiliate, Wells Fargo Advisors, LLC ("WFA"), for the distribution of certain municipal securities offerings, including the Bonds. Pursuant to the Distribution Agreement, WFBNA will share a portion of its underwriting or remarketing agent compensation, as applicable, with respect to the Bonds with WFA. WFBNA also utilizes the distribution capabilities of its affiliates, Wells Fargo Securities, LLC ("WFSLLC") and Wells Fargo Institutional Securities, LLC ("WFIS"), for the distribution of municipal securities offerings, including the Bonds. In connection with utilizing the distribution capabilities of WFSLLC, WFBNA pays a portion of WFSLLC's expenses based on its municipal securities transactions. WFBNA, WFSLLC, WFIS, and WFA are each wholly-owned subsidiaries of Wells Fargo & Company.

J.P. Morgan Securities LLC ("JPMS"), one of the remarketing agents of the Bonds, has entered into negotiated dealer agreements (each, a "Dealer Agreement") with each of UBS Financial Services Inc. ("UBSFS") and Charles Schwab & Co., Inc. ("CS&Co.") for the retail distribution of certain securities offerings at the original issue prices. Pursuant to each Dealer Agreement (if applicable to this transaction), each of UBSFS and CS&Co. will 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.

The Remarketing Agents and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities.

In the ordinary course of their various business activities, the Remarketing Agents and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve debt securities and instruments of Stanford University.

## RATINGS

Upon Conversion, the Bonds will retain an "Aaa" rating from Moody's, an "AAA" rating from S&P and an "AAA" rating from 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, 23rd Floor, New York, New York, 10007, from S&P at 55 Water Street, New York, New York 10041 and from Fitch at One State Street Plaza, New York, New York, 10004. Such ratings reflect only the views of Moody's, S&P and Fitch, respectively, and there is no assurance that any of the ratings, if received, will continue for any given period of time or that such ratings will not be lowered or withdrawn entirely if, in the judgment of Moody's, S&P or Fitch, circumstances so warrant. Neither the University nor the Remarketing Agents 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.

## CONTINUING DISCLOSURE

Because the Bonds are limited obligations of the Authority, payable solely from amounts received from the University and other sources described in the Indenture, any financial or operating data concerning the Authority is not material to an evaluation of the offering of the Bonds or to any decision to purchase, hold or sell the Bonds. Accordingly, the Authority has not provided any such information. The University has undertaken all responsibilities for any continuing disclosure to Holders of the Bonds as described below, and the Authority shall have no liability to the Holders of the Bonds or any other person with respect to the Rule.

In order to assist the Remarketing Agents in complying with the Rule, the University has agreed to undertake in a Continuing Disclosure Agreement between the University and the Trustee, for the benefit of Holders of the Bonds, to provide to the Trustee certain annual information and notices of certain listed events required to be provided by the Rule. The proposed form of that Undertaking is set forth in Appendix E hereto. The Undertaking may be amended or modified without the consent of the Holders of the Bonds under certain circumstances set forth therein.

## MISCELLANEOUS

All of the Appendices hereto are incorporated as an integral part of this Official Statement. Appendix A has been prepared by the University. The University's FY2012 Audited Financial Statements included in Part II of Appendix A hereto were audited by PricewaterhouseCoopers LLP and were furnished by the University for inclusion herein.

Information relating to DTC and the book-entry system described in Appendix C – "BOOK-ENTRY SYSTEM" is based upon information furnished by DTC and is believed to be reliable, but none of the Authority, the University or the Remarketing Agents makes any representations or warranties whatsoever with respect to such information.

This Reoffering Circular has been prepared by the University and has not been prepared, reviewed or approved by the Authority.

The execution and delivery of this Reoffering Circular by the undersigned have been duly authorized by the University.

THE BOARD OF TRUSTEES OF THE
LELAND STANFORD JUNIOR UNIVERSITY

May 1, 2013

/s/ Odile Disch-Bhadkamkar
Treasurer

## APPENDIX A

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

Part I of this Appendix A contains general information with respect to Stanford. Part II consists of portions of the University's Annual Financial Report for the fiscal years ended August 31, 2012 and 2011 (the "University's FY2012 Annual Financial Report"), which includes management's discussion and analysis, selected financial and other data, the report of the independent auditors and the University's consolidated financial statements for the years ended August 31, 2012 and 2011 (the "University's FY2012 Audited Financial Statements"). Financial information presented in Part I of this Appendix A with respect to the University relates solely to the University; financial information regarding the University and its affiliates is stated both separately and on a consolidated basis in the University's FY2012 Audited Financial Statements.

## PART I

## GENERAL INFORMATION ABOUT STANFORD UNIVERSITY

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

### Academic and Research Programs

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

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

### Governance and Management

**Board of Trustees.** Stanford is a trust with corporate powers under the laws of the State of California. The Internal Revenue Service has determined the University to be a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. Under the provisions of the founding grant of Senator Leland Stanford and Jane Lathrop Stanford and related organizational documents of the University (the "Founding Grant"), the Board of Trustees is custodian of the endowment and all the properties of the University. The Board administers the invested funds, and has the ultimate authority over the annual budget, and policies for operation and control of the University. The powers and duties of the Board of Trustees derive from a combination of the Founding Grant, amendments to the Founding Grant, and legislation and court decrees specific to Stanford. In addition, the Board operates under its own bylaws and a series of resolutions on major policy. The Board conducts its business through standing committees, currently consisting of the Committees on Academic Policy, Planning and Management; Alumni and External Affairs; Audit and Compliance; Development; Finance; Land and Buildings; the Medical Center; and Trusteeship. The maximum membership of the Board is 35, including the President of the University. The Board nominates and selects successor trustees, eight of whom shall be alumni trustees.

The following table lists the members of the Board of Trustees as of March 1, 2013:



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

The following table sets forth in summary form certain members of the principal administration of the University as of March 1, 2013:

**University Officers**

John L. Hennessy
*President*

John W. Etchemendy
*Provost*

David F. Demarest
*Vice President for Public Affairs*

David A. Jones
*Vice President for Human Resources*

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*

Debra L. Zumwalt
*Vice President and General Counsel*

**University Cabinet**

Ann M. Arvin
*Vice Provost and Dean of Research*

Harry J. Elam Jr.
*Vice Provost for Undergraduate Education*

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

Patricia J. Gumport
*Vice Provost for Graduate Education*

M. Elizabeth Magill
*Dean, School of Law*

Pamela A. Matson
*Dean, School of Earth Sciences*

Lloyd Minor
*Dean, School of Medicine*

James D. Plummer
*Dean, School of Engineering*

John Raisian
*Director, Hoover Institution on War, Revolution and Peace*

Richard P. Saller
*Dean, School of Humanities and Sciences*

Garth Saloner
*Dean, Graduate School of Business*

Claude M. Steele
*Dean, Graduate School of Education*

**Stanford Management Company**

John F. Powers
*President and Chief Executive Officer*

**Faculty and Staff**

For the 2012 fall quarter, the Stanford professoriate had 1,995 members. Of those, 54% hold tenure, and more than 99% hold the highest degrees in their respective fields. The Academic Council comprises the main body of the faculty. Of its 1,542 members, 1,398 are tenure-line faculty, and 144 are non-tenure line faculty such as Senior Fellows and those holding teaching, research, clinical or performance titles.

As of August 31, 2012, the University, including the SLAC National Accelerator Laboratory, employed 12,175 non-academic staff members. Of these employees, 1,286 were represented by the Service Employees International Union, and 27 were police officers represented by the Stanford Deputy Sheriffs' Association. Contracts between the University and those unions expire on August 31, 2014 and July 31, 2015, respectively.

**Students**

For the 2012 fall quarter, the University enrolled 6,999 undergraduate and 8,871 graduate students. During academic year 2011-2012, 1,715 bachelor degrees and 3,305 advanced degrees were conferred. The following table provides a summary for the last five academic years of undergraduate and graduate applications, admissions and enrollment.

| | Undergraduate[1][2] | | | Graduate[2] | | |
|---|---|---|---|---|---|---|
| Academic Year | Applications | Admissions | Enrollment | Applications | Admissions | Enrollment |
| 2008-09 | 26,479 | 2,425 | 1,725 | 34,566 | 4,350 | 2,379 |
| 2009-10 | 31,731 | 2,451 | 1,715 | 36,326 | 4,419 | 2,345 |
| 2010-11 | 33,275 | 2,365 | 1,694 | 37,983 | 4,580 | 2,608 |
| 2011-12 | 35,761 | 2,495 | 1,754 | 38,750 | 4,570 | 2,628 |
| 2012-13 | 38,144 | 2,457 | 1,796 | 41,855 | 4,439 | 2,582 |

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

**Tuition, Fees and Financial Aid**

Stanford is committed to a policy of "need-blind" admission for eligible U.S. citizens and permanent resident undergraduate students. For academic year 2011-12, approximately 50% of undergraduates were awarded need-based scholarships and grants from Stanford. In general, eligible Stanford undergraduates receive other financial assistance in the form of other scholarships and grants, student employment and low-interest student loans.

The following table provides a summary of Stanford's undergraduate tuition, average room and board expenses and average financial aid for the academic years 2008-09 through 2013-14:

| Academic Year | Tuition and Fees | Room and Board | Total | Average Financial Aid(1) |
|---|---|---|---|---|
| 2008-09 | $36,030 | $11,182 | $47,212 | $14,975 |
| 2009-10 | 37,380 | 11,463 | 48,843 | 16,771 |
| 2010-11 | 38,700 | 11,876 | 50,576 | 17,237 |
| 2011-12 | 40,050 | 12,291 | 52,341 | 18,103 |
| 2012-13 | 41,250 | 12,721 | 53,971 | 18,400(2) |
| 2013-14 | 42,690 | 13,166 | 55,856 | n/a |

(1) Includes only Stanford-funded scholarship aid awarded on the basis of financial need averaged over the total number of undergraduate students.
(2) Average Financial Aid amount for 2012-13 is an estimate.

Graduate student financial aid is awarded based on academic merit and the availability of aid and consists of fellowships, stipends, and trainee/assistantships. Stanford participates in the Federal Perkins student loan program, available to undergraduate, graduate and professional students. Stanford also provides a gift funded institutional loan program. Student loan receivables, net of allowances for doubtful accounts, were $76.7 million and $75.7 million as of August 31, 2012 and 2011, 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 is in six different cities and counties. A portion of Stanford lands are leaseholds related to commercial, residential, agriculture and other developments that provide rental income for the University. Much of the University's other land remains undeveloped and is used primarily for agricultural purposes.

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

**Capital Improvement Programs**

The University makes a significant investment in its facilities for teaching, research and related activities. The University's Capital Budget and three-year Capital Plan are based on a projection of major capital projects that the University will pursue in support of the academic mission. The fiscal year 2013 Capital Budget approved by the Board of Trustees is $529.5 million and represents the anticipated capital expenditures in the first year of the rolling three-year Capital Plan. The fiscal year 2013-2015 Capital Plan includes projects with estimated total costs of $2.1 billion. Estimated funding sources for projects under the current Capital Plan consist of $695.2 million of gifts, $530.3 million of reserves and other funds, $19.0 million of resources expected to be identified in the course of annual capital planning, and $888.7 million of debt. Additional debt will be required to bridge timing differences between project expenditures and the receipt of gifts. The Capital Budget and the Capital Plan are both subject to change based on funding availability, budget affordability and university priorities.

In 2000, the Santa Clara County Board of Supervisors approved a General Use Permit (the "2000 GUP") and the Stanford University Community Plan (the "Community Plan"), updating and extending the general use permit and plan previously in force since 1989. These documents govern the use and development of University lands within the County. Any change to either document is subject to the approval of the Santa Clara County Board of Supervisors. The 2000 GUP permits Stanford to develop approximately 2,000,000 square feet of new academic facilities and approximately 3,000 new housing units for students, faculty and staff. The 2000 GUP contains a number of significant restrictions and conditions upon which such developments are contingent. Through August 31, 2012, projects using approximately 1,200,000 gross square feet of the GUP allotment had been completed or were under construction and approximately 1,460 housing units had been added.

**Hospitals**

The University is the sole member of Stanford Hospital and Clinics and Lucile Salter Packard Children's Hospital at Stanford (collectively, the "Hospitals"). Stanford Hospital and Clinics and Lucile Salter Packard Children's Hospital at Stanford 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, comprise the Stanford University Medical Center. Each Hospital corporation has its own management with responsibility for its own financial reporting (see Stanford University's FY2012 Annual Financial Report included as Part II of this Appendix A under the caption "Management Responsibility for Financial Statements"). Management of each Hospital reports to the chief executive officer of that Hospital, and the chief executive officer reports to the board of directors appointed for that Hospital. Management of the Hospitals does not report to management of the University. Each Hospital has its own separate liabilities, including bond debt obligations. The University and the Hospitals are not obligated to pay the debt of each other, and the University and the Hospitals receive separate ratings from the rating agencies.

The Hospitals obtained approval from local authorities to construct new facilities to address seismic requirements and to meet the health care needs of the community. The facilities had a projected total cost of approximately $3.2 billion as of August 31, 2012. The Hospitals have informed the University that the sources of funding for such capital requirements include operating surpluses, gifts, government grants and bond proceeds. For this purpose, the Hospitals each undertook financings in fiscal year 2012 and may undertake additional financings in the future. (See also "Certain Investment Considerations" in the forepart of this Official Statement.)

**Regulatory Matters and Litigation**

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

On January 29, 2013, two environmental advocacy groups filed a complaint in the United States District Court for the Northern District of California alleging violations of the Endangered Species Act. The complaint alleges that the University operates and maintains the Searsville Dam and Reservoir located on its campus and diverts water in the San Francisquito Creek watershed in a manner that violates the Act by "taking" (which in the Act means killing or injuring, or creating the likelihood of killing or injuring) three protected species – the steelhead trout, red garter snake and red-legged frog – without proper authorization. The complaint seeks declaratory and injunctive relief, as well as attorneys' fees and costs. No determination of materiality has been made given the preliminary status of the claims. The University believes that it has not violated the Endangered Species Act and intends to vigorously defend against the claims made in the complaint.

**Investments**

At August 31, 2012, the University held investments with a fair value of approximately $22.2 billion. The following table summarizes the fair value of the University's investments for each of the past five fiscal years. The table below should be read in conjunction with the University's FY2012 Audited Financial Statements and prior years' financial statements.

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

| | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|
| Total Investments | $22,246,700 | $21,189,487 | $17,803,361 | $16,500,670 | $21,757,716 |
| Less: Permanently Restricted Investments | 5,440,119 | 5,143,249 | 4,836,938 | 4,658,949 | 4,865,486 |
| Unrestricted and Temporarily Restricted Investments | $16,806,581 | $16,046,238 | $12,966,423 | $11,841,721 | $16,892,230 |

**Liquidity**

As of February 28, 2013, the University had approximately $2.2 billion invested in assets that, in the opinion of management, qualify as sources of same-day liquidity, and an additional $2.8 billion invested in assets that qualify as sources of less than seven-day liquidity. Of the amounts included in sources of liquidity, approximately $234 million of the proceeds of the University's $1 billion Taxable Bonds Series 2009A are invested at present in marketable securities to provide additional liquidity for the University's general purposes.

The University has significant contractual commitments outstanding for limited partnership investments and major construction projects (see discussion on capital improvement programs above and Note 5, "Investments," to the Consolidated Financial Statements, found in Part II of this Appendix A). Management closely monitors its cash, cash equivalents and investments to ensure that it maintains adequate liquidity to cover its outstanding commitments. Management believes that it has adequate resources to allow the University to address expected needs for liquidity.

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## PART II

## PORTIONS OF STANFORD UNIVERSITY 2012 FINANCIAL REVIEW

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# MANAGEMENT'S DISCUSSION AND ANALYSIS

Stanford experienced solid financial results in fiscal year 2012 (FY12), marking the third year of growth after the 2008-09 financial downturn. Consolidated net assets increased $1.6 billion to end the year at $26.7 billion. Consolidated operating revenues exceeded expenses by $516 million, compared to $515 million in FY11. Stanford's FY12 financial results benefitted from record gifts, modest investment returns, and increased health care services and other revenue sources.

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

## University

During FY12, the University continued to strengthen its financial position. FY12 net assets increased $951 million to $23.5 billion compared to $22.6 billion in the prior year. The University's FY12 endowment rose in value by 3.2% over the prior year, ending FY12 at $17.0 billion, just shy of its $17.2 billion high at year-end 2008. Donor support and investment returns were the major factors contributing to these positive results.

### FY12 FINANCIAL HIGHLIGHTS

**Record support from donors.** The University continues to benefit from the overwhelming generosity of its donors. FY12 gifts as reported by the University's Office of Development exceeded $1.0 billion, 46% above the prior year and 14% more than Stanford's previous best in FY06. These results are evidence of the extraordinary support of our donor community and donors' endorsement of Stanford's vision and direction. Gifts and pledges of $927 million—up 80% from FY11—are reported in the financial statements on an accrual basis.

The FY12 results included the final months of The Stanford Challenge, a five-year public fundraising campaign which ended December 31, 2011. The Stanford Challenge raised $6.2 billion to support University-wide initiatives and multi-disciplinary research focused on some of society's most complex problems including the environment, human health, international affairs, K–12 education and the arts. These gifts also enable Stanford to remain accessible to the brightest students, to recruit and retain top faculty, and to create and maintain state of the art buildings and facilities.

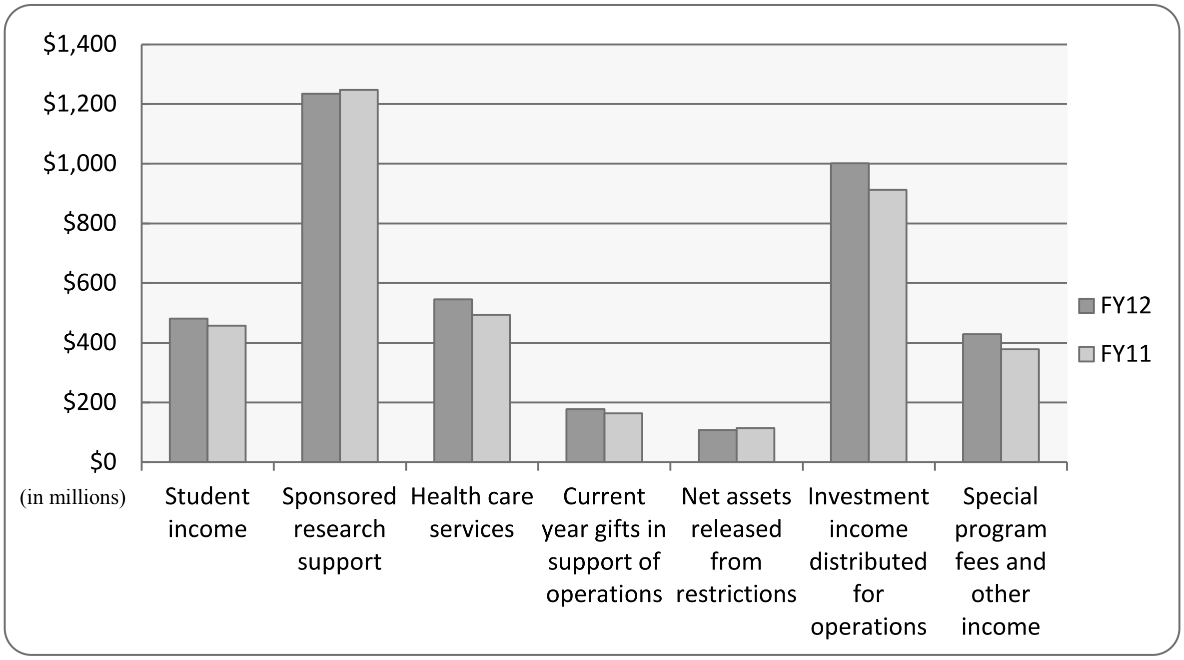
**Positive investment performance.** University investment returns in FY12 were $1.3 billion, compared to $3.4 billion in FY11. The positive FY12 returns were achieved during another volatile year in the financial markets, especially for international equities.

### OPERATING RESULTS

The *Statements of Activities* include results from both operating and non-operating changes in the net assets of the University. Operating activities include the revenues earned and expenses incurred in the current year to support the University's core activities of teaching and research and other University priorities.
The University ended the year with a surplus from operations of $211 million in FY12 compared to $257 million in FY11. FY12 operating revenues increased 6% compared to an increase in expenses of 7% during the same period.

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

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




## OPERATING REVENUES

FY12 operating revenues were $4.0 billion, reflecting a 6% increase over FY11. The components of the University's operating revenues are shown in Figure 1 above.

### Student Income

Total student income, which represents 12% of University operating revenues, increased 5% to $481 million in FY12. Total student income includes tuition and fees from undergraduate and graduate programs and room and board; this amount is partially offset by financial aid. Revenues from student tuition and fees increased 4% in FY12 primarily as a result of 3.5% undergraduate and graduate tuition increases and a slight increase in both undergraduate and graduate student enrollment. Revenues from room and board increased 6% in FY12 primarily due to a slight increase in student enrollment and a 3.5% increase in the room and board rate.

Financial aid increased $10.3 million or 4.5% in FY12 to $241 million, reflecting Stanford's continued commitment to provide an affordable education for all students. Approximately 59% of undergraduate students and 83% of graduate students were awarded financial aid from Stanford in FY12, including scholarships, grants, loans and jobs.

### Sponsored Research Support

Sponsored research support represents approximately one third of the University's operating revenues. This category declined slightly from FY11 levels to $1.2 billion in FY12, as the reductions in funds from the federal economic stimulus funding were almost fully offset by increases in other sources of sponsored research support.

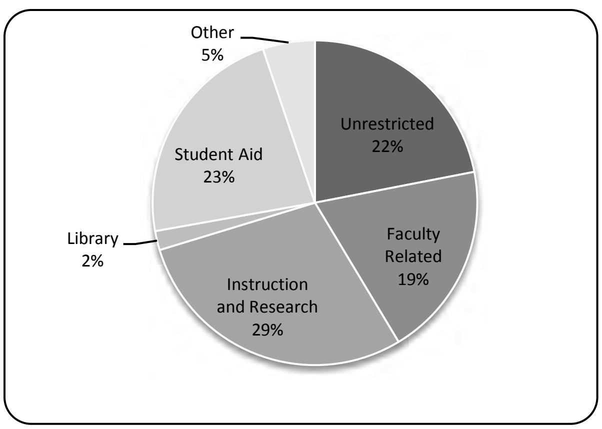
The federal economic stimulus bill, the American Recovery and Reinvestment Act (ARRA), has been a major driver of sponsored research support for the past several years. As of August 31, 2012, Stanford had been awarded $310 million of ARRA funding; approximately $51 million of this amount was spent by the University and SLAC National Accelerator Laboratory (SLAC) in FY12 (compared to $131 million in FY11) bringing the total amount spent to date to $275 million.

The majority of the University's sponsored research support (84% including SLAC), is received directly or indirectly from the federal government. The largest federal sponsor, the Department of Health and Human Services, provided revenue of $417 million in FY12 compared to $449 million in the prior year. Most of these funds support research within the University's School of Medicine.

Direct costs for SLAC increased $2 million or less than 1% over FY11. Increased funding for Basic Energy Sciences and other programs of $37 million was nearly offset by lower ARRA funding, down $35 million to $13 million in FY12.

In addition to payment for the direct costs of performing research, the University receives an amount from sponsors for facilities and administrative costs, known as indirect costs. This amount covers costs related to facilities, utilities and administrative costs incurred in connection with sponsored research. For FY12, the federal and non-federal indirect cost recovery increased $6 million to $226 million as a result of slightly higher indirect cost rates on new awards.

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




### Health Care Services

FY12 health care services revenue for the University increased $51 million or 10% from FY11 to $545 million and represented 14% of operating revenues.

School of Medicine faculty serve as physicians for the Hospitals. Clinical revenue is collected by the Hospitals, and a portion is remitted to the University for these physician services. In

### THE UNIVERSITY'S ENDOWMENT

The University's endowment is a collection of gift funds and reserves which are set aside and invested to support the University's teaching and research missions. At August 31, 2012, the endowment totaled $17.0 billion and represented approximately 73% of the University's net assets. The endowment includes pure endowment funds (which include endowed lands), term endowment funds and funds functioning as endowment.

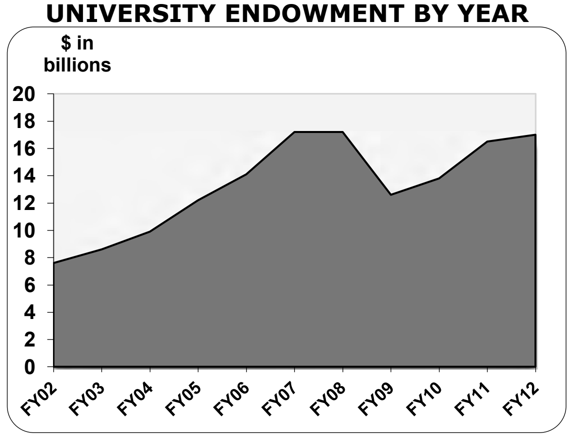
Gifts and pledge payments, investment returns, and other invested funds added $1.4 billion to the endowment in FY12.

Payout to operations from the endowment continues to be a significant source of operating revenue for the University, covering approximately 23% of expenses in FY12, compared to 22% in FY11.

The University's endowment provides funding annually for a wide variety of important purposes. See Figure 2 for a distribution of endowment payout by purpose.

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

**UNIVERSITY ENDOWMENT BY YEAR**



addition, the Hospitals pay the University for other essential services such as medical direction, telecommunication, legal and internal audit services. Health care services revenues of $520 million represent the net value of services provided by the University to the Hospitals; these amounts are eliminated in consolidation.

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

Current year gifts in support of operations increased 9% to $178 million in FY12. Net assets released from restrictions decreased 5% to $108 million.

### Total Investment Income Distributed for Operations

Total investment income distributed for operations represented 25% of University revenue, the second highest source of operating revenue for the University, and up from 24% in FY11.

- Endowment income distributed for operations increased 11% to $871 million in FY12, from $785 million in FY11. The endowment payout as a percentage of the beginning endowment value decreased from 5.7% for FY11 to 5.3% for FY12 as a result of growth in the endowment value.
- Expendable funds pools and other investment income distributed for operations was $131 million in FY12, compared to $128 million in FY11. This category primarily includes the payout to operations from the Expendable Funds Pool (EFP) and the Endowment Income Funds Pool (EIFP), the principal investment vehicles for the University's expendable funds.
  - The EFP policy provides a variable payout to certain funds that support operations based on the prior year's investment returns. Positive returns in both FY11 and FY10 resulted in the payouts to these funds over the past two years. See Note 6 to the FY12 Consolidated Financial Statements.
  - The EIFP holds endowment payout previously distributed but unexpended. These amounts are invested in highly liquid instruments in order to preserve the principal balance. Earnings on these investments are distributed to the fund holders. See Note 6 to the FY12 Consolidated Financial Statements.

## OPERATING EXPENSES

Total expenses increased $256 million, or 7%, to $3.8 billion in FY12. Salaries and benefits comprised 62% of the University's total expenses; depreciation expense was 7% and other operating expenses represented 31%.

- Salaries and benefits increased 7% in FY12 to $2.3 billion. The increase resulted from a combination of modest salary programs designed to maintain Stanford's competitive position, higher benefit costs, and increases in headcount to support new programs and facilities recently placed in service.
- Depreciation expense increased by 7% to $277 million in FY12 from $259 million in FY11. The increase in this category resulted from buildings recently placed in service as described in the Capital Projects section below.
- Other operating expenses increased 7% to $1.2 billion in FY12 from $1.1 billion in FY11. These increases, in large part, were due to additional expenses incurred in support of new programs and facilities.

## FINANCIAL POSITION

The University's *Statements of Financial Position* reflect strong donor support, solid investment returns and strong operating results over the past three years. Total University assets increased $1.3 billion in FY12 to end the year at $29.0 billion. Total University liabilities increased slightly from $5.1 billion to $5.5 billion.

### Cash and Cash Equivalents

The University closely monitors liquidity required to meet operating and contractual commitments. In April 2009, the University issued $1 billion of taxable bonds, of which $800 million in cash was set aside to ensure adequate liquidity to support University investments, capital projects and operations during the financial crisis. As economic conditions have improved, a portion of the funds has been used for other purposes, including additional capital projects and repayment of other debt. At August 31, 2012, the University's cash position included approximately $427 million of the April 2009 taxable bond proceeds.

**Investments**
Investments increased by $1.1 billion, up 5% from FY11 due to positive investment returns and new gifts received from our generous donors. Alternative investments, including various types of limited partnerships, private equity funds, venture capital funds, natural resources investments, real estate and hedge funds, represent approximately 71% of total investments at August 31, 2012. The aggregate amount of unfunded commitments for alternative investments was $3.9 billion at year-end, down significantly from approximately $6 billion at August 31, 2008. See the Report from the Stanford Management Company for analysis of University investment strategies and performance.

**Capital Projects**
The University continues to invest heavily in its physical facilities to support key academic initiatives, housing and infrastructure. During FY12, the University invested $403 million in capital projects, bringing gross plant facilities before accumulated depreciation to $6.9 billion. Plant facilities, net of accumulated depreciation, increased $152 million to $3.8 billion.

Buildings completed and opened in FY12 include the Arrillaga Family Dining Commons and the Jill and John Freidenrich Center for Translational Research. Construction continued on the Bing Concert Hall and the Bioengineering/Chemical Engineering Building. In FY12, preparations also began for the new central energy facility—the Stanford Energy Systems Innovation (SESI)—which will reduce overall energy consumption and use cleaner energy sources.

The Knight Management Center (the new Graduate School of Business) and the William H. Neukom building in the law school opened in FY11.

The University is committed to being a leader in environmental sustainability. This effort is reflected in the design, construction and operation of campus facilities where the goal is to provide safe, productive indoor environments that use energy, water and other natural resources efficiently. Under the University's sustainability standards, new buildings must use 30% less energy than current code requirements and 25% less water than similar buildings.

**Debt**
Total debt decreased $18 million to $2.7 billion as of August 31, 2012. During FY12, 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.

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

The University issued $221 million in taxable and tax-exempt debt to refinance certain tax-exempt bonds and commercial paper notes, achieving savings in interest costs.

**Unrestricted Net Assets**
In total, unrestricted net assets of the University increased $851 million to $12.1 billion, with $211 million resulting from operating activities. The most significant components of non-operating changes in unrestricted net assets in FY12 were the $394 million increase in realized and unrealized investment gains and $253 million in gifts not related to current year operating activities.

**Temporarily Restricted Net Assets**
Temporarily restricted net assets decreased $211 million to $6.0 billion in FY12. The University received $229 million of new temporarily restricted gifts and pledges in FY12 that partially offset a $216 million decrease in realized and unrealized investment gains and $233 million in transfers relating to capital and other gifts released from their restrictions for assets placed in service and for operating activities.

**Permanently Restricted Net Assets**
Permanently restricted net assets increased $310 million to $5.4 billion during FY12. The increase was driven by $227 million in new gifts and pledges and $55 million of transfers from other net asset categories primarily due to donor redesignations and matching funds added to donor gift funds. The principal value of these assets must be invested in perpetuity to generate endowment income to be used only for the purposes designated by donors.

## Hospitals

The financial results and financial position of Stanford Hospital and Clinics (SHC) and Lucile Packard Children's Hospital at Stanford (LPCH), referred to as the Hospitals, are combined in the FY12 Consolidated Financial Statements under the "Hospitals" column. The University is the sole member of each of the Hospitals.

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

The following discussion summarizes the individual financial results of SHC and LPCH as shown in the FY12 Consolidated Financial Statements.

**STANFORD HOSPITAL AND CLINICS**
SHC produced solid operating results in FY12, generating income from operations of $237 million compared to $173 million for FY11. SHC's favorable operating results were due in part to the growth in the number of physicians performing clinical services at the hospital. Net assets grew by $391 million, or 30%, to $1.7 billion mainly due to high patient volumes, effective cost controls, strong operating performance and successful fundraising.

**Operating Results**
Operating revenues increased by 15% to $2.4 billion. Net patient revenues accounted for $2.3 billion of operating revenues. Both inpatient and outpatient revenues, which represent 51% and 49% of patient revenues, respectively, grew significantly due to strong volume growth and physician recruitment, including the acquisition of medical practices by University HealthCare Alliance (UHA), SHC's community physician foundation. Operating revenues also included $49.6 million from the Hospital Quality Assurance Fee Program (QAF) which provides supplemental payments to hospitals for Medi-Cal patients.

Operating expenses increased 13% to $2.2 billion in FY12. Salaries and benefits grew by 11% to $988 million primarily in response to growth in patient volumes (including UHA) and to maintain SHC's position in the competitive market for health care professionals.

Physicians' services and support increased by 9% to $368 million. This category includes all payments to the University for services provided by the School of Medicine for its clinical services. Other operating expenses were up by 22% to $746 million as a result of costs related to increased patient activity (including UHA), enhanced IT infrastructure, and $43.5 million in Hospital Fee Program payments to the State of California.

**Statement of Financial Position (Balance Sheet)**
SHC's *Statement of Financial Position* reflected continued investments in the facilities and systems required to remain at the forefront of medicine and to be the provider of choice for complex care in the communities it serves. Gross property and equipment increased $196 million to $1.9 billion during FY12. As of August 31, 2012, SHC recorded $230 million in construction in progress related to rebuilding SHC.

In FY12, SHC completed a new tax-exempt bond offering and refunding of bonds in the amount of $568 million. The purpose of the new tax-exempt bonds is to provide support for the construction of SHC's new hospital.

**Other SHC highlights**

Costs of charity care and uncompensated costs including those related to services provided to patients under Medi-Cal and Medicare in excess of reimbursement, were $366 million in FY12, up 12% from FY11.

In FY12, SHC was one of 65 hospitals in the nation named a 2011 Top Hospital by The Leapfrog Group, an honor that rewards medical centers for quality and efficiency, including success in such areas as infection rates, safety practices, mortality rates for common procedures and measures of efficiency. SHC was also re-designated as a Magnet hospital, which recognizes excellence in nursing.

## LUCILE PACKARD CHILDREN'S HOSPITAL AT STANFORD

LPCH's net assets increased $225 million in FY12, compared to $155 million in the prior year. Solid operating results and strong donor support contributed to the FY12 results. LPCH's net assets were $1.5 billion at August 31, 2012.

**Operating Results**

Income from operations was $69 million in FY12, compared to $92 million in FY11. Net revenues over expenses of $35 million and $33 million from the Hospital Quality Assurance Fee Program (QAF) and Hospital Fee Program—programs which provide supplemental payments to certain hospitals for Medi-Cal patients—contributed to the FY12 and FY11 results, respectively.

Net patient revenues before the provision for doubtful accounts were $931 million in FY12, compared to $871 million in FY11. The FY12 results reflected an increase in the acuity of the patients, stronger payer mix and higher commercial contract rates.

Operating expenses increased by 11% in FY12. The majority of the increase stemmed from salary and benefit costs associated with treating patients with higher acuity and payments to the University for physician and other purchased services.

**Statement of Financial Position (Balance Sheet)**

LPCH's *Statement of Financial Position* reflected significant donor contributions, funding from the State of California (Proposition 3, Children's Hospital Bond Act of 2008) and investments in the facilities and systems required to continue to provide children's hospital services to the community. Gross property and equipment increased $89 million during FY12, bringing the net investment in property and equipment to $521 million at August 31, 2012.

In FY12, LPCH completed a $200 million new fixed rate debt offering to finance a portion of its major facilities replacement project. In addition, LPCH restructured $51 million of revenue bonds and converted $93 million of variable rate debt to five-year fixed rate put bonds.

**Other LPCH Highlights**

LPCH's community benefits, including services to patients under Medi-Cal and other publicly sponsored programs that reimburse at amounts less than the cost of services provided to the recipients, were $230 million in FY12 compared to $164 million in FY11.

## HEALTH CARE REFORM

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

**Looking Forward**

Stanford enters FY13 in a solid financial position. Our financial resources, together with our existing physical infrastructure and planned capital improvements provide a strong foundation to further develop and enhance our core teaching, research and patient care missions. We are excited about future opportunities in higher education, research and health care. We continue to pursue avenues to expand our ability to deliver Stanford's education through efforts such as online learning, entrepreneurship education, and investments in the arts and humanities. We are well positioned to focus on complex problems such as global poverty and health care transformation.

At the same time, Stanford tempers its future optimism and remains mindful of significant risks and challenges ahead in an uncertain economic environment. The outlook for federal research funding remains uncertain as the Federal government addresses a significant budget deficit and rapidly growing entitlement obligations. The 2009 fiscal stimulus funding plan is ending. Global economic malaise continues to put pressure on investment returns. We remain committed to funding our strong financial aid programs to offset continuing financial pressures on students and their families. The Stanford Medical Center faces significant uncertainty as it plans for the impact of existing and future healthcare reform, which remains unknown. We continue to monitor and plan for these variables.

We are grateful for the continued commitment, trust and support of the Stanford community, including students, alumni, friends, faculty and staff, as we approach the opportunities and challenges ahead.

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

Daniel J. Morissette
Chief Financial Officer
Stanford Hospital and Clinic

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

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

# SELECTED FINANCIAL AND OTHER DATA

*Fiscal Years Ended August 31*

| | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|
| | | | (dollars in millions) | | |
| CONSOLIDATED STATEMENT OF ACTIVITIES HIGHLIGHTS: | | | | | |
| Total Revenues (D) | $ 6,814 | $ 6,289 | $ 5,707 | $ 5,542 | $ 5,345 |
| Student income (A) | 481 | 458 | 436 | 401 | 405 |
| Sponsored research support | 1,234 | 1,247 | 1,143 | 1,031 | 1,076 |
| Health care services (D) | 3,245 | 2,902 | 2,542 | 2,364 | 2,135 |
| Total Expenses (D) | 6,298 | 5,774 | 5,345 | 5,033 | 4,899 |
| Change in net assets from operating activities | 516 | 515 | 362 | 509 | 446 |
| Other changes in net assets | 1,043 | 3,194 | 1,131 | (5,450) | 471 |
| Net change in total net assets | $ 1,559 | $ 3,709 | $ 1,493 | $ (4,941) | $ 917 |
| CONSOLIDATED STATEMENT OF FINANCIAL POSITION HIGHLIGHTS: | | | | | |
| University | | | | | |
| Investments at fair value | $ 22,247 | $ 21,189 | $ 17,804 | $ 16,501 | $ 21,758 |
| Plant facilities, net of accumulated depreciation | 3,826 | 3,674 | 3,584 | 3,270 | 2,887 |
| Notes and bonds payable | 2,709 | 2,727 | 2,816 | 2,517 | 1,532 |
| Total assets | 28,981 | 27,698 | 24,553 | 22,672 | 26,704 |
| Total liabilities | 5,476 | 5,143 | 5,118 | 4,633 | 4,013 |
| Total net assets | 23,505 | 22,555 | 19,435 | 18,039 | 22,691 |
| Hospitals | | | | | |
| Investments at fair value | 1,899 | 1,796 | 1,359 | 1,257 | 1,712 |
| Plant facilities, net of accumulated depreciation | 1,494 | 1,333 | 1,283 | 1,260 | 1,080 |
| Notes and bonds payable | 1,700 | 983 | 992 | 999 | 1,007 |
| Total assets | 5,803 | 4,283 | 3,658 | 3,472 | 3,670 |
| Total liabilities | 2,633 | 1,722 | 1,686 | 1,597 | 1,506 |
| Total net assets | 3,170 | 2,561 | 1,972 | 1,875 | 2,164 |
| OTHER UNIVERSITY FINANCIAL DATA AND METRICS: | | | | | |
| Total endowment at year end | $ 17,036 | $ 16,503 | $ 13,851 | $ 12,619 | $ 17,214 |
| Endowment payout in support of operations | 871 | 785 | 855 | 957 | 882 |
| As a % of beginning of year endowment | 5.3% | 5.7% | 6.8% | 5.6% | 5.1% |
| As a % of total expenses | 23.1% | 22.4% | 25.9% | 30.6% | 27.8% |
| Total gifts (B) | 1,035 | 709 | 599 | 640 | 785 |
| STUDENTS: | | | | | |
| ENROLLMENT: (C) | | | | | |
| Undergraduate | 6,999 | 6,927 | 6,887 | 6,878 | 6,812 |
| Graduate | 8,871 | 8,796 | 8,779 | 8,441 | 8,328 |
| DEGREES CONFERRED: | | | | | |
| Bachelor degrees | 1,715 | 1,670 | 1,671 | 1,680 | 1,646 |
| Advanced degrees | 3,305 | 3,199 | 3,046 | 2,932 | 2,928 |
| FACULTY: | | | | | |
| Total Professoriate | 1,934 | 1,903 | 1,910 | 1,876 | 1,829 |
| ANNUAL UNDERGRADUATE TUITION RATE (IN DOLLARS) | $ 40,050 | $ 38,700 | $ 37,380 | $ 36,030 | $ 34,800 |

*(A) Financial aid is reported as a reduction of student income in the Statement of Activities.*
*(B) As reported by the Office of Development (See Note 14). Beginning in 2009, reported amounts include SHC gifts.*
*(C) Enrollment for fall quarter immediately following fiscal year end.*
*(D) Certain prior year amounts have been reclassified to conform to the current year's presentation.*

# MANAGEMENT RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

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

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

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

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

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

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

Daniel J. Morissette
Chief Financial Officer
Stanford Hospital and Clinics

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

pwc

Report of Independent Auditors

To the Board of Trustees
Stanford University

In our opinion, the accompanying consolidated statements of financial position and the related consolidated statements of activities and cash flows present fairly, in all material respects, the financial position of Stanford University at August 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of Stanford University's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

December 12, 2012

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

# CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

*At August 31, 2012 and 2011 (in thousands of dollars)*

| | 2012 | | | 2011 |
|---|---|---|---|---|
| | UNIVERSITY | HOSPITALS | CONSOLIDATED | CONSOLIDATED |
| ASSETS | | | | |
| Cash and cash equivalents | $ 1,140,088 | $ 594,760 | $ 1,734,848 | $ 1,694,215 |
| Assets limited as to use, held by trustee | - | 728,324 | 728,324 | - |
| Accounts receivable, net | 388,518 | 682,027 | 1,070,545 | 703,009 |
| Receivables (payables) from SHC and LPCH, net | 55,287 | (55,287) | - | - |
| Prepaid expenses and other assets | 81,335 | 99,314 | 180,649 | 155,763 |
| Pledges receivable, net | 707,378 | 360,876 | 1,068,254 | 894,694 |
| Student loans receivable, net | 76,699 | - | 76,699 | 75,722 |
| Faculty and staff mortgages and other loans receivable, net | 459,382 | - | 459,382 | 465,344 |
| Investments at fair value, including securities pledged or on loan of $97,788 and $125,033 for 2012 and 2011, respectively | 22,246,700 | 1,898,984 | 24,145,684 | 22,985,197 |
| Plant facilities, net of accumulated depreciation | 3,826,387 | 1,494,058 | 5,320,445 | 5,007,107 |
| Works of art and special collections | - | - | - | - |
| **TOTAL ASSETS** | **$ 28,981,774** | **$ 5,803,056** | **$ 34,784,830** | **$ 31,981,051** |
| | | | | |
| LIABILITIES AND NET ASSETS | | | | |
| LIABILITIES: | | | | |
| Accounts payable and accrued expenses | $ 589,466 | $ 778,619 | $ 1,368,085 | $ 1,110,645 |
| Accrued pension and post retirement benefit cost | 649,318 | 154,227 | 803,545 | 662,946 |
| Pending trades of securities | 410,120 | - | 410,120 | 209,683 |
| Liabilities under security lending agreements | 141,199 | - | 141,199 | 182,027 |
| Deferred rental and other income | 556,728 | - | 556,728 | 548,363 |
| Income beneficiary share of split interest agreements | 367,037 | - | 367,037 | 387,947 |
| Notes and bonds payable | 2,708,706 | 1,700,427 | 4,409,133 | 3,709,785 |
| U.S. government refundable loan funds | 53,783 | - | 53,783 | 53,760 |
| **TOTAL LIABILITIES** | **5,476,357** | **2,633,273** | **8,109,630** | **6,865,156** |
| | | | | |
| NET ASSETS: | | | | |
| Unrestricted | 12,086,359 | 2,251,986 | 14,338,345 | 13,236,421 |
| Temporarily restricted | 6,032,515 | 710,447 | 6,742,962 | 6,597,966 |
| Permanently restricted | 5,386,543 | 207,350 | 5,593,893 | 5,281,508 |
| **TOTAL NET ASSETS** | **23,505,417** | **3,169,783** | **26,675,200** | **25,115,895** |
| **TOTAL LIABILITIES AND NET ASSETS** | **$ 28,981,774** | **$ 5,803,056** | **$ 34,784,830** | **$ 31,981,051** |

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

# CONSOLIDATED STATEMENTS OF ACTIVITIES

*For the years ended August 31, 2012 and 2011 (in thousands of dollars)*

| | 2012 | | | 2011 |
|---|---|---|---|---|
| | UNIVERSITY | HOSPITALS | CONSOLIDATED | CONSOLIDATED |
| UNRESTRICTED NET ASSETS | | | | |
| OPERATING REVENUES: | | | | |
| Student income: | | | | |
| Undergraduate programs | $ 298,049 | $ - | $ 298,049 | $ 285,582 |
| Graduate programs | 287,225 | - | 287,225 | 274,784 |
| Room and board | 135,879 | - | 135,879 | 127,785 |
| Student financial aid | (240,649) | - | (240,649) | (230,307) |
| **TOTAL STUDENT INCOME** | **480,504** | **-** | **480,504** | **457,844** |
| Sponsored research support: | | | | |
| Direct costs - University | 639,630 | - | 639,630 | 660,684 |
| Direct costs - SLAC National Accelerator Laboratory | 368,187 | - | 368,187 | 366,435 |
| Indirect costs | 226,424 | - | 226,424 | 220,248 |
| **TOTAL SPONSORED RESEARCH SUPPORT** | **1,234,241** | **-** | **1,234,241** | **1,247,367** |
| Health care services: | | | | |
| Patient care, net | - | 3,220,020 | 3,220,020 | 2,880,250 |
| Physicians' services and support - SHC and LPCH, net | 519,930 | (519,930) | - | - |
| Physicians' services and support - other facilities, net | 25,019 | - | 25,019 | 22,033 |
| **TOTAL HEALTH CARE SERVICES** | **544,949** | **2,700,090** | **3,245,039** | **2,902,283** |
| **CURRENT YEAR GIFTS IN SUPPORT OF OPERATIONS** | **178,214** | **6,305** | **184,519** | **170,651** |
| Net assets released from restrictions: | | | | |
| Payments received on pledges | 79,943 | 1,930 | 81,873 | 85,127 |
| Prior year gifts released from donor restrictions | 28,260 | 2,590 | 30,850 | 31,055 |
| **TOTAL NET ASSETS RELEASED FROM RESTRICTIONS** | **108,203** | **4,520** | **112,723** | **116,182** |
| Investment income distributed for operations: | | | | |
| Endowment | 871,106 | 12,319 | 883,425 | 799,058 |
| Expendable funds pools and other investment income | 131,330 | 739 | 132,069 | 128,456 |
| **TOTAL INVESTMENT INCOME DISTRIBUTED FOR OPERATIONS** | **1,002,436** | **13,058** | **1,015,494** | **927,514** |
| **SPECIAL PROGRAM FEES AND OTHER INCOME** | **428,679** | **113,423** | **542,102** | **467,767** |
| **TOTAL OPERATING REVENUES** | **3,977,226** | **2,837,396** | **6,814,622** | **6,289,608** |
| OPERATING EXPENSES: | | | | |
| Salaries and benefits | 2,334,359 | 1,377,549 | 3,711,908 | 3,448,611 |
| Depreciation | 277,479 | 129,089 | 406,568 | 394,405 |
| Other operating expenses | 1,154,472 | 1,025,198 | 2,179,670 | 1,931,332 |
| **TOTAL OPERATING EXPENSES** | **3,766,310** | **2,531,836** | **6,298,146** | **5,774,348** |
| **CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES** | **$ 210,916** | **$ 305,560** | **$ 516,476** | **$ 515,260** |

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

# CONSOLIDATED STATEMENTS OF ACTIVITIES, Continued

*For the years ended August 31, 2012 and 2011 (in thousands of dollars)*

| | 2012 | | | 2011 |
|---|---|---|---|---|
| | UNIVERSITY | HOSPITALS | CONSOLIDATED | CONSOLIDATED |
| UNRESTRICTED NET ASSETS (continued) | | | | |
| **CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES** | **$ 210,916** | **$ 305,560** | **$ 516,476** | **$ 515,260** |
| Non-operating activities: | | | | |
| Increase in reinvested gains | 394,277 | 51,349 | 445,626 | 1,762,358 |
| Donor advised funds, net | 38,998 | - | 38,998 | 1,057 |
| Current year gifts not included in operations | 253,390 | - | 253,390 | 4,237 |
| Equity and fund transfers from Hospitals, net | 15,072 | (15,072) | - | - |
| Capital and other gifts released from restrictions | 124,865 | 5,865 | 130,730 | 248,921 |
| Pension and other post employment benefit related changes other than net periodic benefit expense | (106,716) | (15,355) | (122,071) | 97,381 |
| Transfer to permanently restricted net assets, net | (36,361) | - | (36,361) | (56,247) |
| Transfer to temporarily restricted net assets, net | (21,032) | - | (21,032) | (16,121) |
| Swap interest and unrealized losses | (21,610) | (69,805) | (91,415) | (1,275) |
| Other | (897) | (11,520) | (12,417) | 3,331 |
| **NET CHANGE IN UNRESTRICTED NET ASSETS** | **850,902** | **251,022** | **1,101,924** | **2,558,902** |
| TEMPORARILY RESTRICTED NET ASSETS | | | | |
| Gifts and pledges, net | 229,441 | 375,140 | 604,581 | 343,759 |
| Increase (decrease) in reinvested gains | (215,549) | 10,222 | (205,327) | 932,343 |
| Change in value of split interest agreements, net | 6,195 | (492) | 5,703 | (240) |
| Net assets released to operations | (108,203) | (23,883) | (132,086) | (137,948) |
| Capital and other gifts released to unrestricted net assets | (124,865) | (5,865) | (130,730) | (248,921) |
| Gift transfers from Hospitals, net | 2,141 | (2,141) | - | - |
| Transfer from unrestricted net assets, net | 21,032 | - | 21,032 | 16,121 |
| Transfer to permanently restricted net assets, net | (18,349) | (1,099) | (19,448) | (24,300) |
| Other | (2,505) | 3,776 | 1,271 | (4,947) |
| **NET CHANGE IN TEMPORARILY RESTRICTED NET ASSETS** | **(210,662)** | **355,658** | **144,996** | **875,867** |
| PERMANENTLY RESTRICTED NET ASSETS | | | | |
| Gifts and pledges, net | 227,079 | 420 | 227,499 | 150,847 |
| Increase in reinvested gains | 4,612 | - | 4,612 | 15,150 |
| Change in value of split interest agreements, net | 23,984 | 481 | 24,465 | 26,791 |
| Transfer from unrestricted net assets, net | 36,361 | - | 36,361 | 56,247 |
| Transfer from temporarily restricted net assets, net | 18,349 | 1,099 | 19,448 | 24,300 |
| Other | - | - | - | 408 |
| **NET CHANGE IN PERMANENTLY RESTRICTED NET ASSETS** | **310,385** | **2,000** | **312,385** | **273,743** |
| **NET CHANGE IN TOTAL NET ASSETS** | **950,625** | **608,680** | **1,559,305** | **3,708,512** |
| Total net assets, beginning of year | 22,554,792 | 2,561,103 | 25,115,895 | 21,407,383 |
| **TOTAL NET ASSETS, END OF YEAR** | **$ 23,505,417** | **$ 3,169,783** | **$ 26,675,200** | **$ 25,115,895** |

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

# CONSOLIDATED STATEMENTS OF CASH FLOWS

*For the years ended August 31, 2012 and 2011 (in thousands of dollars)*

| | 2012 | | | 2011 |
|---|---|---|---|---|
| | UNIVERSITY | HOSPITALS | CONSOLIDATED | CONSOLIDATED |
| CASH FLOW FROM OPERATING ACTIVITIES | | | | |
| Change in net assets | $ 950,625 | $ 608,680 | $ 1,559,305 | $ 3,708,512 |
| Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities: | | | | |
| Depreciation | 277,479 | 129,089 | 406,568 | 394,405 |
| Amortization, loss on disposal of fixed assets and other adjustments | 17,523 | 1,279 | 18,802 | 19,026 |
| Net gains on investments and security agreements | (947,706) | (32,305) | (980,011) | (3,420,395) |
| Net losses (gains) on derivatives | 17,279 | 69,805 | 87,084 | (3,645) |
| Changes in split interest agreements | 8,901 | 11 | 8,912 | 45,755 |
| Investment losses (gains) for restricted purposes | (13,388) | 5,732 | (7,656) | (37,798) |
| Gifts restricted for long-term investments | (293,970) | (316,040) | (610,010) | (292,145) |
| Equity and fund transfers from Hospitals | (17,214) | 17,214 | - | - |
| Gifts of securities and properties | (355,313) | - | (355,313) | (51,904) |
| Premiums received from bond issuance | 21,434 | 59,614 | 81,048 | 1,534 |
| Changes in operating assets and liabilities: | | | | |
| Accounts receivable, pledges receivable and receivables from SHC and LPCH, net | (1,702) | (150,790) | (152,492) | (104,004) |
| Prepaid expenses and other assets | (19,387) | (915) | (20,302) | (4,852) |
| Accounts payable and accrued expenses | 33,204 | 82,436 | 115,640 | 74,535 |
| Accrued pension and post retirement benefit costs | 127,811 | 12,788 | 140,599 | (58,749) |
| Deferred rental and other income | 8,365 | - | 8,365 | 22,126 |
| Other | 1,965 | (6,984) | (5,019) | (10,649) |
| **NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES** | **(184,094)** | **479,614** | **295,520** | **281,752** |
| CASH FLOW FROM INVESTING ACTIVITIES | | | | |
| Land, building and equipment purchases | (402,939) | (268,567) | (671,506) | (567,301) |
| Student, faculty and other loans: | | | | |
| New loans made | (56,060) | - | (56,060) | (76,749) |
| Principal collected | 56,852 | - | 56,852 | 48,996 |
| Increase in assets limited as to use, held by trustees | - | (728,324) | (728,324) | - |
| Purchases of investments | (12,990,781) | (159,218) | (13,149,999) | (18,057,837) |
| Sales and maturities of investments | 13,357,744 | 82,150 | 13,439,894 | 17,913,773 |
| **NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES** | **(35,184)** | **(1,073,959)** | **(1,109,143)** | **(739,118)** |
| CASH FLOW FROM FINANCING ACTIVITIES | | | | |
| Gifts and reinvested income for restricted purposes | 227,680 | 50,732 | 278,412 | 203,515 |
| Equity and fund transfers from Hospitals | 21,117 | (21,117) | - | - |
| Proceeds from borrowing | 336,056 | 912,815 | 1,248,871 | 272,615 |
| Bond issuance costs and interest rate swaps | (1,394) | (7,415) | (8,809) | (1,813) |
| Repayment of notes and bonds payable | (369,545) | (253,868) | (623,413) | (365,862) |
| Increase (decrease) in liabilities under security lending agreements | (40,828) | - | (40,828) | 22,003 |
| Other | 23 | - | 23 | 320 |
| **NET CASH PROVIDED BY FINANCING ACTIVITIES** | **173,109** | **681,147** | **854,256** | **130,778** |
| **INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | **(46,169)** | **86,802** | **40,633** | **(326,588)** |
| Cash and cash equivalents, beginning of year | 1,186,257 | 507,958 | 1,694,215 | 2,020,803 |
| **CASH AND CASH EQUIVALENTS, END OF YEAR** | **$ 1,140,088** | **$ 594,760** | **$ 1,734,848** | **$ 1,694,215** |
| SUPPLEMENTAL DATA: | | | | |
| Interest paid during the year | $ 104,210 | $ 62,862 | $ 167,072 | $ 158,010 |
| Cash collateral received under security lending agreements | $ 106,581 | $ - | $ 106,581 | $ 142,963 |
| Increase (decrease) in payables for plant facilities | $ 26,138 | $ 36,216 | $ 62,354 | $ (19,911) |

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. Basis of Presentation and Significant Accounting Policies

**BASIS OF PRESENTATION**

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

**University**

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

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

**Hospitals**

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

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

**TAX STATUS**
The University and the Hospitals are exempt from federal and state income taxes to the extent provided by Section 501(c)(3) of the Internal Revenue Code and equivalent state provisions.

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

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

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

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

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

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

**Permanently Restricted Net Assets**
Permanently restricted net assets consist primarily of endowment, annuity and life income funds which are subject to donor-imposed restrictions requiring that the principal be invested in perpetuity. Permanently restricted net assets may also include funds reclassified from other classes of net assets as a

result of donor-imposed stipulations, the University's net equity in split interest agreements that are not expendable at maturity and net assets which by donor stipulation must be made available in perpetuity for specific purposes.

**CASH AND CASH EQUIVALENTS**

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

**ASSETS LIMITED AS TO USE, HELD BY TRUSTEES**

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

**ACCOUNTS AND LOANS RECEIVABLE**

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

**PLEDGES RECEIVABLE**

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

**INVESTMENTS**

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

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

**PLANT FACILITIES**

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

The useful lives used in calculating depreciation for the years ended August 31, 2012 and 2011 are as follows:

| | UNIVERSITY | HOSPITALS |
|---|---|---|
| Land improvements | 10-25 years | 10-25 years |
| Buildings and building improvements | 4-50 years | 7-40 years |
| Furniture, fixtures and equipment | 3-10 years | 3-20 years |

**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; however, purchases of such collections are recorded as operating expenses in the period in which they are acquired.

**DONATED ASSETS**

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

**DONOR ADVISED FUNDS**

The University receives gifts from donors under donor advised fund (DAF) agreements. These funds are owned and controlled by the University and are separately identified by donor. A substantial portion of the gift must be designated to the University. The balance may be used to support other approved charities. The donors have advisory privileges with respect to the distribution of certain amounts in the funds. Current year gifts under the DAF agreements are included in the *Statements of Activities* as "donor advised funds, net" at the full amount of the gift. Transfers of funds to other charitable organizations are included in the Statements of Activities as a reduction to "donor advised funds, net" at the time the transfer is made. At August 31, 2012 and 2011, approximately $251.0 million and $207.3 million, respectively, of DAFs are not designated to the University.

**SPLIT INTEREST AGREEMENTS**

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

The assets held under split interest agreements where the University is the trustee were $632.2 million and $628.7 million at August 31, 2012 and 2011, respectively, and were recorded in various categories in "investments" and the discounted present value of any income beneficiary interest is reported as "income beneficiary share of split interest agreements" in the *Statements of Financial Position*. The discount rates used, which range from 2% to 6%, are established in the year the gift was received and are based on tables established by the Internal Revenue Service.

During fiscal years 2012 and 2011, the discounted present value of new gifts subject to split interest agreements where the University is the trustee, net of the income beneficiary share, were $31.2 million and $18.1 million, respectively, and were included in "gifts and pledges, net" in the *Statements of Activities*. Actuarial gains or losses are included in "change in value of split interest agreements, net" in the *Statements of Activities*.

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

**SELF-INSURANCE**

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

**INTEREST RATE EXCHANGE AGREEMENTS**

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

**STUDENT INCOME**

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

**PATIENT CARE AND OTHER SERVICES**

**Health Care Services**

The Hospitals derive a majority of patient care revenues from contractual agreements with Medicare, Medi-Cal and other third-party payers. Payments under these agreements and programs are based on a variety of payment models such as per diem, per discharge, per service, a fee schedule, cost reimbursement or negotiated rates. "Patient care, net" is reported in the *Statements of Activities* at the estimated net realizable amounts from patients, third-party payers, and others for services rendered, including estimated retroactive audit adjustments under reimbursement agreements with third-party payers. Retroactive adjustments are estimated and recorded in the period the related services are rendered and adjusted in future periods, as final settlements are determined. Contracts, laws and regulations governing the Medicare and Medi-Cal programs are complex and subject to interpretation. As a result, it is reasonably possible that recorded estimates may change by a material amount in the near term.

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

**Charity Care**

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

The estimated cost of providing charity care was $27.8 million and $22.4 million for the years ended August 31, 2012 and 2011, respectively. This cost is estimated by calculating a ratio of total costs to gross patient service charges at established rates, and then multiplying that ratio by gross uncompensated patient service charges at established rates associated with providing care to charity patients.

The Hospitals did not receive any funding to subsidize the costs of providing charity care for the years ended August 31, 2012 and 2011. The Hospitals also provide services to other patients under Medicare, Medi-Cal and other publicly sponsored programs, which reimburse at amounts less than the cost of the services provided to the recipients. Estimated costs in excess of reimbursements for Medicare, Medi-Cal and other publicly sponsored programs for the years ended August 31, 2012 and 2011 were $568.1 million and $467.5 million, respectively.

**Provider Fee**

The State of California enacted legislation in 2009 through 2012 which established a Hospital Quality Assurance Fee (QAF) Program and a Hospital Fee Program. These programs imposed a provider fee on certain California general acute care hospitals that, combined with federal matching funds, would be used to provide supplemental payments to certain hospitals and support the State's effort to maintain health care coverage for children. Certain rates under these programs are pending approval from the Centers for Medicare & Medicaid Services.

For the years ended August 31, 2012 and 2011, the Hospitals recorded $76.5 million and $47.8 million, respectively, in "other operating expenses" and recognized $117.6 million and $88.6 million, respectively, in "patient care, net" revenue under these programs.

**Electronic Health Records Program**

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

## RECENT ACCOUNTING PRONOUNCEMENTS

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

In July 2011, the FASB issued an update to the ASC to improve the transparency about a health care entity's net patient service revenue and the related allowance for doubtful accounts. The guidance requires the provision for bad debts related to patient service revenue to be presented as a deduction from patient service revenue. This guidance is effective for annual periods beginning after December 15, 2012. The Hospitals early adopted this guidance and recorded provision for bad debts of $108.3 million in "patient care, net" in the "health care services" category for the year ended August 31, 2012. The Hospitals also applied this guidance retroactively and reclassified $92.0 million of provision for bad debts from "other operating expenses" to "health care services" for the year ended August 31, 2011.

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

In January 2010, the FASB issued an update to the ASC which expanded the required disclosures about fair value measurements. In particular, this guidance requires: (1) separate disclosure of the amounts of significant transfers in and out of Level 1 and Level 2 fair value hierarchy along with the reasons for such transfers; (2) information about purchases, sales, issuances and settlements to be presented separately in the reconciliation for Level 3 fair value hierarchy; (3) fair value measurements disclosures for each class of assets and liabilities; and (4) disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements that fall in either Level 2 or Level 3. The University and the Hospitals adopted this guidance for the year ended August 31, 2011 except for (2) which the University and the Hospitals adopted for the year ended August 31, 2012.

## 2. Accounts Receivable

Accounts receivable, net of bad debt allowances, at August 31, 2012 and 2011, in thousands of dollars, are as follows:

| | 2012 | | | 2011 |
|---|---|---|---|---|
| | UNIVERSITY | HOSPITALS | CONSOLIDATED | CONSOLIDATED |
| U.S. government | $ 72,194 | $ - | $ 72,194 | $ 66,173 |
| Non-federal sponsors and programs | 27,883 | 159,884 | 187,767 | 28,614 |
| Pending trades of securities | 241,458 | - | 241,458 | 109,793 |
| Accrued interest on investments | 7,255 | - | 7,255 | 7,645 |
| Student | 6,984 | - | 6,984 | 9,582 |
| Patient and third-party payers | - | 586,828 | 586,828 | 520,295 |
| Other | 34,917 | 36,325 | 71,242 | 54,645 |
| | 390,691 | 783,037 | 1,173,728 | 796,747 |
| Less bad debt allowances | (2,173) | (101,010) | (103,183) | (93,738) |
| **ACCOUNTS RECEIVABLE, NET** | **$ 388,518** | **$ 682,027** | **$ 1,070,545** | **$ 703,009** |

## 3. Pledges Receivable

Pledges are recorded at applicable risk-adjusted discount rates, ranging from 1.1% to 6.0% for the University and from 1.1% to 5.8% for the Hospitals, commensurate with the duration of the donor's payment plan. At August 31, 2012 and 2011, pledges receivable, net of discounts and allowances, in thousands of dollars, are as follows:

| | 2012 | | | 2011 |
|---|---|---|---|---|
| | UNIVERSITY | HOSPITALS | CONSOLIDATED | CONSOLIDATED |
| One year or less | $ 136,158 | $ 57,795 | $ 193,953 | $ 166,586 |
| Between one year and five years | 700,403 | 231,007 | 931,410 | 758,111 |
| More than five years | 84,283 | 109,351 | 193,634 | 199,847 |
| | 920,844 | 398,153 | 1,318,997 | 1,124,544 |
| Less discounts and allowances | (213,466) | (37,277) | (250,743) | (229,850) |
| **PLEDGES RECEIVABLE, NET** | **$ 707,378** | **$ 360,876** | **$ 1,068,254** | **$ 894,694** |

Conditional pledges for the University, which depend on the occurrence of a specified future and uncertain event, were $10.7 million and $12.9 million at August 31, 2012 and 2011, respectively. The Hospitals had conditional pledges of $136.6 million and $126.7 million at August 31, 2012 and 2011, respectively. Lucile Packard Foundation for Children's Health is the primary community fundraising agent for LPCH and the pediatric faculty and programs at the University's SoM.

## 4. Loans Receivable

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

**STUDENT LOANS RECEIVABLE**

Student loans receivable consist of institutional and federally-sponsored loans due from both current and former students. Student loans and allowance for student loan losses at August 31, 2012 and 2011, in thousands of dollars, are as follows:

| | 2012 | 2011 |
|---|---|---|
| Institutional loans | $ 19,350 | $ 18,082 |
| Federally-sponsored loans | 57,935 | 58,580 |
| | 77,285 | 76,662 |
| Less allowance for student loan losses | (586) | (940) |
| **STUDENT LOANS RECEIVABLE, NET** | **$ 76,699** | **$ 75,722** |

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

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

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

**FACULTY AND STAFF MORTGAGES**

In a program to attract and retain excellent faculty and senior staff, the University provides home mortgage financing assistance, primarily in the form of subordinated loans. Notes receivable amounting to $456.6 million and $462.5 million at August 31, 2012 and 2011, respectively, from University faculty and staff are included in "faculty and staff mortgages and other loans receivable, net" in the *Statements of Financial Position*. These loans and mortgages are collateralized by deeds of trust on properties concentrated in the region surrounding the University.

## 5. Investments

Investments held by the University and the Hospitals are measured and recorded at fair value. The valuation methodology, investment categories, fair value hierarchy, certain investment activities and related commitments for fiscal years 2012 and 2011 are discussed below.

Investments held by the University and the Hospitals at August 31, 2012 and 2011, in thousands of dollars, are as follows:

| | 2012 | | | 2011 |
|---|---|---|---|---|
| | UNIVERSITY | HOSPITALS | CONSOLIDATED | CONSOLIDATED |
| Cash and cash equivalents | $ 993,908 | $ 41,295 | $ 1,035,203 | $ 425,251 |
| Collateral held for securities loaned | 106,581 | - | 106,581 | 142,963 |
| Public equities | 4,580,668 | 115,096 | 4,695,764 | 4,557,962 |
| Derivatives | (12,999) | - | (12,999) | (13,834) |
| Fixed income | 916,857 | - | 916,857 | 756,822 |
| Real estate | 4,988,534 | - | 4,988,534 | 4,500,588 |
| Natural resources | 1,688,315 | - | 1,688,315 | 1,683,569 |
| Private equities | 5,196,771 | - | 5,196,771 | 5,319,813 |
| Absolute return | 5,157,640 | - | 5,157,640 | 5,253,470 |
| Assets held by other trustees | 154,462 | 13,604 | 168,066 | 177,016 |
| Other | 204,952 | - | 204,952 | 181,577 |
| | 23,975,689 | 169,995 | 24,145,684 | 22,985,197 |
| Hospital funds invested in the University's Merged Pool | (1,728,989) | 1,728,989 | - | - |
| **INVESTMENTS AT FAIR VALUE** | **$ 22,246,700** | **$ 1,898,984** | **$ 24,145,684** | **$ 22,985,197** |

**VALUATION METHODOLOGY**

To the extent available, the University's investments are recorded at fair value based on quoted prices in active markets. The University's investments that are listed on any U.S. or non-U.S. recognized exchanges are valued based on readily available market quotations. When such inputs do not exist, fair value measurements are based on the best available information and usually require a degree of judgment. For alternative investments, which are principally limited partnership investments in private equity, real estate, natural resources and hedge funds, the value is primarily based on the Net Asset Value (NAV) of the underlying investments. The NAV is reported by the external investment managers, including general partners, in accordance with their policies as described in their respective financial statements and offering memoranda. The most recent NAV reported is adjusted for capital calls, distributions and significant known valuation changes, if any, of its related portfolio through August 31, 2012 and 2011, respectively. These investments are generally less liquid than other investments, and the value reported may differ from the values that would have been reported had a ready market for these investments existed.

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

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

**INVESTMENT CATEGORIES**

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

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

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

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

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

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

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

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

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

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

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

**FAIR VALUE HIERARCHY**

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

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

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

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

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

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

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

The following tables summarize the University's and the Hospitals' investments and other assets within the fair value hierarchy and asset categories at August 31, 2012 and 2011, in thousands of dollars:

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

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

| | AS OF AUGUST 31, 2011 | LEVEL 1 | LEVEL 2 | LEVEL 3 |
|---|---|---|---|---|
| UNIVERSITY* | | | | |
| Cash and cash equivalents | $ 349,234 | $ 324,675 | $ 24,559 | $ - |
| Collateral held for securities loaned | 142,963 | 86,178 | 56,785 | - |
| Public equities | 4,446,401 | 2,048,108 | 579,456 | 1,818,837 |
| Derivatives | (13,834) | 4,534 | (18,368) | - |
| Fixed income | 756,822 | 114,427 | 642,395 | - |
| Real estate | 4,500,588 | - | - | 4,500,588 |
| Natural resources | 1,683,569 | 217,980 | - | 1,465,589 |
| Private equities | 5,319,813 | 15,371 | - | 5,304,442 |
| Absolute return | 5,253,470 | - | 1,863,197 | 3,390,273 |
| Assets held by other trustees | 163,044 | - | - | 163,044 |
| Other | 181,577 | 122 | 680 | 180,775 |
| **TOTAL** | **22,783,647** | **2,811,395** | **3,148,704** | **16,823,548** |
| HOSPITALS | | | | |
| Cash and cash equivalents | 76,017 | 72,106 | 3,911 | - |
| Public equities | 111,561 | 65,262 | 46,299 | - |
| Assets held by other trustees | 13,972 | - | - | 13,972 |
| **TOTAL** | **201,550** | **137,368** | **50,210** | **13,972** |
| **CONSOLIDATED TOTAL** | **$ 22,985,197** | **$ 2,948,763** | **$ 3,198,914** | **$16,837,520** |

* *Amounts include the Hospitals' cross investment in the University's investment pools of $1.6 billion.*

The University manages the majority of the Hospitals' investments, including the Hospitals' investment in the Merged Pool (MP), with a combined fair value of $1.7 billion and $1.6 billion at August 31, 2012 and 2011, respectively.

## SUMMARY OF LEVEL 3 INVESTMENT ACTIVITIES AND TRANSFERS

The following tables present the activities for Level 3 investments for the years ended August 31, 2012 and 2011, in thousands of dollars:

| FAIR VALUE MEASUREMENTS USING SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3) | BEGINNING BALANCE AS OF SEPTEMBER 1, 2011 | PURCHASES | SALES AND MATURITIES | NET REALIZED AND UNREALIZED GAINS (LOSSES) | TRANSFERS IN (OUT) | ENDING BALANCE AS OF AUGUST 31, 2012 |
|---|---|---|---|---|---|---|
| UNIVERSITY | | | | | | |
| Public equities | $ 1,818,837 | $ 144,949 | $ (196,660) | $ 246,955 | $ 91,723 | $ 2,105,804 |
| Real estate | 4,500,588 | 455,238 | (404,832) | 437,540 | - | 4,988,534 |
| Natural resources | 1,465,589 | 164,985 | (189,785) | (29,685) | (4,123) | 1,406,981 |
| Private equities | 5,304,442 | 694,159 | (885,894) | 50,447 | - | 5,163,154 |
| Absolute return | 3,390,273 | 263,678 | (611,871) | (7,156) | 176,025 | 3,210,949 |
| Assets held by other trustees | 163,044 | 61,238 | (61,798) | (8,022) | - | 154,462 |
| Other | 180,775 | 24,156 | (10,283) | 9,397 | - | 204,045 |
| **TOTAL** | **16,823,548** | **1,808,403** | **(2,361,123)** | **699,476** | **263,625** | **17,233,929** |
| HOSPITALS | | | | | | |
| Assets held by other trustees | 13,972 | - | - | (368) | - | 13,604 |
| **TOTAL** | **13,972** | **-** | **-** | **(368)** | **-** | **13,604** |
| **CONSOLIDATED TOTAL** | **$ 16,837,520** | **$ 1,808,403** | **$ (2,361,123)** | **$ 699,108** | **$ 263,625** | **$ 17,247,533** |

| FAIR VALUE MEASUREMENTS USING SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3) | BEGINNING BALANCE AS OF SEPTEMBER 1, 2010 | PURCHASES | SALES AND MATURITIES | NET REALIZED AND UNREALIZED GAINS | TRANSFERS IN (OUT) | ENDING BALANCE AS OF AUGUST 31, 2011 |
|---|---|---|---|---|---|---|
| UNIVERSITY | | | | | | |
| Public equities | $ 1,360,802 | $ 494,886 | $ (219,550) | $ 180,428 | $ 2,271 | $ 1,818,837 |
| Real estate | 3,402,206 | 406,211 | (173,901) | 856,250 | 9,822 | 4,500,588 |
| Natural resources | 1,283,095 | 180,044 | (199,704) | 207,290 | (5,136) | 1,465,589 |
| Private equities | 3,860,044 | 847,287 | (646,726) | 1,243,837 | - | 5,304,442 |
| Absolute return | 3,398,011 | 288,390 | (578,744) | 370,832 | (88,216) | 3,390,273 |
| Assets held by other trustees | 152,744 | 718 | (5,649) | 15,231 | - | 163,044 |
| Other | 150,335 | 37,184 | (19,749) | 28,275 | (15,270) | 180,775 |
| **TOTAL** | **13,607,237** | **2,254,720** | **(1,844,023)** | **2,902,143** | **(96,529)** | **16,823,548** |
| HOSPITALS | | | | | | |
| Assets held by other trustees | 13,628 | - | - | 344 | - | 13,972 |
| **TOTAL** | **13,628** | **-** | **-** | **344** | **-** | **13,972** |
| **CONSOLIDATED TOTAL** | **$ 13,620,865** | **$ 2,254,720** | **$ (1,844,023)** | **$ 2,902,487** | **$ (96,529)** | **$ 16,837,520** |

Net realized and unrealized gains (losses) in the tables above are included in the *Statements of Activities* primarily as "increase (decrease) in reinvested gains" by level of restriction. For the years ended August 31, 2012 and 2011, the change in unrealized gains (losses) for Level 3 investments still held at August 31, 2012 and 2011 was $436.7 million and $2.5 billion, respectively.

Transfers in (out) include investments which have been reclassified to Level 2 as the University has the ability to redeem these at NAV in the near term. Transfers in (out) also include situations where observable inputs have changed, such as when Level 3 investments make distributions from an underlying asset with a fair value based on quoted market prices. All transfer amounts are based on the fair value at the beginning of the fiscal year. There were no transfers between Level 1 and Level 2 during the years ended August 31, 2012 and 2011.

**INVESTMENT-RELATED COMMITMENTS**

The University is obligated under some alternative investment agreements to advance additional funding up to specified levels over a period of several years. The following table presents significant terms of such agreements solely related to the alternative investments measured at fair value based on NAV at August 31, 2012, in thousands of dollars:

| ASSET CLASS | FAIR VALUE | UNFUNDED COMMITMENT | REMAINING LIFE (YEARS) | REDEMPTION TERMS AND RESTRICTIONS |
|---|---|---|---|---|
| Public equities | $ 2,370,936 | $ 65,543 | 0 to 5 | Generally, lock-up provisions ranging from 0 to 6 years. After initial lock up expires, redemptions are available on a rolling basis and require 3 to 180 days prior notification. |
| Real estate | 1,854,770 | 945,514 | 0 to 13 | Not eligible for redemption |
| Natural resources | 894,688 | 472,322 | 0 to 15 | Not eligible for redemption |
| Private equities | 5,162,766 | 1,883,023 | 0 to 16 | Not eligible for redemption |
| Absolute return | 4,942,334 | 378,615 | 0 to 7 | Generally, lock-up provisions ranging from 0 to 6 years. After initial lock up expires, redemptions are available on a rolling basis and require 2 to 180 days prior notification. |
| **TOTAL** | **$15,225,494** | **$ 3,745,017** | | |

At August 31, 2012, the aggregate amount of unfunded commitments was $3.9 billion. This amount includes both the unfunded commitments in the table above and other alternative investments where the fair values were not based on NAV.

**INVESTMENT RETURNS**

Total investment returns for the years ended August 31, 2012 and 2011, in thousands of dollars, are as follows:

| | 2012 | | | 2011 |
|---|---|---|---|---|
| | UNIVERSITY | HOSPITALS | CONSOLIDATED | CONSOLIDATED |
| Investment income | $ 277,208 | $ 13,782 | $ 290,990 | $ 229,949 |
| Net realized and unrealized gains | 974,508 | 47,778 | 1,022,286 | 3,453,911 |
| **TOTAL INVESTMENT RETURN** | **$ 1,251,716** | **$ 61,560** | **$ 1,313,276** | **$ 3,683,860** |

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

**FUTURE MINIMUM RENTAL INCOME**

As part of its investment portfolio, the University holds certain investment properties that it leases to third parties. Future minimum rental income due from the Stanford Shopping Center, the Stanford Research Park and other properties under non-cancelable leases in effect with tenants at August 31, 2012, in thousands of dollars, is as follows:

| YEAR ENDING AUGUST 31 | FUTURE MINIMUM RENTAL INCOME |
|---|---|
| 2013 | $ 91,615 |
| 2014 | 92,204 |
| 2015 | 88,445 |
| 2016 | 81,404 |
| 2017 | 75,700 |
| Thereafter | 1,740,970 |
| **TOTAL** | **$ 2,170,338** |

## 6. Investment Pools

The University's investments are held in various investment pools or in specific investments to comply with donor requirements as indicated in the following table, at August 31, 2012 and 2011, in thousands of dollars:

| | 2012 | 2011 |
|---|---|---|
| UNIVERSITY | | |
| Merged Pool | $ 20,253,370 | $ 19,547,086 |
| Expendable Funds Pool | 3,004,565 | 2,648,621 |
| Endowment Income Funds Pool | 368,868 | 355,917 |
| Other Investment Pools | 394,407 | 392,285 |
| Specific Investments | 3,327,430 | 2,843,907 |
| | 27,348,640 | 25,787,816 |
| Less: | | |
| Amounts included in "cash and cash equivalents" in the *Statements of Financial Position* | (698,433) | (639,020) |
| Funds cross-invested in investment pools | (2,670,364) | (2,361,238) |
| Hospital funds invested in the University's investment pools | (1,733,143) | (1,598,071) |
| **TOTAL** | **22,246,700** | **21,189,487** |
| HOSPITALS | | |
| Investments | 1,898,984 | 1,795,710 |
| **TOTAL** | **1,898,984** | **1,795,710** |
| **CONSOLIDATED TOTAL** | **$ 24,145,684** | **$ 22,985,197** |

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

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

The Board has established a policy for the distribution of the investment returns of the EFP. The difference between the actual return of this investment pool and the approved payout is deposited in, or withdrawn from, funds functioning as endowment (FFE) *(*see *Note 12)*. For the years ended August 31, 2012 and 2011, the results of the EFP, in thousands of dollars, are as follows:

| | 2012 | 2011 |
|---|---|---|
| Total investment return of the EFP | $ 85,052 | $ 399,210 |
| Less distributions to fund holders and operations | (95,483) | (83,199) |
| **AMOUNTS ADDED TO (WITHDRAWN FROM) FFE** | **$ (10,431)** | **$ 316,011** |

## 7. Derivatives

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

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

**INVESTMENT-RELATED DERIVATIVES**

The following table presents amounts for investment-related derivatives, including the notional amount, the fair values at August 31, 2012 and 2011, and gains and losses for the years ended August 31, 2012 and 2011, in thousands of dollars:

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

| | AS OF AUGUST 31, 2011 | | | YEAR ENDED AUGUST 31, 2011 |
|---|---|---|---|---|
| | NOTIONAL AMOUNT[1] | GROSS DERIVATIVE ASSETS[2] | GROSS DERIVATIVE LIABILITIES[2] | REALIZED AND UNREALIZED GAINS (LOSSES)[3] |
| Interest-rate contracts | $ 877,781 | $ 462 | $ 5,970 | $ (1,514) |
| Foreign exchange contracts | 346,315 | 931 | 13,208 | (17,926) |
| Equity contracts | 95,978 | 4,488 | - | 176 |
| Credit contracts | 70,692 | 312 | 849 | 584 |
| **TOTAL** | **$ 1,390,766** | **$ 6,193** | **$ 20,027** | **$ (18,680)** |

*[1] The notional amount is representative of the volume and activity of the respective derivative type during the years ended August 31, 2012 and 2011.*

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

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

**Credit Default Swaps**

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

The tables below summarize certain information regarding protection sold through CDS at August 31, 2012 and 2011, in thousands of dollars:

| CREDIT RATINGS OF THE REFERENCE OBLIGATION[2] | MAXIMUM POTENTIAL PAYOUT (NOTIONAL AMOUNT[1]) / YEARS TO MATURITY LESS THAN 3 | OVER 3 | TOTAL | FAIR VALUE ASSET/ (LIABILITY) |
|---|---|---|---|---|
| 2012 | | | | |
| Single name credit default swaps: | | | | |
| A- to AA+ | $ 8,787 | $ 13,800 | $ 22,587 | $ 203 |
| BBB- to BBB+ | 2,100 | 2,575 | 4,675 | (257) |
| Total single name credit default swaps | 10,887 | 16,375 | 27,262 | (54) |
| Index credit default swaps[3] | - | 500 | 500 | (11) |
| **TOTAL CREDIT DEFAULT SWAPS SOLD** | **$ 10,887** | **$ 16,875** | **$ 27,762** | **$ (65)** |
| 2011 | | | | |
| Single name credit default swaps: | | | | |
| A- to AA+ | $ 12,783 | $ 16,400 | $ 29,183 | $ 67 |
| BBB- to BBB+ | 3,636 | 2,300 | 5,936 | (444) |
| Total single name credit default swaps | 16,419 | 18,700 | 35,119 | (377) |
| **TOTAL CREDIT DEFAULT SWAPS SOLD** | **$ 16,419** | **$ 18,700** | **$ 35,119** | **$ (377)** |

[1] *The notional amount is representative of the volume and activity of the respective derivative type during the years ended August 31, 2012 and 2011.*

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

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

**DEBT-RELATED DERIVATIVES**

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

At August 31, 2012, the University had interest rate exchange agreements related to $130.0 million of the outstanding balance of the CEFA Series S bonds in variable rate mode (see *Note 10*). The agreements, which have an interest rate of 3.69%, 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 $25.0 million at August 31, 2012 and 2011, respectively, and is included in the *Statements of Financial Position*. In addition, the University issued an irrevocable standby letter of credit of $15.0 million to support collateral requirements at August 31, 2012 (see *Note 10*).

At August 31, 2012, SHC had interest rate exchange agreements expiring through November 2045 (see *Note 11*). The agreements 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. The amount of collateral required to be posted with counterparties was $27.5 million and $7.1 million at August 31, 2012 and 2011, respectively, and was met by the posting of a standby letter of credit in the aggregate amount of $30.0 million and $20.0 million at August 31, 2012 and 2011, respectively, which may only be drawn upon in the event of a default by SHC. In July 2012, SHC terminated certain interest rate exchange agreements and recognized a loss of $1.3 million in "non-operating activities" in the *Statements of Activities*.

The following table presents amounts for debt-related derivatives including the notional amount, the fair values at August 31, 2012 and 2011, and gains and losses for the years ended August 31, 2012 and 2011, in thousands of dollars:

| | AS OF AUGUST 31, 2012 | | YEAR ENDED AUGUST 31, 2012 | AS OF AUGUST 31, 2011 | | YEAR ENDED AUGUST 31, 2011 |
|---|---|---|---|---|---|---|
| | NOTIONAL AMOUNT[1] | GROSS DERIVATIVE LIABILITIES[2] | REALIZED AND UNREALIZED LOSSES[3] | NOTIONAL AMOUNT[1] | GROSS DERIVATIVE LIABILITIES[2] | REALIZED AND UNREALIZED GAINS[3] |
| Debt-related interest-rate contracts: | | | | | | |
| University | $ 130,000 | $ 56,247 | $ (17,279) | $ 130,000 | $ 38,968 | $ 3,645 |
| Hospitals | 747,150 | 236,183 | (69,805) | 749,400 | 165,693 | 672 |
| **TOTAL** | **$ 877,150** | **$ 292,430** | **$ (87,084)** | **$ 879,400** | **$ 204,661** | **$ 4,317** |

[1] *The notional amount is representative of the volume and activity of the respective derivative type during the years ended August 31, 2012 and 2011.*

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

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

## 8. Plant Facilities

Plant facilities, net of accumulated depreciation, at August 31, 2012 and 2011, in thousands of dollars, are as follows:

| | 2012 | | | 2011 |
|---|---|---|---|---|
| | UNIVERSITY | HOSPITALS | CONSOLIDATED | CONSOLIDATED |
| Land and improvements | $ 498,741 | $ 93,667 | $ 592,408 | $ 555,153 |
| Buildings and building improvements | 4,360,595 | 1,195,038 | 5,555,633 | 5,446,557 |
| Furniture, fixtures and equipment | 1,733,009 | 860,638 | 2,593,647 | 2,523,924 |
| Construction in progress | 345,062 | 514,239 | 859,301 | 482,726 |
| | 6,937,407 | 2,663,582 | 9,600,989 | 9,008,360 |
| Less accumulated depreciation | (3,111,020) | (1,169,524) | (4,280,544) | (4,001,253) |
| **PLANT FACILITIES, NET OF ACCUMULATED DEPRECIATION** | **$ 3,826,387** | **$ 1,494,058** | **$ 5,320,445** | **$ 5,007,107** |

At August 31, 2012, $1.2 billion and $671.3 million of fully depreciated plant facilities were still in use by the University and the Hospitals, respectively.

## 9. Liabilities Under Security Lending Agreements

The University receives short-term U.S. government obligations or cash and cash equivalents as collateral deposits for certain securities loaned temporarily to brokers. It is the University's policy to require receipt of collateral on securities lending contracts and repurchase agreements equal to a minimum of 102% of the fair market value of the security loaned. In addition, the University is party to certain forward sale and purchase agreements. At August 31, 2012 and 2011, these amounts, in thousands of dollars, are as follows:

| | 2012 | 2011 |
|---|---|---|
| Collateral deposits for certain securities loaned temporarily to brokers[1, 2] | $ 106,581 | $ 142,963 |
| Forward sale and purchase agreements[1] | 34,618 | 39,064 |
| **LIABILITIES UNDER SECURITY LENDING AGREEMENTS** | **$ 141,199** | **$ 182,027** |

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

*[2] The estimated fair value of securities loaned to brokers at August 31, 2012 and 2011 was $97.8 million and $125.0 million, respectively.*

## 10. University Notes and Bonds Payable

Notes and bonds payable for the University at August 31, 2012 and 2011, in thousands of dollars, are as follows:

| | YEAR OF MATURITY | EFFECTIVE INTEREST RATE 2012/2011 | OUTSTANDING PRINCIPAL 2012 | 2011 |
|---|---|---|---|---|
| **Tax-exempt:** | | | | |
| CEFA Fixed Rate Revenue Bonds: | | | | |
| Series O | 2031 | 5.13% | $ - | $ 89,555 |
| Series P | 2013 | 5.25% | 51,260 | 51,260 |
| Series Q | 2032 | 5.25% | - | 101,860 |
| Series R | 2011-2021 | 4.00% - 5.00% | - | 111,585 |
| Series T | 2014-2039 | 4.00% - 5.00% | 361,310 | 361,310 |
| Series U | 2032-2040 | 5.00% - 5.25% | 293,135 | 215,375 |
| CEFA Variable Rate Revenue Bonds and Notes: | | | | |
| Series L | 2014-2022 | 0.13%/0.12% | 83,818 | 83,818 |
| Series S | 2039-2050 | 0.19%-0.22%/0.22%-0.36%* | 181,200 | 181,200 |
| Commercial Paper | 2012 | 0.16%/0.10% | 92,682 | 92,682 |
| **Taxable:** | | | | |
| Fixed Rate Notes and Bonds: | | | | |
| Stanford University Bonds | 2024 | 6.88% | 150,000 | 150,000 |
| Medium Term Note | 2026 | 7.65% | 50,000 | 50,000 |
| Stanford University Series 2009A | 2014-2019 | 3.63% - 4.75% | 1,000,000 | 1,000,000 |
| Stanford University Series 2012A | 2042 | 4.01% | 143,235 | - |
| Other | 2013-2015 | Various | 68,291 | 67,799 |
| Variable Rate Notes: | | | | |
| Commercial Paper | 2012 | 0.21%/0.17%* | 157,000 | 108,976 |
| University notes and bonds payable | | | 2,631,931 | 2,665,420 |
| Unamortized original issue premiums/discounts, net | | | 76,775 | 61,187 |
| **TOTAL** | | | **$ 2,708,706** | **$ 2,726,607** |

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

At August 31, 2012 and 2011, the fair value of these debt instruments was approximately $3.1 billion and $3.0 billion, respectively.

The University borrows at tax-exempt rates through the California Educational Facilities Authority (CEFA). CEFA debt is a general unsecured obligation of the University. Although CEFA is the issuer, the University is responsible for the repayment of the tax-exempt debt. The University's long-term ratings of AAA/Aaa/AAA were affirmed in March 2012 by Standard and Poor's, Moody's Investors Service and Fitch Ratings, respectively.

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

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

In December 2010, the University entered into a $50.0 million line of credit agreement to issue irrevocable standby letters of credit to support various collateral posting obligations. At August 31, 2012, irrevocable standby letters of credit of $30.0 million were outstanding in the following amounts and for the following respective purposes: (1) $15.0 million to support collateral requirements under certain interest rate exchange agreements discussed in *Note 7*; and (2) $15.0 million to serve as security for workers' compensation deductible insurance arrangements. No amounts have been drawn on these letters of credit at August 31, 2012.

Stanford holds controlling interests in several investment entities which were consolidated in the financial statements in fiscal years 2012 and 2011. At August 31, 2012 and 2011, taxable debt included $66.2 million and $66.5 million, respectively, of debt where Stanford is ultimately liable for principal should the investees default.

The University's taxable and tax-exempt commercial paper facilities and related information at August 31, 2012 and 2011, in thousands of dollars, are as follows:

| COMMERCIAL PAPER | POTENTIAL BORROWINGS | OUTSTANDING BALANCE AT AUGUST 31 | WEIGHTED AVERAGE DAYS TO MATURITY | AVERAGE EFFECTIVE INTEREST RATE |
|---|---|---|---|---|
| 2012 | | | | |
| Taxable | $ 500,000 | $ 157,000 | 44.1 | 0.21% |
| Tax-exempt | $ 300,000 | $ 92,682 | 35.9 | 0.16% |
| 2011 | | | | |
| Taxable | $ 350,000 | $ 108,976 | 26.3 | 0.17% |
| Tax-exempt | $ 300,000 | $ 92,682 | 32.3 | 0.10% |

The University had $265.0 million of revenue bonds in variable rate mode outstanding in addition to commercial paper notes at August 31, 2012. CEFA Series L bonds bear interest at a weekly rate and CEFA Series S bonds bear interest at a commercial paper municipal rate and are outstanding for various interest periods of 270 days or less. In the event the University receives notice of any optional tender of these bonds, or if the bonds become subject to mandatory tender, the purchase price of the bonds will be paid from the remarketing of such bonds. However, if the remarketing proceeds are insufficient, the University will have a current obligation to purchase the bonds tendered. The University has identified several sources of funding including cash, money market funds, U.S. treasury securities and agencies' discount notes to provide for the full and timely purchase price of any bonds tendered in the event of a failed remarketing.

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

| | 2012 | 2011 |
|---|---|---|
| Interest expense, gross | $ 96,190 | $ 103,685 |
| Less: | | |
| Interest income earned on unspent proceeds | (433) | (782) |
| Interest capitalized as a cost of construction | (1,071) | (1,648) |
| Interest expense on Series 2009A bonds which is classified as an investment expense | (22,907) | (29,913) |
| **Interest expense, net** | **$ 71,779** | **$ 71,342** |

The University uses interest rate exchange agreements to manage the interest rate exposure of its debt portfolio (see *Note 7*). Net payments on interest rate exchange agreements, which are included in "swap interest and unrealized losses" in the *Statements of Activities*, totaled $4.3 million and $5.6 million for the years ended August 31, 2012 and 2011, respectively.

At August 31, 2012, scheduled principal payments on notes and bonds, in thousands of dollars, are as follows:

| YEAR ENDING AUGUST 31 | | PRINCIPAL PAYMENTS |
|---|---|---|
| 2013 Commercial paper | $ | 249,682 |
| 2013 Variable debt subject to remarketing | | 265,018 |
| 2013 Other | | 67,706 |
| 2014 | | 573,720 |
| 2015 | | 55 |
| 2016 | | 250,000 |
| 2017 | | - |
| Thereafter | | 1,225,750 |
| **TOTAL** | **$** | **2,631,931** |

## 11. Hospitals Notes and Bonds Payable

Notes, bonds and capital lease obligations for the Hospitals at August 31, 2012 and 2011, in thousands of dollars, are as follows:

| | YEAR OF MATURITY | EFFECTIVE INTEREST RATE* 2012/2011 | OUTSTANDING PRINCIPAL 2012 | 2011 |
|---|---|---|---|---|
| **SHC:** | | | | |
| CHFFA Fixed Rate Revenue Bonds: | | | | |
| 2003 Series A | 2023 | 2.00%-5.00% | $ - | $ 78,595 |
| 2008 Series A-1 | 2040 | 2.25%-5.15% | 69,760 | 70,360 |
| 2008 Series A-2 | 2040 | 1.00%-5.25% | 103,200 | 104,100 |
| 2008 Series A-3 | 2040 | 1.00%-5.50% | 83,415 | 84,165 |
| 2010 Series A | 2031 | 4.00%-5.75% | 144,860 | 149,345 |
| 2010 Series B | 2036 | 4.50%-5.75% | 146,710 | 146,710 |
| 2012 Series A | 2051 | 5.00% | 340,000 | - |
| 2012 Series B | 2023 | 2.00%-5.00% | 68,320 | - |
| Promissory Note | 2014 | 7.03% | 363 | 539 |
| CHFFA Variable Rate Revenue Bonds: | | | | |
| 2008 Series B | 2045 | 0.17% | 168,200 | 168,200 |
| 2012 Series C | 2051 | 0.25% | 60,000 | - |
| 2012 Series D | 2051 | 0.78% | 100,000 | - |
| **LPCH:** | | | | |
| CHFFA Fixed Rate Revenue Bonds: | | | | |
| 2003 Series C | 2013-2027 | 3.25% | - | 55,000 |
| 2008 Series A | 2027-2033 | 1.45% | 30,340 | - |
| 2008 Series B | 2027-2033 | 1.45% | 30,340 | - |
| 2008 Series C | 2015-2023 | 1.45% | 32,770 | - |
| 2012 Series A | 2044-2051 | 5.00% | 200,000 | - |
| CHFFA Variable Rate Revenue Bonds: | | | | |
| 2008 Series A | 2027-2033 | 0.13% | - | 30,340 |
| 2008 Series B | 2027-2033 | 0.16% | - | 30,340 |
| 2008 Series C | 2015-2023 | 0.16% | - | 32,770 |
| 2012 Series B | 2013-2027 | 3.00% | 51,045 | - |
| Capital lease obligations | | | - | 13,643 |
| Hospitals notes, bonds and capital lease obligations | | | 1,629,323 | 964,107 |
| Unamortized original issue premiums/discounts, net | | | 71,104 | 19,071 |
| **TOTAL** | | | **$ 1,700,427** | **$ 983,178** |

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

At August 31, 2012 and 2011, the fair value of these debt instruments was approximately $1.8 billion and $1.0 billion, respectively.

The Hospitals borrow at tax-exempt rates through the California Health Facilities Financing Authority (CHFFA). CHFFA debt is a general obligation of the Hospitals. Payments of principal and interest on the Hospitals' bonds are collateralized by a pledge of the revenues of the respective hospitals. Although CHFFA is the issuer, the Hospitals are responsible for the repayment of the tax-exempt debt. The University is not an obligor or guarantor with respect to any obligations of SHC or LPCH, nor are SHC or LPCH obligors or guarantors with respect to obligations of the University. At August 31, 2012, there were no liquidity agreements between or among SHC, LPCH and the University.

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

**SHC**

In May 2012, CHFFA, on behalf of SHC, issued four series of revenue bonds in the aggregate principal amount of $568.3 million. The bonds were comprised of $340.0 million of 2012 Series A bonds, $68.3 million of 2012 Series B bonds, $60.0 million of 2012 Series C bonds and $100.0 million of 2012 Series D bonds. Proceeds of the 2012 Series A, C and D bonds will be used to finance a portion of the Renewal Project (*see Note 20*). Proceeds of the 2012 Series B bonds were used to advance refund the 2003 Series A bonds. As a result of the refunding, the unamortized bond issuance costs and original issue premium of $2.5 million related to the 2003 Series A bonds were included in "non-operating activities" in the *Statements of Activities* for the year ended August 31, 2012.

In June 2011, SHC remarketed the 2008 Series A-2, A-3 and B-2 bonds in the aggregate principal amount of $272.4 million. SHC converted both the 2008 Series A-2 bonds from a weekly interest rate mode and the 2008 Series A-3 bonds from a multi-annual put mode to a long-term fixed interest rate mode and the bonds mature in 2040. The remarketing of the 2008 Series A-3 bonds generated an original issue premium of approximately $1.5 million that, pursuant to the requirements of the underlying documents, was used to reduce the principal amount of the bonds from $85.7 million to $84.2 million. SHC converted the 2008 Series B-2 bonds from a weekly interest rate mode to a commercial paper mode.

At August 31, 2012, SHC has $328.2 million revenue bonds in variable rate mode outstanding. The 2008 Series B-1 bonds bear interest at a weekly rate, and bondholders have the option to tender their bonds on a weekly basis. The 2008 Series B-2 bonds bear interest at a commercial paper rate and are outstanding for various interest periods of 270 days or less. Bondholders in commercial paper mode have the option to tender their bonds only at the end of the commercial paper rate period.

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

In the event SHC receives notice of any optional tender of the 2008 Series B-1 bonds or the 2012 Series C bonds, or if 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, SHC will have a current obligation to purchase the bonds tendered. SHC has identified several sources of funding including cash and money market funds to provide for the full and timely purchase price of any bonds tendered in the event of a failed remarketing.

At August 31, 2012, SHC has irrevocable standby letters of credit in the aggregate amount of $53.3 million posted with certain beneficiaries in the following amounts and for the following respective purposes: (i) $30.0 million to support collateral requirements under certain interest rate exchange agreements discussed in *Note 7,* (ii) $13.3 million to serve as security for the workers' compensation self-insurance arrangement and (iii) $10.0 million to serve as a security deposit for certain construction projects being undertaken by SHC. No amounts have been drawn on these letters of credit at August 31, 2012 and 2011.

**LPCH**

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

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

At August 31, 2012, LPCH has irrevocable standby letters of credit in the aggregate amount of $13.3 million posted with certain beneficiaries in the following amounts and for the following respective purposes: (i) $6.7 million to serve as security for the workers' compensation self-insurance arrangement and (ii) $6.6 million to serve as a security deposit for certain construction projects being undertaken by LPCH. No amounts have been drawn on these letters of credit at August 31, 2012 and 2011.

**INTEREST**

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

| | | 2012 | | 2011 |
|---|---|---|---|---|
| Interest expense, gross, excluding settlements under the interest rate exchange agreements | $ | 42,435 | $ | 30,880 |
| Settlements under the interest rate exchange agreements | | 19,926 | | 19,864 |
| Less: | | | | |
| Interest capitalized as a cost of construction | | (7,246) | | (1,701) |
| **Interest expense, net** | **$** | **55,115** | **$** | **49,043** |

**PRINCIPAL PAYMENTS**

At August 31, 2012, scheduled principal payments on notes, bonds and capital lease obligations, in thousands of dollars, are as follows:

| YEAR ENDING AUGUST 31 | | PRINCIPAL PAYMENTS |
|---|---|---|
| 2013 Variable debt subject to remarketing | $ | 228,200 |
| 2013 Other | | 12,694 |
| 2014 | | 14,854 |
| 2015 | | 17,075 |
| 2016 | | 18,930 |
| 2017 | | 19,065 |
| Thereafter | | 1,318,505 |
| **TOTAL** | **$** | **1,629,323** |

## 12. University Endowment

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

The University classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment and (b) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are authorized for expenditure. In the absence of donor stipulations or law to the contrary, net unrealized losses on permanently restricted endowment funds first reduce related appreciation on temporarily restricted net assets and then on unrestricted net assets, as needed, until such time as the fair value of the fund equals or exceeds historic value. The aggregate amount by which fair value was below historic value was $37.5 million and $34.9 million at August 31, 2012 and 2011, respectively.

Endowment funds by net asset classification at August 31, 2012 and 2011, in thousands of dollars, are as follows:

| | UNRESTRICTED | TEMPORARILY RESTRICTED | PERMANENTLY RESTRICTED | TOTAL |
|---|---|---|---|---|
| 2012 | | | | |
| Donor-restricted endowment funds | $ (37,537) | $ 5,016,796 | $ 4,951,569 | $ 9,930,828 |
| Funds functioning as endowment | 7,104,976 | - | - | 7,104,976 |
| **TOTAL ENDOWMENT FUNDS** | **$ 7,067,439** | **$ 5,016,796** | **$ 4,951,569** | **$ 17,035,804** |
| 2011 | | | | |
| Donor-restricted endowment funds | $ (34,907) | $ 5,215,842 | $ 4,645,015 | $ 9,825,950 |
| Funds functioning as endowment | 6,676,656 | - | - | 6,676,656 |
| **TOTAL ENDOWMENT FUNDS** | **$ 6,641,749** | **$ 5,215,842** | **$ 4,645,015** | **$ 16,502,606** |

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

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

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

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

Changes in the University's endowment, excluding pledges, for the years ended August 31, 2012 and 2011, in thousands of dollars, are as follows:

| | UNRESTRICTED | TEMPORARILY RESTRICTED | PERMANENTLY RESTRICTED | TOTAL |
|---|---|---|---|---|
| 2012 | | | | |
| Endowment, beginning of year | $ 6,641,749 | $ 5,215,842 | $ 4,645,015 | $ 16,502,606 |
| Investment returns: | | | | |
| Earned income | 208,731 | - | - | 208,731 |
| Unrealized and realized gains | 507,530 | 280,109 | 4,076 | 791,715 |
| Total investment returns | 716,261 | 280,109 | 4,076 | 1,000,446 |
| Amounts distributed for operations | (390,375) | (480,731) | - | (871,106) |
| Gifts, transfers and other changes in endowment: | | | | |
| Current year gifts and pledge payments | 3,390 | 26,490 | 234,530 | 264,410 |
| Transfers of prior year gifts | 50,255 | 95 | 18,030 | 68,380 |
| EFP funds withdrawn from the endowment | (10,431) | - | - | (10,431) |
| Other funds invested in (withdrawn from) the endowment, net | 54,603 | (19,994) | 47,072 | 81,681 |
| Other | 1,987 | (5,015) | 2,846 | (182) |
| Total gifts, transfers and other changes in endowment | 99,804 | 1,576 | 302,478 | 403,858 |
| Total net increase (decrease) in endowment | 425,690 | (199,046) | 306,554 | 533,198 |
| **ENDOWMENT, END OF YEAR** | **$ 7,067,439** | **$ 5,016,796** | **$ 4,951,569** | **$ 17,035,804** |
| 2011 | | | | |
| Endowment, beginning of year | $ 5,161,476 | $ 4,340,344 | $ 4,349,295 | $ 13,851,115 |
| Investment returns: | | | | |
| Earned income | 153,196 | - | - | 153,196 |
| Unrealized and realized gains | 1,253,259 | 1,337,066 | 19,611 | 2,609,936 |
| Total investment returns | 1,406,455 | 1,337,066 | 19,611 | 2,763,132 |
| Amounts distributed for operations | (312,540) | (472,541) | - | (785,081) |
| Gifts, transfers and other changes in endowment: | | | | |
| Current year gifts and pledge payments | 4,234 | 14,062 | 144,497 | 162,793 |
| Transfers of prior year gifts | 3,439 | (1,752) | 76,079 | 77,766 |
| EFP funds invested in the endowment | 316,011 | - | - | 316,011 |
| Other funds invested in the endowment, net | 63,880 | 2,120 | 55,358 | 121,358 |
| Other | (1,206) | (3,457) | 175 | (4,488) |
| Total gifts, transfers and other changes in endowment | 386,358 | 10,973 | 276,109 | 673,440 |
| Total net increase in endowment | 1,480,273 | 875,498 | 295,720 | 2,651,491 |
| **ENDOWMENT, END OF YEAR** | **$ 6,641,749** | **$ 5,215,842** | **$ 4,645,015** | **$ 16,502,606** |

## 13. Hospitals Endowments

The endowments of SHC and LPCH are intended to generate investment income to support their current operating and strategic initiatives. The following table summarizes each hospital's share of the Hospitals endowments at August 31, 2012 and 2011, in thousands of dollars:

| | 2012 | 2011 |
|---|---|---|
| LPCH | $ 266,393 | $ 270,361 |
| SHC | 14,822 | 13,520 |
| **TOTAL ENDOWMENT FUNDS** | **$ 281,215** | **$ 283,881** |

The Hospitals invest the majority of their endowments in the University's MP. As such, the Hospitals endowments are subject to the same investment and spending strategies as described in *Note 12*. These policies provide for annual amounts (payout) to be distributed for current use. "Amounts distributed for operations" in the table below represents the Hospitals' current year endowment payout spent for designated purposes during fiscal years 2012 and 2011.

The Hospitals classify as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment and (b) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are authorized for expenditure. In the absence of donor stipulations or law to the contrary, net unrealized losses on permanently restricted endowment funds first reduce related appreciation on temporarily restricted net assets and then on unrestricted net assets, as needed, until such time as the fair value of the fund equals or exceeds historic value. The aggregate amount by which fair value was below historic value was approximately $216 thousand and $277 thousand at August 31, 2012 and 2011, respectively.

Changes in Hospitals endowments, for the years ended August 31, 2012 and 2011, in thousands of dollars, are as follows:

| | UNRESTRICTED | TEMPORARILY RESTRICTED | PERMANENTLY RESTRICTED | TOTAL |
|---|---|---|---|---|
| 2012 | | | | |
| Endowments, beginning of year | $ (277) | $ 78,808 | $ 205,350 | $ 283,881 |
| Investment returns: | | | | |
| Earned income | - | 13,786 | - | 13,786 |
| Unrealized and realized gains (losses) | 61 | (5,728) | 481 | (5,186) |
| Total investment returns | 61 | 8,058 | 481 | 8,600 |
| Amounts distributed for operations | - | (12,319) | - | (12,319) |
| Gifts, transfers and other changes in endowments: | | | | |
| Gifts and pledge payments | - | 45 | 777 | 822 |
| Other | - | (511) | 742 | 231 |
| Total gifts, transfers and other changes in endowments | - | (466) | 1,519 | 1,053 |
| Total net increase (decrease) in endowments | 61 | (4,727) | 2,000 | (2,666) |
| **ENDOWMENTS, END OF YEAR** | **$ (216)** | **$ 74,081** | **$ 207,350** | **$ 281,215** |
| 2011 | | | | |
| Endowments, beginning of year | $ (2,285) | $ 53,161 | $ 231,523 | $ 282,399 |
| Investment returns: | | | | |
| Earned income | - | 13,275 | - | 13,275 |
| Unrealized and realized gains | 2,008 | 27,235 | 929 | 30,172 |
| Total investment returns | 2,008 | 40,510 | 929 | 43,447 |
| Amounts distributed for operations | - | (13,977) | - | (13,977) |
| Gifts, transfers and other changes in endowments: | | | | |
| Gifts and pledge payments | - | - | 34 | 34 |
| Transfer of funds to the University and other | - | (886) | (27,136) | (28,022) |
| Total gifts, transfers and other changes in endowments | - | (886) | (27,102) | (27,988) |
| Total net increase (decrease) in endowments | 2,008 | 25,647 | (26,173) | 1,482 |
| **ENDOWMENTS, END OF YEAR** | **$ (277)** | **$ 78,808** | **$ 205,350** | **$ 283,881** |

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

## 14. University Gifts and Pledges

The University's Office of Development (OOD) reports total gifts based on contributions received in cash or property during the fiscal year. Gifts and pledges reported for financial statement purposes are recorded on the accrual basis. The following summarizes gifts and pledges reported for the years ended August 31, 2012 and 2011, per the *Statements of Activities* reconciled to the cash basis reported by OOD, in thousands of dollars:

| | 2012 | 2011 |
|---|---|---|
| Current year gifts in support of operations | $ 178,214 | $ 163,692 |
| Donor advised funds, net | 38,998 | 1,057 |
| Current year gifts not included in operations | 253,390 | 4,237 |
| Temporarily restricted gifts and pledges, net | 229,441 | 196,615 |
| Permanently restricted gifts and pledges, net | 227,079 | 150,813 |
| **TOTAL PER *STATEMENTS OF ACTIVITIES*** | **927,122** | **516,414** |
| Adjustments to arrive at gift total as reported by OOD: | | |
| New pledges | (265,141) | (227,331) |
| Payments made on pledges | 259,402 | 272,227 |
| Pledge discounts and other adjustments | 29,560 | 18,676 |
| Donor advised funds not designated for Stanford | (35,811) | 3,484 |
| Non-cash gifts | 4,982 | 4,791 |
| Non-government grants, recorded as sponsored research support when earned | 79,243 | 84,745 |
| SHC gifts | 33,357 | 35,152 |
| Other | 2,135 | 1,265 |
| **TOTAL AS REPORTED BY OOD** | **$ 1,034,849** | **$ 709,423** |

## 15. Functional Expenses

Expenses for each of the years ended August 31, 2012 and 2011 are categorized on a functional basis as follows, in thousands of dollars:

| | 2012 | | | 2011 |
|---|---|---|---|---|
| | UNIVERSITY | HOSPITALS | CONSOLIDATED | CONSOLIDATED |
| Instruction and departmental research | $ 1,240,458 | $ - | $ 1,240,458 | $ 1,160,021 |
| Organized research - direct costs | 1,017,081 | - | 1,017,081 | 1,019,584 |
| Patient services | - | 2,289,310 | 2,289,310 | 2,187,914 |
| Auxiliary activities | 748,800 | - | 748,800 | 676,687 |
| Administration and general | 317,244 | 228,648 | 545,892 | 311,379 |
| Libraries | 169,456 | - | 169,456 | 159,112 |
| Student services | 151,502 | - | 151,502 | 126,644 |
| Development | 80,976 | 13,878 | 94,854 | 88,931 |
| SLAC construction | 40,793 | - | 40,793 | 44,076 |
| **TOTAL EXPENSES** | **$ 3,766,310** | **$ 2,531,836** | **$ 6,298,146** | **$ 5,774,348** |

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

## 16. University Retirement Plans

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

**DEFINED CONTRIBUTION PLAN**

The University offers a defined contribution plan to eligible faculty and staff through the *Stanford Contributory Retirement Plan* (SCRP). 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 $110.7 million and $104.4 million for the years ended August 31, 2012 and 2011, respectively.

**DEFINED BENEFIT PLANS**

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

**Staff Retirement Annuity Plan**

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

**Faculty Retirement Incentive Program**

The University also provides a retirement incentive bonus for eligible faculty through the University *Faculty Retirement Incentive Program* (FRIP). The University's faculty may become eligible for the FRIP program if they commit to retire within a designated window of time. At August 31, 2012 and 2011, there were no program assets. The University funds benefit payouts as they are incurred.

**Postretirement Benefit Plan**

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

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

| | STAFF RETIREMENT ANNUITY PLAN (SRAP) | FACULTY RETIREMENT INCENTIVE PROGRAM (FRIP) | POST RETIREMENT BENEFIT PLAN (PRBP) | TOTAL |
|---|---|---|---|---|
| 2012 | | | | |
| **Change in plan assets:** | | | | |
| Fair value of plan assets, beginning of year | $ 258,896 | $ - | $ 128,991 | $ 387,887 |
| Actual return on plan assets | 43,856 | - | 10,251 | 54,107 |
| Employer contributions | 10,211 | 3,256 | 26,005 | 39,472 |
| Plan participants' contributions | - | - | 6,854 | 6,854 |
| Benefits and plan expenses paid | (22,706) | (3,256) | (22,303) * | (48,265) |
| **FAIR VALUE OF PLAN ASSETS, END OF YEAR** | **290,257** | **-** | **149,798** | **440,055** |
| **Change in projected benefit obligation:** | | | | |
| Benefit obligation, beginning of year | 293,397 | 145,543 | 470,454 | 909,394 |
| Service cost | 3,298 | 9,419 | 13,221 | 25,938 |
| Interest cost | 13,110 | 6,812 | 24,388 | 44,310 |
| Plan participants' contributions | - | - | 6,854 | 6,854 |
| Actuarial loss | 62,027 | 21,151 | 67,964 | 151,142 |
| Benefits and plan expenses paid | (22,706) | (3,256) | (22,303) * | (48,265) |
| **BENEFIT OBLIGATION, END OF YEAR** | **349,126** | **179,669** | **560,578** | **1,089,373** |
| **NET LIABILITY RECOGNIZED IN THE *STATEMENTS OF FINANCIAL POSITION*** | **$ (58,869)** | **$ (179,669)** | **$ (410,780)** | **$(649,318)** |

** Net of Medicare subsidy*

| | STAFF RETIREMENT ANNUITY PLAN (SRAP) | FACULTY RETIREMENT INCENTIVE PROGRAM (FRIP) | POST RETIREMENT BENEFIT PLAN (PRBP) | TOTAL |
|---|---|---|---|---|
| 2011 | | | | |
| **Change in plan assets:** | | | | |
| Fair value of plan assets, beginning of year | $ 242,859 | $ - | $ 106,851 | $ 349,710 |
| Actual return on plan assets | 33,585 | - | 13,282 | 46,867 |
| Employer contributions | - | 1,256 | 22,147 | 23,403 |
| Plan participants' contributions | - | - | 6,839 | 6,839 |
| Benefits and plan expenses paid | (17,548) | (1,256) | (20,128) * | (38,932) |
| **FAIR VALUE OF PLAN ASSETS, END OF YEAR** | **258,896** | **-** | **128,991** | **387,887** |
| **Change in projected benefit obligation:** | | | | |
| Benefit obligation, beginning of year | 302,698 | 140,299 | 461,081 | 904,078 |
| Service cost | 3,782 | 9,100 | 14,432 | 27,314 |
| Interest cost | 13,349 | 6,432 | 23,814 | 43,595 |
| Plan participants' contributions | - | - | 6,839 | 6,839 |
| Actuarial (gain) loss | (8,548) | (9,032) | 6,242 | (11,338) |
| Benefits and plan expenses paid | (17,548) | (1,256) | (20,128) * | (38,932) |
| Plan amendments | (336) | - | (21,826) | (22,162) |
| **BENEFIT OBLIGATION, END OF YEAR** | **293,397** | **145,543** | **470,454** | **909,394** |
| **NET LIABILITY RECOGNIZED IN THE *STATEMENTS OF FINANCIAL POSITION*** | **$ (34,501)** | **$ (145,543)** | **$ (341,463)** | **$(521,507)** |

** Net of Medicare subsidy*

The accumulated benefit obligation for the SRAP was $345.0 million and $289.8 million at August 31, 2012 and 2011, respectively.

Net periodic benefit expense and non-operating activities related to the Plans for the years ended August 31, 2012 and 2011, in thousands of dollars, includes the following components:

| | STAFF RETIREMENT ANNUITY PLAN (SRAP) | FACULTY RETIREMENT INCENTIVE PROGRAM (FRIP) | POST RETIREMENT BENEFIT PLAN (PRBP) | TOTAL |
|---|---|---|---|---|
| 2012 | | | | |
| Service cost | $ 3,298 | $ 9,419 | $ 13,221 | $ 25,938 |
| Interest cost | 13,110 | 6,812 | 24,388 | 44,310 |
| Expected return on plan assets | (17,296) | - | (10,480) | (27,776) |
| Amortization of: | | | | |
| Prior service cost | 534 | - | 2,569 | 3,103 |
| Actuarial loss | - | 6,485 | 8,214 | 14,699 |
| **NET PERIODIC BENEFIT EXPENSE** | **(354)** | **22,716** | **37,912** | **60,274** |
| Net actuarial loss during period | 35,467 | 21,151 | 67,900 | 124,518 |
| Amortization of: | | | | |
| Prior service cost | (534) | - | (2,569) | (3,103) |
| Actuarial loss | - | (6,485) | (8,214) | (14,699) |
| **TOTAL AMOUNTS RECOGNIZED IN NON-OPERATING ACTIVITIES** | **34,933** | **14,666** | **57,117** | **106,716** |
| **TOTAL AMOUNT RECOGNIZED IN NET PERIODIC BENEFIT EXPENSE AND NON-OPERATING ACTIVITIES** | **$ 34,579** | **$ 37,382** | **$ 95,029** | **$ 166,990** |
| 2011 | | | | |
| Service cost | $ 3,782 | $ 9,100 | $ 14,432 | $ 27,314 |
| Interest cost | 13,349 | 6,432 | 23,814 | 43,595 |
| Expected return on plan assets | (16,065) | - | (8,643) | (24,708) |
| Amortization of: | | | | |
| Prior service cost | 674 | - | 7,605 | 8,279 |
| Actuarial loss | 2,498 | 7,422 | 8,696 | 18,616 |
| **NET PERIODIC BENEFIT EXPENSE** | **4,238** | **22,954** | **45,904** | **73,096** |
| Net actuarial gain during period | (26,068) | (9,032) | - | (35,100) |
| Amortization of: | | | | |
| Prior service cost | (674) | - | (7,605) | (8,279) |
| Actuarial loss | (2,498) | (7,422) | (7,094) | (17,014) |
| Plan amendments | (336) | - | (21,826) | (22,162) |
| **TOTAL AMOUNTS RECOGNIZED IN NON-OPERATING ACTIVITIES** | **(29,576)** | **(16,454)** | **(36,525)** | **(82,555)** |
| **TOTAL AMOUNT RECOGNIZED IN NET PERIODIC BENEFIT EXPENSE AND NON-OPERATING ACTIVITIES** | **$ (25,338)** | **$ 6,500** | **$ 9,379** | **$ (9,459)** |

Cumulative amounts recognized in non-operating activities, but not yet recognized in net periodic benefit expense in the *Statements of Activities*, are presented in the following table for the years ended August 31, 2012 and 2011, in thousands of dollars:

| | STAFF RETIREMENT ANNUITY PLAN (SRAP) | FACULTY RETIREMENT INCENTIVE PROGRAM (FRIP) | POST RETIREMENT BENEFIT PLAN (PRBP) | TOTAL |
|---|---|---|---|---|
| 2012 | | | | |
| Prior service cost | $ 1,394 | $ - | $ 8,564 | $ 9,958 |
| Net actuarial loss | 57,726 | 122,018 | 227,438 | 407,182 |
| **ACCUMULATED PLAN BENEFIT COSTS NOT YET RECOGNIZED IN NET PERIODIC BENEFIT EXPENSE** | **$ 59,120** | **$ 122,018** | **$ 236,002** | **$ 417,140** |
| 2011 | | | | |
| Prior service cost | $ 1,879 | $ - | $ 11,132 | $ 13,011 |
| Net actuarial loss | 22,308 | 107,352 | 167,753 | 297,413 |
| **ACCUMULATED PLAN BENEFIT COSTS NOT YET RECOGNIZED IN NET PERIODIC BENEFIT EXPENSE** | **$ 24,187** | **$ 107,352** | **$ 178,885** | **$ 310,424** |

The prior service costs and net actuarial loss expected to be amortized from non-operating activities to net periodic benefit expense in fiscal year 2013, in thousands of dollars, are as follows:

| | STAFF RETIREMENT ANNUITY PLAN (SRAP) | FACULTY RETIREMENT INCENTIVE PROGRAM (FRIP) | POST RETIREMENT BENEFIT PLAN (PRBP) | Total |
|---|---|---|---|---|
| Prior service cost | $ 540 | $ - | $ 2,569 | $ 3,109 |
| Net actuarial loss | $ 2,970 | $ 7,464 | $ 11,165 | $ 21,599 |

**ACTUARIAL ASSUMPTIONS**

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

| | STAFF RETIREMENT ANNUITY PLAN (SRAP) | | FACULTY RETIREMENT INCENTIVE PROGRAM (FRIP) | | POST RETIREMENT BENEFIT PLAN (PRBP) | |
|---|---|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| Discount rate | 3.36% | 4.67% | 3.33% | 4.74% | 3.78% | 5.14% |
| Covered payroll growth rate | 3.54% | 4.41% | 4.42% | 4.43% | N/A | N/A |

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

| | STAFF RETIREMENT ANNUITY PLAN (SRAP) | | FACULTY RETIREMENT INCENTIVE PROGRAM (FRIP) | | POST RETIREMENT BENEFIT PLAN (PRBP) | |
|---|---|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| Discount rate | 4.67% | 4.61% | 4.74% | 4.67% | 5.14% | 5.10% |
| Expected returns on plan assets | 7.00% | 7.00% | N/A | N/A | 8.00% | 8.00% |
| Covered payroll growth rate | 4.41% | 4.76% | 4.43% | 4.14% | N/A | N/A |

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

To determine the accumulated PRBP obligation at August 31, 2012, a 7.5% annual rate of increase in the per capita costs of covered health care was assumed for the year ending August 31, 2013, declining gradually to 4.75% by 2024 and remaining at this rate thereafter. For covered dental plans, a constant 5% annual rate of increase was assumed.

Health care cost trend rate assumptions have a significant effect on the amounts reported for the health care plans. Increasing the health care cost trend rate by 1% in each future year would increase the accumulated PRBP obligation by $104.1 million and the aggregate annual service and interest cost by $7.1 million. Decreasing the health care cost trend rate by 1% in each future year would decrease the accumulated PRBP obligation by $82.1 million and the aggregate annual service and interest cost by $5.6 million.

**EXPECTED CONTRIBUTIONS**

The University expects to contribute $4.6 million, $6.9 million, and $2.5 million to its SRAP, FRIP, and PRBP, respectively, during the year ending August 31, 2013.

**EXPECTED BENEFIT PAYMENTS**

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

| YEAR ENDING AUGUST 31 | STAFF RETIREMENT ANNUITY PLAN (SRAP) | FACULTY RETIREMENT INCENTIVE PROGRAM (FRIP) | POST RETIREMENT BENEFIT PLAN (PRBP) EXCLUDING MEDICARE SUBSIDY | POST RETIREMENT BENEFIT PLAN (PRBP) EXPECTED MEDICARE PART D SUBSIDY |
|---|---|---|---|---|
| 2013 | $ 28,265 | $ 6,936 | $ 17,369 | $ 2,629 |
| 2014 | 23,992 | 10,009 | 18,688 | 2,877 |
| 2015 | 24,843 | 11,989 | 19,908 | 3,146 |
| 2016 | 24,293 | 12,116 | 21,118 | 3,444 |
| 2017 | 23,791 | 12,826 | 22,521 | 3,757 |
| 2018 - 2022 | 111,899 | 75,879 | 134,261 | 24,436 |

## 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, 2012, the University did not have concentrations of risk in any single entity, counterparty, sector, industry or country.

## PLAN ASSET ALLOCATIONS

Actual allocations by asset category at August 31, 2012 and 2011 are as follows:

| | STAFF RETIREMENT ANNUITY PLAN (SRAP) | | POST RETIREMENT BENEFIT PLAN (PRBP) | |
|---|---|---|---|---|
| ASSET CATEGORY | 2012 | 2011 | 2012 | 2011 |
| Cash and cash equivalents | <1% | 1% | 0% | 0% |
| Public equities | 44% | 40% | 75% | 74% |
| Fixed income | 56% | 59% | 25% | 26% |
| Private equities | <1% | <1% | 0% | 0% |
| **TOTAL PORTFOLIO** | **100%** | **100%** | **100%** | **100%** |

For fiscal years 2012 and 2011, the weighted-average target allocations by asset category are as follows:

| | STAFF RETIREMENT ANNUITY PLAN (SRAP) | | POST RETIREMENT BENEFIT PLAN (PRBP) | |
|---|---|---|---|---|
| ASSET CATEGORY | 2012 | 2011 | 2012 | 2011 |
| Public equities | 45% | 45% | 75% | 75% |
| Fixed income | 55% | 55% | 25% | 25% |
| Private equities | <1% | 0% | 0% | 0% |
| **TARGET PORTFOLIO** | **100%** | **100%** | **100%** | **100%** |

**FAIR VALUE OF PLAN ASSETS**

Current U.S GAAP defines a hierarchy of valuation inputs for the determination of the fair value of plan assets as described in *Note 5*. The plan assets measured at fair value at August 31, 2012 and 2011, in thousands of dollars, are as follows:

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

| | AS OF AUGUST 31, 2011 | LEVEL 1 | LEVEL 2 | LEVEL 3 |
|---|---|---|---|---|
| SRAP: | | | | |
| Cash and cash equivalents | $ 1,721 | $ 1,721 | $ - | $ - |
| Public equities | 103,246 | 103,246 | - | - |
| Fixed income | 153,282 | 149,106 | 4,176 | - |
| Private equities | 647 | - | - | 647 |
| **TOTAL** | **$ 258,896** | **$ 254,073** | **$ 4,176** | **$ 647** |
| PRBP: | | | | |
| Public equities | $ 95,358 | $ 95,358 | $ - | $ - |
| Fixed income | 33,633 | 33,633 | - | - |
| **TOTAL** | **$ 128,991** | **$ 128,991** | **$ -** | **$ -** |
| **TOTAL FAIR VALUE OF PLAN ASSETS** | **$ 387,887** | **$ 383,064** | **$ 4,176** | **$ 647** |

The following table presents a reconciliation of beginning and ending balances for Level 3 investments in the SRAP for the years ended August 31, 2012 and 2011, in thousands of dollars:

| FAIR VALUE MEASUREMENTS USING SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3) | BEGINNING BALANCE AS OF SEPTEMBER 1, 2011 | PURCHASES | SALES AND MATURITIES | NET REALIZED AND UNREALIZED LOSSES | TRANSFERS IN (OUT) | ENDING BALANCE AS OF AUGUST 31, 2012 |
|---|---|---|---|---|---|---|
| Private equities | $ 647 | $ - | $ - | $ (218) | $ - | $ 429 |
| **TOTAL** | **$ 647** | **$ -** | **$ -** | **$ (218)** | **$ -** | **$ 429** |

| FAIR VALUE MEASUREMENTS USING SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3) | BEGINNING BALANCE AS OF SEPTEMBER 1, 2010 | PURCHASES | SALES AND MATURITIES | NET REALIZED AND UNREALIZED LOSSES | TRANSFERS IN (OUT) | ENDING BALANCE AS OF AUGUST 31, 2011 |
|---|---|---|---|---|---|---|
| Private equities | $ 685 | $ - | $ - | $ (38) | $ - | $ 647 |
| **TOTAL** | **$ 685** | **$ -** | **$ -** | **$ (38)** | **$ -** | **$ 647** |

## 17. Hospitals Retirement Plans

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

**DEFINED CONTRIBUTION PLAN**

Employer contributions to the defined contribution retirement plan are based on a percentage of participant annual compensation. Employer contributions to this plan amounted to approximately $68.1 million and $65.4 million for the years ended August 31, 2012 and 2011, respectively.

**DEFINED BENEFIT PLANS**

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

**POST RETIREMENT MEDICAL BENEFIT PLAN**

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

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

| | STAFF PENSION PLAN | POST RETIREMENT MEDICAL BENEFIT PLAN (PRMB) | TOTAL |
|---|---|---|---|
| 2012 | | | |
| **Change in plan assets:** | | | |
| Fair value of plan assets, beginning of year | $ 159,583 | $ - | $ 159,583 |
| Actual return on plan assets | 29,548 | - | 29,548 |
| Employer contributions | 11,025 | 3,617 | 14,642 |
| Plan participants' contributions | - | 1,152 | 1,152 |
| Benefits and plan expenses paid | (9,452) | (4,769) | (14,221) |
| **FAIR VALUE OF PLAN ASSETS, END OF YEAR** | **190,704** | **-** | **190,704** |
| **Change in projected benefit obligation:** | | | |
| Benefit obligation, beginning of year | 212,816 | 88,206 | 301,022 |
| Service cost | 2,589 | 2,528 | 5,117 |
| Interest cost | 10,436 | 4,108 | 14,544 |
| Plan participants' contributions | - | 1,152 | 1,152 |
| Actuarial loss (gain) | 41,392 | (4,075) | 37,317 |
| Benefits and plan expenses paid | (9,452) | (4,769) | (14,221) |
| **BENEFIT OBLIGATION, END OF YEAR** | **257,781** | **87,150** | **344,931** |
| **NET LIABILITY RECOGNIZED IN THE *STATEMENTS OF FINANCIAL POSITION*** | **$ (67,077)** | **$ (87,150)** | **$ (154,227)** |
| 2011 | | | |
| **Change in plan assets:** | | | |
| Fair value of plan assets, beginning of year | $ 135,133 | $ - | $ 135,133 |
| Actual return on plan assets | 14,271 | - | 14,271 |
| Employer contributions | 19,200 | 3,733 | 22,933 |
| Plan participants' contributions | - | 992 | 992 |
| Benefits and plan expenses paid | (9,021) | (4,725) | (13,746) |
| **FAIR VALUE OF PLAN ASSETS, END OF YEAR** | **159,583** | **-** | **159,583** |
| **Change in projected benefit obligation:** | | | |
| Benefit obligation, beginning of year | 211,610 | 90,850 | 302,460 |
| Service cost | 2,516 | 2,775 | 5,291 |
| Interest cost | 10,311 | 4,157 | 14,468 |
| Plan participants' contributions | - | 992 | 992 |
| Actuarial gain | (2,600) | (5,843) | (8,443) |
| Benefits and plan expenses paid | (9,021) | (4,725) | (13,746) |
| **BENEFIT OBLIGATION, END OF YEAR** | **212,816** | **88,206** | **301,022** |
| **NET LIABILITY RECOGNIZED IN THE *STATEMENTS OF FINANCIAL POSITION*** | **$ (53,233)** | **$ (88,206)** | **$ (141,439)** |

The accumulated benefit obligation for the Pension Plan was $253.4 million and $209.2 million at August 31, 2012 and 2011, respectively.

Net periodic benefit expense and non-operating activities related to the plans for the years ended August 31, 2012 and 2011, in thousands of dollars, includes the following components:

| | STAFF PENSION PLAN | POST RETIREMENT MEDICAL BENEFIT PLAN (PRMB) | TOTAL |
|---|---|---|---|
| 2012 | | | |
| Service cost | $ 2,589 | $ 2,528 | $ 5,117 |
| Interest cost | 10,436 | 4,108 | 14,544 |
| Expected return on plan assets | (13,708) | - | (13,708) |
| Amortization of: | | | |
| Prior service cost | - | 264 | 264 |
| Actuarial loss | 5,613 | 245 | 5,858 |
| **NET PERIODIC BENEFIT EXPENSE** | **4,930** | **7,145** | **12,075** |
| Net actuarial loss (gain) during period | 25,552 | (4,075) | 21,477 |
| Amortization of: | | | |
| Prior service cost | - | (264) | (264) |
| Actuarial loss | (5,613) | (245) | (5,858) |
| **TOTAL AMOUNTS RECOGNIZED IN NON-OPERATING ACTIVITIES** | **19,939** | **(4,584)** | **15,355** |
| **TOTAL AMOUNT RECOGNIZED IN NET PERIODIC BENEFIT EXPENSE AND NON-OPERATING ACTIVITIES** | **$ 24,869** | **$ 2,561** | **$ 27,430** |
| 2011 | | | |
| Service cost | $ 2,516 | $ 2,775 | $ 5,291 |
| Interest cost | 10,311 | 4,157 | 14,468 |
| Expected return on plan assets | (13,187) | - | (13,187) |
| Amortization of: | | | |
| Prior service credit | - | (574) | (574) |
| Actuarial loss | 5,177 | 696 | 5,873 |
| **NET PERIODIC BENEFIT EXPENSE** | **4,817** | **7,054** | **11,871** |
| Net actuarial gain during period | (3,684) | (5,843) | (9,527) |
| Amortization of: | | | |
| Prior service credit | - | 574 | 574 |
| Actuarial loss | (5,177) | (696) | (5,873) |
| **TOTAL AMOUNTS RECOGNIZED IN NON-OPERATING ACTIVITIES** | **(8,861)** | **(5,965)** | **(14,826)** |
| **TOTAL AMOUNT RECOGNIZED IN NET PERIODIC BENEFIT EXPENSE AND NON-OPERATING ACTIVITIES** | **$ (4,044)** | **$ 1,089** | **$ (2,955)** |

Cumulative amounts recognized in non-operating activities, but not yet recognized in net periodic benefit expense in the *Statements of Activities*, are presented in the following table for the years ended August 31, 2012 and 2011, in thousands of dollars:

| | STAFF PENSION PLAN | POST RETIREMENT MEDICAL BENEFIT PLAN (PRMB) | TOTAL |
|---|---|---|---|
| 2012 | | | |
| Prior service cost | $ - | $ 2,904 | $ 2,904 |
| Net actuarial loss (gain) | 101,102 | (964) | 100,138 |
| **ACCUMULATED PLAN BENEFIT COSTS NOT YET RECOGNIZED IN NET PERIODIC BENEFIT EXPENSE** | **$ 101,102** | **$ 1,940** | **$ 103,042** |
| 2011 | | | |
| Prior service cost | $ - | $ 3,168 | $ 3,168 |
| Net actuarial loss | 81,163 | 3,356 | 84,519 |
| **ACCUMULATED PLAN BENEFIT COSTS NOT YET RECOGNIZED IN NET PERIODIC BENEFIT EXPENSE** | **$ 81,163** | **$ 6,524** | **$ 87,687** |

The prior service cost and net actuarial loss expected to be amortized from non-operating activities to net periodic benefit expense in fiscal year 2013, in thousands of dollars, are as follows:

| | STAFF PENSION PLAN | POST RETIREMENT MEDICAL BENEFIT PLAN (PRMB) | TOTAL |
|---|---|---|---|
| Prior service cost | $ - | $ 312 | $ 312 |
| Net actuarial loss (gain) | $ 10,677 | $ (71) | $ 10,606 |

**ACTUARIAL ASSUMPTIONS**

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

| | STAFF PENSION PLAN | | POST RETIREMENT MEDICAL BENEFIT PLAN (PRMB) | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Discount rate | 3.42% - 3.62% | 4.83% - 5.03% | 3.43% | 4.79% |
| Covered payroll growth | 5.50% | 5.50% | N/A | N/A |

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

| | STAFF PENSION PLAN | | POST RETIREMENT MEDICAL BENEFIT PLAN (PRMB) | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Discount rate | 4.83% - 5.03% | 4.79% - 4.99% | 4.79% | 4.70% |
| Expected return on plan | 6.25% - 8.00% | 6.25% - 8.00% | N/A | N/A |
| Covered payroll growth | 5.50% | 5.50% | N/A | N/A |

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

To determine the accumulated PRMB obligation at August 31, 2012, an 8.0% annual rate of increase in the pre-65 per capita costs, an 8.0% annual rate of increase in the post-65 prescription drug per capita costs, and a 6.8% rate of increase in the post-65 per capita cost of all other medical benefits was assumed for 2012, all declining gradually to 4.75% by 2024 and remaining at this rate thereafter.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. Increasing the health care cost trend rate by 1% in each future year would increase the accumulated PRMB obligation by $2.9 million and the aggregate annual service and interest cost by $218 thousand. Decreasing the health care cost trend rate by 1% in each future year would decrease the accumulated PRMB obligation by $2.7 million and the aggregate annual service and interest cost by $197 thousand.

**EXPECTED CONTRIBUTIONS**

The Hospitals expect to contribute $10.4 million to their Pension Plan and $4.5 million to their PRMB during the fiscal year ending August 31, 2013.

**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:

| | | POST RETIREMENT MEDICAL BENEFIT PLAN (PRMB) | |
|---|---|---|---|
| YEAR ENDING AUGUST 31 | STAFF PENSION PLAN | EXCLUDING MEDICARE SUBSIDY | EXPECTED MEDICARE PART D SUBSIDY |
| 2013 | $ 10,989 | $ 5,052 | $ 503 |
| 2014 | 11,699 | 5,347 | 543 |
| 2015 | 12,495 | 5,642 | 586 |
| 2016 | 13,183 | 5,917 | 627 |
| 2017 | 13,770 | 6,211 | 666 |
| 2018 - 2022 | 75,295 | 34,218 | 1,675 |

**INVESTMENT STRATEGY**

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

**CONCENTRATION OF RISK**

The Hospitals manage a variety of risks, including market, credit, and liquidity risks, across its plan assets. Concentration of risk is defined as an undiversified exposure to one of the above-mentioned risks that increases the exposure of the loss of plan assets unnecessarily. Risk is minimized by diversifying the Hospitals' exposure to such risks across a variety of instruments, markets, and counterparties. As of August 31, 2012, the Hospitals did not have concentrations of risk in any single entity, counterparty, sector, industry or country.

**PLAN ASSETS**

Actual allocations by asset category at August 31, 2012 and 2011 are as follows:

| | STAFF PENSION PLAN | |
|---|---|---|
| ASSET CATEGORY | 2012 | 2011 |
| Cash equivalents | 0% | 0% |
| Public equities | 48% | 44% |
| Fixed income | 52% | 56% |
| Real estate | 0% | 0% |
| **TOTAL PORTFOLIO** | **100%** | **100%** |

The Hospitals' investment policy is to invest in assets that result in a favorable long-term rate of return from a diversified portfolio. For fiscal years 2012 and 2011, the weighted-average target allocations by asset category are as follows:

| | STAFF PENSION PLAN | |
|---|---|---|
| ASSET CATEGORY | 2012 | 2011 |
| Cash equivalents | 0% to 4% | <1% |
| Public equities | 28% to 60% | 46% |
| Fixed income | 36% to 60% | 44% |
| Real estate | 0% to 12% | 10% |
| **TARGET PORTFOLIO** | **100%** | **100%** |

**FAIR VALUE OF PLAN ASSETS**

Current U.S. GAAP defines a hierarchy of valuation inputs for the determination of the fair value of plan assets as described in *Note 5*. The Pension Plan assets measured at fair value at August 31, 2012 and 2011, in thousands of dollars, are as follows:

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

| | AS OF AUGUST 31, 2011 | LEVEL 1 | LEVEL 2 | LEVEL 3 |
|---|---|---|---|---|
| Cash and cash equivalents | $ 727 | $ 727 | $ - | $ - |
| Public equities | 70,609 | 70,609 | - | - |
| Fixed income | 88,247 | 88,247 | - | - |
| **TOTAL FAIR VALUE OF PENSION PLAN ASSETS** | **$ 159,583** | **$ 159,583** | **$ -** | **$ -** |

There were no Level 3 investments in the Pension Plan during the year ended August 31, 2012. The following table presents a reconciliation of beginning and ending balances for Level 3 investments in the Pension Plan for the year ended August 31, 2011, in thousands of dollars:

| FAIR VALUE MEASUREMENTS USING SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3) | BEGINNING BALANCE AS OF SEPTEMBER 1, 2010 | PURCHASES | SALES AND MATURITIES | NET REALIZED AND UNREALIZED GAINS | TRANSFERS IN (OUT) | ENDING BALANCE AS OF AUGUST 31, 2011 |
|---|---|---|---|---|---|---|
| Real estate | $ 7,458 | $ - | $ (8,256) | $ 798 | $ - | $ - |
| **TOTAL** | **$ 7,458** | **$ -** | **$ (8,256)** | **$ 798** | **$ -** | **$ -** |

## 18. Operating Leases

The University and the Hospitals lease certain equipment and facilities under operating leases expiring at various dates. Total rental expense under these leases for the years ended August 31, 2012 and 2011 was $36.4 million and $32.8 million, respectively, for the University and $63.6 million and $50.0 million, respectively, for the Hospitals.

Net minimum future operating lease payments and related present value, assuming a 3.82% discount rate for periods subsequent to August 31, 2012, in thousands of dollars, are as follows:

| | MINIMUM LEASE PAYMENTS | | PRESENT VALUE OF MINIMUM LEASE PAYMENTS | |
|---|---|---|---|---|
| YEAR ENDING AUGUST 31 | UNIVERSITY | HOSPITALS | UNIVERSITY | HOSPITALS |
| 2013 | $ 23,091 | $ 45,783 | $ 22,242 | $ 44,098 |
| 2014 | 18,548 | 36,649 | 17,208 | 34,002 |
| 2015 | 15,232 | 29,702 | 13,612 | 26,543 |
| 2016 | 14,135 | 27,473 | 12,166 | 23,647 |
| 2017 | 11,500 | 26,085 | 9,534 | 21,626 |
| Thereafter | 31,335 | 101,316 | 20,620 | 75,064 |
| **TOTAL** | **$ 113,841** | **$ 267,008** | **$ 95,382** | **$ 224,980** |

## 19. Related Party Transactions

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

## 20. Commitments and Contingencies

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

**SPONSORED PROJECTS**

The University conducts substantial research for the federal government pursuant to contracts and grants from federal agencies and departments. The University records reimbursements of direct and indirect costs (facilities and administrative costs) from grants and contracts as operating revenues. The Office of Naval Research is the University's cognizant federal agency for determining indirect cost rates charged to federally sponsored agreements. It is supported by the Defense Contract Audit Agency, which has the responsibility for auditing direct and indirect charges under those agreements. Costs recovered by the University in support of sponsored research are subject to audit and adjustment. Fringe benefit costs for the fiscal years ended August 31, 2007 to 2012 are still subject to audit. The University does not anticipate that any adjustments will be material to the consolidated financial statements.

**HEALTH CARE**

Cost reports filed under the Medicare program for services based upon cost reimbursement are subject to audit. The estimated amounts due to or from the program are reviewed and adjusted annually based upon the status of such audits and subsequent appeals. Differences between final settlements and amounts accrued in previous years are reported as adjustments to "patient care, net" revenue in the year the examination is substantially completed. Medicare cost reports have been audited by the Medicare fiscal intermediary through August 31, 2004 for SHC and August 31, 2010 for LPCH.

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

**MEDICAL CENTER RENEWAL PROJECT**

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

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

SHC's and LPCH's share of the estimated total cost of the Renewal Project is $2 billion and $1.2 billion, respectively. Through August 2012, the Hospitals have recorded $392 million in construction in progress related to this project. Based on current estimated schedules, management currently projects that the Renewal Project construction will be complete in 2017.

**LABOR AGREEMENTS**
Approximately 11% of the University's, 35% of SHC's and 45% of LPCH's employees are covered under union contract arrangements and are, therefore, subject to labor stoppages when contracts expire. There are currently no expired contracts under these union contract arrangements.

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

**CONTRACTUAL COMMITMENTS**
At August 31, 2012, the University had contractual obligations of approximately $358.2 million in connection with major construction projects. Remaining expenditures on construction in progress are estimated to be $584.7 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 $651.9 million at August 31, 2012.

As described in *Note 5*, the University is obligated under certain alternative investment agreements to advance additional funding up to specified levels over a period of years.

**GUARANTEES AND INDEMNIFICATIONS**
The University and the Hospitals enter into mutual indemnification agreements with third parties in the normal course of business. The impact of these agreements is not expected to be material. As a result, no liabilities related to guarantees and indemnifications have been recorded at August 31, 2012.

## 21. Subsequent Events

The University and the Hospitals have evaluated subsequent events for the period from August 31, 2012 through December 12, 2012, the date the consolidated financial statements were available to be issued.

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## APPENDIX B

## SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

*The following is a summary of certain provisions of the Indenture and the Loan Agreement that are not described elsewhere in this Reoffering Circular. The Bonds are issued and secured pursuant to the Indenture and the Loan Agreement. References to the Indenture, the Loan Agreement, or a fund or account refer to the related document, entity, fund or account with respect to the Bonds, as described in this Reoffering Circular. Unless otherwise specified to the contrary in this Appendix B, all definitions and provisions summarized refer to the Indenture and the Loan Agreement. These summaries do not purport to be comprehensive and reference should be made to the Indenture and the Loan Agreement for a full and complete statement of their provisions.*

### DEFINITIONS OF CERTAIN TERMS

Unless the context otherwise requires, the terms defined in this summary shall, for all purposes of this summary, have the meanings herein specified, to be equally applicable to both singular and plural forms of any of the terms herein defined. Unless otherwise defined in this summary, all terms used herein or elsewhere in the Reoffering Circular shall have the meanings assigned to such terms in the Indenture or the Act, as applicable.

"*Act*" means the California Educational Facilities Authority Act, constituting Chapter 2 (commencing with Section 94100) of Part 59 of Division 10 of Title 3 of the Education Code of the State, as now in effect and as it may from time to time hereafter be amended or supplemented.

"*Additional Payments*" means the payments to be made by the Borrower to the Trustee or the Authority in accordance with the Loan Agreement.

"*Administrative Fees and Expenses*" means any application, commitment, financing or similar fee charged, or reimbursement for administrative or other expenses incurred, by the Authority or the Trustee.

"*Authority*" means the California Educational Facilities Authority, a public instrumentality of the State established by the Act.

"*Authorized Representative*" means with respect to the Borrower executed by its chief financial officer, its controller, the chief executive officer of the Stanford Management Company or such other person as may be designated to sign for the Borrower by a Certificate of the Borrower signed by its chief financial officer, its controller or the chief executive officer of the Stanford Management Company and filed with the Trustee.

"*Base Loan Payments*" means the payments required to be made by the Borrower to the Trustee for the account of the Authority in accordance with the Loan Agreement for the payment of the principal (whether at maturity or upon prior redemption) of and interest to the date fixed for redemption or maturity and premium, if any, on the Bonds.

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

"*Bonds*" means California Educational Facilities Authority Revenue Bonds (Stanford University), Series S-1, S-2, S-3 and S-4, authorized by, and at any time Outstanding pursuant to, the Indenture.

"*Borrower*" means The Board of Trustees of the Leland Stanford Junior University, a body having corporate powers under the Constitution and laws of the State, and its successors or assigns or any co-obligor permitted pursuant to the Loan Agreement.

"*Borrower Liquidity Payments*" means a payment required to be made by the Borrower to the Tender Agent in accordance with the Loan Agreement.

"*Certificate*," "*Statement*," "*Request*," "*Order*" or "*Requisition*" of the Authority or the Borrower mean, respectively, a written certificate, statement, request, order or requisition signed in the name of the Authority by its Chairman or a deputy thereto, its Executive Director, or its Deputy Executive Director or by any other person who is specifically authorized by a resolution of the Authority to execute such a document on its behalf, or in the name of the Borrower by an Authorized Representative of the Borrower. 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 code or law and any regulations in effect or promulgated thereunder.

"*Continuing Disclosure Agreement*" means that certain Continuing Disclosure Agreement, dated the date of issuance and delivery of the Bonds, between the Borrower and the Trustee, as originally executed and as it may be amended in accordance with its terms.

"*Depository*" means any securities depository that is a clearing agency under federal law operating and maintaining, with its participants or otherwise, a book entry-system to record ownership of book-entry interests in Bonds, and to effect transfers of book-entry interests in Bonds in book-entry form, and includes, and means initially, DTC.

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

"*Indenture*" means the Indenture, as originally executed or as it may from time to time be supplemented, modified or amended by any Supplemental Indenture entered into pursuant to the provisions thereof.

"*Interest Payment Date*" means, with respect to Bonds bearing interest at the Long Term Rate, May 1 and November 1.

"*Investment Securities*" means any of the following obligations as and to the extent that such obligations are at the time legal investments under the Act for moneys held under the Indenture and then proposed to be invested (the Trustee is entitled to rely upon any investment direction from the Borrower as a certification that such investment constitutes an Investment Security):

(1) direct 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, and CATS and TIGRS) or obligations the principal of and interest on which are unconditionally guaranteed by the United States of America;

(2) bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself): (a) U.S. Export-Import Bank ("Eximbank"), (b) Farmers Home Administration ("FmHA"), (c) Federal Financing Bank, (d) Federal Housing Administration Debentures ("FHA"), (e) General Services Administration, (f) Government National Mortgage Association ("GNMA" or "Ginnie Mae"), (g) U.S. Maritime Administration, and (h) U.S. Department of Housing and Urban Development ("HUD");

(3) bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies (stripped securities are only permitted if they have been stripped by the agency itself): (a) Federal Home Loan Bank System, (b) Federal Home Loan Mortgage Corporation ("FHLMC" or "Freddie Mac"), (c) Federal National Mortgage Association ("FNMA" or "Fannie Mae"), (d) Student Loan Marketing Association ("SLMA or "Sallie Mae"), (e) Resolution Funding Corp. ("REFCORP") obligations, and (f) Farm Credit System;

(4) money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by S&P of "AAAm-G", "AAA-m" or "AA-m" and if rated by Moody's rated "Aaa", "Aal" or "Aa2";

(5) certificates of deposit secured at all times by collateral described in (1) and/or (2) above. Such certificates must be issued by commercial banks, savings and loan associations or mutual savings banks. The collateral must be held by a third party and the bondholders must have a perfected first security interest in the collateral;

(6) certificates of deposit, savings accounts, deposit accounts or money market deposits which are fully insured by FDIC, including BIF and SAIF;

(7) investment agreements, including GIC's, Forward Purchase Agreements and Reserve Fund Put Agreements;

(8) commercial paper rated, at the time of purchase, "Prime-1" by Moody's and "A-1" or better by S&P;

(9) bonds or notes issued by any state or municipality which are rated by Moody's and S&P in one of the two highest rating categories assigned by such agencies;

(10) federal funds or bankers acceptances with a maximum term of one year of any bank which has an unsecured, uninsured and unguaranteed obligation rating of "Prime-1" or "A3" or better by Moody's and "A-1" or "A" or better by S&P;

(11) repurchase agreements ("repos"), which must meet the following criteria:

(a) repos must be between the municipal entity and a dealer bank or securities firm that is: (i) a primary dealer on the Federal Reserve reporting dealer list which is rated "A" or better by S&P and Moody's, or (ii) a bank rated "A" or above by S&P and Moody's;

(b) the written repo contract must include the following: (i) securities which are acceptable for transfer are direct U.S. governments, or federal agencies backed by the full faith and credit of the U.S. government (and FNMA & FHLMC), (ii) the term of the repo may be up to 30 days, (iii) the collateral must be delivered to the municipal entity or trustee (if the trustee is supplying the collateral) before/simultaneous with payment (perfection by possession of certificated securities), (iv) the securities must be valued weekly, marked-to-market at current market price plus accrued interest. The value of collateral must be equal to 104% of the amount of cash transferred by the municipal entity to the dealer bank or security firm under the repo plus accrued interest. If the value of securities held as collateral slips below 104% of the value of the cash transferred by municipality, then additional cash and/or acceptable securities must be transferred. If, however, the securities used as collateral are BNMA or FHLMC, then the value of collateral must equal 105%; and

(12) any other investment approved in writing by the Authority.

"*Liquidity Facility*" means a line of credit, letter of credit, standby bond purchase agreement or similar liquidity facility issued by a Liquidity Facility Provider and delivered to the Tender Agent in accordance with the Loan Agreement or, in the event of the delivery of an Alternate Liquidity Facility, such Alternate Liquidity Facility.

"*Liquidity Facility Provider*" means the commercial bank or other financial institution issuing (or having primary obligation, or acting as agent for the financial institutions obligated, under) a Liquidity Facility then in effect.

"*Loan Agreement*" means that certain loan agreement, between the Authority and the Borrower, as originally executed and as it may from time to time be supplemented, modified or amended in accordance with the terms thereof and of the Indenture.

"*Long Term Rate*" means the Interest Rate Mode in which the interest rate on the Bonds of any Series or Tranche is determined in accordance with the Indenture.

"*Mandatory Sinking Account Payment*" means the amount required by the Indenture to be paid by the Authority on any single date for the retirement of Bonds of any Series or Tranche.

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

"*Outstanding*" when used as of any particular time (subject to the provisions of the Indenture) with reference to Bonds, means 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) on or after any Purchase Date for Bonds pursuant to the Indenture, all Bonds (or portions of Bonds) which have been purchased on such date, but which have not been delivered to the Tender Agent, provided that funds sufficient for such purchase are on deposit with the Tender Agent in accordance with the provisions of the Indenture; (3) Bonds with respect to which all liability of the Authority shall have been discharged in accordance with the Indenture; and (4) 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.

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

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

"*Redemption Price*" means, with respect to any Bond (or portion thereof), the principal amount of such Bond (or portion) plus the applicable premium, if any, payable upon the date fixed for redemption thereof pursuant to the provisions of such Bond and the Indenture.

"*Revenues*" means all payments received by the Authority or the Trustee from the Borrower pursuant or with respect to the Loan Agreement (except Additional Payments paid by the Borrower pursuant to the Loan Agreement, any amounts paid by the Borrower pursuant to the Loan Agreement and amounts received for or on deposit in the Rebate Fund), including, without limiting the generality of the foregoing, Base Loan Payments (including both timely and delinquent payments), Borrower Liquidity Payments, prepayments and all income derived from the investment of any money in any fund or account established pursuant to the Indenture.

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

"*Tax Agreement*" means that certain tax agreement entered into between the Authority and the Borrower at the time of issuance and delivery of the Bonds, as the same may be amended or supplemented in accordance with its terms.

"*Tender Agent*" means The Bank of New York Mellon Trust Company, N.A., and any other tender agent appointed in accordance with the Indenture.

"*Tranche*" when used with respect to the Series S-4 Bonds, means all the Series S-4 Bonds designated as being of the same tranche, authenticated and delivered in a simultaneous transaction, and any Bonds thereafter authenticated and delivered upon a transfer or exchange or in lieu of or in substitution for such Bonds as provided in the Indenture.

## INDENTURE

*The Indenture sets forth the terms of the Bonds, the nature and extent of the security, various rights of the Bondholders, rights, duties and immunities of the Trustee and the rights and obligations of the Authority. Certain provisions of the Indenture are summarized in this Reoffering Circular under the captions "THE BONDS" and "SECURITY FOR THE BONDS." Other provisions are summarized below. This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the Indenture.*

**Pledge and Assignment of Revenues**

The Authority transfers in trust, grants a security interest in and assigns to the Trustee, for the benefit of the Holders from time to time of the Bonds, all of the Revenues and other assets pledged, including proceeds of the sale of the Bonds, held in any fund or account established under the Indenture (except for the Rebate Fund and the Purchase Fund); all of the right, title and interest of the Authority in the Loan Agreement (except for (i) the right to receive any Administrative Fees and Expenses to the extent payable to the Authority, (ii) any rights of the Authority or its officers, directors, agents or employees to reimbursement or indemnification, and (iii) as otherwise expressly set forth in the Loan Agreement. The Trustee shall be entitled to and shall, subject to the provisions of the Indenture, collect and receive all of the Revenues and any Revenues collected or received by the Authority shall be deemed to be held and to have been collected or received, by the Authority as the agent of the Trustee and shall forthwith be paid by the Authority to the Trustee. The Trustee also shall be entitled to, and shall, take all steps, actions and proceedings reasonably necessary in its judgment to enforce all of the rights of the Authority and all of the obligations of the Borrower under the Loan Agreement.

**Establishment of Funds and Accounts**

The Indenture creates a Stanford University Series S Project Construction Fund, an Escrow Fund, a Bond Fund (and an Interest Account and a Principal Account therein), a Redemption Fund (and an Optional Redemption Account therein), a Rebate Fund and a Purchase Fund, all of which are to be held by the Trustee.

*Stanford University Series S Project Construction Fund*. The moneys in the Stanford University Series S Project Construction Fund shall be transferred by the Trustee to the Borrower pursuant to the Indenture and applied by the Borrower in accordance with the Loan Agreement.

*Escrow Fund*. Upon the issuance of each Tranche of remaining Series S-4 Bonds, a separate account will be established within the Escrow Fund for such Tranche. The moneys in such accounts will be disbursed in accordance with the provisions of the supplemental indenture pursuant to which said Bonds are issued and Requests of the Borrower and the Authority pursuant to such supplemental indentures.

*Bond Fund*. The moneys in the Bond Fund shall be used, withdrawn and disbursed by the Trustee pursuant to the Indenture.

*Interest Account*. Moneys in the Interest Account shall be held, disbursed, allocated and applied by the Trustee only as provided in the Indenture. The Trustee shall deposit the following Revenues in the Interest Account when and as such Revenues are received: (1) the interest component of all Base Loan Payments, including the interest component of all cash prepayments of Base Loan Payments made pursuant to the Loan Agreement; (2) all interest, profits and other income received from the investment of moneys in the Interest Account; and (3) any other Revenues not required to be deposited in any other fund or account established pursuant to the Indenture.

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

*Principal Account*. The Trustee shall deposit the following Revenues in the Principal Account when and as such Revenues are received: (1) the principal component of all Base Loan Payments, but excluding the principal component of all cash prepayments of Base Loan Payments made pursuant to the Loan Agreement, which shall be deposited in the Redemption Fund; and (2) all interest, profits and other income received from the investment of moneys in the Principal Account.

On each Mandatory Sinking Account Payment date, the Trustee shall apply the Mandatory Sinking Account Payment required on that date to the redemption (or payment at maturity, as the case may be) of Bonds, upon the notice and in the manner provided in the Indenture; provided that, at any time prior to giving such notice of such redemption, the Trustee may apply moneys in the Principal Account to the purchase of Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as directed in writing by the Borrower, except that the purchase price (excluding accrued interest) shall not exceed the par amount of such Bonds. If, during the twelve-month period immediately preceding said Mandatory Sinking Account Payment date, the Trustee has purchased Bonds with moneys in the Principal Account, or, during said period and prior to giving said notice of redemption, the Borrower has deposited Bonds with the Trustee (together with a request of the Borrower to apply such Bonds so deposited to the Mandatory Sinking Account Payment due on said date with respect to the Bonds), or Bonds were at any time purchased or redeemed by the Trustee from the Redemption Fund and allocable to said Mandatory Sinking Account Payment, such Bonds so purchased or deposited or redeemed shall be applied, to the extent of the full principal amount thereof, to reduce said Mandatory Sinking Account Payment. All Bonds purchased or deposited pursuant to the Indenture, shall be canceled and delivered by the Trustee to or upon the Order of the Borrower. Bonds purchased from the Principal Account, purchased or redeemed from the Redemption Fund, or deposited by the Borrower with the Trustee shall be allocated first to the next succeeding Mandatory Sinking Account Payment, then as a credit against such future Mandatory Sinking Account Payments as the Borrower may specify.

*Redemption Fund*. The Trustee shall deposit the following Revenues in the Optional Redemption Account when and as such Revenues are received: (1) except as provided in the following paragraph, the principal component of all cash prepayments of Base Loan Payments made pursuant to the Loan Agreement; and (2) all interest, profits and other income received from the investment of moneys in the Optional Redemption Account.

All amounts deposited in the Optional Redemption Account shall be used and withdrawn by the Trustee solely for the purpose of redeeming Bonds, in the manner and upon the terms and conditions specified in the Indenture, at the next succeeding date of redemption for which notice has not been given and at the Redemption Prices then applicable to redemptions from the Optional Redemption Account; provided that, at any time prior to giving of such notice of redemption, the Trustee shall, upon direction of the Borrower, apply such amounts to the purchase of Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as the Borrower may direct, except that the purchase price (exclusive of accrued interest) may not exceed the Redemption Price then applicable to the Bonds (or, if the Bonds are not then subject to redemption, the par value of such Bonds); and provided further that, in the case of the Optional Redemption Account, in lieu of redemption at such next succeeding date of redemption, or in combination therewith, amounts in such account may be transferred to the Bond Fund and credited against Base Loan Payments in order of their due date as set forth in a Request of the Borrower. All Bonds purchased or redeemed from the Redemption Fund shall be allocated first to the next succeeding Mandatory Sinking Account Payment, then as a credit against such future Mandatory Sinking Account Payments as the Borrower may specify.

*Rebate Fund*. Subject to the transfer provisions provided in the Indenture, all money at any time deposited in the Rebate Fund shall be held by the Trustee in trust, to the extent required to satisfy the Rebate Amount (as defined in the Tax Agreement), for payment to the federal government of the United States of America. Neither the Authority, the Borrower nor the Holder of any Bonds shall have any rights in or claim to such money. All amounts deposited into or on deposit in the Rebate Fund shall be governed by the Indenture and by the Tax Agreement (which is incorporated in the Loan Agreement by reference). The Trustee shall be deemed conclusively to have complied with such provisions if it follows the directions of the Borrower including supplying all necessary information in the manner provided in the Tax Agreement, and shall have no liability or responsibility to enforce compliance by the Borrower or the Authority with the terms of the Tax Agreement.

**Events of Default; Remedies on Default**

The following events shall be Events of Default: (a) default in the due and punctual payment of the principal or 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 declaration or otherwise; (b) default in the due and punctual payment of any installment of interest on any Bond when and as such interest installment shall become due and payable; (c) failure to pay the purchase price of any Bond required to be purchased when due and payable if a Liquidity Facility is not in effect; (d) default by the Authority in the observance of any of the other covenants, agreements or conditions on its part contained in the Indenture or in the Bonds, if such default shall have continued for a period of 30 days after written notice thereof, specifying such default and requiring the same to be remedied, shall have been given to the Authority and the Borrower by the Trustee, or to the Authority, the Borrower and the Trustee by the Holders of not less than 25% in aggregate principal amount of the Bonds at the time Outstanding or (e) a Loan Default Event.

Upon actual knowledge of the existence of any Event of Default, the Trustee shall notify the Borrower, the Authority, the Auction Agent, the Market Agent, the Liquidity Facility Provider and the Trustee in writing as soon as practicable; provided, however, that the Trustee need not provide notice of any Loan Default Event if the Borrower has expressly acknowledged the existence of such Loan Default Event in a writing delivered to the Trustee, the Auction Agent, the Market Agent, the Borrower, the Authority, the Liquidity Facility Provider and the Trustee.

Whenever any Event of Default shall have happened and be continuing, the Trustee may take the following remedial steps:

> In the case of any Event of Default described in (d) of the first paragraph of this section, the Trustee may take whatever action at law or in equity is necessary or desirable to enforce the performance, observance or compliance by the Authority with any covenant, condition or agreement by the Authority under the Indenture; and
>
> In the case of an Event of Default described in (e) of the first paragraph of this section, the Trustee may take whatever action the Authority would be entitled to take, and shall take whatever action the Authority would be required to take, pursuant to the Loan Agreement in order to remedy the Loan Default Event.

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, the Authority or the Borrower shall deposit with the Trustee a sum sufficient to pay all the principal or redemption price of and installments of interest on the Bonds payment of which is overdue, with interest on such overdue principal at the rate borne by the respective Bonds, and the reasonable charges and expenses of the Trustee, and any and all other defaults known to the Trustee (other than in the payment of principal of and interest on the Bonds due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor, then, and in every such case, the

Trustee shall, on behalf of the Holders of all of the Bonds, 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.

**Limitation on Bondholder's Right to Sue**

No Holder 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, the Loan Agreement, the Act or any other 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 at least a majority aggregate principal amount of the Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers granted or to institute such suit, action or proceeding in its own name; (3) such Holder or said Holders shall have tendered to the Trustee indemnity satisfactory to it against the costs, expenses and liabilities to be incurred in compliance with such request; and (4) the Trustee shall have refused or omitted to comply with such request for a period of 60 days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee.

**Amendment of Indenture and Loan Agreement**

The Indenture and the rights and obligations of the Authority and of the Holders of the Bonds and of the Trustee may be modified or amended from time to time by an indenture or indentures supplemental to the Indenture, which the Authority and the Trustee may enter into when the written consent of the Holders of a majority in aggregate principal amount of the Bonds then Outstanding shall have been filed with the Trustee. No such modification or amendment shall (1) extend the fixed maturity of any Bond, or reduce the amount of principal thereof, or extend the time of payment or reduce the amount of any Mandatory Sinking Account Payment, or reduce the rate of interest thereon, or extend the time of payment of interest thereon, or reduce any premium payable upon the redemption thereof (except as permitted in the Indenture), without the consent of the Holder of each Bond so affected, or (2) reduce the 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 Revenues and other assets pledged under the Indenture prior to or on a parity with the lien created by the Indenture, or deprive the Holders of the Bonds of the lien created by the Indenture on such Revenues and other assets (except as expressly provided in the Indenture), without the consent of the Holders of all Bonds then Outstanding.

The Indenture may also be modified or amended but without the necessity of obtaining the consent of any Bondholders, for one or more of the following purposes: (1) to add to the covenants and agreements of the Authority contained in the Indenture other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power reserved to or conferred upon the Authority, provided, that no such covenant, agreement, pledge, assignment or surrender shall 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 Authority or the Trustee may deem necessary or desirable and not inconsistent with the Indenture, and which shall not materially adversely affect the interests of the Holders of the Bonds; (3) to modify, amend or supplement the Indenture in such manner as to permit the qualification thereof under the Trust Indenture Act of 1939, as amended; (4) to provide any additional procedures, covenants or agreements to maintain the exclusion from gross income for federal income tax purposes of interest on the Bonds; (5) to facilitate (i) the transfer of Bonds from one Depository to another in the succession of Securities Depositories, or (ii) the withdrawal from a Depository of Bonds held in a Book-Entry System and the issuance of replacement Bonds in fully registered form to Persons other than a Depository; (6) to authorize different authorized denominations of the Bonds and to make correlative amendments and modifications to the Indenture regarding exchangeability of Bonds of different authorized denominations, redemptions of portions of Bonds of particular authorized denominations and similar amendments and modifications of a technical nature (7) to make any amendments appropriate or necessary to provide for any Liquidity Facility or any insurance policy, letter of credit, guaranty, surety bond, line of credit, revolving credit agreement, standby bond purchase agreement or other agreement or security device delivered to the Trustee and providing for (i) payment of the principal, interest and redemption premium on the Bonds or a portion thereof, (ii) payment of the purchase price of the Bonds or (iii) both (i) and (ii), including without limitation modification of the maximum Liquidity Facility Rate; (8) to make any changes required by a Rating Agency in order to obtain or maintain a rating for the Bonds; (9) to provide for the issuance of an additional Tranche of Series S-4 Bonds pursuant to the Indenture; or (10) to modify, alter, amend or supplement the Indenture in any other respect which is not materially adverse to the Bondholders.

Except as provided in the Indenture, the Authority shall not supplement, amend, modify or terminate any of the terms of the Loan Agreement, or consent to any such amendment, modification or termination, without the prior written consent of the Trustee. The Trustee shall give such written consent if but only if (1) it has received a Certificate of the Authority to the effect that such amendment, modification or termination will not materially and adversely affect the interests of the Holders of the Bonds (which Certificate of the Authority may be based on certifications, opinions or representations of other parties in accordance with the provisions of the Indenture); provided that, if an Event of Default has occurred and is continuing, the Trustee rather than the Authority shall make a determination that such amendment or modification will not materially and adversely affect the interests of the Holders of the Bonds (provided that, in making such determination, the Trustee may conclusively rely on written representations of financial consultants or advisors or the opinion or advice of counsel), or (2) the Holders of a majority in aggregate principal amount of the Bonds then Outstanding consent in writing to such amendment, modification or termination, provided that no such amendment, modification or termination shall reduce the amount of Base Loan Payments to be made to the Authority or the Trustee by the Borrower pursuant to the Loan Agreement, or extend the time for making such payments, without the written consent of all of the Holders of the Bonds then Outstanding.

The Loan Agreement may also be supplemented, modified or amended from time to time and at any time by the Authority without the necessity of obtaining the consent of any Bondholders, 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 Authority or the Borrower contained in the Loan Agreement other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power therein reserved to or conferred upon the Authority or the Borrower, provided, that no such covenant, agreement, pledge, assignment or surrender shall 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 Loan Agreement, or in regard to matters or questions arising under the Loan Agreement, as the Authority may deem necessary or desirable and not inconsistent with the Loan Agreement or the Indenture, and which shall not materially adversely affect the interests of the Holders of the Bonds; (3) in connection with the issuance of an additional Tranche of Series S-4 Bonds pursuant to the Indenture; or (4) to maintain the exclusion from gross income for federal income tax purposes of interest payable with respect to the Bonds.

**Defeasance**

The Bonds may be paid by the Authority or the Trustee on behalf of the Authority in any of the following ways: (a) by paying or causing to be paid the principal or 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 Authority shall also pay or cause to be paid all other sums payable under the Indenture by the Authority and the Borrower shall have paid all Administrative Fees and Expenses payable to the Authority pursuant to the Loan Agreement, then and in that case at the election of the Authority and notwithstanding that any Bonds shall not have been surrendered for payment, the Indenture and the pledge of Revenues and other assets made under the Indenture and all covenants, agreements and other obligations of the Authority under the Indenture shall cease, terminate, become void and be completely discharged and satisfied.

## LOAN AGREEMENT

*The Loan Agreement provides the terms of the loan of proceeds of the Bonds to the Borrower and the repayment of and security for such loan provided by the Borrower. Certain of the provisions of the Loan Agreement are summarized below. This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the Loan Agreement.*

### Payment of the Bonds and Certain Other Expenses

Pursuant to the Loan Agreement, the Borrower agrees that it will pay to the Trustee all sums necessary for the payment of the debt service on the Outstanding Bonds. The Borrower shall make such Base Loan Payments (i) on each Interest Payment Date the full amount of the interest becoming due and payable on such Interest Payment Date on all Outstanding Bonds; and (ii) on each Principal Payment Date the aggregate amount of principal becoming due and payable on the Outstanding Bonds, plus the aggregate amount of Mandatory Sinking Account Payments required to be paid into the Sinking Accounts for Outstanding Bonds, in each case on such Principal Payment Date. The Trustee is required under the Indenture to notify the Authority and the Borrower immediately if it has not received payment by the due date. The Borrower shall also make additional payments for expenses of the Trustee and the Authority, such additional payments to be billed to the Borrower by the Authority or the Trustee from time to time.

Any amounts held in the Interest Account within the Bond Fund for the payment of interest on the Bonds (including any investment income credited to the Interest Account pursuant to the Indenture) shall be credited against the Base Loan Payments of interest then required to be met by the Borrower to the extent such amounts are in excess of the amount required for the payment of interest accrued to the date fixed for redemption or maturity, where the Bonds have not been presented for payment. Any amounts held in the Principal Account within the Bond Fund for the payment of principal on the Bonds (including any investment income credited to the Principal Account pursuant to the Indenture) shall be credited against the Base Loan Payments of principal then required to be met by the Borrower to the extent such amounts are in excess of the amount required for the payment of Principal accrued to the date fixed for redemption or maturity, where the Bonds have not been presented for payment.

Pursuant to the Loan Agreement, the Borrower further agrees that, if a Liquidity Facility is not in effect, it shall pay to the Tender Agent the amounts necessary for the purchase of Bonds pursuant to the tender provisions of the Indenture and not deposited with the Tender Agent by the Remarketing Agent from the proceeds of the sale of such Bonds pursuant to such provisions. The Borrower covenants to use the procedures for such payment set forth in an exhibit to the Loan Agreement or such other provisions as the Borrower shall have provided in writing to the Trustee, Tender Agent and others specified in the Loan Agreement, provided that each such payment by the Borrower to the Tender Agent shall be in immediately available funds and paid to the Tender Agent at its Principal Corporate Trust

Office no later than 2:30 p.m., New York City time, on each date upon which a payment is to be made pursuant to the tender provisions of the Indenture.

The Loan Agreement also provides that if on any Interest Payment Date or Principal Payment Date, the balance in the Interest Account or Principal Account within the Bond Fund is insufficient or unavailable to make required payments of principal of (whether at maturity, by redemption or by acceleration as provided in the Indenture), premium, if any, and interest due on the Bonds on such date, the Borrower shall forthwith pay any such deficiency to the Trustee for deposit in the appropriate account within the Bond Fund. The Borrower acknowledges that the Trustee shall give notice: (1) to the Borrower in accordance with the Indenture at least five Business Days before each Interest Payment Date of the amount, if any, credited or to be credited to the Interest Account by such next Interest Payment Date and the amount of the Base Loan Payment then due from the Borrower; and (2) to the Borrower and the Authority in accordance with the Indenture if the Borrower fails to make any required payment by the due date, such notice to be given by telephone, telecopy or electronic means followed by written notice.

**Certain Covenants of the Borrower**

The Borrower covenants in the Loan Agreement that, so long as any Bonds remain Outstanding:

(a) it will maintain its existence as a body duly exercising corporate powers and privileges under the Constitution and laws of the State of California and will not dissolve, sell or otherwise dispose of all or substantially all of its assets or consolidate with or merge into another entity or permit one or more other entities to consolidate with or merge into it, except under certain circumstances described in the Loan Agreement.

(b) it will maintain or cause to be maintained insurance of such type, against such risks and in such amounts, with insurance companies or by means of self-insurance, as are customarily carried by organizations of a nature similar to that of the Borrower, which insurance shall include property damage, fire and extended coverage, public liability and property damage liability insurance in amounts estimated to indemnify the reasonably anticipated damage, loss or liability;

(c) it will furnish to the Authority and the Trustee within 180 days after the end of each of its fiscal years certain financial information as of the end of such year; and,

(d) it will not take any action or fail to take any action, if such action or failure to take such action would result in the interest on the Bonds not being excluded from gross income for federal income tax purposes under Section 103 of the Code.

**Prepayment**

The Borrower shall have the right, so long as all amounts which have become due under the Loan Agreement have been paid, at any time or from time to time to prepay all or any part of the Base Loan Payments and the Authority agrees that the Bond Trustee shall accept such prepayments when the same are tendered. Prepayments may be made by payments of cash, deposit of Investment Securities or surrender of Bonds, as contemplated by the Loan Agreement. All such prepayments (and the additional payment of any amount necessary to pay the applicable premium, if any, payable upon the redemption of Bonds) shall be deposited upon receipt in the Redemption Fund and, at the request of, and as determined by, the Borrower, credited against the Base Loan Payments in the order of their due date or used for the redemption or purchase of Outstanding Bonds in the manner and subject to the terms and conditions set forth in the Indenture.

**Amendment**

The Loan Agreement may not be amended, changed, modified, altered or terminated without the concurring written consent of the Trustee, which consent shall be given in accordance with the provisions of the Indenture. In this Appendix B, see "INDENTURE – Amendment of Indenture and Loan Agreement."

**Events of Default; Remedies on Default**

Events of default under the Loan Agreement include:

(a) failure by the Borrower to make any of the payments required by the Loan Agreement by their due date:

(b) failure by the Borrower to observe or perform any covenant, condition or agreement contained in the Loan Agreement other than paragraph (a) above, on its part to be observed or performed, for a period of 45 days after written notice thereof has been given to the Borrower by the Authority, provided, however, if the failure stated in the notice is correctable but cannot be corrected within 45 days, the Authority will not unreasonably withhold its consent to an extension of such time if corrective action is instituted by the Borrower within the applicable period and diligently pursued until the default is corrected;

(c) the representations or warranties of the Borrower made in the Loan Agreement or in any other document, certificate or writing furnished by the Borrower to the Authority in connection with the application for or the negotiation of the Loan Agreement or the issuance of the Bonds being false or incorrect in any material respect; and

(d) certain events under federal or state bankruptcy or insolvency laws.

The Authority or the Trustee, in the case of any event of default, may take any one or more of the following remedial steps:

(a) declare immediately due and payable all amounts related to payment of principal of, and premium, if any, and interest on, the Bonds due under the Loan Agreement for the remainder of its term; or

(b) take whatever legal action may appear necessary or desirable to collect the payments then due and thereafter to become due or to enforce the performance and observance of any obligation, condition or covenant of the Borrower under the Loan Agreement.

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## APPENDIX C

## BOOK-ENTRY SYSTEM

The information in this Appendix C concerning The Depository Trust Company ("DTC"), New York, New York, and DTC's book entry system has been obtained from DTC and the University, the Remarketing Agents and the Trustee take no responsibility for the completeness or accuracy thereof. The University, the Remarketing Agents and the Trustee cannot, and do not, give any assurances that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will so do on a timely basis, or that DTC, DTC Participants or Indirect Participants will act in the manner described in this Appendix. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC.

1. 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 the aggregate principal amount of such issue, and will be deposited with DTC.

2. DTC, the world's largest securities depository, 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"). 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 and www.dtc.org. Nothing contained in such websites is incorporated into this Reoffering Circular.

3. 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.

4. 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.

5. 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. Beneficial Owners of the Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of the Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

6. Redemption notices shall be sent to DTC. 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 issue to be redeemed.

7. 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 issuer 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).

8. Payments of principal, premium, if any, and interest evidenced by 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 Authority, the University or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, the Authority or the University, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium, if any, and interest evidenced by the Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority 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.

9. DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

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

NONE OF THE AUTHORITY, THE UNIVERSITY, THE REMARKETING AGENTS OR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS WITH RESPECT TO THE PAYMENTS OR THE PROVIDING OF NOTICE TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS OR THE SELECTION OF BONDS FOR REDEMPTION.

None of the Authority, the University, the Remarketing Agents or the Trustee can give any assurances that DTC, DTC Participants, Indirect Participants or others will distribute payments of principal, premium, if any, and interest on the Bonds paid to DTC or its nominee, as the registered Owner, or any redemption or other notice, to the Beneficial Owners or that they will do so on a timely basis or that DTC will serve and act in a manner described in this Reoffering Circular.

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## APPENDIX D

## FORMS OF OPINIONS OF BOND COUNSEL

[Conversion Date]

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

California Educational Facilities Authority
Sacramento, California

The Board of Trustees of the
Leland Stanford Junior University
Stanford, California

Goldman, Sachs & Co.
New York, New York

California Educational Facilities Authority
Revenue Bonds (Stanford University) Series S-2

Ladies and Gentlemen:

California Educational Facilities Authority Revenue Bonds (Stanford University) Series S-2 (the "Bonds") in the aggregate principal amount of $40,000,000 were issued by the California Educational Facilities Authority (the "Issuer") on June 24, 2004, pursuant to an indenture, dated as of June 1, 2004 (the "Original Indenture"), between the Issuer and The Bank of New York Mellon Trust Company, N.A., as successor trustee to U.S. Bank National Association, as trustee (the "Trustee"). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Original Indenture.

Pursuant to Section 10.01(B)(10) of the Original Indenture, the optional redemption provisions applicable to the Bonds in a Long Term Rate Period have been modified by the First Supplemental Indenture, dated as of May 1, 2013 (the "First Supplemental Indenture" and, together with the Original Indenture, the "Indenture"), between the Trustee and the Issuer, which sets forth alternative optional redemption provisions to become applicable upon conversion of the Bonds to the Long Term Rate Period, together with certain additional modifications of the Original Indenture relating to procedures for such conversion (the "Modifications"). Pursuant to Section 2.07 of the Indenture, the Bonds are being converted from the Commercial Paper Rate Period to the Long Term Rate Period (the "Conversion"), and remarketed in the aggregate principal amount of $30,210,000. In connection with the Modifications and the Conversion, as bond counsel to the Issuer, we have reviewed the Original Indenture, the First Supplemental Indenture, certificates of the Issuer, the Trustee, the Borrower, the Remarketing Agent, and others and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinion expressed herein is based on an analysis of existing laws, regulations, rulings and court decisions and covers certain matters not directly addressed by such authorities. Such opinion may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof, and we disclaim any obligation to update this opinion. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any party other than the Issuer. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Indenture and the Tax Certificate (including any supplements or amendments thereto), including (without limitation) covenants and agreements compliance with which is necessary to assure that actions, omissions or events on and after the date of issuance of the Bonds have not caused and will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We have not undertaken to determine compliance with any of such covenants and agreements or any other requirements of law, and, except as expressly set forth below, we have not otherwise reviewed any actions, omissions or events occurring after the date of issuance of the Bonds or the exclusion of interest on the Bonds from gross income for federal income tax purposes. Accordingly, no opinion is expressed herein as to whether interest on the Bonds is excludable from gross income for federal income tax purposes or as to any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. Nothing in this letter should imply that we have considered or in any manner reaffirm any of the matters covered in any prior opinion we rendered with respect to the Bonds. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Reoffering Circular, dated May 1, 2013, or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Modifications and the Conversion are authorized or permitted by the laws of the State of California and the Original Indenture.

2. The Modifications and the Conversion will not, in and of themselves, result in the inclusion of interest on the Bonds in gross income for federal income tax purposes.

This opinion is furnished by us as bond counsel to the Issuer solely for purposes of Sections 2.07(B)(1) and 2.09(B) of the Indenture. No attorney-client relationship has existed or exists between our firm and the Trustee or our firm and the Remarketing Agent in connection with the Bonds or by virtue of this opinion, and we disclaim any obligation to update this opinion.

Very truly yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

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June 24, 2004

California Educational Facilities Authority
915 Capitol Mall, Room 590
Sacramento, California 95814

California Educational Facilities Authority
Revenue Bonds (Stanford University)
Series S-1, Series S-2, Series S-3 and Series S-4 (Tranche One)
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the California Educational Facilities Authority (the "Authority") of $181,200,000 aggregate principal amount of California Educational Facilities Authority Revenue Bonds (Stanford University) Series S-1, Series S-2, Series S-3 and Series S-4 (Tranche One) (the "Bonds"), issued pursuant to the provisions of the California Educational Facilities Authority Act of the State of California (constituting Chapter 2 of Part 59 of Division 10 of Title 3 of the Education Code of the State of California), and an indenture, dated as of June 1, 2004 (the "Indenture"), between the Authority and U.S. Bank National Association, as trustee (the "Trustee"). The Indenture provides that the Bonds are issued for the purpose of making a loan of the proceeds thereof to The Board of Trustees of the Leland Stanford Junior University (the "Borrower") pursuant to a loan agreement, dated as of June 1, 2004 (the "Loan Agreement"), between the Authority and the Borrower. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Indenture.

In such connection, we have reviewed the Indenture, the Loan Agreement, the Tax Agreement, dated the date hereof (the "Tax Agreement"), between the Authority and the Borrower, opinions of counsel to the Authority, the Borrower and the Trustee, certificates of the Authority, the Borrower, the Trustee and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

We have relied on the opinion of the Office of the General Counsel for Stanford University, counsel to the Borrower, regarding, among other matters, the current qualification of the Borrower as an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "Code"). We note that such opinion is subject to a number of qualifications and limitations. Failure of the Borrower to be organized and operated in accordance with the Internal Revenue Service's requirements for the maintenance of its status as an organization described in Section 501(c)(3) of the Code may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of issuance of the Bonds.

Certain agreements, requirements and procedures contained or referred to in the Indenture, the Loan Agreement, the Tax Agreement and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. No opinion is expressed herein as to any Bond or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of counsel other than ourselves.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Authority. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second and third paragraphs hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Indenture, the Loan Agreement and the Tax Agreement, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the Indenture, the Loan Agreement and the Tax Agreement and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles and to the exercise of judicial discretion in appropriate cases. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum or waiver provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any of the real or personal property described in or as subject to the lien of the Indenture or the Loan Agreement or the accuracy or sufficiency of the description of the property contained therein of, or the remedies available to enforce liens on, any such property. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute the valid and binding limited obligations of the Authority.

2. The Indenture has been duly executed and delivered by, and constitutes the valid and binding obligation of, the Authority. The Indenture creates a valid pledge, to secure the payment of the principal of and interest on the Bonds, of the Revenues and any other amounts (including proceeds of the sale of the Bonds) held by the Trustee in any fund or account established pursuant to the Indenture, except the Rebate Fund, subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture. The Indenture also creates a valid assignment to the Trustee, for the benefit of the holders from time to time of the Bonds, of the right, title and interest of the Authority in the Loan Agreement (to the extent more particularly described in the Indenture).

3. The Loan Agreement has been duly executed and delivered by, and constitutes the valid and binding obligation of, the Authority.

4. The Bonds are not a lien or charge upon the funds or property of the Authority except to the extent of the aforementioned pledge and assignment. Neither the faith and credit nor the taxing power of the State of California or of any political subdivision thereof is pledged to the payment of the principal of or interest on the Bonds. The Bonds are not a debt of the State of California, and said State is not liable for the payment thereof.

5. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Code and is exempt from State of California personal income taxes. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that it is included in adjusted current earnings when calculating corporate alternative minimum taxable income. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

per Richard D. Hinds

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November 10, 2011

California Educational Facilities Authority
Sacramento, California

Re: California Educational Facilities Authority
Revenue Bonds (Stanford University)
Series S-1, Series S-2, Series S-3 and Series S-4 (Tranche One)

Ladies and Gentlemen:

We acted as bond counsel to the California Educational Facilities Authority (the "Authority") in connection with the issuance of the $181,200,000 original aggregate principal amount of California Educational Facilities Authority Revenue Bonds (Stanford University) Series S-1, Series S-2, Series S-3 and Series S-4 (Tranche One) (the "Bonds"). As bond counsel, we delivered our opinion dated June 24, 2004 (the "Final Legal Opinion") addressed to you with respect to the validity of the Bonds and certain other legal matters.

You may henceforth consider the fourth paragraph of the Final Legal Opinion to be deleted, provided that the Final Legal Opinion speaks only as of its date and accordingly may not be relied upon in connection with any actions taken or omitted or events occurring or other matters coming to our attention after the date of the Final Legal Opinion. Moreover, you are not entitled to infer from this letter or anything else that any review of any matter has been undertaken, or that we have undertaken to inform you or anyone else of any action taken or omitted or of any event or matter coming to our attention, after the date of the Final Legal Opinion.

Very truly yours,

Orrick, Herrington & Sutcliffe LLP

ORRICK, HERRINGTON & SUTCLIFFE LLP

OHS WEST:261399262.2

## APPENDIX E

## FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the "Agreement") dated as of May 1, 2013, 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., bond trustee (the "Trustee") under an Indenture, dated as of June 1, 2004, as supplemented by the First Supplemental Indenture, dated as of May 1, 2013 (as supplemented, the "Indenture") between the California Educational Facilities Authority (the "Authority") and the Trustee (as successor to U.S. Bank National Association), the Trustee executing this Agreement both in its capacity as Trustee and in its capacity as Dissemination Agent hereunder, is executed and delivered in connection with the Conversion and remarketing of the California Educational Facilities Authority Revenue Bonds (Stanford University) Series S-2 (the "Bonds"). Capitalized terms used in this Agreement which are not otherwise defined in the Indenture shall have the respective meanings specified in Article IV hereof. The parties agree as follows:

# Article I

The Undertaking

Section 1.1 Purpose; No Authority Responsibility or Liability. This Agreement shall constitute a written undertaking for the benefit of the holders of the Bonds and is being executed and delivered solely to assist the Remarketing Agents in complying with subsection (b)(5) of the Rule. The University, the Dissemination Agent and the Trustee acknowledge that the Authority has undertaken no responsibility, and shall not be required to undertake any responsibility, with respect to any reports, notices or disclosures required by or provided pursuant to this Agreement, and shall have no liability to any person, including any holder of the Bonds, with respect to any such reports, notices or disclosures.

Section 1.2 Annual Financial Information. (a) The University shall provide Annual Financial Information to the Dissemination Agent with respect to each fiscal year of the University, commencing with fiscal year ended August 31, 2013 by no later than one hundred and eighty (180) days after the end of the respective fiscal year. The Dissemination Agent shall provide such Annual Financial Information to the Repository and the Authority, in each case within two Business Days after receipt by the Dissemination Agent, or as soon as reasonably practicable thereafter.

(b) The Dissemination Agent shall provide, in a timely manner, notice of any failure of the University or the Dissemination Agent to provide the Annual Financial Information by the date specified in subsection (a) above, in each case to (i) the Repository, (ii) the Authority, and (iii) if such failure is of the University, the University.

Section 1.3 Audited Financial Statements. If not provided as part of Annual Financial Information by the date required by Section 1.2 hereof, the University shall provide Audited Financial Statements, when and if available, to the Dissemination Agent. The Dissemination Agent shall provide any such Audited Financial Statements to the Repository and the Authority, in each case within two Business Days after receipt by the Dissemination Agent, or as soon as reasonably practicable thereafter.

Section 1.4 Listed Event Notices. (a) If a Listed Event occurs, the University shall provide, in a timely manner, notice of such Listed Event to the Dissemination Agent. The Dissemination Agent shall provide notice of each such Listed Event received from the University to the Repository within one Business Day after receipt by the Dissemination Agent, or as soon as reasonably practicable thereafter, but in no case in excess of 10 Business Days after the occurrence of such Listed Event.

(b) Any such notice of a defeasance of the Bonds shall state whether the Bonds have been escrowed to maturity and the timing of such maturity.

(c) The Trustee shall promptly advise the University and the Authority whenever, in the course of performing its duties as Trustee under the Indenture, the Trustee has actual notice of an occurrence of an event described herein as a "Listed Event"; provided, however, that the failure of the Trustee so to advise the University or the Authority shall not constitute a breach by the Trustee of any of its duties and responsibilities under this Agreement or the Indenture and the Trustee shall not be required to make any determination regarding materiality of any such event.

Section 1.5 Additional Disclosure Obligations. The University acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933, as amended, and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, as amended, may apply to the University and that, under some circumstances, additional disclosures or other action may be required to enable the University to fully discharge all of its duties and obligations under such laws.

Section 1.6 Additional Information. Nothing in this Agreement shall be deemed to prevent the University from disseminating any other information, using the means of dissemination set forth in this Agreement or any other means of communication, or including any other information in any Annual Financial Information or notice of Listed Event hereunder, in addition to that which is required by this Agreement. If the University chooses to do so, the University shall have no obligation under this Agreement to update such additional information or include it in any future Annual Financial Information or notice of a Listed Event hereunder.

Section 1.7 No Previous Non-Compliance. The University represents that since April 1, 2008, it has not failed to comply in any material respect with any previous undertaking in a written contract or agreement specified in paragraph (b)(5)(i) of the Rule.

## Article II

Operating Rules

Section 2.1 Reference to Other Documents. It shall be sufficient for purposes of Section 1.2 hereof if the University provides Annual Financial Information by specific reference to documents (including Official Statements) available from the Repository.

Section 2.2 Submission of Information. Annual Financial Information may be provided in one document or multiple documents and at one time or in part from time to time.

Section 2.3 Listed Event Notices. Each notice of a Listed Event hereunder shall be captioned "Notice of Listed Event" and shall prominently state the title, date and CUSIP numbers of the Bonds.

Section 2.4 Transmission of Information and Notices. Unless otherwise required by law and, in the Dissemination Agent's sole determination, subject to technical and economic feasibility, the Dissemination Agent shall employ such methods of information and notice transmission as shall be requested or recommended by the herein-designated recipients of the University's information and notices.

Section 2.5 Fiscal Year. (a) The University's current fiscal year is September 1 to August 31, and the University shall promptly notify the Dissemination Agent in writing of each change in its fiscal year. The Trustee shall provide such notice to the Repository and the Authority, in each case within two Business Days after receipt by the Dissemination Agent, or as soon as reasonably practicable thereafter.

(b) Annual Financial Information shall be provided at least annually notwithstanding any fiscal year longer than 12 calendar months.

## Article III

Effective Date, Termination, Amendment and Enforcement

Section 3.1 Effective Date, Termination. (a) This Agreement shall be effective upon the issuance of the Bonds.

(b) The University's and the Dissemination Agent's obligations under this Agreement shall terminate upon a legal defeasance or payment in full of all of the Bonds.

(c) If the University's obligations under the Loan Agreement are assumed in full by some other entity, such person shall be responsible for compliance with this Agreement in the same manner as if it were the University, and thereupon the original University shall have no further responsibility hereunder.

(d) This Agreement, or any provision hereof, shall be null and void in the event that (1) the University delivers to the Dissemination Agent and the Trustee an opinion of Counsel, addressed to the University, the Authority and the Trustee, to the effect that those portions of the Rule which require this Agreement, or such provision, as the case may be, do not or no longer apply to the Bonds, whether because such portions of the Rule are invalid, have been repealed, or otherwise, as shall be specified in such opinion, and (2) the Dissemination Agent delivers copies of such opinion to the Repository and the Authority. The Dissemination Agent shall so deliver such opinion within one Business Day after receipt by the Dissemination Agent, or as soon as reasonably practicable thereafter.

Section 3.2 Amendment. (a) This Agreement may be amended, by written agreement of the parties, without the consent of the holders of the Bonds (except to the extent required under clause (4)(ii) below), if all of the following conditions are satisfied: (1) such amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, or a change in the identity, nature or status of the University or the type of business conducted thereby, (2) this Agreement as so amended would have complied with the requirements of the Rule as of the date of this Agreement, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, (3) the University shall have delivered to the Dissemination Agent and the Trustee an opinion of Counsel, addressed to the University, the Authority and the Trustee, to the same effect as set forth in clause (2) above, (4) either (i) the University shall have delivered to the Dissemination Agent and the Trustee an opinion of Counsel or a determination by a person, in each case unaffiliated with the Authority or the University (such as bond counsel or Dissemination Agent) and acceptable to the University, addressed to the University, the Authority and the Trustee, to the effect that the amendment does not materially impair the interests of the holders of the Bonds or (ii) the holders of the Bonds consent to the amendment to this Agreement pursuant to the same procedures as are required for amendments to the Indenture with consent of holders of the Bonds pursuant to Section 9.01 of the Indenture as in effect on the date of this Agreement, and (5) the Dissemination Agent shall have delivered copies of such opinion(s) and amendment to the Repository and the Authority. The Dissemination Agent shall so deliver such opinion(s) and amendment within one Business Day after receipt by the Dissemination Agent.

(b) In addition to subsection (a) above, this Agreement may be amended by written agreement of the parties, without the consent of the holders of the Bonds, if all of the following conditions are satisfied: (1) an amendment to the Rule is adopted, or a new or modified official interpretation of the Rule is issued, after the effective date of this Agreement which is applicable to this Agreement, (2) the University shall have delivered to the Dissemination Agent and the Trustee an opinion of Counsel, addressed to the University, the Authority and the Trustee, to the effect that performance by the University and the Trustee under this Agreement as so amended will not result in a violation of the Rule and (3) the Dissemination Agent shall have delivered copies of such opinion and amendment to the Repository and the Authority. The Dissemination Agent shall so deliver such opinion and amendment within one Business Day after receipt by the Dissemination Agent or as soon as reasonably practicable thereafter.

(c) To the extent any amendment to this Agreement results in a change in the type of financial information or operating data provided pursuant to this Agreement, the first Annual Financial Information provided thereafter shall include a narrative explanation of the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

(d) If an amendment is made pursuant to Section 3.2(a) hereof to the accounting principles to be followed by the University in preparing its financial statements, the Annual Financial Information for the fiscal year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. Such comparison shall include a qualitative and, to the extent reasonably feasible, quantitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information.

Section 3.3 Benefit; Third-Party Beneficiaries; Enforcement. (a) The provisions of this Agreement shall constitute a contract with and inure solely to the benefit of the holders from time to time of the Bonds, except that Beneficial Owners of the Bonds shall be third-party beneficiaries of this Agreement and shall be deemed to be holders of the Bonds for purposes of Section 3.3(b) hereof. The provisions of this Agreement shall create no rights in any person or entity except as provided in this subsection (a).

(b) The obligations of the University to comply with the provisions of this Agreement shall be enforceable (i) in the case of enforcement of obligations to provide financial statements, financial information, operating data and notices, by any holder of the outstanding Bonds or by the Trustee on behalf of the holders of the outstanding Bonds, or (ii) in the case of challenges to the adequacy of the financial statements, financial information and operating data so provided, by the Trustee on behalf of the holders of the outstanding Bonds; provided, however, that the Trustee shall not be required to take any enforcement action except at the direction of the holders of not less than a majority in aggregate principal amount of the Bonds at the time outstanding, who shall have provided the Trustee with adequate security and indemnity. The holders' and Trustee's rights to enforce the provisions of this Agreement shall be limited solely to a right, by action in mandamus or for specific performance, to compel performance of the University's obligations under this Agreement.

(c) Any failure by the University, the Dissemination Agent or the Trustee to perform in accordance with this Agreement shall not constitute a default or an Event of Default under the Indenture, and the rights and remedies provided by the Indenture upon the occurrence of a default or an Event of Default shall not apply to any such failure.

(d) This Agreement shall be construed and interpreted in accordance with the laws of the State, and any suits and actions arising out of this Agreement shall be instituted in a court of competent jurisdiction in the State; provided, however, that to the extent this Agreement addresses matters of federal securities laws, including the Rule, this Agreement shall be construed in accordance with such federal securities laws and official interpretations thereof.

## Article IV

Definitions

Section 4.1 Definitions. The following terms used in this Agreement shall have the following respective meanings:

(1) "Annual Financial Information" means, collectively, (i) the financial information and operating data with respect to the University for each fiscal year of the University ended on and after August 31, 2013 to be provided in any reasonable manner and containing, in substance, such information and data as is set forth in Appendix A to the Authority's Official Statement regarding the Bonds under the headings "PART I – GENERAL INFORMATION ABOUT STANFORD UNIVERSITY – Faculty and Staff," "– Students," and "– Capital Improvement Programs" and (ii) the information regarding amendments to this Agreement required pursuant to Sections 3.2(c) and (d) of this Agreement. Annual Financial Information shall include Audited Financial Statements, if available, or Unaudited Financial Statements.

> The descriptions contained in clause (i) above of financial information and operating data constituting Annual Financial Information are of general categories of financial information and operating data. When such descriptions include information that no longer can be generated because the operations to which it related have been materially changed or discontinued, a statement to that effect shall be provided in lieu of such information.

(2) "Audited Financial Statements" means the annual financial statements for each fiscal year ended on and after August 31, 2013, if any, of the University, audited by such auditor as shall then be required or permitted by State law or the Indenture. Audited Financial Statements shall be prepared in accordance with GAAP.

(3) "Counsel" means any nationally recognized bond counsel or counsel expert in federal securities laws.

(4) "Dissemination Agent" means The Bank of New York Mellon Trust Company, N.A., acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the University and which has filed with the Trustee and the University a written acceptance of such designation.

(5) "GAAP" means generally accepted accounting principles as prescribed from time to time by the Financial Accounting Standards Board or any successor to the duties or responsibilities thereof.

(6) "Listed Events" means any of the following events with respect to the Bonds, whether relating to the University or otherwise:

(i) Principal and interest payment delinquencies;

(ii) Non-payment related defaults, if material;

(iii) Unscheduled draws on debt service reserves reflecting financial difficulties;

(iv) Unscheduled draws on credit enhancements reflecting financial difficulties;

(v) Substitution of credit or liquidity providers, or their failure to perform;

(vi) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;

(vii) Modifications to rights of Bondowners, if material;

(viii) Bond calls, if material (the giving of notice of regularly scheduled mandatory sinking fund redemption shall not be deemed material for this purpose);

(ix) Defeasances;

(x) Release, substitution, or sale of property securing repayment of the Bonds, if material;

(xi) Rating changes;

(xii) Tender offers;

(xiii) Bankruptcy, insolvency, receivership or similar event with respect to an obligated person;

(xiv) The consummation of a merger, consolidation, acquisition or sale of all or substantially all of the assets of an obligated person, other than in the ordinary course of business, the entry into a definitive agreement to take such an action or termination of a definitive agreement to undertake any such action, other than pursuant to its terms, if material; and

(xv) Appointment of a successor or an additional trustee or change in the name of a trustee, if material.

(7) "MSRB" means the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(l) of the Securities Exchange Act of 1934.

(8) "Official Statement" means a "final official statement," as defined in paragraph (f)(3) of the Rule.

(9) "Remarketing Agents" means Goldman, Sachs & Co., Barclays Capital Inc., Citigroup Global Markets Inc., J.P. Morgan Securities LLC, Prager & Co., LLC and Wells Fargo Bank, National Association.

(10) "Repository" means the MSRB or any other information repository as recognized from time to time by the SEC for the purposes referred to in the Rule.

(11) "Rule" means Rule 15c2-12 promulgated by the SEC under the Securities Exchange Act of 1934 (17 CFR Part 240, §240.15c2-12), as in effect on the date of this Agreement, including any official interpretations thereof issued either before or after the effective date of this Agreement which are applicable to this Agreement.

(12) "SEC" means the United States Securities and Exchange Commission.

(13) "State" means the State of California.

(14) "Unaudited Financial Statements" means the same as Audited Financial Statements, except that they shall not have been audited.

## Article V

Miscellaneous

Section 5.1 Duties, Immunities and Liabilities of Dissemination Agent and Trustee. The Dissemination Agent and the Trustee shall have only such duties under this Agreement as are specifically set forth in this Agreement and the Dissemination Agent shall not be liable except for its negligence or willful misconduct hereunder. The University agrees to indemnify and save the Dissemination Agent and the Trustee, their officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys' fees and expenses) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's or the Trustee's negligence or willful misconduct in the performance of its duties hereunder. Such indemnity shall be separate from, and in addition to, that provided to the Trustee under the Indenture. The Dissemination Agent shall be paid compensation by the University for its services provided hereunder in accordance with its schedule of fees as amended from time to time and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent shall have no duty or obligation to review any information provided to it hereunder and shall not be deemed to be acting in any fiduciary capacity for the Issuer, the University, the holders of the Bonds, or any other party. The obligations of the University under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds. The Dissemination Agent shall have the same rights, protections and immunities hereunder as provided to the Trustee under the Indenture.

Section 5.2 Counterparts. This Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Section 5.3 Dissemination Agent. The University may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent, upon notice to the University and the Dissemination Agent. The Dissemination Agent may resign at any time by providing 30 days' written notice to the Trustee and the University. The initial Dissemination Agent shall be The Bank of New York Mellon Trust Company, N.A.

Section 5.4 Filing. The University and the Dissemination Agent may satisfy the University's disclosure obligations hereunder to file any Annual Financial Information or notices of Listed Events by filing the same with the MSRB through its Electronic Municipal Market Access system, in the format and with identifying or other information as may be required by the Securities and Exchange Commission or the MSRB, or any other Repository that may be recognized or permitted by the Securities and Exchange

Commission in such manner as may be specified by the Securities and Exchange Commission or the Repository.

IN WITNESS WHEREOF, the parties have each caused this Agreement to be executed by their duly authorized representatives as of the date first above written.

THE BOARD OF TRUSTEES OF THE LELAND STANFORD JUNIOR UNIVERSITY

By: ______________________________________
Odile Disch-Bhadkamkar
Treasurer

THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A., as Trustee and as Dissemination Agent

By: ______________________________________
Authorized Representative

CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY • Revenue Bonds (Stanford University) Series S-2

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