



August 31, 2015 and 2014 Stanford University Annual Financial Report





McMurtry Building for the Department of Art and Art History

The McMurtry Building is the new home of the Department of Art & Art History and Stanford's most recent addition to its vibrant Arts District. The architecturally stunning building unites the making and studying of art and reflects Stanford's belief that experiencing the power of creativity is crucial to a liberal arts education.

Photographs by L.A. Cicero, Stanford News Service.

STANFORD UNIVERSITY ANNUAL FINANCIAL REPORT

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MANAGEMENT'S DISCUSSION AND ANALYSIS

CONSOLIDATED FINANCIAL HIGHLIGHTS

Stanford's FY15 consolidated financial results reflect the combined financial position and results of the University and the Hospitals, including their respective entities. Operating revenues exceeded expenses by \$700 million, compared to \$535 million in FY14. Net assets increased \$1.7 billion to end the year at \$35.5 billion. These results reflect solid investment performance, strong health care services revenues, and generous donor support.

Solid investment performance. Consolidated investment returns in FY15 were \$2.0 billion, equal to 6.6% of beginning of year investment balances. Although lower than FY14 results, Stanford's investment returns were augmented by income producing endowed lands which yielded strong returns. Total consolidated investments at August 31, 2015 were \$31.4 billion, up \$936 million over the prior year.

Strong health care services revenues.

Health care services represented approximately 52% of consolidated revenues in FY15. Over the last 5 years, health care services have been the fastest growing component of the consolidated operating results. The partnership among Stanford's School of Medicine (SOM), Stanford Health Care (SHC) and Lucile Salter Packard Children's Hospital at Stanford (LPCH) (collectively known as Stanford Medicine) remains strong and synergistic. The SOM is a research intensive medical school that provides education, patient care, and interdisciplinary research. Stanford Medicine continues to focus on the rapid translation of faculty research into clinical care and has experienced an increase in volume from clinical programs. The Hospitals provide the settings where these clinical innovations are delivered to patients. Stanford Medicine continues to build a network of care, investing in new facilities and service expansions including the Stanford Cancer Center South Bay and ValleyCare Health System in FY15. See further discussion in the *Stanford Health Care* section.

Generous donor support. The University's Office of Development reported gifts benefiting the University, SHC and LPCH of \$1.6 billion from a record number of donors for the sixth year in a row—nearly 83,000 alumni, parents, friends, and other supporters. This amount includes \$201 million in support of SHC and LPCH, and \$626 million of works of art and special collections. These results are a testament to the direction and vision of the University and an endorsement of Stanford's mission.

The works of art and special collections include the Anderson Collection at Stanford University, an assembly of post-World War II art donated by Harry W. and Mary Margaret Anderson and their daughter Mary Patricia Anderson Pence. This donation is not recorded on Stanford's financial statements; under Stanford's policy, works of art and other special collections which are preserved and protected for educational, research and public exhibition purposes are not capitalized.

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

UNIVERSITY

FY15 net assets increased 4% to \$30.4 billion compared to \$29.2 billion in the prior year. The University’s endowment ended the year at an all-time high of \$22.2 billion, exceeding last year’s \$21.4 billion.

OPERATING RESULTS

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

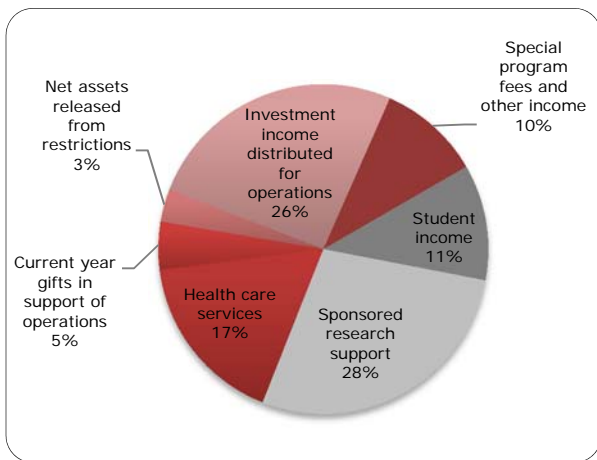
The University ended the year with a surplus from operations of \$313 million compared to \$214 million in FY14. FY15 operating revenues increased 10%; operating expenses increased 8%.

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

OPERATING REVENUES

FY15 operating revenues of \$5.0 billion were derived from diverse sources, as shown in Figure 1.

**FIGURE 1
OPERATING REVENUES**

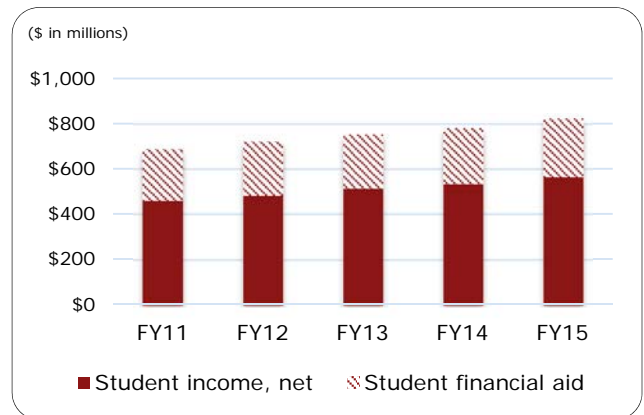


Student Income

Total student income, which represents 11% of University operating revenues, increased 6% to \$564 million in FY15. Total student income includes tuition

and fees from undergraduate and graduate programs and room and board; this amount is partially offset by financial aid consisting of assistance in the form of scholarship and fellowship grants that cover a portion of tuition, living and other costs. Revenues from student tuition and fees before the deduction for student financial aid increased nearly 5% in FY15 primarily as a result of undergraduate and graduate tuition increases ranging from 3.5% to 3.9% as well as a slightly higher undergraduate and graduate enrollment. Revenues from room and board increased 9% in FY15 due to an increase in room and board rates of 3.5%, an increase in room capacity as a result of opening the new Kennedy Graduate Residences for 436 students, and a higher number of graduate students in Stanford’s off-campus housing program. Stanford continues to actively increase its capacity to house more graduate students on campus.

**FIGURE 2
STUDENT INCOME AND FINANCIAL AID**



Student financial aid (See Figure 2) increased \$11.8 million or 5% in FY15 to \$261 million, in line with the increase in student tuition revenue and the slight increase in student enrollment. Consistent with Stanford’s commitment to keeping a Stanford education affordable, Stanford has expanded its financial aid program for the 2015-16 year by increasing the income threshold at which parents are not expected to contribute toward educational costs at Stanford.

Stanford is committed to a policy of “need-blind” admission for eligible U.S. citizens and permanent resident undergraduate students. In FY15,

approximately 50% of undergraduates were awarded need-based scholarships and grants from Stanford. In general, eligible Stanford undergraduates receive additional financial assistance in the form of other scholarships and grants, student employment and low-interest student loans.

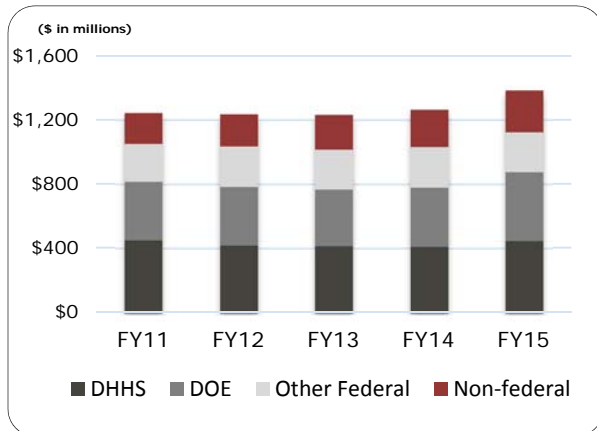
Graduate student financial aid, which includes fellowships, stipends, and trainee/assistantships, is awarded based on academic merit and the availability of aid. In the financial statements, fellowships are included in financial aid, stipends in other operating expenses, and trainee/assistantships in salaries and benefits. Over 85% of graduate students receive financial support, including University, federal and privately funded fellowships, and teaching and research assistantships.

Stanford participates in the Federal Perkins student loan program, available to undergraduate, graduate and professional students. Stanford also provides a gift funded institutional loan program. Student loan receivables, net of allowances for doubtful accounts, were \$81 million as of August 31, 2015 and 2014.

Sponsored Research Support

Sponsored research support represents 28% of the University’s operating revenues, the highest source of operating revenue for the University. FY15 sponsored research support increased to \$1.4 billion, nearly 10% over FY14.

**FIGURE 3
SPONSORED RESEARCH SUPPORT**



Approximately 81% of the University’s sponsored research support (including support for the SLAC National Accelerator Laboratory—“SLAC”) is received directly or indirectly from the federal government (See

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, 2015, the endowment totaled \$22.2 billion (See Figure 4) and represented approximately 73% of the University’s net assets. The endowment, which includes endowed lands, is comprised of pure endowment funds, term endowment funds and funds functioning as endowment.

Gifts and pledge payments, investment returns, and other invested funds added \$1.8 billion to the endowment in FY15.

Annual payout to operations from the endowment--\$1.1 billion in FY15--continues to be a significant source of operating revenue for the University, covering approximately 23% of expenses in FY15.

The University’s endowment provides funding annually for a wide variety of important purposes. As shown in Figure 5, a significant portion of the endowment payout (approximately 80%) is restricted as to purpose.

Approximately 28% funds instruction and research activities, 22% goes to student aid, 20% covers faculty salaries and support, 23% is unrestricted and the remainder is split between library support and other purposes.

**FIGURE 4
UNIVERSITY ENDOWMENT**

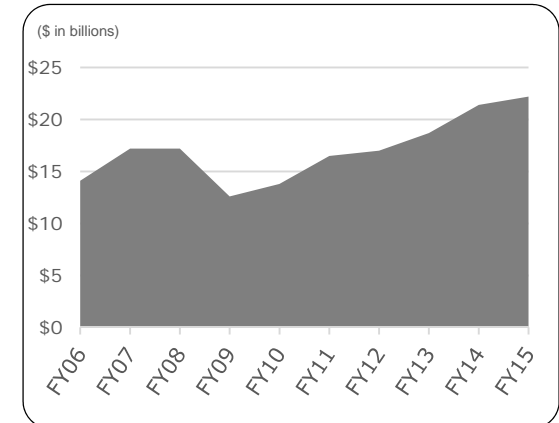


Figure 3). The largest federal sponsor, the Department of Health and Human Services (DHHS), provided revenue of \$447 million in FY15 compared to \$412 million in the prior year, primarily through the National Institutes of Health. Most of these funds support research within the University's SOM.

In FY15, sponsored research support for SLAC was \$430 million, up 17% from FY14, with most of the increase related to construction of new facilities. The U.S. Department of Energy (DOE) provided substantially all of this support, consisting of funding for ongoing research operations and construction of new facilities or instruments. In FY15, SLAC received approximately \$140 million for several construction projects, with approximately half of that for the Linac Coherent Light Source (LCLS) II project which is expected to be completed in 2021. LCLS II is an extension/upgrade of LCLS, the revolutionary X-ray free-electron laser which became operational in October 2009. Other SLAC projects include the construction of the new Scientific User Support Building which opened in October 2015, the Research Support Building modernization which was completed in April 2015, and the Large Synoptic Survey Telescope camera.

In addition to payment for the direct costs of performing research, the University receives an amount from sponsors for facilities and administrative costs, known as indirect costs. For FY15, the federal and non-federal indirect cost recovery increased by 7%, in line with the increase in direct costs, to \$243 million.

Health Care Services

FY15 health care services revenue represented 17% of University operating revenues, increasing \$143 million to \$841 million. This increase reflects higher patient volume as well as the new inter-entity agreement between the SOM and SHC.

SOM faculty serve as physicians for the Hospitals. Clinical services are billed and collected by the Hospitals, and a portion is remitted to the University as payment for these physician services. In addition, the Hospitals pay the University for other essential services such as medical direction, telecommunication, legal and internal audit services. Health care services revenues of \$810 million represent the net value of services provided between the University and the

Hospitals; these amounts are eliminated in consolidation.

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

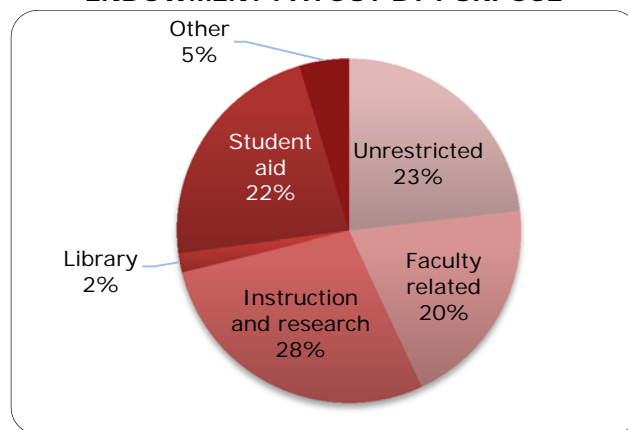
Current year gifts in support of operations increased 10% to \$234 million in FY15. Net assets released from restrictions, which consisted primarily of pledge payments, increased 16% to \$158 million.

Total Investment Income Distributed for Operations

The University distributes investment income for use in operations according to policies approved by the Board of Trustees. Total investment income distributed for operations represented 26% of University revenue in FY15, the second highest source of operating revenue for the University.

Endowment income distributed for operations increased 7% to \$1.1 billion in FY15. This includes payout from the University's Merged Pool (MP) based on a Board-approved formula, and income received from real estate and other investments not included in the MP. The endowment payout as a percentage of the beginning endowment value was 4.9% for FY15 and 5.3% for FY14.

**FIGURE 5
ENDOWMENT PAYOUT BY PURPOSE**



Expendable funds pools and other investment income distributed for operations was \$218 million in FY15, compared to \$181 million in FY14. 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.

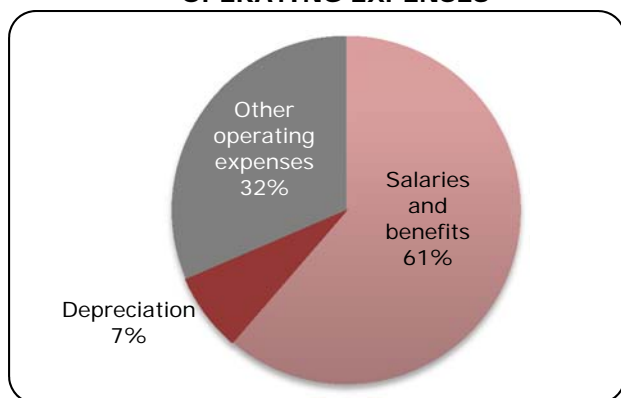
The EFP policy provides a variable payout to certain funds that support operations based on the prior year's investment returns. Positive returns in both FY14 and FY13 resulted in the payouts to these funds over the past two years. See *Note 6* to the FY15 Consolidated Financial Statements.

The EIFP holds previously distributed but unspent endowment payouts. These amounts are invested in highly liquid instruments in order to preserve the principal balance. Earnings on these investments are distributed to the fund holders. See *Note 6* to the FY15 Consolidated Financial Statements.

OPERATING EXPENSES

Total expenses increased \$354 million, or 8%, to \$4.6 billion in FY15. As shown in Figure 6, salaries and benefits comprised 61% of the University's total expenses; depreciation expense was 7% and other operating expenses represented 32%.

**FIGURE 6
OPERATING EXPENSES**



Salaries and benefits increased 7% in FY15 to \$2.8 billion. The increase resulted from a combination of salary programs designed to maintain Stanford's competitive position, higher benefit costs, and increases in headcount to support new programs and sponsored research activities, particularly within the SOM.

Depreciation expense increased by 8% to \$335 million in FY15 from \$311 million in FY14. The increase in this category resulted from buildings recently placed in service as described in the *Capital Projects* section below.

Other operating expenses increased by \$141 million or 11% to \$1.5 billion in FY15, driven by higher expenses

of \$53 million in SLAC primarily due to subcontracting out a portion of the major construction projects to other institutions, higher expenses in the SOM driven by increased sponsored research activities and new programs, and additional expenses incurred to support new and existing housing developments.

FINANCIAL POSITION

The University's *Statements of Financial Position* reflect strong donor support, solid investment returns and positive operating results. Total University assets increased \$986 million in FY15 to end the year at \$36.2 billion. Total University liabilities decreased slightly from \$6.0 billion to \$5.8 billion.

Cash and Assets Limited as to Use

The University regularly monitors liquidity required to meet its operating needs and other contractual commitments. At the same time, the University strives to optimize the long-term total return while maintaining an appropriate level of risk of its available funds. At August 31, 2015, the University's cash and cash equivalents was \$708 million, an increase of \$78 million compared to the prior year. Assets limited as to use decreased by \$140 million as funds were used to pay for construction costs during FY15. In addition to cash and cash equivalents, there was \$1.3 billion in cash and cash equivalents in the University's investments. See *Note 5* to the FY15 Consolidated Financial Statements.

FIGURE 7
INVESTMENTS BY ASSET CLASS

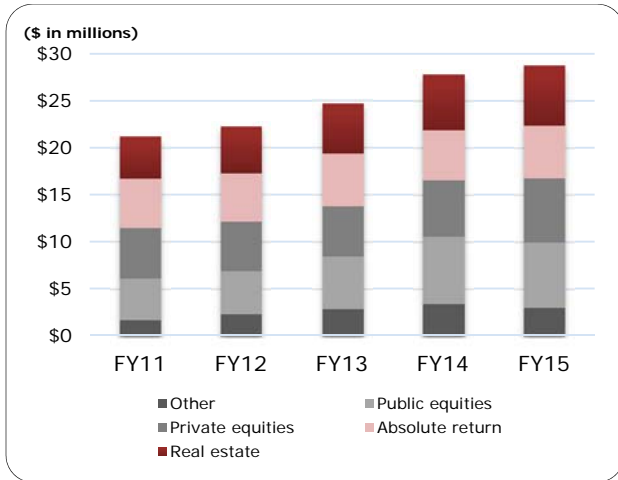
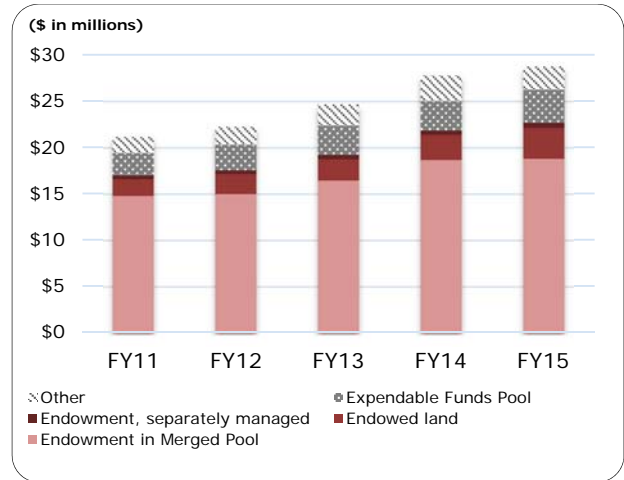


FIGURE 9
INVESTMENTS BY FUND TYPE

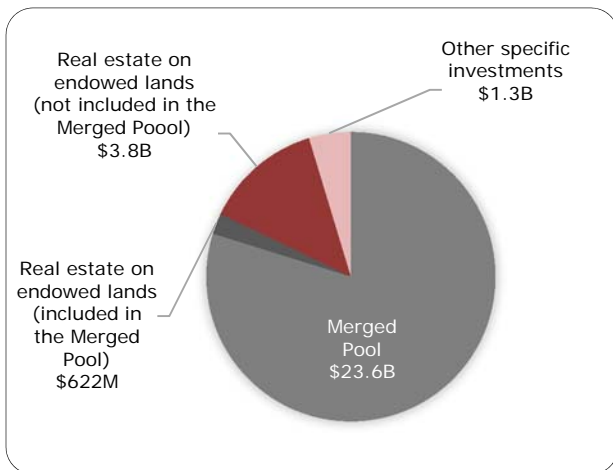


Investments

University investments at August 31, 2015 were \$28.8 billion. Investments by asset class are shown in Figure 7; investments by fund type are shown in Figure 9.

There are three primary categories of investments as shown in Figure 8: the Merged Pool (MP), real estate investments on endowed lands, and other specific investments.

FIGURE 8
INVESTMENTS BY CATEGORY



\$23.6 billion of the investments is held in the MP at August 31, 2015. The majority of the University's endowment assets are managed through the MP, a diversified portfolio of actively managed public and private equity, absolute return, natural resources and real estate assets. The portfolio is designed to optimize long-term returns, create consistent annual

payouts to support the University's operations and preserve purchasing power for future generations of Stanford faculty and students. The MP is managed by the Stanford Management Company (SMC), a division of the University with oversight by a Board of Directors appointed by the University Board of Trustees.

A certain portion of Stanford's endowed lands, including the Stanford Research Park, are designated for the production of income by the Board. As of August 31, 2015, most of Stanford's \$4.5 billion of real estate investments (including \$662 million in the MP as discussed above) are located on these lands. In FY15, these properties generated \$107 million in income, net of expenses and appreciated \$671 million in value. These lands have been developed for various uses, including research, medical and commercial offices, hotels, retail properties and a regional mall. The University further diversifies this portfolio by employing a variety of structures, including ground leases, direct leases and participation arrangements. In recent years, the value of these properties has benefited from strong dynamics in the regional market including rising investor demand for real estate; high office, hotel and apartment occupancy rates; increased office rents; and strong retail sales. Decreases in the capitalization and discount rates have also contributed to the positive results.

The remaining \$1.3 billion of investments are specifically invested for a variety of purposes, in accordance with donor wishes.

Capital Projects

The University continues to invest heavily in its physical facilities to support key academic initiatives, housing and infrastructure. During FY15, the University invested \$568 million in capital projects, bringing gross plant facilities before accumulated depreciation to \$8.7 billion. Plant facilities, net of accumulated depreciation, increased \$237 million to \$4.8 billion.

During FY15, the Stanford Energy System Innovations (SESI) project became operational. SESI is a state-of-the-art energy system that relies on renewable energy by capturing heat generated by cooling processes and reusing it. SESI is expected to enable the University to cut its greenhouse gas emissions by approximately 68 percent and reduce water usage another 15 percent beyond the levels achieved since 2000.

SESI demonstrates Stanford's commitment to and investment in environmental sustainability and is a major University initiative to reduce energy and water use, apply stringent environmental standards to all new buildings, encourage sustainable living, conserve natural resources and decrease waste.

As part of Stanford's commitment to integrate the arts into a Stanford education, a new arts district continues to take shape. Anchored by the Cantor Arts Center, the Memorial Auditorium, the Stanford Art Gallery, the Frost Amphitheater, and the Bing Concert Hall, the newest additions include the Anderson Collection at Stanford (which opened to the public in September 2014) and the McMurtry Art and Art History Building (which opened to the public in September 2015).

The Anderson Collection at Stanford houses the prized collection of renowned 20th century American art recently donated to the University. The McMurtry Art and Art History Building is an interdisciplinary hub for the arts at Stanford that will promote collaboration among students and faculty.

Debt

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

faculty and staff mortgage loans and other infrastructure projects.

During FY15, the University issued \$250 million in taxable debt to finance various facilities and infrastructure, including additional portions of the SESI project, to refinance commercial paper notes, and to achieve long-term savings in interest costs. The debt was issued at a rate of 3.46% and matures in 2047. The University paid down \$250 million of its Series 2009A taxable debt due in 2016. In addition, the University entered into a \$250 million unsecured revolving credit facility, drawing down \$41 million at August 31, 2015.

Total debt decreased \$179 million to \$3.1 billion as of August 31, 2015. During FY15, Standard and Poor's, Moody's and Fitch affirmed the University's debt ratings in the highest rating categories for short and long-term debt.

Unrestricted Net Assets

In total, unrestricted net assets of the University increased \$1.0 billion to \$16.5 billion, with \$313 million resulting from operating activities. The most significant component of non-operating changes in unrestricted net assets in FY15 was the \$645 million increase in realized and unrealized investment gains.

Temporarily Restricted Net Assets

Temporarily restricted net assets decreased slightly by \$100 million to \$7.7 billion in FY15. The net assets released to operations of \$158 million, the decrease in realized and unrealized investment gains of \$90 million, and transfers relating to capital assets placed in service and other gifts released from their restrictions of \$97 million were partially offset by new temporarily restricted gifts and pledges of \$251 million.

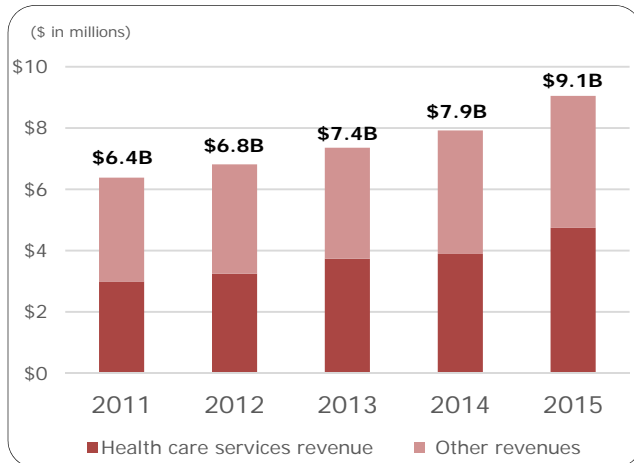
Permanently Restricted Net Assets

Permanently restricted net assets increased \$273 million to \$6.2 billion during FY15, driven primarily by \$208 million in new permanently restricted gifts and pledges.

HOSPITALS

The financial results and financial position of Stanford Health Care (SHC) and Lucile Salter Packard Children's Hospital at Stanford (LPCH) and their respective entities, are combined in the FY15 Consolidated Financial Statements under the "Hospitals" column. The University is the sole member of each of the Hospitals. The University's School of Medicine (SOM) and its clinical faculty, together with SHC and LPCH, comprise and are known in the marketplace as Stanford Medicine.

FIGURE 10
HEALTH CARE SERVICES REVENUE
AS A COMPONENT OF
CONSOLIDATED OPERATING REVENUES



In FY11, the Hospitals received local government approval to rebuild and expand their principal facilities. Construction is now well underway and the facilities are expected to be completed in 2017. These improvements will assure that the Hospitals have adequate inpatient capacity in modern, technologically-advanced and patient-centered facilities, and meet state-mandated earthquake safety standards. The total estimated cost, inclusive of contingencies, is approximately \$2.0 billion for SHC and \$1.2 billion for LPCH.

To improve and expand their services, the Hospitals have established community-based ambulatory clinic organizations—SHC's University HealthCare Alliance (UHA) and LPCH's Packard Children's Health Alliance (PCHA)—that support Stanford Medicine's mission to deliver quality care to the community and conduct research and education. Working collaboratively with the Hospitals and the SOM faculty, these organizations

have acquired multi-specialty practices in outlying communities to form a network of coordinated care throughout the Bay Area.

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

The following discussion summarizes the individual financial results of SHC and LPCH as shown in the FY15 Consolidated Financial Statements.

STANFORD HEALTH CARE

SHC experienced solid financial results in FY15. SHC's FY15 financial results benefited from strong operating performance, positive investment returns and successful fundraising.

In May 2015, SHC became the sole member of ValleyCare Health System (VCHS), comprised of two hospitals in Alameda County, California pursuant to an affiliation agreement.

Below are additional details about SHC's consolidated operations and financial results as derived from its separate consolidated financial statements.

Net assets increased \$373 million, or 14%, to end the year at \$3.1 billion. Operating revenues exceeded operating expenses by \$282 million, or 8%, compared to \$278 million in FY14. Operating EBIDA, or cash flow margin, was \$432 million, or 12%. The strong margin was attributed to excellent operating performance and improved throughput, as well as SHC's partnership with the University's SOM on clinical faculty recruitments.

SHC's community benefits, including services to patients under Medi-Cal and other publicly sponsored programs that reimburse at amounts less than the cost of services, were \$206 million, a 26% increase from the prior year.

OPERATING RESULTS

SHC's *Statements of Operations and Changes in Net Assets* include results from both operating and non-operating changes in the net assets of SHC. Operating activities include the revenues earned and expenses

incurred in the current year to support SHC's vision of healing humanity through science and compassion, one patient at a time. FY15 operating revenues increased 19% compared to an increase in operating expenses of 21% during the same period. Expenses grew more than revenues mainly due to the new inter-entirety agreement with the SOM needed to recruit and retain the best physicians to provide high quality patient care and support SHC's continued growth. Additional expenses were also incurred to prepare the organization in opening new facilities such as the Stanford Cancer Center South Bay, SHC's first off-campus outpatient clinic for the diagnosis and treatment of cancer to serve patients, primary care clinics, and the affiliation with VCHS. In addition, SHC has increased its marketing of two new plans: Stanford Health Care Advantage, a Medicare health plan offered to Santa Clara County residents, and increased membership in Stanford Health Care Alliance, a benefit plan that allows Stanford University and Stanford Medicine faculty and employees access to the Stanford network of care.

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

OPERATING REVENUES

FY15 operating revenues were \$3.6 billion, showing a 19% increase over FY14.

Net Patient Service Revenue

FY15 net patient service revenue less doubtful accounts (including capitation/premium revenue) increased \$557 million, or 19%, from FY14 to \$3.5 billion and represented 97% of operating revenues.

Inpatient and outpatient revenues, which represented 47% and 53% of net patient revenues (including capitation/premium revenue), respectively, grew significantly due to strong volume growth in multiple areas, such as operating rooms, emergency department, pharmacy, catheterization angiography, imaging and other ambulatory care services associated with newly opened facilities.

Net patient service revenue also include revenues from payments from the QAF and Hospital Fee programs. Revenues from these programs contributed \$104 million and \$10 million to the FY15 and FY14 net patient service revenue, respectively.

Net Assets Released from Restrictions

Net assets released from restrictions for use in operations increased to \$16 million in FY15 from \$5 million in FY14 due to an \$8 million increase in spending in restricted programs that enables SHC to stay at the forefront of health care delivery.

OPERATING EXPENSES

Total expenses increased \$569 million, or 21%, to \$3.3 billion in FY15, primarily due to headcount, physician services, the consolidation of VCHS, and QAF and Hospital Fee program related expenses. Salaries and benefits comprised 43% of SHC's total expenses; purchased services were 28%; supplies were 15%; depreciation expense was 3%; and all other operating expenses represented 11%.

Salaries and benefits increased 16% in FY15 to \$1.4 billion (inclusive of UHA and network growth). The increase resulted from expanded headcount to support current growth in patient volumes and for future expansion (see *Capital Projects* section), and partial insourcing of IT services. The remaining increase was due to annual salary increases designed to maintain SHC's position in the competitive market for healthcare professionals and higher benefit costs.

The majority of the increase in other categories of expenses are discussed in the *Operating Results* section of this analysis.

FINANCIAL POSITION

SHC's *Balance Sheets* reflect strong operating results and positive investment returns. Total SHC assets increased \$770 million in FY15 to end the year at \$5.5 billion. Total SHC liabilities increased slightly from \$2.1 billion to \$2.5 billion.

Unrestricted Cash and Investments

Unrestricted cash and investments remained unchanged at \$2.0 billion at the end of FY15.

Capital Projects

SHC continues to invest in facilities and systems required to remain at the forefront of medicine and to be the provider of choice for complex and network care in the communities it serves. During FY15, SHC invested \$448 million in capital projects, bringing property and equipment, net of accumulated depreciation, to \$1.9 billion, a \$517 million increase.

The majority of the FY15 spending was for the New Stanford Hospital (to meet State mandated earthquake safety standards, and provide modern, technologically-advanced hospital facilities), Stanford Cancer Center South Bay, Central Steam Plant (providing heat to the hospital buildings for hot water generation, medical instrument sterilization, and other hospital needs), and Stanford Neuroscience Health Center (a five-story, 92,000 square-foot facility on the Hoover Medical Campus which will provide comprehensive outpatient neurology, imaging, and neurosurgery services to the community).

Debt

Total debt, including the current portion, was \$1.5 billion as of August 31, 2015. During FY15, SHC issued new debt, to support the New Stanford Hospital, totaling \$181 million. During FY15, Fitch and Moody's affirmed SHC's debt ratings while Standard and Poor's upgraded SHC's outlook from AA- stable to AA- positive.

A combination of fixed and variable rate debt, of varying maturities, is used to fund SHC's mission. Tax-exempt bonds with fixed interest rates account for 72% of the total, while the remaining 28% have variable rates. The swap liability increased in FY15 by \$59 million to \$215 million mainly due to the decline in interest rates.

Unrestricted Net Assets

Unrestricted net assets grew \$330 million to \$2.5 billion. Most of this increase came from SHC's operating surplus of \$282 million, an increase of \$70 million on investments (majority from the University managed pools) and contribution income of \$97 million related to SHC's affiliation with VCHS, offset by a decrease of \$59 million on swap valuations and net transfers to the University of \$66 million, of which the majority was for academic grants.

Temporarily Restricted Net Assets

Temporarily restricted net assets increased by \$43 million to \$562 million, in large part due to fundraising commitments for the New Stanford Hospital.

Permanently Restricted Net Assets

Permanently restricted net assets remained at \$8 million. 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.

LUCILE SALTER PACKARD CHILDREN'S HOSPITAL AT STANFORD

LPCH produced strong financial results in FY15, reflecting solid operating results, investment performance and strong donor support.

LPCH, together with PCHA, the Packard Medical Group and the SOM Pediatric and Obstetrics Faculty Practice Organization, comprise and are known in the marketplace as Stanford Children's Health. The comments below are derived from LPCH's separate consolidated financial statements which include only the operations of LPCH and PCHA.

Net assets at August 31, 2015 were \$2.0 billion, reflecting an increase of \$149 million over FY14. Income from operations was \$106 million in FY15, as compared to \$43 million in FY14. This translates to an 8% operating margin and a 13% EBIDA, or cash flow margin, in FY15.

These results include services to patients covered by the Medi-Cal program and other publicly sponsored programs that reimburse at amounts less than the cost of services. The value of the uncompensated care was \$222 million in FY15 compared with \$203 million in FY14.

OPERATING RESULTS

Operating revenues in FY15 were \$1.4 billion, which represents a 22% increase over FY14. Operating revenues included \$1.3 billion of net patient service revenue less doubtful accounts, which increased \$245 million, or 23%, from FY14. This increase is mainly due to higher census and acuity of patients, and favorable payer mix. The census growth is a direct result of growth in many of our service lines, including heart, transplant, brain and behavior, cancer, orthopedics and obstetrics. LPCH has also realized growth in its physician network, including the number of SOM Pediatric and Obstetrics Faculty Practice Organization and Packard Medical Group physicians, and growth in number of the families they serve. As a result, clinic visits grew by 23% in FY15. Additional care was also provided through continued development of LPCH's joint venture arrangements and outreach programs.

Net patient service revenues also include revenues from payments from the QAF and Hospital Fee programs. Revenues from these programs contributed

\$80 million and \$15 million to the FY15 and FY14 net patient service revenue, respectively.

Operating expenses increased by 17% in FY15, mostly driven by higher patient-related costs, given the higher volumes and acuity of our patients, such as nursing labor costs and payments to the SOM for physician services provided.

Also contributing to the increase were additional expenses related to the QAF and Hospital Fee programs of \$43 million and \$5 million for FY15 and FY14, respectively.

FINANCIAL POSITION

In FY15, LPCH assets increased \$210 million to \$2.9 billion, total LPCH liabilities increased \$60 million to \$831 million, and total net assets increased \$149 million to \$2.0 billion.

Unrestricted Cash and Investments

As a result of the strong margins and additional net payments from the QAF and Hospital Fee programs, unrestricted cash and investments have increased to \$814 million in FY15.

Capital Projects

LPCH's *Balance Sheets* reflect significant investments in the facilities and systems required to continue to provide the highest quality children's hospital services to the community it serves. The majority of the FY15 spending was for LPCH's hospital expansion project. Construction in progress for this project increased \$208 million in FY15.

LPCH also continued construction on buildings purchased for ambulatory care use in FY14 in Sunnyvale and Los Gatos, California and funded its portion of certain projects at the School of Medicine and SHC through equity transfers.

In FY15, LPCH continued to invest in the enterprise-wide information system that provides electronic medical records and end-to-end revenue capture, billing and collection, implemented in FY14.

Unrestricted Net Assets

Unrestricted net assets grew \$89 million to \$1.4 billion. The increase resulted from operating surplus and investment gains from the MP, offset by transfers to related entities, mostly for capital projects.

Temporarily Restricted Net Assets

Temporarily restricted net assets increased by \$59 million to \$458 million, in large part due to fundraising commitments for the hospital expansion project.

Permanently Restricted Net Assets

Permanently restricted net assets increased \$1 million to \$204 million. 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.

LOOKING FORWARD

Stanford's financial position remains strong. The FY15 results show that Stanford continues to have the commitment and generous support of its donors and community. With the recent completion of a number of significant buildings and the SESI project, the University has an excellent physical infrastructure and is well positioned to conserve natural resources and reduce energy use well into the 21st century. The new Stanford Health Care hospital and Stanford Children's Health hospital expansion, are well underway, and once complete will increase capacity and modernize services.

The challenges that Stanford faces are not new. Investment market volatility, demand for more financial aid, pressure on Federal sponsored research funding, high Bay Area housing costs and changes to health care have been present for a number of years. These issues are at the forefront of our planning efforts and we continue to address them proactively.

In June, President John L. Hennessy announced plans to step down as Stanford University's 10th President and return to teaching and research at the end of FY16. Under Hennessy's leadership, interdisciplinary research and education programs have flourished with a focus on addressing important global challenges, the undergraduate curriculum was enhanced to emphasize strategic thinking and intellectual agility, and the arts on campus have been rejuvenated with new facilities, collections and programs. The academic growth of the campus has been supported by its physical infrastructure, including environmental sustainability. Since 2000, the Science and Engineering Quad, the Knight Management Center (Graduate School of Business), the School of Medicine, and the arts district have transformed the campus to accommodate new ways of learning and working.

Hennessy leaves a legacy that, combined with Stanford's strength and resources, including the support of its students, alumni and friends, faculty and

staff, will support future leaders and generations in achieving Stanford's mission and the ability to address its challenges with confidence in the years to come.



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Vice President for Business Affairs
and Chief Financial Officer
Stanford University



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



Daniel J. Morissette
Chief Financial Officer
Stanford Health Care



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

SELECTED FINANCIAL AND OTHER DATA

Fiscal Years Ended August 31

	2015	2014	2013	2012	2011
(dollars in millions)					
CONSOLIDATED STATEMENT OF ACTIVITIES HIGHLIGHTS:					
Total operating revenues	\$ 9,051	\$ 7,924	\$ 7,359	\$ 6,814	\$ 6,289
Student income (A)	564	534	511	481	458
Sponsored research support	1,387	1,266	1,233	1,234	1,247
Health care services	4,744	3,942	3,734	3,245	2,902
Total operating expenses	8,351	7,389	6,794	6,298	5,774
Change in net assets from operating activities	700	535	565	516	515
Other changes in net assets	1,034	3,582	2,441	1,043	3,194
Net change in total net assets	\$ 1,734	\$ 4,117	\$ 3,006	\$ 1,559	\$ 3,709
CONSOLIDATED STATEMENT OF FINANCIAL POSITION HIGHLIGHTS:					
University					
Investments at fair value	\$ 28,766	\$ 27,829	\$ 24,703	\$ 22,247	\$ 21,189
Plant facilities, net of accumulated depreciation	4,796	4,559	4,208	3,826	3,674
Notes and bonds payable	3,085	3,265	3,098	2,709	2,727
Total assets	36,214	35,227	31,540	28,981	27,698
Total liabilities	5,780	6,006	5,817	5,476	5,143
Total net assets	30,434	29,221	25,723	23,505	22,555
Hospitals					
Investments at fair value	2,633	2,635	2,271	1,899	1,796
Plant facilities, net of accumulated depreciation	3,002	2,273	1,787	1,494	1,333
Notes and bonds payable	2,039	1,874	1,684	1,700	983
Total assets	8,296	7,319	6,448	5,803	4,283
Total liabilities	3,196	2,741	2,489	2,633	1,722
Total net assets	5,100	4,578	3,959	3,170	2,561
OTHER FINANCIAL DATA AND METRICS:					
University endowment at year end	\$ 22,223	\$ 21,446	\$ 18,689	\$ 17,036	\$ 16,503
University endowment payout in support of operations	1,058	985	921	871	785
As a % of beginning of year University endowment	4.9%	5.3%	5.4%	5.3%	5.7%
As a % of University total expenses	22.8%	24.8%	24.5%	24.8%	23.8%
Total gifts as reported by the Office of Development (B)	1,625	976	1,010	1,077	733
STUDENTS:					
ENROLLMENT: (C)					
Undergraduate	6,994	7,018	6,980	6,999	6,927
Graduate	9,196	9,118	8,980	8,958	8,883
DEGREES CONFERRED:					
Bachelor degrees	1,671	1,651	1,661	1,715	1,670
Advanced degrees	3,286	3,292	3,365	3,305	3,199
FACULTY:					
Total Professoriate (C)	2,153	2,118	2,043	1,995	1,934
ANNUAL UNDERGRADUATE TUITION RATE (IN DOLLARS)	\$ 44,184	\$ 42,690	\$ 41,250	\$ 40,050	\$ 38,700

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

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

(C) Fall quarter immediately following fiscal year end.

MANAGEMENT RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Leland Stanford Junior University (“Stanford University” or the “University”) is the sole member of Stanford Health Care and Lucile Salter Packard Children’s Hospital at Stanford (collectively, the “Hospitals”); 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 reliability 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 (“U.S. GAAP”).

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

The accompanying consolidated financial statements have been audited by the University’s and Hospitals’ independent auditor, PricewaterhouseCoopers LLP. Their report expresses an informed judgment as to whether the consolidated financial statements, considered in their entirety, present fairly, in conformity with U.S. GAAP, the consolidated financial position and changes in net assets and cash flows. The independent auditor’s opinion is based on audit procedures described in their report, which include obtaining an understanding of systems, procedures and internal control, and performing tests and other audit procedures to provide reasonable assurance that the financial statements are free from material misstatement.

The Board of Trustees of the University and the separate Boards of Directors of 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 auditor and meeting with management, internal auditors and the independent auditor to independently assess whether each is carrying out its responsibility and to discuss auditing, internal control and financial reporting matters. Both the internal auditors and the independent auditor have full and free access to the respective Audit and Compliance Committees. Both meet with the respective Audit and Compliance Committees at least annually, with and without each other, and without the presence of management representatives.



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Independent Auditor's Report

To the Board of Trustees of The
Leland Stanford Junior University

We have audited the accompanying consolidated financial statements of The Leland Stanford Junior University ("Stanford University" or the "University") and its subsidiaries, which comprise the consolidated statements of financial position as of August 31, 2015 and 2014, and the related consolidated statements of activities and cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Leland Stanford Junior University and its subsidiaries at August 31, 2015 and 2014, and their changes in net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink, appearing to read "Richard A. Hunt, CPA, LL.P.", written in a cursive style.

December 9, 2015

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

At August 31, 2015 and 2014 (in thousands of dollars)

	2015			2014
	UNIVERSITY	HOSPITALS	CONSOLIDATED	CONSOLIDATED
ASSETS				
Cash and cash equivalents	\$ 708,204	\$ 811,578	\$ 1,519,782	\$ 1,272,026
Assets limited as to use	160,351	670,201	830,552	1,051,632
Accounts receivable, net	225,440	908,036	1,133,476	1,153,509
Receivables (payables) from SHC and LPCH, net	89,045	(89,045)	-	-
Prepaid expenses and other assets	77,303	199,117	276,420	219,229
Pledges receivable, net	760,519	161,000	921,519	965,827
Student loans receivable, net	81,492	-	81,492	81,441
Faculty and staff mortgages and other loans receivable, net	549,724	-	549,724	507,187
Investments at fair value, including securities pledged or on loan of \$106,264 and \$155,758 for 2015 and 2014, respectively	28,766,240	2,632,936	31,399,176	30,463,564
Plant facilities, net of accumulated depreciation	4,795,564	3,001,742	7,797,306	6,832,312
Works of art and special collections	-	-	-	-
TOTAL ASSETS	\$ 36,213,882	\$ 8,295,565	\$ 44,509,447	\$ 42,546,727
LIABILITIES AND NET ASSETS				
LIABILITIES:				
Accounts payable and accrued expenses	\$ 719,979	\$ 1,018,652	\$ 1,738,631	\$ 1,395,067
Accrued pension and postretirement benefit cost	685,836	138,353	824,189	683,575
Pending trades of securities	14,431	-	14,431	232,893
Liabilities under security lending agreements	132,425	-	132,425	191,011
Deferred rental and other income	652,850	-	652,850	616,575
Income beneficiary share of split interest agreements	435,426	-	435,426	436,166
Notes and bonds payable	3,085,378	2,039,165	5,124,543	5,138,509
U.S. government refundable loan funds	54,081	-	54,081	53,999
TOTAL LIABILITIES	5,780,406	3,196,170	8,976,576	8,747,795
NET ASSETS:				
Unrestricted	16,507,624	3,869,962	20,377,586	18,918,702
Temporarily restricted	7,744,051	1,017,334	8,761,385	8,759,912
Permanently restricted	6,181,801	212,099	6,393,900	6,120,318
TOTAL NET ASSETS	30,433,476	5,099,395	35,532,871	33,798,932
TOTAL LIABILITIES AND NET ASSETS	\$ 36,213,882	\$ 8,295,565	\$ 44,509,447	\$ 42,546,727

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

CONSOLIDATED STATEMENTS OF ACTIVITIES

For the years ended August 31, 2015 and 2014 (in thousands of dollars)

	2015			2014
	UNIVERSITY	HOSPITALS	CONSOLIDATED	CONSOLIDATED
UNRESTRICTED NET ASSETS				
OPERATING REVENUES:				
Student income:				
Undergraduate programs	\$ 330,851	\$ -	\$ 330,851	\$ 317,401
Graduate programs	329,047	-	329,047	313,824
Room and board	164,304	-	164,304	151,313
Student financial aid	(260,616)	-	(260,616)	(248,848)
TOTAL STUDENT INCOME	563,586	-	563,586	533,690
Sponsored research support:				
Direct costs - University	713,831	-	713,831	669,670
Direct costs - SLAC National Accelerator Laboratory	430,365	-	430,365	369,317
Indirect costs	242,572	-	242,572	227,160
TOTAL SPONSORED RESEARCH SUPPORT	1,386,768	-	1,386,768	1,266,147
Health care services:				
Patient care, net	-	4,713,332	4,713,332	3,914,973
Physicians' services and support - SHC and LPCH, net	810,474	(810,474)	-	-
Physicians' services and support - other facilities, net	30,487	-	30,487	27,482
TOTAL HEALTH CARE SERVICES	840,961	3,902,858	4,743,819	3,942,455
CURRENT YEAR GIFTS IN SUPPORT OF OPERATIONS	233,572	7,603	241,175	212,519
Net assets released from restrictions:				
Payments received on pledges	120,653	2,557	123,210	100,186
Prior year gifts released from donor restrictions	37,518	13,571	51,089	46,211
TOTAL NET ASSETS RELEASED FROM RESTRICTIONS	158,171	16,128	174,299	146,397
Investment income distributed for operations:				
Endowment	1,058,025	14,685	1,072,710	999,766
Expendable funds pools and other investment income	218,438	599	219,037	181,630
TOTAL INVESTMENT INCOME DISTRIBUTED FOR OPERATIONS	1,276,463	15,284	1,291,747	1,181,396
SPECIAL PROGRAM FEES AND OTHER INCOME	498,804	151,078	649,882	641,542
TOTAL OPERATING REVENUES	4,958,325	4,092,951	9,051,276	7,924,146
OPERATING EXPENSES:				
Salaries and benefits	2,848,708	1,946,880	4,795,588	4,349,112
Depreciation	334,592	168,043	502,635	459,143
Other operating expenses	1,462,398	1,590,271	3,052,669	2,581,022
TOTAL OPERATING EXPENSES	4,645,698	3,705,194	8,350,892	7,389,277
CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES	\$ 312,627	\$ 387,757	\$ 700,384	\$ 534,869

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

CONSOLIDATED STATEMENTS OF ACTIVITIES, Continued

For the years ended August 31, 2015 and 2014 (in thousands of dollars)

	2015			2014
	UNIVERSITY	HOSPITALS	CONSOLIDATED	CONSOLIDATED
UNRESTRICTED NET ASSETS (continued)				
CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES	\$ 312,627	\$ 387,757	\$ 700,384	\$ 534,869
NON-OPERATING ACTIVITIES:				
Increase in reinvested gains	644,855	100,867	745,722	1,849,679
Donor advised funds, net	66,734	-	66,734	29,314
Current year gifts not included in operations	1,655	-	1,655	17,673
Equity and fund transfers from Hospitals, net	89,963	(89,963)	-	-
Capital and other gifts released from restrictions	96,693	4,287	100,980	168,006
Pension and other postemployment benefit related changes other than net periodic benefit expense	(85,091)	(20,139)	(105,230)	17,677
Transfer to permanently restricted net assets, net	(49,998)	-	(49,998)	(41,232)
Transfer to temporarily restricted net assets, net	(26,223)	-	(26,223)	(41,028)
Swap interest and change in value of swap agreements	(8,587)	(59,392)	(67,979)	(49,604)
Contribution income from ValleyCare Health System affiliation	-	96,758	96,758	-
Other	(2,693)	(1,226)	(3,919)	4,211
NET CHANGE IN UNRESTRICTED NET ASSETS	1,039,935	418,949	1,458,884	2,489,565
TEMPORARILY RESTRICTED NET ASSETS				
Gifts and pledges, net	250,808	123,143	373,951	461,054
Increase (decrease) in reinvested gains	(89,655)	18,753	(70,902)	1,127,965
Change in value of split interest agreements, net	2,449	(254)	2,195	18,682
Net assets released to operations	(158,171)	(39,015)	(197,186)	(162,361)
Capital and other gifts released to unrestricted net assets	(96,693)	(4,287)	(100,980)	(168,006)
Gift transfers to Hospitals, net	(4,073)	4,073	-	-
Transfer from unrestricted net assets, net	26,223	-	26,223	41,028
Transfer from (to) permanently restricted net assets, net	(27,999)	-	(27,999)	25,483
Other	(3,002)	(827)	(3,829)	(3,155)
NET CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	(100,113)	101,586	1,473	1,340,690
PERMANENTLY RESTRICTED NET ASSETS				
Gifts and pledges, net	208,206	852	209,058	154,832
Increase in reinvested gains	1,760	-	1,760	64,256
Change in value of split interest agreements, net	(15,446)	(310)	(15,756)	52,214
Transfer from unrestricted net assets, net	49,998	-	49,998	41,232
Transfer from (to) temporarily restricted net assets, net	27,999	-	27,999	(25,483)
Other	-	523	523	-
NET CHANGE IN PERMANENTLY RESTRICTED NET ASSETS	272,517	1,065	273,582	287,051
NET CHANGE IN TOTAL NET ASSETS	1,212,339	521,600	1,733,939	4,117,306
Total net assets, beginning of year	29,221,137	4,577,795	33,798,932	29,681,626
TOTAL NET ASSETS, END OF YEAR	\$ 30,433,476	\$ 5,099,395	\$ 35,532,871	\$ 33,798,932

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended August 31, 2015 and 2014 (in thousands of dollars)

	2015			2014
	UNIVERSITY	HOSPITALS	CONSOLIDATED	CONSOLIDATED
CASH FLOW FROM OPERATING ACTIVITIES				
Change in net assets	\$ 1,212,339	\$ 521,600	\$ 1,733,939	\$ 4,117,306
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:				
Depreciation	334,592	168,043	502,635	459,143
Amortization, loss on disposal of fixed assets and other adjustments	9,950	(2,631)	7,319	3,735
Provision for doubtful accounts for health care services	-	142,075	142,075	153,504
Net gains on investments and security agreements	(1,613,337)	(77,855)	(1,691,192)	(3,931,761)
Changes in fair value of interest rate swaps	5,127	59,392	64,519	8,616
Changes in split interest agreements	21,529	564	22,093	32,522
Investment expense (income) for restricted purposes	(34,034)	2,206	(31,828)	(55,219)
Gifts restricted for long-term investments	(252,404)	(101,696)	(354,100)	(316,224)
Equity and fund transfers from Hospitals	(85,890)	85,890	-	-
Gifts of securities and properties	(42,330)	-	(42,330)	(11,372)
Contribution income from ValleyCare Health System affiliation	-	(96,820)	(96,820)	-
Premiums received from bond issuance	-	5,627	5,627	105,741
Changes in operating assets and liabilities:				
Accounts receivable and receivables from SHC and LPCH, net	(26,145)	(312,775)	(338,920)	(209,196)
Pledges receivable	(1,324)	952	(372)	(107,032)
Prepaid expenses and other assets	(9,761)	(28,686)	(38,447)	(19,029)
Accounts payable and accrued expenses	85,525	109,359	194,884	79,445
Accrued pension and postretirement benefit costs	119,600	21,014	140,614	13,990
Deferred rental and other income	36,275	-	36,275	32,508
Other	-	35	35	(3,780)
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	(240,288)	496,294	256,006	352,897
CASH FLOW FROM INVESTING ACTIVITIES				
Land, building and equipment purchases	(583,531)	(698,734)	(1,282,265)	(1,316,844)
Student, faculty and other loans:				
New loans made	(104,509)	-	(104,509)	(118,134)
Principal collected	55,444	-	55,444	56,084
Decrease (increase) in assets limited as to use	140,215	96,056	236,271	(155,445)
Cash acquired from ValleyCare, net of cash paid as consideration	-	(52,539)	(52,539)	-
Purchases of investments	(28,157,549)	(209,064)	(28,366,613)	(25,265,071)
Sales and maturities of investments	28,864,206	286,497	29,150,703	25,522,939
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	214,276	(577,784)	(363,508)	(1,276,471)
CASH FLOW FROM FINANCING ACTIVITIES				
Gifts and reinvested income for restricted purposes	229,727	195,178	424,905	407,483
Equity and fund transfers from Hospitals	99,656	(99,656)	-	-
Proceeds from borrowing	291,200	244,111	535,311	823,127
Bond issuance costs and interest rate swaps	(957)	(1,571)	(2,528)	(3,707)
Repayment of notes and bonds payable	(457,119)	(86,529)	(543,648)	(560,120)
Increase (decrease) in liabilities under security lending agreements	(58,586)	-	(58,586)	106,963
Other	81	(277)	(196)	171
NET CASH PROVIDED BY FINANCING ACTIVITIES	104,002	251,256	355,258	773,917
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	77,990	169,766	247,756	(149,657)
Cash and cash equivalents, beginning of year	630,214	641,812	1,272,026	1,421,683
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 708,204	\$ 811,578	\$ 1,519,782	\$ 1,272,026
SUPPLEMENTAL DATA:				
Interest paid, net of capitalized interest	\$ 120,743	\$ 57,335	\$ 178,078	\$ 169,911
Cash collateral received under security lending agreements	\$ 110,087	\$ -	\$ 110,087	\$ 163,449
Increase (decrease) in payables for plant facilities	\$ (15,493)	\$ 62,255	\$ 46,762	\$ (20,381)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation and Significant Accounting Policies

BASIS OF PRESENTATION

The consolidated financial statements include the accounts of The Leland Stanford Junior University (“Stanford University” or the “University”), Stanford Health Care (SHC), Lucile Salter Packard Children’s Hospital at Stanford (LPCH) and other majority-owned or controlled entities of these organizations. 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 U.S. Department of Energy (DOE). The University manages and operates SLAC for the DOE under a management and operating contract; accordingly, the revenues and expenditures of SLAC are included in the 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 Stanford Medicine. 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 medical foundations to support Stanford Medicine’s mission of delivering quality care to the community and conducting research and education.

On September 23, 2014, SHC entered into an affiliation agreement with ValleyCare Health System (VCHS) which contemplated that SHC would acquire control by becoming the sole corporate member of VCHS. On May 18, 2015, with all conditions of the affiliation agreement satisfied and all regulatory approvals obtained, the acquisition of control of VCHS by SHC was consummated and became effective. Because of the acquisition of control, for financial reporting purposes SHC is treated as having acquired assets of \$233.2 million, including “plant facilities, net of accumulated depreciation” of \$135.6 million, and assumed liabilities of \$64.3 million. The excess of net assets over consideration paid was \$96.8 million and is recorded as contribution income in “non-operating activities” in the *Statements of Activities*.

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

TAX STATUS

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

In accordance with the guidance on accounting for uncertainty in income taxes, management regularly evaluates its tax positions and does not believe the University or Hospitals have any uncertain tax positions that require disclosure or adjustment to the consolidated financial statements. The University and Hospitals are subject to routine audits by taxing jurisdictions. The University and Hospitals believe they are no longer subject to income tax examinations for fiscal years prior to August 31, 2011.

BASIS OF ACCOUNTING

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

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

Unrestricted Net Assets

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

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

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

Temporarily Restricted Net Assets

Temporarily restricted net assets include gifts and pledges that are subject to donor-imposed restrictions that expire with the passage of time, payment of pledges or specific actions to be undertaken by 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 split interest agreements which are subject to donor-imposed restrictions requiring that the principal be invested in perpetuity. Permanently restricted net assets may also include funds reclassified from other classes of net assets as a result of donor-imposed stipulations, 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, 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

Assets limited as to use include accounts of the University that solely reflect proceeds of tax-exempt bonds issued for the benefit of the University and limited by the terms of indentures to use for qualified University capital projects. Assets limited as to use also include trustee-held accounts reflecting proceeds of tax-exempt bonds issued for the benefit of the Hospitals and limited by the terms of indentures to use for qualified 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. Management of 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, 2015 and 2014 are as follows:

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

WORKS OF ART AND SPECIAL COLLECTIONS

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

DONATED ASSETS

Donated assets, other than works of art and special collections 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 significant portion of the gift must be designated to the University. At August 31, 2015 and 2014, approximately \$386.0 million and \$321.3 million, respectively, of DAFs may be used to support other approved charities; the donors have advisory privileges with respect to the distribution of these funds.

Current year gifts under the DAF agreements are included in the *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.

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 \$733.8 million and \$773.6 million at August 31, 2015 and 2014, respectively, and were recorded in various categories in "investments"; 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*. At August 31, 2015, a discount rate of 2% was used, based on the Charitable Federal Midterm Rate. At August 31, 2014 the discount rates used, which range from 1% to 6%, were established in the year the gift was received and were based on tables established by the Internal Revenue Service.

During fiscal years 2015 and 2014, the discounted present value of new gifts subject to split interest agreements where the University is the trustee, net of the income beneficiary share, was \$40.6 million and \$17.9 million, respectively, and was 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 SHC have entered into several interest rate exchange agreements to reduce the effect of interest rate fluctuation on their variable rate revenue bonds and notes. Current accounting guidance for derivatives and hedges requires entities to recognize all derivative instruments at fair value. The University and SHC do not designate and qualify their derivatives for hedge accounting; accordingly, any changes in the fair value (i.e. gains or losses) flow directly to the *Statements of Activities* in "swap interest and change in value of swap agreements". The settlements (net cash payments less receipts) under the interest rate exchange agreements are recorded in the *Statements of Activities* in "swap interest and change in value of swap agreements" for the University and in "other operating expenses" for SHC.

The University has entered into interest rate swaps to reduce the effect of interest rate fluctuations of certain investment positions (see *Note 7*).

STUDENT INCOME

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

PATIENT CARE AND OTHER SERVICES

Health Care Services

The Hospitals derive a majority of patient care revenues from contractual agreements with Medicare, Medi-Cal and other third-party payers. Payments under these agreements and programs are based on a variety of payment models. "Patient care, net" is reported in the *Statements of Activities* at the estimated net realizable amounts from patients, third-party payers, and others for services rendered, including estimated retroactive audit adjustments under reimbursement agreements with third-party payers and bad debts. 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 Hospitals provision for doubtful accounts of \$142.1 million and \$153.5 million, respectively, for the years ended August 31, 2015 and 2014, is based upon management's assessment of expected net collections considering historical experience and other collection indicators.

The University has entered into various operating agreements with the Hospitals for the professional services of SOM faculty members, and for non-physician services such as telecommunications, facilities, and other services.

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 \$12.5 million and \$17.4 million for the years ended August 31, 2015 and 2014, 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 received \$526 thousand and \$684 thousand during the years ended August 31, 2015 and 2014, respectively, from contributions that were restricted for the care of indigent patients.

The Hospitals also provide services to other patients under the Medicare, Medi-Cal and other publicly sponsored programs, which reimburse at amounts less than the cost of the services provided to the recipients. Estimated costs in excess of reimbursements for the Medicare, Medi-Cal and other publicly sponsored programs for the years ended August 31, 2015 and 2014 were \$829.6 million and \$676.8 million, respectively.

Provider Fee

The State of California enacted legislation in 2009 through 2015 which established a Hospital Quality Assurance Fee (QAF) Program and a Hospital Fee Program. These programs impose a provider fee on certain California general acute care hospitals that, combined with federal matching funds, is used to provide supplemental payments to certain hospitals and support the State's effort to maintain health care coverage for children.

For the years ended August 31, 2015 and 2014, the Hospitals recognized \$183.4 million and \$24.1 million, respectively, in "patient care, net" revenue and recorded \$116.7 million and \$12.9 million, respectively, in "other operating expenses" under these programs.

RECENT ACCOUNTING PRONOUNCEMENTS

In May 2015, the Financial Accounting Standards Board (FASB) issued an update to the Accounting Standards Codification (ASC) which modifies reporting requirements for investments that are eligible to be measured at fair value using the net asset value (or its equivalent). The ASC update removes the requirement to categorize these investments within the fair value hierarchy and make certain disclosures. The new guidance is effective for periods beginning after December 15, 2016. The University and Hospitals do not expect the new guidance to have a material impact on its consolidated financial statements.

In April 2015, the FASB issued an update to the ASC which requires debt issuance costs to be presented in the statement of financial position as a direct deduction from the carrying value of the associated debt liability, consistent with the presentation of a debt discount. The recognition and measurement guidance for debt issuance costs is not affected. The new guidance is effective for periods beginning after December 15, 2015. The University and Hospitals do not expect the new guidance to have a material impact on its consolidated financial statements.

In June 2014, the FASB issued an update to the ASC which changes the accounting for certain repurchase agreements and enhances the required disclosures for repurchase agreements, securities lending and other similar transactions. The new guidance is effective for periods beginning after December 15, 2014. The University and Hospitals are currently evaluating the impact that this guidance will have on its consolidated financial statements.

In May 2014, the FASB issued an update to the ASC to improve consistency of revenue recognition practices across industries for economically similar transactions. The core principle is that an entity recognizes revenue for goods or services to customers in an amount that reflects the consideration it expects to receive in return. The new guidance is effective for periods beginning after December 15, 2017. The University and Hospitals are currently evaluating the impact that this guidance will have on its consolidated financial statements.

2. Accounts Receivable

Accounts receivable, net of bad debt allowances, at August 31, 2015 and 2014, in thousands of dollars, are as follows:

	2015			2014
	UNIVERSITY	HOSPITALS	CONSOLIDATED	CONSOLIDATED
U.S. government sponsors	\$ 89,809	\$ -	\$ 89,809	\$ 82,388
Non-federal sponsors and programs	43,245	46,033	89,278	42,615
Pending trades of securities	33,451	-	33,451	272,243
Accrued interest on investments	9,378	-	9,378	13,059
Student	6,592	-	6,592	6,055
Patient and third-party payers:				
Blue Cross	-	181,623	181,623	152,945
Blue Sheild	-	131,716	131,716	88,107
Medicare	-	91,320	91,320	77,525
Other payers	-	583,962	583,962	481,117
Other	44,663	39,514	84,177	76,053
	227,138	1,074,168	1,301,306	1,292,107
Less bad debt allowances	(1,698)	(166,132)	(167,830)	(138,598)
ACCOUNTS RECEIVABLE, NET	\$ 225,440	\$ 908,036	\$ 1,133,476	\$ 1,153,509

3. Pledges Receivable

Pledges are recorded at applicable risk-adjusted discount rates, ranging from 1.1% to 5.7% for the University and Hospitals, commensurate with the duration of the donor's payment plan. At August 31, 2015 and 2014, pledges receivable, net of discounts and allowances, in thousands of dollars, are as follows:

	2015			2014
	UNIVERSITY	HOSPITALS	CONSOLIDATED	CONSOLIDATED
One year or less	\$ 123,719	\$ 27,743	\$ 151,462	\$ 158,879
Between one year and five years	710,950	110,569	821,519	886,069
More than five years	79,667	43,504	123,171	100,663
	914,336	181,816	1,096,152	1,145,611
Less discounts and allowances	(153,817)	(20,816)	(174,633)	(179,784)
PLEDGES RECEIVABLE, NET	\$ 760,519	\$ 161,000	\$ 921,519	\$ 965,827

Conditional pledges for the University, which depend on the occurrence of a specified future and uncertain event, were \$6.7 million and \$14.4 million at August 31, 2015 and 2014, respectively. The Hospitals had conditional pledges of \$24.9 million and \$62.6 million at August 31, 2015 and 2014, respectively. The majority of these conditional pledges are related to construction or time defined milestones related to the Medical Center Renewal Project (see *Note 20*). 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, 2015 and 2014, in thousands of dollars, are as follows:

	2015	2014
Institutional loans	\$ 24,286	\$ 22,687
Federally-sponsored loans	57,853	59,465
	82,139	82,152
Less allowance for student loan losses	(647)	(711)
STUDENT LOANS RECEIVABLE, NET	\$ 81,492	\$ 81,441

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 \$547.2 million and \$504.6 million at August 31, 2015 and 2014, respectively, from University faculty and staff are included in "faculty and staff mortgages and other loans receivable, net" in the *Statements of Financial Position*. These loans and mortgages are collateralized by deeds of trust on properties concentrated in the region surrounding the University. Management has determined that no allowance is necessary.

5. Investments

Investments held by the University and the Hospitals are measured and recorded at fair value. The valuation methodology, investment categories, fair value hierarchy, certain investment activities and related commitments for fiscal years 2015 and 2014 are discussed below.

Investments held by the University and the Hospitals at August 31, 2015 and 2014, in thousands of dollars, are as follows:

	2015			2014
	UNIVERSITY	HOSPITALS	CONSOLIDATED	CONSOLIDATED
Cash and cash equivalents	\$ 1,300,474	\$ 59,560	\$ 1,360,034	\$ 1,755,025
Collateral held for securities loaned	110,087	-	110,087	163,449
Public equities	6,971,378	-	6,971,378	7,142,084
Derivatives	58,992	-	58,992	14,922
Fixed income	1,350,768	229,401	1,580,169	1,664,022
Real estate	6,439,576	-	6,439,576	5,926,195
Natural resources	2,018,832	-	2,018,832	2,010,161
Private equities	6,833,087	-	6,833,087	6,057,505
Absolute return	5,529,102	-	5,529,102	5,304,605
Assets held by other trustees	192,811	16,079	208,890	202,130
Other	273,674	15,355	289,029	223,466
	31,078,781	320,395	31,399,176	30,463,564
Hospital funds invested in the University's Merged Pool	(2,312,541)	2,312,541	-	-
INVESTMENTS AT FAIR VALUE	\$ 28,766,240	\$ 2,632,936	\$ 31,399,176	\$ 30,463,564

VALUATION METHODOLOGY

To the extent available, the University's investments are recorded at fair value based on quoted prices in active markets on a trade-date basis. 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, 2015 and 2014, 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, such as market conditions, redemption terms and restrictions, and risks inherent in the inputs of the external investment managers' valuation.

For alternative investments which are direct investments, the University considers various factors to estimate fair value, such as, but not limited to, the timing of the transaction, the market in which the company operates, comparable transactions, company performance and projections as well as discounted cash flow analysis. The selection of an appropriate valuation technique may be affected by the availability and general reliability of relevant inputs. In some cases, one valuation technique may provide the best indication of fair value while in other circumstances, multiple valuation techniques may be appropriate. Furthermore, 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 and restricted cash. Money market funds are valued based on reported unit values. Restricted cash includes collateral provided to or received from counterparties related to investment-related derivative contracts (see *Note 7*).

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

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

Derivatives are used by 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, total return 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 primarily 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 primarily in venture capital and leveraged buyout strategies. Distributions from these investments are received through liquidation of the underlying assets. The fair value of these types of alternative investments is based on the NAV reported by the external investment managers and is adjusted as described under *Valuation Methodology* above.

Absolute return investments are typically commingled funds that employ multiple strategies to produce positive returns, regardless of the direction of the financial markets. The fair value of these types of alternative investments is valued based on 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.

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

FAIR VALUE HIERARCHY

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

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

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

Exchange-traded derivatives such as options, futures contracts and warrants using observable inputs such as the last reportable sale price or the most recent bid price are typically classified as Level 1 (see *Note 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 U.S. government and sovereign obligations, government agency obligations, investment grade corporate bonds and certain limited marketable securities.

Privately negotiated over-the-counter (OTC) derivatives such as forward currency contracts, 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, or credit curves.

Level 3 – Investments classified as Level 3 have significant unobservable inputs, as they trade infrequently or not at all. The inputs into the determination of fair value of these investments are based upon the best information in the circumstance and may require significant management judgment. These investments primarily consist of 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, 2015 and 2014, in thousands of dollars:

	AS OF			
	AUGUST 31, 2015	LEVEL 1	LEVEL 2	LEVEL 3
UNIVERSITY *				
Cash and cash equivalents	\$ 1,300,474	\$ 1,205,693	\$ 94,781	\$ -
Collateral held for securities loaned	110,087	-	110,087	-
Public equities	6,971,378	2,901,037	1,029,781	3,040,560
Derivatives	58,992	66,601	(7,609)	-
Fixed income	1,350,768	1,309,559	41,209	-
Real estate	6,439,576	103,194	53,550	6,282,832
Natural resources	2,018,832	237,536	-	1,781,296
Private equities	6,833,087	10,655	53	6,822,379
Absolute return	5,529,102	-	2,159,946	3,369,156
Assets held by other trustees	192,811	-	-	192,811
Other	273,674	814	-	272,860
TOTAL	31,078,781	5,835,089	3,481,798	21,761,894
HOSPITALS				
Cash and cash equivalents	59,560	54,094	5,466	-
Fixed income	229,401	69,313	160,088	-
Assets held by other trustees	16,079	-	-	16,079
Other	15,355	-	-	15,355
TOTAL	320,395	123,407	165,554	31,434
CONSOLIDATED TOTAL	\$ 31,399,176	\$ 5,958,496	\$ 3,647,352	\$ 21,793,328

* Amounts include the Hospitals' cross investment in the University's investment pools of \$2.3 billion.

	AS OF			
	AUGUST 31, 2014	LEVEL 1	LEVEL 2	LEVEL 3
UNIVERSITY *				
Cash and cash equivalents	\$ 1,693,240	\$ 1,646,141	\$ 47,099	\$ -
Collateral held for securities loaned	163,449	-	163,449	-
Public equities	7,118,193	3,009,485	1,160,289	2,948,419
Derivatives	14,922	(45)	14,967	-
Fixed income	1,436,008	837,535	594,513	3,960
Real estate	5,926,195	144,450	49,554	5,732,191
Natural resources	2,010,161	157,691	-	1,852,470
Private equities	6,057,505	17,569	-	6,039,936
Absolute return	5,304,605	-	2,242,156	3,062,449
Assets held by other trustees	185,102	-	-	185,102
Other	217,640	493	-	217,147
TOTAL	30,127,020	5,813,319	4,272,027	20,041,674
HOSPITALS				
Cash and cash equivalents	61,785	56,826	4,959	-
Public equities	23,891	23,891	-	-
Fixed income	228,014	68,830	159,184	-
Assets held by other trustees	17,028	-	-	17,028
Other	5,826	-	-	5,826
TOTAL	336,544	149,547	164,143	22,854
CONSOLIDATED TOTAL	\$ 30,463,564	\$ 5,962,866	\$ 4,436,170	\$ 20,064,528

* Amounts include the Hospitals' cross investment in the University's investment pools of \$2.3 billion.

The University manages the majority of the Hospitals' investments, including the Hospitals' \$2.3 billion investment in the Merged Pool (MP) at both August 31, 2015 and 2014.

SUMMARY OF LEVEL 3 INVESTMENT ACTIVITIES AND TRANSFERS

The following tables present the activities for Level 3 investments for the years ended August 31, 2015 and 2014, in thousands of dollars:

FAIR VALUE MEASUREMENTS USING SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)	BEGINNING BALANCE AS OF SEPTEMBER 1, 2014	PURCHASES	SALES AND MATURITIES	NET REALIZED AND UNREALIZED	TRANSFERS IN**	TRANSFERS OUT**	ENDING BALANCE AS OF AUGUST 31, 2015
				GAINS (LOSSES)			
UNIVERSITY*							
Public equities	\$ 2,948,419	\$ 865,991	\$ (96,702)	\$ 82,591	\$ 71,410	\$ (831,149)	\$ 3,040,560
Fixed income	3,960	-	(3,955)	(5)	-	-	-
Real estate	5,732,191	392,473	(791,343)	948,736	775	-	6,282,832
Natural resources	1,852,470	478,964	(180,389)	(356,685)	-	(13,064)	1,781,296
Private equities	6,039,936	656,279	(1,400,842)	981,359	619,808	(74,161)	6,822,379
Absolute return	3,062,449	597,272	(597,254)	(14,719)	599,124	(277,716)	3,369,156
Assets held by other trustees	185,102	-	-	7,709	-	-	192,811
Other	217,147	62,552	(33,784)	24,545	2,400	-	272,860
TOTAL	20,041,674	3,053,531	(3,104,269)	1,673,531	1,293,517	(1,196,090)	21,761,894
HOSPITALS							
Assets held by other trustees	17,028	-	-	(949)	-	-	16,079
Other	5,826	9,529	-	-	-	-	15,355
TOTAL	22,854	9,529	-	(949)	-	-	31,434
CONSOLIDATED TOTAL	\$ 20,064,528	\$ 3,063,060	\$ (3,104,269)	\$ 1,672,582	\$ 1,293,517	\$ (1,196,090)	\$ 21,793,328

* Amounts include the Hospitals' cross investment in the University's investment pools.

**Transfers in (out) are primarily due to reclassification of investments between asset classes. Transfers include \$72.7 million from Level 3 to Level 1 due to a corporate action.

FAIR VALUE MEASUREMENTS USING SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)	BEGINNING BALANCE AS OF SEPTEMBER 1, 2013	PURCHASES	SALES AND MATURITIES	NET REALIZED AND UNREALIZED	TRANSFERS IN	TRANSFERS OUT	ENDING BALANCE AS OF AUGUST 31, 2014
				GAINS			
UNIVERSITY*							
Public equities	\$ 1,832,888	\$ 596,883	\$ (125,266)	\$ 417,400	\$ 354,641	\$ (128,127)	\$ 2,948,419
Fixed income	-	3,990	-	(30)	-	-	3,960
Real estate	5,270,326	383,085	(622,261)	743,756	-	(42,715)	5,732,191
Natural resources	1,547,169	453,478	(435,136)	286,959	-	-	1,852,470
Private equities	5,357,460	599,357	(1,164,518)	1,247,637	-	-	6,039,936
Absolute return	3,176,213	241,530	(595,390)	253,090	-	(12,994)	3,062,449
Assets held by other trustees	172,605	-	-	12,497	-	-	185,102
Other	278,690	204,457	(278,335)	18,112	-	(5,777)	217,147
TOTAL	17,635,351	2,482,780	(3,220,906)	2,979,421	354,641	(189,613)	20,041,674
HOSPITALS							
Assets held by other trustees	14,858	-	-	2,170	-	-	17,028
Other	-	5,826	-	-	-	-	5,826
TOTAL	14,858	5,826	-	2,170	-	-	22,854
CONSOLIDATED TOTAL	\$ 17,650,209	\$ 2,488,606	\$ (3,220,906)	\$ 2,981,591	\$ 354,641	\$ (189,613)	\$ 20,064,528

* Amounts include the Hospitals' cross investment in the University's investment pools.

Net realized and unrealized gains (losses) in the tables above are included in the *Statements of Activities* primarily as "increase in reinvested gains" by level of restriction. For the years ended August 31, 2015 and 2014, the change in unrealized gains (losses) for Level 3 investments still held at August 31, 2015 and 2014 was \$1.7 billion and \$2.7 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, 2015 and 2014.

LEVEL 3 INVESTMENT VALUATION TECHNIQUES AND SIGNIFICANT UNOBSERVABLE INPUTS

The following table summarizes the significant unobservable inputs and valuation methodologies for Level 3 investments as of August 31, 2015 and 2014.

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

INVESTMENT CATEGORIES	FAIR VALUE ¹	VALUATION TECHNIQUE	SIGNIFICANT UNOBSERVABLE INPUTS	RANGE		IMPACT TO VALUATION FROM AN INCREASE IN INPUT ²
				MIN.	MAX	
2015						
Real estate	\$ 4,065,049	Discounted cash flow	Discount rate	5.3%	11.0%	Decrease
			Capitalization rate	5.3%	7.5%	Decrease
Natural resources	84,671	Market comparables	Weights ascribed to market comparables	20.0%	50.0%	N/A
Other	272,860	Market comparables	Recent transactions	N/A	N/A	N/A
TOTAL AMOUNT WITH SIGNIFICANT UNOBSERVABLE INPUTS						
	\$ 4,422,580					
2014						
Real estate	\$ 3,484,984	Discounted cash flow	Discount rate	4.0%	11.0%	Decrease
			Capitalization rate	5.0%	9.0%	Decrease
Natural resources	127,077	Market comparables	Weights ascribed to market comparables	20.0%	50.0%	N/A
Other	217,147	Market comparables	Recent transactions	N/A	N/A	N/A
TOTAL AMOUNT WITH SIGNIFICANT UNOBSERVABLE INPUTS						
	\$ 3,829,208					

¹ Level 3 investment assets of \$17.4 billion and \$16.2 billion at August 31, 2015 and 2014, respectively, were excluded from the above quantitative disclosure as their fair value was primarily based on the NAV reported by external investment managers as described in the Valuation Methodology section above.

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

INVESTMENT-RELATED COMMITMENTS

The University is obligated under certain alternative investment agreements to advance additional funding up to specified levels over a period of several years. The following table presents significant terms of such agreements for all related alternative investments at August 31, 2015, in thousands of dollars:

ASSET CLASS	FAIR VALUE	UNFUNDED COMMITMENT	REMAINING LIFE (YEARS)	REDEMPTION TERMS AND RESTRICTIONS
Public equities	\$ 4,067,133	\$ 42,543	0 to 5	Generally, lock-up provisions ranging from 0 to 5 years. After initial lock up expires, redemptions are available on a rolling basis and require 3 to 180 days prior notification.
Real estate	1,875,082	858,708	0 to 13	Not eligible for redemption
Natural resources	1,781,296	1,181,132	0 to 15	Not eligible for redemption
Private equities	6,822,375	2,376,515	0 to 16	Not eligible for redemption
Absolute return	5,529,102	954,720	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	\$20,074,988	\$ 5,413,618		

OFFSETS TO INVESTMENT-RELATED ASSETS AND LIABILITIES

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

For certain derivatives, a master netting arrangement allows the counterparty to net applicable collateral held on behalf of the University against applicable liabilities or payment obligations of the University to the counterparty. These arrangements also allow the counterparty to net any of its applicable liabilities or payment obligations to the University against any collateral previously provided.

For financial statement purposes, the University nets investment-related derivative assets and liabilities on the *Statements of Financial Position*. For disclosure purposes, the University does not offset assets and liabilities relating to the financial and derivative instruments that are subject to an enforceable master netting arrangement or similar agreement, or that meet the right of offset criteria in the accounting guidance. The potential effect of offset and related arrangements associated with these financial and derivative instruments as of August 31, 2015 and 2014, in thousands of dollars, is presented in the following table:

	AS PRESENTED IN CONSOLIDATED STATEMENTS OF FINANCIAL POSITION			GROSS AMOUNTS NOT OFFSET IN CONSOLIDATED STATEMENTS OF FINANCIAL POSITION		
	GROSS AMOUNTS OF ASSETS AND LIABILITIES	GROSS AMOUNTS OFFSET	NET AMOUNTS OF ASSETS AND LIABILITIES	FINANCIAL INSTRUMENTS ³	CASH COLLATERAL RECEIVED ³	NET AMOUNT
2015						
Assets:						
Derivatives ¹	\$ 70,000	\$ (11,008)	\$ 58,992	\$ -	\$ 20,008	\$ 38,984
TOTAL	70,000	(11,008)	58,992	-	20,008	38,984
Liabilities:						
Derivatives ¹	11,008	(11,008)	-	-	-	-
Securities lending ²	110,087	-	110,087	110,087	-	-
TOTAL	121,095	(11,008)	110,087	110,087	-	-
2014						
Assets:						
Derivatives ¹	46,522	(31,600)	14,922	-	14,922	-
TOTAL	46,522	(31,600)	14,922	-	14,922	-
Liabilities:						
Derivatives ¹	31,600	(31,600)	-	-	-	-
Securities lending ²	163,449	-	163,449	163,449	-	-
TOTAL	\$ 195,049	\$ (31,600)	\$ 163,449	\$ 163,449	\$ -	\$ -

¹ Gross derivative assets less gross derivative liabilities are presented as "derivatives" in the investment table above.

² Refer to Note 9 for details.

³ These amounts are limited to the derivative asset balance and accordingly, do not include any excess collateral received.

INVESTMENT RETURNS

Total investment returns for the years ended August 31, 2015 and 2014, in thousands of dollars, are as follows:

	2015			2014
	UNIVERSITY	HOSPITALS	CONSOLIDATED	CONSOLIDATED
Investment income	\$ 228,617	\$ 20,887	\$ 249,504	\$ 330,107
Net realized and unrealized gains	1,633,778	113,453	1,747,231	4,003,267
TOTAL INVESTMENT RETURNS	\$ 1,862,395	\$ 134,340	\$ 1,996,735	\$ 4,333,374
Reconciliation to <i>Statements of Activities</i> :				
Total investment income distributed for operations	\$ 1,276,463	\$ 15,284	\$ 1,291,747	\$ 1,181,396
Increase in reinvested gains - unrestricted	644,855	100,867	745,722	1,849,679
Increase (decrease) in reinvested gains - temporarily restricted	(89,655)	18,753	(70,902)	1,127,965
Change in value of split interest agreements, net - temporarily restricted	2,449	(254)	2,195	18,682
Increase in reinvested gains - permanently restricted	1,760	-	1,760	64,256
Change in value of split interest agreements, net - permanently restricted	(15,446)	(310)	(15,756)	52,214
Adjusted for:				
Returns on split interest agreements paid to beneficiaries - temporarily restricted	14,321	-	14,321	12,323
Returns on split interest agreements paid to beneficiaries - permanently restricted	27,648	-	27,648	26,859
TOTAL INVESTMENT RETURNS	\$ 1,862,395	\$ 134,340	\$ 1,996,735	\$ 4,333,374

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, 2015, in thousands of dollars, is as follows:

YEAR ENDING AUGUST 31	FUTURE MINIMUM RENTAL INCOME
2016	\$ 118,317
2017	114,108
2018	104,987
2019	105,071
2020	101,104
Thereafter	2,008,202
TOTAL	\$ 2,551,789

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, 2015 and 2014, in thousands of dollars:

	2015	2014
UNIVERSITY		
Merged Pool	\$ 25,931,986	\$ 25,330,910
Expendable Funds Pool	3,666,479	3,259,707
Endowment Income Funds Pool	314,216	360,867
Other investment pools	100,649	99,710
Specific investments	5,046,147	4,696,400
	<u>35,059,477</u>	<u>33,747,594</u>
Less:		
Amounts included in "cash and cash equivalents" in the <i>Statements of Financial Position</i>	(387,712)	(460,888)
Funds cross-invested in investment pools	(3,587,517)	(3,154,731)
Hospital funds invested in the University's investment pools	(2,318,008)	(2,303,385)
TOTAL UNIVERSITY INVESTMENTS	<u>28,766,240</u>	<u>27,828,590</u>

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

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

The Board has established a policy for the distribution of the investment returns of the EFP. The difference between the actual return of this investment pool and the approved payout is deposited in, or withdrawn from, funds functioning as endowment (FFE) (see *Note 12*). For the years ended August 31, 2015 and 2014, the results of the EFP, in thousands of dollars, are as follows:

	2015	2014
Total investment return of the EFP	\$ 159,143	\$ 494,121
Less distributions to fund holders and operations	(143,087)	(126,473)
AMOUNTS ADDED TO FFE	<u>\$ 16,056</u>	<u>\$ 367,648</u>

7. Derivatives

The University, directly or through external investment managers on the University's behalf, utilizes various strategies to reduce investment and credit risks, to serve as a temporary surrogate for investment in stocks and bonds, to manage interest rate exposure on 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.

INVESTMENT-RELATED DERIVATIVES

The following table presents amounts for investment-related derivatives, including the notional amount, the fair values at August 31, 2015 and 2014, and gains and losses for the years ended August 31, 2015 and 2014, in thousands of dollars:

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

	AS OF AUGUST 31, 2014			YEAR ENDED AUGUST 31, 2014
	NOTIONAL AMOUNT ¹	GROSS DERIVATIVE ASSETS ²	GROSS DERIVATIVE LIABILITIES ²	REALIZED AND UNREALIZED GAINS (LOSSES) ³
Interest-rate contracts	\$ 3,623,678	\$ 31,942	\$ 21,618	\$ (12,255)
Foreign exchange contracts	705,701	6,697	1,957	17,440
Equity contracts	1,605,379	6,409	7,836	(17,138)
Credit contracts	77,345	1,474	189	199
TOTAL	\$ 6,012,103	\$ 46,522	\$ 31,600	\$ (11,754)

¹ The notional amount is representative of the volume and activity of the respective derivative type during the years ended August 31, 2015 and 2014.

² Gross derivative assets less gross derivative liabilities of \$59.0 million and \$14.9 million as of August 31, 2015 and 2014, respectively, 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

Credit contracts in the previous table consist of both the purchases and sales of CDS. 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.

At August 31, 2015, there were no outstanding sold CDS positions. The table below summarizes certain information regarding the sale of CDS at August 31, 2014, in thousands of dollars:

CREDIT RATINGS OF THE REFERENCE OBLIGATION ²	MAXIMUM POTENTIAL PAYOUT (NOTIONAL AMOUNT ¹) / YEARS TO MATURITY			FAIR VALUE ASSET/ (LIABILITY)
	LESS THAN 3	OVER 3	TOTAL	
2014				
Single name credit default swaps:				
A- to AA+	\$ 6,900	\$ 26,200	\$ 33,100	\$ 431
BBB- to BBB+	575	30,474	31,049	599
Total single name credit default swaps	7,475	56,674	64,149	1,030
Index credit default swaps ³	-	4,900	4,900	(14)
TOTAL CREDIT DEFAULT SWAPS SOLD	\$ 7,475	\$ 61,574	\$ 69,049	\$ 1,016

¹ The notional amount is representative of the volume and activity of the respective derivative type during the year ended August 31, 2014.

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, 2015, the University had interest rate exchange agreements related to \$97.0 million of the outstanding balance of the CEFA Series S bonds in variable rate mode (see *Note 10*). The agreements, which have a weighted average interest rate of 3.68%, expire November 1, 2039. The notional amount and the fair value of the exchange agreements are included in the table below. Collateral posted with various counterparties was \$16.7 million and \$11.0 million at August 31, 2015 and 2014, 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, 2015 and 2014 (see *Note 10*).

At August 31, 2015, SHC had interest rate exchange agreements expiring through November 2051 (see *Note 11*). The agreements require SHC to pay fixed interest rates to the counterparties varying from 3.37% to 4.08% in exchange for variable rate payments from the counterparties based on a percentage of the One Month London Interbank Offered Rate (LIBOR). The notional amount and the fair value of the exchange agreements are included in the table below. There was \$1.7 million and no cash collateral required to be posted with counterparties at August 31, 2015 and 2014, respectively. In February 2014, SHC terminated certain interest rate exchange agreements and recognized a loss of \$71 thousand in "non-operating activities" in the *Statements of Activities* for the year ended August 31, 2014.

The following table presents amounts for debt-related derivatives including the notional amount, the fair values at August 31, 2015 and 2014, and gains and losses for the years ended August 31, 2015 and 2014, in thousands of dollars:

	AS OF AUGUST 31, 2015		YEAR ENDED AUGUST 31, 2015	AS OF AUGUST 31, 2014		YEAR ENDED AUGUST 31, 2014
	NOTIONAL AMOUNT ¹	GROSS DERIVATIVE LIABILITIES ²	UNREALIZED LOSSES ³	NOTIONAL AMOUNT ¹	GROSS DERIVATIVE LIABILITIES ²	UNREALIZED LOSSES ³
Debt-related interest- rate contracts:						
University	\$ 97,000	\$ 35,584	\$ (5,127)	\$ 97,000	\$ 30,457	\$ (8,617)
Hospitals	576,925	215,376	(59,392)	577,200	155,984	(37,532)
TOTAL	\$ 673,925	\$ 250,960	\$ (64,519)	\$ 674,200	\$ 186,441	\$ (46,149)

¹ The notional amount is representative of the volume and activity of the respective derivative type during the years ended August 31, 2015 and 2014.

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

8. Plant Facilities

Plant facilities, net of accumulated depreciation, at August 31, 2015 and 2014, in thousands of dollars, are as follows:

	2015			2014
	UNIVERSITY	HOSPITALS	CONSOLIDATED	CONSOLIDATED
Land and improvements	\$ 513,352	\$ 158,439	\$ 671,791	\$ 622,596
Buildings and building improvements	5,336,952	1,647,748	6,984,700	6,578,469
Furniture, fixtures and equipment	1,617,442	1,162,022	2,779,464	2,627,909
Utilities	830,370	-	830,370	483,272
Construction in progress	381,745	1,583,003	1,964,748	1,559,812
	8,679,861	4,551,212	13,231,073	11,872,058
Less accumulated depreciation	(3,884,297)	(1,549,470)	(5,433,767)	(5,039,746)
PLANT FACILITIES, NET OF ACCUMULATED DEPRECIATION	\$ 4,795,564	\$ 3,001,742	\$ 7,797,306	\$ 6,832,312

At August 31, 2015, \$1.6 billion and \$884.6 million of fully depreciated plant facilities were still in use by the University and the Hospitals, respectively, and were included in plant facilities and accumulated depreciation.

9. Liabilities Under Security Lending Agreements

The University receives short-term U.S. government obligations or cash and cash equivalents as collateral deposits for certain securities loaned temporarily to brokers. It is the University's policy to require receipt of collateral on securities lending contracts 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, 2015 and 2014, these amounts, in thousands of dollars, are as follows:

	2015	2014
Collateral deposits for certain securities loaned temporarily to brokers ^{1,2}	\$ 110,087	\$ 163,449
Forward sale and purchase agreements ¹	22,338	27,562
LIABILITIES UNDER SECURITY LENDING AGREEMENTS	\$ 132,425	\$ 191,011

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, 2015 and 2014 was \$106.3 million and \$155.8 million, respectively.

10. University Notes and Bonds Payable

Notes and bonds payable for the University at August 31, 2015 and 2014, in thousands of dollars, are as follows:

	YEAR OF MATURITY	INTEREST RATE * 2015/2014	OUTSTANDING PRINCIPAL	
			2015	2014
Tax-exempt:				
CEFA Fixed Rate Revenue Bonds:				
Series S	2040	5.00%	\$ 30,210	\$ 30,210
Series T	2023-2039	5.00%	188,900	188,900
Series U	2021-2045	5.00% - 5.25%	996,855	996,855
CEFA Variable Rate Revenue Bonds and Notes:				
Series L	2016-2023	0.01%/0.03%	69,988	83,818
Series S	2040-2051	0.09%-0.20%/0.10%-0.13%	141,200	141,200
Commercial Paper	2015	0.00%/0.06%	-	50,994
Taxable:				
Fixed Rate Notes and Bonds:				
Stanford University Bonds	2024	6.88%	150,000	150,000
Medium Term Note	2026	7.65%	50,000	50,000
Stanford University Series 2009A	2019	3.63% - 4.75%	400,000	650,000
Stanford University Series 2012	2042	4.01%	143,235	143,235
Stanford University Series 2013	2044	3.56%	150,115	150,115
Stanford University Series 2014	2054	4.25%	150,000	150,000
Stanford University Series 2015	2047	3.46%	250,000	-
Other	2016	Various	66,284	67,364
Variable Rate Notes:				
Commercial Paper	2015	0.00%/0.15%	-	140,715
Revolving Credit Facility	2018	0.42%	41,200	-
University notes and bonds payable			2,827,987	2,993,406
Unamortized original issue premiums/discounts, net			257,391	271,230
TOTAL			\$ 3,085,378	\$ 3,264,636

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

At August 31, 2015 and 2014, the fair value of these debt instruments was approximately \$3.3 billion and \$3.5 billion, respectively. All bonds held at August 31, 2015 and 2014 are classified as Level 2 in the fair value hierarchy (see Note 5).

The University borrows at tax-exempt rates through the California Educational Facilities Authority (CEFA). CEFA debt is a general unsecured obligation of the University. Although CEFA is the issuer, the University is responsible for the repayment of the tax-exempt debt. The University's long-term ratings of AAA/Aaa/AAA were affirmed in April 2015 by Standard & Poor's, Moody's Investors Service and Fitch Ratings, respectively.

In July 2015, the University redeemed \$250.0 million of the taxable Series 2009A bonds due in 2016. In May 2014, the taxable Series 2009A (first tranche) in the amount of \$350.0 million matured and was repaid.

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

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

In October 2014, CEFA Series L (first and second tranches) in the amounts of \$5.1 million and \$8.8 million, respectively, matured and were repaid.

In May 2014, CEFA Series U-5 bonds were issued in the amount of \$124.1 million plus an original issue premium of \$26.3 million. The bonds bear interest at a rate of 5.00% and mature on May 1, 2021. Proceeds were used to (1) refinance commercial paper notes which were previously used to refinance CEFA Series T-4 bonds which matured in March 2014; (2) finance facilities and infrastructure; and (3) pay bond issuance costs.

In May 2014, CEFA Series U-6 bonds were issued in the amount of \$279.0 million plus an original issue premium of \$71.0 million. The bonds bear interest at a rate of 5.00% and mature on May 1, 2045. Proceeds were used to (1) refinance commercial paper notes; and (2) finance facilities and infrastructure.

In May 2014, the University issued taxable fixed rate Series 2014 bonds in the amount of \$150.0 million plus an original issue discount of \$27 thousand. The bonds bear interest at a rate of 4.249% and mature on May 1, 2054. Proceeds were used to (1) refinance commercial paper notes; and (2) finance facilities and infrastructure.

In December 2010, the University entered into a \$50.0 million line of credit to issue irrevocable standby letters of credit to support various collateral posting obligations. At August 31, 2015, irrevocable standby letters of credit of \$40.7 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*; (2) \$25.5 million to serve as security for workers' compensation deductible insurance arrangements; and (3) \$0.2 million for other purposes. No amounts have been drawn on these letters of credit at August 31, 2015.

Stanford holds controlling interests in several investment entities which were consolidated in the financial statements in fiscal years 2015 and 2014. At August 31, 2015 and 2014, other taxable debt included \$65.8 million and \$66.8 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, 2015 and 2014, in thousands of dollars, are as follows:

COMMERCIAL PAPER	POTENTIAL BORROWINGS	OUTSTANDING BALANCE AT AUGUST 31	WEIGHTED AVERAGE DAYS TO MATURITY	WEIGHTED AVERAGE EFFECTIVE INTEREST RATE
2015				
Taxable	\$ 500,000	\$ -	N/A	N/A
Tax-exempt	\$ 300,000	\$ -	N/A	N/A
2014				
Taxable	\$ 500,000	\$ 140,715	34.6	0.14%
Tax-exempt	\$ 300,000	\$ 50,994	49.6	0.07%

The University had \$211.2 million of revenue bonds in variable rate mode outstanding at August 31, 2015. 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:

	2015	2014
Interest expense, gross	\$ 111,806	\$ 109,360
Less:		
Interest income earned on unspent proceeds	(245)	(198)
Interest capitalized as a cost of construction	(3,543)	(8,324)
Interest expense on Series 2009A bonds which is classified as an investment expense	(22,350)	(29,602)
Interest expense, net	\$ 85,668	\$ 71,236

The University uses interest rate exchange agreements to manage the interest rate exposure of its debt portfolio. Net payments on interest rate exchange agreements, which are included in "swap interest and change in value of swap agreements" in the *Statements of Activities*, were \$3.5 million for each of the years ended August 31, 2015 and 2014.

At August 31, 2015, scheduled principal payments on notes and bonds, in thousands of dollars, are as follows:

YEAR ENDING AUGUST 31	PRINCIPAL PAYMENTS
2016 Variable debt subject to remarketing	\$ 211,188
2016 Other	65,804
2017	-
2018	41,200
2019	400,000
2020	-
Thereafter	2,109,795
TOTAL	\$ 2,827,987

11. Hospitals Notes and Bonds Payable

Notes, bonds and capital lease obligations for the Hospitals at August 31, 2015 and 2014, in thousands of dollars, are as follows:

	YEAR OF MATURITY	INTEREST RATE* 2015/2014	OUTSTANDING PRINCIPAL	
			2015	2014
SHC:				
CHFFA Fixed Rate Revenue Bonds:				
2008 Series A-1	2040	2.25%-5.15%	\$ 68,510	\$ 68,785
2008 Series A-2	2040	1.00%-5.25%	101,350	101,750
2008 Series A-3	2040	1.00%-5.50%	81,940	82,240
2010 Series A	2031	4.00%-5.75%	130,220	135,305
2010 Series B	2036	4.50%-5.75%	146,710	146,710
2012 Series A	2051	5.00%	340,000	340,000
2012 Series B	2023	2.00%-5.00%	52,880	58,520
2015 Series A	2054	4.25%-5.00%	100,000	-
CHFFA Variable Rate Revenue Bonds:				
2008 Series B	2045	0.07%/0.08%	168,200	168,200
2012 Series C	2051	0.15%/0.13%	60,000	60,000
2012 Series D	2051	0.53%/0.71%	100,000	100,000
2015 Series B	2054	0.68%	75,000	-
Other	2016-2024	Various	5,567	-
LPCH:				
CHFFA Fixed Rate Revenue Bonds:				
2008 Series A	2027-2033	1.45%	30,340	30,340
2008 Series B	2027-2033	1.45%	30,340	30,340
2008 Series C	2016-2023	1.45%	29,610	32,770
2012 Series A	2044-2051	5.00%	200,000	200,000
2012 Series B	2016-2027	4.00%	44,600	46,815
2014 Series A	2025-2043	5.00%	100,000	100,000
CHFFA Variable Rate Revenue Bonds:				
2014 Series B	2034-2043	0.53%/0.51%	100,000	100,000
Hospitals notes, bonds and capital lease obligations			1,965,267	1,801,775
Unamortized original issue premiums/discounts, net			73,898	72,098
TOTAL			\$ 2,039,165	\$ 1,873,873

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

At August 31, 2015 and 2014, the fair value of these debt instruments was approximately \$2.1 billion and \$2.0 billion, respectively. All bonds held at August 31, 2015 and 2014 are classified as Level 2 in the fair value hierarchy (see Note 5).

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

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

SHC

In June 2015, CHFFA, for the benefit of SHC, issued two series of revenue bonds in the aggregate principal amount of \$175.0 million (the "2015 Bonds"). The 2015 Bonds were comprised of \$100.0 million of 2015 Series A bonds, and \$75.0 million of Series B bonds. Proceeds of the 2015 Series A and B bonds will be used to finance a portion of the Renewal Project (see *Note 20*).

At August 31, 2015, SHC had \$403.2 million revenue bonds in variable rate mode outstanding. The 2008 Series B-1 bonds bear interest at a weekly rate, and bondholders have the option to tender their bonds on a weekly basis. The 2008 Series B-2 bonds bear interest at the commercial paper rate for each commercial paper period of 270 days or less. Bondholders in commercial paper mode have the option to tender their bonds only at the end of the commercial paper rate period.

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

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

At August 31, 2015, SHC had irrevocable standby letters of credit in the aggregate amount of \$27.4 million posted with certain beneficiaries in the following amounts and for the following respective purposes: (i) \$17.3 million to serve as security for the workers' compensation self-insurance arrangement and (ii) \$10.1 million to serve as security deposits for certain construction projects being undertaken by SHC including the Renewal Project (see *Note 20*). No amounts have been drawn on these letters of credit at August 31, 2015 and 2014.

LPCH

In May 2014, CHFFA, on behalf of LPCH, issued 2014 Series A bonds and 2014 Series B bonds in the aggregate principal amount of \$200.0 million. Proceeds of the 2014 bonds will be used to finance a portion of the Renewal Project and to pay a portion of bond issuance costs. The 2014 Series A bonds were issued as fixed rate bonds with interest rates ranging from 4-5% over the life of the bonds. The 2014 Series B bonds were issued in a floating index mode with monthly interest rate resets. The 2014 Series B bonds are not subject to remarketing or tender until May 8, 2024.

At August 31, 2015, LPCH had irrevocable standby letters of credit in the aggregate amount of \$12.7 million posted with certain beneficiaries in the following amounts and for the following respective purposes: (i) \$6.0 million to serve as security for the workers' compensation self-insurance arrangement and (ii) \$6.7 million to serve as security deposits for certain construction projects being undertaken by LPCH including the Renewal Project (see *Note 20*). No amounts have been drawn on these letters of credit at August 31, 2015 and 2014.

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:

	2015	2014
Interest expense, gross, excluding settlements under the interest rate exchange agreements	\$ 65,101	\$ 60,623
Settlements under the interest rate exchange agreements	14,087	16,982
Less:		
Interest capitalized as a cost of construction	(24,342)	(21,648)
Interest expense, net	\$ 54,846	\$ 55,957

PRINCIPAL PAYMENTS

At August 31, 2015, scheduled principal payments on notes, bonds and capital lease obligations, in thousands of dollars, are as follows:

YEAR ENDING AUGUST 31	PRINCIPAL PAYMENTS
2016 Variable debt subject to remarketing	\$ 228,200
2016 Other	19,607
2017	19,551
2018	19,910
2019	21,267
2020	21,420
Thereafter	1,635,312
TOTAL	\$ 1,965,267

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

The University classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment and (b) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are authorized for expenditure. In the absence of donor stipulations or law to the contrary, net unrealized losses on permanently restricted endowment funds first reduce related appreciation on temporarily restricted net assets and then on unrestricted net assets, as needed, until the fair value of the fund equals or exceeds historic value. The aggregate amount by which fair value was below historic value was \$5.4 million and \$4.9 million at August 31, 2015 and 2014, respectively.

Endowment funds by net asset classification at August 31, 2015 and 2014, in thousands of dollars, are as follows:

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
2015				
Donor-restricted endowment funds	\$ (5,394)	\$ 6,466,064	\$ 5,720,633	\$ 12,181,303
Funds functioning as endowment	10,041,654	-	-	10,041,654
TOTAL ENDOWMENT FUNDS	\$ 10,036,260	\$ 6,466,064	\$ 5,720,633	\$ 22,222,957
2014				
Donor-restricted endowment funds	\$ (4,882)	\$ 6,574,426	\$ 5,465,939	\$ 12,035,483
Funds functioning as endowment	9,410,523	-	-	9,410,523
TOTAL ENDOWMENT FUNDS	\$ 9,405,641	\$ 6,574,426	\$ 5,465,939	\$ 21,446,006

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 regularly by Stanford Management Company.

Approximately 14% of the endowment is invested in real estate on Stanford's lands, including the Stanford Research Park. This portion of the endowment includes the present value of ground leases, and rental properties that have been developed on Stanford lands. The net operating income from these properties is distributed each year for University operations.

Through the combination of investment strategy and payout policy, the University 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, 2015 and 2014, in thousands of dollars, are as follows:

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
2015				
Endowment, beginning of year	\$ 9,405,641	\$ 6,574,426	\$ 5,465,939	\$ 21,446,006
Investment returns:				
Earned income	197,943	-	-	197,943
Unrealized and realized gains (losses)	1,454,383	(100,618)	(334)	1,353,431
Total investment returns	1,652,326	(100,618)	(334)	1,551,374
Amounts distributed for operations	(1,058,025)	-	-	(1,058,025)
Gifts, transfers and other changes in endowment:				
Current year gifts and pledge payments	1,712	1,937	148,683	152,332
Transfers of prior year gifts	-	160	59,742	59,902
EFP funds invested in the endowment	16,056	-	-	16,056
Other funds invested in (withdrawn from) the endowment, net	18,550	(9,841)	46,603	55,312
Total gifts, transfers and other changes in endowment	36,318	(7,744)	255,028	283,602
Total net increase (decrease) in endowment	630,619	(108,362)	254,694	776,951
ENDOWMENT, END OF YEAR	\$ 10,036,260	\$ 6,466,064	\$ 5,720,633	\$ 22,222,957
2014				
Endowment, beginning of year	\$ 7,985,849	\$ 5,528,171	\$ 5,174,848	\$ 18,688,868
Investment returns:				
Earned income	228,278	-	-	228,278
Unrealized and realized gains	1,758,273	1,037,250	58,934	2,854,457
Total investment returns	1,986,551	1,037,250	58,934	3,082,735
Amounts distributed for operations	(985,215)	-	-	(985,215)
Gifts, transfers and other changes in endowment:				
Current year gifts and pledge payments	17,673	8,025	163,700	189,398
Transfers of prior year gifts	5,557	-	24,724	30,281
EFP funds invested in the endowment	367,648	-	-	367,648
Other funds invested in the endowment, net	27,578	980	43,733	72,291
Total gifts, transfers and other changes in endowment	418,456	9,005	232,157	659,618
Total net increase in endowment	1,419,792	1,046,255	291,091	2,757,138
ENDOWMENT, END OF YEAR	\$ 9,405,641	\$ 6,574,426	\$ 5,465,939	\$ 21,446,006

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, 2015 and 2014, in thousands of dollars:

	2015	2014
LPCH	\$ 307,571	\$ 308,872
SHC	18,360	17,985
TOTAL ENDOWMENT FUNDS	\$ 325,931	\$ 326,857

The Hospitals invest the majority of their endowments in the University's MP. Their endowments are subject to the same investment and spending strategies that the University employs as described in *Note 12*. The Hospitals' Boards of Directors have approved payout policies which provide for annual amounts to be distributed for current use. "Amounts distributed for operations" in the table below represents the Hospitals' current year endowment payout spent for designated purposes during fiscal years 2015 and 2014.

The Hospitals classify as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment and (b) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are authorized for expenditure. In the absence of donor stipulations or law to the contrary, net unrealized losses on permanently restricted endowment funds first reduce related appreciation on temporarily restricted net assets and then on unrestricted net assets, as needed, until the fair value of the fund equals or exceeds historic value. The Hospitals have no funds where fair value was below historic value at August 31, 2015 and 2014.

Changes in Hospitals endowments, for the years ended August 31, 2015 and 2014, in thousands of dollars, are as follows:

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
2015				
Endowments, beginning of year	\$ -	\$ 115,823	\$ 211,034	\$ 326,857
Investment returns:				
Earned income	-	15,640	-	15,640
Unrealized and realized gains	-	(1,888)	(310)	(2,198)
Total investment returns	-	13,752	(310)	13,442
Amounts distributed for operations	-	(14,685)	-	(14,685)
Gifts and pledge payments	-	2	852	854
Other	-	(1,060)	523	(537)
Total net increase in endowments	-	(1,991)	1,065	(926)
ENDOWMENTS, END OF YEAR	\$ -	\$ 113,832	\$ 212,099	\$ 325,931
2014				
Endowments, beginning of year	\$ (12)	\$ 88,612	\$ 208,332	\$ 296,932
Investment returns:				
Earned income	-	14,957	-	14,957
Unrealized and realized gains	12	27,579	1,938	29,529
Total investment returns	12	42,536	1,938	44,486
Amounts distributed for operations	-	(14,551)	-	(14,551)
Gifts and pledge payments	-	-	744	744
Other	-	(774)	20	(754)
Total net increase in endowments	12	27,211	2,702	29,925
ENDOWMENTS, END OF YEAR	\$ -	\$ 115,823	\$ 211,034	\$ 326,857

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

14. Gifts and Pledges

Gifts and pledges reported for financial statement purposes are recorded on the accrual basis. The Office of Development (OOD) reports total gifts based on contributions received in cash or property during the fiscal year. The following summarizes gifts and pledges reported for the years ended August 31, 2015 and 2014, per the *Statements of Activities*, in thousands of dollars:

	2015	2014
UNIVERSITY		
Current year gifts in support of operations	\$ 233,572	\$ 211,841
Donor advised funds, net	66,734	29,314
Current year gifts not included in operations	1,655	17,673
Temporarily restricted gifts and pledges, net	250,808	372,875
Permanently restricted gifts and pledges, net	208,206	154,068
TOTAL	760,975	785,771
HOSPITALS		
Current year gifts in support of operations	7,603	678
Temporarily restricted gifts and pledges, net	123,143	88,179
Permanently restricted gifts and pledges, net	852	764
TOTAL	131,598	89,621
CONSOLIDATED TOTAL PER STATEMENTS OF ACTIVITIES	892,573	875,392

15. Functional Expenses

Expenses for the years ended August 31, 2015 and 2014 are categorized on a functional basis as follows, in thousands of dollars:

	2015			2014
	UNIVERSITY	HOSPITALS	CONSOLIDATED	CONSOLIDATED
Instruction and departmental research	\$ 1,613,005	\$ -	\$ 1,613,005	\$ 1,492,360
Organized research - direct costs	1,159,430	-	1,159,430	1,075,577
Patient services	-	3,317,922	3,317,922	2,753,321
Auxiliary activities	962,599	-	962,599	896,359
Administration and general	393,130	373,212	766,342	676,133
Student services	219,785	-	219,785	188,268
Libraries	154,709	-	154,709	160,182
Development	91,953	14,060	106,013	104,341
SLAC facilities construction	51,087	-	51,087	42,736
TOTAL EXPENSES	\$ 4,645,698	\$ 3,705,194	\$ 8,350,892	\$ 7,389,277

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

16. University Retirement Plans

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

DEFINED CONTRIBUTION PLAN

The University offers a defined contribution plan to eligible faculty and staff through the *Stanford Contributory Retirement Plan* (SCRCP). Employer contributions are based on a percentage of participant annual compensation, participant contributions and years of service. University and participant contributions are primarily invested in annuities and mutual funds. University contributions under the SCRCP, which are vested immediately to participants, were approximately \$137.5 million and \$129.0 million for the years ended August 31, 2015 and 2014, respectively.

DEFINED BENEFIT PLANS

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

Staff Retirement Annuity Plan

Retirement benefits for certain employees are provided through the *Staff Retirement Annuity Plan* (SRAP), a noncontributory plan. While the SRAP is closed to new participants, certain employees continue to accrue benefits. 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 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, 2015 and 2014, there were no program assets. The University funds benefit payouts as they are incurred.

Postretirement Benefit Plan

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

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

	SRAP	FRIP	PRBP	TOTAL
2015				
Fair value of plan assets, beginning of year	\$ 301,314	\$ -	\$ 203,109	\$ 504,423
Change in plan assets:				
Actual return on plan assets	(6,231)	-	(7,067)	(13,298)
Employer contributions	-	4,782	16,205	20,987
Plan participants' contributions	-	-	11,173	11,173
Benefits and plan expenses paid	(25,114)	(4,782)	(28,442) *	(58,338)
FAIR VALUE OF PLAN ASSETS, END OF YEAR	269,969	-	194,978	464,947
Benefit obligation, beginning of year	316,165	197,596	556,898	1,070,659
Change in projected benefit obligation:				
Service cost	3,003	12,326	20,079	35,408
Interest cost	11,003	6,923	22,471	40,397
Plan amendments	1,565	-	-	1,565
Plan participants' contributions	-	-	11,173	11,173
Actuarial loss (gain)	10,213	(4,582)	44,288	49,919
Benefits and plan expenses paid	(25,114)	(4,782)	(28,442) *	(58,338)
BENEFIT OBLIGATION, END OF YEAR	316,835	207,481	626,467	1,150,783
NET LIABILITY RECOGNIZED IN THE STATEMENTS OF FINANCIAL POSITION	\$ (46,866)	\$ (207,481)	\$ (431,489)	\$ (685,836)
* Net of Medicare subsidy				
2014				
Fair value of plan assets, beginning of year	\$ 276,536	\$ -	\$ 170,537	\$ 447,073
Change in plan assets:				
Actual return on plan assets	49,934	-	29,678	79,612
Employer contributions	-	3,694	18,373	22,067
Plan participants' contributions	-	-	9,146	9,146
Benefits and plan expenses paid	(25,156)	(3,694)	(24,625) *	(53,475)
FAIR VALUE OF PLAN ASSETS, END OF YEAR	301,314	-	203,109	504,423
Benefit obligation, beginning of year	310,424	175,558	504,015	989,997
Change in projected benefit obligation:				
Service cost	3,253	10,827	15,577	29,657
Interest cost	12,798	7,373	23,606	43,777
Plan participants' contributions	-	-	9,146	9,146
Actuarial loss	14,846	7,532	29,179	51,557
Benefits and plan expenses paid	(25,156)	(3,694)	(24,625) *	(53,475)
BENEFIT OBLIGATION, END OF YEAR	316,165	197,596	556,898	1,070,659
NET LIABILITY RECOGNIZED IN THE STATEMENTS OF FINANCIAL POSITION	\$ (14,851)	\$ (197,596)	\$ (353,789)	\$ (566,236)

* Net of Medicare subsidy

The accumulated benefit obligation for the SRAP was \$314.8 million and \$313.9 million at August 31, 2015 and 2014, respectively.

Net periodic benefit expense and non-operating activities related to the Plans for the years ended August 31, 2015 and 2014, in thousands of dollars, includes the following components:

	SRAP	FRIP	PRBP	TOTAL
2015				
Service cost	\$ 3,003	\$ 12,326	\$ 20,079	\$ 35,408
Interest cost	11,003	6,923	22,471	40,397
Expected return on plan assets	(18,660)	-	(15,233)	(33,893)
Amortization of:				
Prior service cost	277	-	2,545	2,822
Actuarial loss	-	5,570	5,192	10,762
NET PERIODIC BENEFIT EXPENSE (INCOME)	(4,377)	24,819	35,054	55,496
Net actuarial loss (gain)	35,104	(4,582)	66,588	97,110
Prior service cost	1,565	-	-	1,565
Amortization of:				
Prior service cost	(277)	-	(2,545)	(2,822)
Actuarial loss	-	(5,570)	(5,192)	(10,762)
TOTAL AMOUNTS RECOGNIZED IN NON-OPERATING ACTIVITIES	36,392	(10,152)	58,851	85,091
TOTAL AMOUNT RECOGNIZED IN NET PERIODIC BENEFIT EXPENSE AND NON-OPERATING ACTIVITIES	\$ 32,015	\$ 14,667	\$ 93,905	\$ 140,587
2014				
Service cost	\$ 3,253	\$ 10,827	\$ 15,577	\$ 29,657
Interest cost	12,798	7,373	23,606	43,777
Expected return on plan assets	(18,389)	-	(11,938)	(30,327)
Amortization of:				
Prior service cost	540	-	2,545	3,085
Actuarial loss	349	5,679	5,111	11,139
NET PERIODIC BENEFIT EXPENSE (INCOME)	(1,449)	23,879	34,901	57,331
Net actuarial loss (gain)	(16,699)	7,532	11,439	2,272
Amortization of:				
Prior service cost	(540)	-	(2,545)	(3,085)
Actuarial loss	(349)	(5,679)	(5,111)	(11,139)
TOTAL AMOUNTS RECOGNIZED IN NON-OPERATING ACTIVITIES	(17,588)	1,853	3,783	(11,952)
TOTAL AMOUNT RECOGNIZED IN NET PERIODIC BENEFIT EXPENSE AND NON-OPERATING ACTIVITIES	\$ (19,037)	\$ 25,732	\$ 38,684	\$ 45,379

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, 2015 and 2014, in thousands of dollars:

	SRAP	FRIP	PRBP	TOTAL
2015				
Prior service cost	\$ 1,602	\$ -	\$ 849	\$ 2,451
Net actuarial loss	56,942	88,538	196,421	341,901
ACCUMULATED PLAN BENEFIT COSTS NOT YET RECOGNIZED IN NET PERIODIC BENEFIT EXPENSE	\$ 58,544	\$ 88,538	\$ 197,270	\$ 344,352
2014				
Prior service cost	\$ 314	\$ -	\$ 3,394	\$ 3,708
Net actuarial loss	21,838	98,690	135,025	255,553
ACCUMULATED PLAN BENEFIT COSTS NOT YET RECOGNIZED IN NET PERIODIC BENEFIT EXPENSE	\$ 22,152	\$ 98,690	\$ 138,419	\$ 259,261

The prior service costs and net actuarial loss expected to be amortized from non-operating activities to net periodic benefit expense in fiscal year 2016, in thousands of dollars, are as follows:

	SRAP	FRIP	PRBP	TOTAL
Prior service cost	\$ 396	\$ -	\$ 849	\$ 1,245
Net actuarial loss	\$ 1,047	\$ 4,747	\$ 8,625	\$ 14,419

ACTUARIAL ASSUMPTIONS

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

	SRAP		FRIP		PRBP	
	2015	2014	2015	2014	2015	2014
BENEFIT OBLIGATIONS						
Discount rate	4.00%	3.64%	3.93%	3.59%	4.46%	4.10%
Covered payroll growth rate	3.00%	3.00%	4.45%	4.45%	N/A	N/A
NET PERIODIC BENEFIT COST						
Discount rate	3.64%	4.31%	3.59%	4.30%	4.10%	4.77%
Expected returns on plan assets	6.50%	7.00%	N/A	N/A	7.50%	7.00%
Covered payroll growth rate	3.00%	3.50%	4.45%	4.41%	N/A	N/A

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

The expected long-term rate of return on asset assumptions for the SRAP and PRBP plans is 6.5% and 7.5%, respectively. The assumption is used in determining the expected returns on plan assets, a component of net periodic benefit expense (income), representing the expected return for the upcoming fiscal year on plan assets. This assumption is developed based on future expectations for returns in each asset class, as well as the target asset allocation of the portfolios. The use of expected long-term returns on plan assets may result in income that is greater or less than the actual returns of those plan assets in any given year. Over time, however, the expected long-term returns are designed to approximate the actual long-term returns, and therefore result in a pattern of income and cost recognition that more closely matches the pattern of the services provided by the employees. Differences between actual and expected returns are recognized as a component of non-operating activities and amortized as a component of net periodic benefit expense (income) over the service or life expectancy of the plan participants, depending on the plan, provided such amounts exceed the accounting standards threshold.

To determine the accumulated PRBP obligation at August 31, 2015, a 7.00% annual rate of increase in the per capita cost of covered health care was assumed for calendar year 2015, declining gradually to 4.75% by 2024 and remaining at this rate thereafter. Health care cost trend rate assumptions have a significant effect on the amounts reported for the health care plans.

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

	1% INCREASE IN HEALTH CARE COST TREND RATE	1% DECREASE IN HEALTH CARE COST TREND RATE
Effect on PRBP total service and interest cost	\$ 9,952	\$ (7,503)
Effect on accumulated PRBP obligation	\$ 117,795	\$ (92,168)

EXPECTED CONTRIBUTIONS

The University expects to contribute \$10.5 million to the FRIP and does not expect to contribute to the SRAP or PRBP during the fiscal year ending August 31, 2016.

EXPECTED BENEFIT PAYMENTS

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

YEAR ENDING AUGUST 31	SRAP	FRIP	PRBP	
			EXCLUDING MEDICARE SUBSIDY	EXPECTED MEDICARE PART D SUBSIDY
2016	\$ 27,481	\$ 10,535	\$ 21,306	\$ 3,273
2017	23,947	15,515	23,237	3,605
2018	23,949	17,095	25,291	3,954
2019	23,430	16,272	27,388	4,334
2020	23,641	16,557	29,609	4,741
2021 - 2025	108,944	86,107	183,362	30,750

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, 2015, the University did not have concentrations of risk in any single entity, counterparty, sector, industry or country.

PLAN ASSET ALLOCATIONS

Actual allocations and weighted-average target allocations by asset category at August 31, 2015 are as follows:

ASSET CATEGORY	SRAP		PRBP	
	ACTUAL	TARGET	ACTUAL	TARGET
2015				
Cash and cash equivalents	<1%	0%	0%	0%
Public equities	39%	41%	74%	75%
Fixed income	60%	59%	26%	25%
Private equities	<1%	0%	0%	0%
TOTAL 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, 2015 and 2014 are as follows, in thousands of dollars:

	AS OF AUGUST 31, 2015	LEVEL 1	LEVEL 2	LEVEL 3
SRAP:				
Cash and cash equivalents	\$ 1,179	\$ 1,179	\$ -	\$ -
Public equities	105,361	105,361	-	-
Fixed income	163,205	159,479	3,726	-
Private equities	224	-	-	224
TOTAL	269,969	266,019	3,726	224
PRBP:				
Public equities	145,070	145,070	-	-
Fixed income	49,908	49,908	-	-
TOTAL	194,978	194,978	-	-
TOTAL FAIR VALUE OF PLAN ASSETS	\$ 464,947	\$ 460,997	\$ 3,726	\$ 224

	AS OF AUGUST 31, 2014	LEVEL 1	LEVEL 2	LEVEL 3
SRAP:				
Cash and cash equivalents	\$ 1,308	\$ 1,308	\$ -	\$ -
Public equities	119,908	119,908	-	-
Fixed income	179,842	176,061	3,781	-
Private equities	256	-	-	256
TOTAL	301,314	297,277	3,781	256
PRBP:				
Public equities	152,150	152,150	-	-
Fixed income	50,959	50,959	-	-
TOTAL	203,109	203,109	-	-
TOTAL FAIR VALUE OF PLAN ASSETS	\$ 504,423	\$ 500,386	\$ 3,781	\$ 256

17. Hospitals Retirement Plans

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

DEFINED CONTRIBUTION PLAN

The Hospitals offer a defined contribution plan to eligible employees. Employer contributions to the defined contribution retirement plan are based on a percentage of participant annual compensation, participant contributions and years of service. The Hospitals' contributions under the plan, which are vested immediately to participants, were approximately \$90.7 million and \$81.3 million for the years ended August 31, 2015 and 2014, respectively.

DEFINED BENEFIT PLANS

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

Staff Pension Plan

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

Postretirement Medical Benefit Plan

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

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

	STAFF PENSION PLAN	PRMB	TOTAL
2015			
Fair value of plan assets, beginning of year	\$ 220,428	\$ -	\$ 220,428
Change in plan assets:			
Actual return on plan assets	(4,835)	-	(4,835)
Employer contributions	300	4,914	5,214
Plan participants' contributions	-	1,038	1,038
Benefits and plan expenses paid	(12,340)	(5,952) *	(18,292)
FAIR VALUE OF PLAN ASSETS, END OF YEAR	203,553	-	203,553
Benefit obligation, beginning of year	253,151	84,616	337,767
Change in projected benefit obligation:			
Service cost	2,006	2,068	4,074
Interest cost	9,455	2,995	12,450
Plan participants' contributions	-	1,038	1,038
Actuarial loss (gain)	4,883	(14)	4,869
Benefits and plan expenses paid	(12,340)	(5,952) *	(18,292)
BENEFIT OBLIGATION, END OF YEAR	257,155	84,751	341,906
NET LIABILITY RECOGNIZED IN THE STATEMENTS OF FINANCIAL POSITION	\$ (53,602)	\$ (84,751)	\$ (138,353)
<i>* Net of Medicare subsidy</i>			
2014			
Fair value of plan assets, beginning of year	\$ 187,527	\$ -	\$ 187,527
Change in plan assets:			
Actual return on plan assets	37,820	-	37,820
Employer contributions	6,020	4,703	10,723
Plan participants' contributions	-	1,237	1,237
Benefits and plan expenses paid	(10,939)	(5,940) *	(16,879)
FAIR VALUE OF PLAN ASSETS, END OF YEAR	220,428	-	220,428
Benefit obligation, beginning of year	231,342	82,846	314,188
Change in projected benefit obligation:			
Service cost	2,324	1,839	4,163
Interest cost	10,330	3,507	13,837
Plan participants' contributions	-	1,237	1,237
Actuarial loss	20,094	1,127	21,221
Benefits and plan expenses paid	(10,939)	(5,940) *	(16,879)
BENEFIT OBLIGATION, END OF YEAR	253,151	84,616	337,767
NET LIABILITY RECOGNIZED IN THE STATEMENTS OF FINANCIAL POSITION	\$ (32,723)	\$ (84,616)	\$ (117,339)
<i>* Net of Medicare subsidy</i>			

The accumulated benefit obligation for the Pension Plan was \$255.0 million and \$250.7 million at August 31, 2015 and 2014, respectively.

Net periodic benefit expense and non-operating activities related to the Plans for the years ended August 31, 2015 and 2014, in thousands of dollars, includes the following components:

	STAFF PENSION PLAN	PRMB	TOTAL
2015			
Service cost	\$ 2,006	\$ 2,068	\$ 4,074
Interest cost	9,455	2,995	12,450
Expected return on plan assets	(13,543)	-	(13,543)
Amortization of:			
Prior service cost	-	815	815
Actuarial loss (gain)	2,631	(338)	2,293
NET PERIODIC BENEFIT EXPENSE	549	5,540	6,089
Net actuarial loss (gain)	23,261	(14)	23,247
Amortization of:			
Prior service cost	-	(815)	(815)
Actuarial gain (loss)	(2,631)	338	(2,293)
TOTAL AMOUNTS RECOGNIZED IN NON-OPERATING ACTIVITIES	20,630	(491)	20,139
TOTAL AMOUNT RECOGNIZED IN NET PERIODIC BENEFIT EXPENSE AND NON- OPERATING ACTIVITIES	\$ 21,179	\$ 5,049	\$ 26,228
2014			
Service cost	\$ 2,324	\$ 1,839	\$ 4,163
Interest cost	10,330	3,507	13,837
Expected return on plan assets	(13,471)	-	(13,471)
Amortization of:			
Prior service cost	-	815	815
Actuarial loss (gain)	2,245	(463)	1,782
NET PERIODIC BENEFIT EXPENSE	1,428	5,698	7,126
Net actuarial loss (gain)	(4,255)	1,127	(3,128)
Amortization of:			
Prior service cost	-	(815)	(815)
Actuarial gain (loss)	(2,245)	463	(1,782)
TOTAL AMOUNTS RECOGNIZED IN NON-OPERATING ACTIVITIES	(6,500)	775	(5,725)
TOTAL AMOUNT RECOGNIZED IN NET PERIODIC BENEFIT EXPENSE AND NON- OPERATING ACTIVITIES	\$ (5,072)	\$ 6,473	\$ 1,401

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, 2015 and 2014, in thousands of dollars:

	STAFF PENSION PLAN	PRMB	TOTAL
2015			
Prior service cost	\$ -	\$ 2,586	\$ 2,586
Net actuarial loss (gain)	87,447	(4,730)	82,717
ACCUMULATED PLAN BENEFIT COSTS NOT YET RECOGNIZED IN NET PERIODIC BENEFIT EXPENSE			
	\$ 87,447	\$ (2,144)	\$ 85,303
2014			
Prior service cost	\$ -	\$ 3,401	\$ 3,401
Net actuarial loss (gain)	66,817	(5,054)	61,763
ACCUMULATED PLAN BENEFIT COSTS NOT YET RECOGNIZED IN NET PERIODIC BENEFIT EXPENSE			
	\$ 66,817	\$ (1,653)	\$ 65,164

The prior service cost and net actuarial loss expected to be amortized from non-operating activities to net periodic benefit expense in fiscal year 2016, in thousands of dollars, are as follows:

	STAFF PENSION PLAN	PRMB	TOTAL
Prior service cost	\$ -	\$ 773	\$ 773
Net actuarial loss (gain)	\$ 2,432	\$ (313)	\$ 2,119

ACTUARIAL ASSUMPTIONS

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

	STAFF PENSION PLAN		PRMB	
	2015	2014	2015	2014
BENEFIT OBLIGATIONS				
Discount rate	4.03% - 4.20%	3.66% - 3.84%	4.01%	3.65%
Covered payroll growth rate	3.00%	3.00%	N/A	N/A
NET PERIODIC BENEFIT COST				
Discount rate	3.66% - 3.84%	4.37% - 4.59%	3.65%	4.37%
Expected return on plan assets	6.25% - 7.00%	6.25% - 7.50%	N/A	N/A
Covered payroll growth rate	3.00%	3.00%	N/A	N/A

In 2014, the Society of Actuaries issued a new mortality table (RP-2014) and a new mortality improvement (projection) scale that recognize increases in life expectancy. In selecting its assumptions for determining the benefit obligations as of August 31, 2015, the Hospitals adopted a modified version of the RP-2014 mortality table and a projection scale based on the 2014 Trustees Report of the Social Security Administration (SSA). The use of the new mortality table and projection scale resulted in an increase of approximately \$19.0 million and \$7.4 million to the Pension Plan and PRMB benefit obligations, as of August 31, 2015, respectively.

The expected long-term rate of return on asset assumptions for the Pension Plan is 6.25% - 7.00%. The assumption is used in determining the expected returns on plan assets, a component of net periodic benefit expense (income), representing the expected return for the upcoming fiscal year on plan assets based on the calculated market-related value of plan assets. This assumption is developed based on future expectations for returns in each asset class, as well as the target asset allocation of the portfolios. The use of expected long-term returns on plan assets may result in income that is greater or less than the actual returns of those plan assets in any given year. Over time, however, the expected long-term returns are designed to approximate the actual long-term returns, and therefore result in a pattern of income and cost recognition that more closely matches the pattern of the services provided by the employees. Differences between actual and expected returns are recognized as a component of non-operating activities and amortized as a component of net periodic benefit expense (income) over the service or life expectancy of the plan participants, depending on the plan, provided such amounts exceed the accounting standards threshold.

To determine the accumulated PRMB obligation at August 31, 2015, a 7.00% annual rate of increase in the per capita cost of covered health care was assumed for calendar year 2015, declining gradually to 4.75% by 2024 and remaining at this rate thereafter. Health care cost trend rate assumptions have a significant effect on the amounts reported for the health care plan.

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

	1% INCREASE IN HEALTH CARE COST TREND RATE	1% DECREASE IN HEALTH CARE COST TREND RATE
Effect on PRMB total service and interest cost	\$ 133	\$ (123)
Effect on accumulated PRMB obligation	\$ 2,144	\$ (2,004)

EXPECTED CONTRIBUTIONS

The Hospitals expect to contribute \$101 thousand to the Pension Plan and \$4.4 million to the PRMB during the fiscal year ending August 31, 2016.

EXPECTED BENEFIT PAYMENTS

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

YEAR ENDING AUGUST 31	STAFF PENSION PLAN	PRMB	
		EXCLUDING MEDICARE SUBSIDY	EXPECTED MEDICARE PART D SUBSIDY
2016	\$ 13,816	\$ 5,408	\$ 287
2017	14,343	5,640	279
2018	14,851	5,950	275
2019	15,316	6,289	270
2020	15,755	6,621	263
2021 - 2025	82,388	35,641	1,165

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. 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 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, 2015, the Hospitals did not have concentrations of risk in any single entity, counterparty, sector, industry or country.

PLAN ASSET ALLOCATIONS

Actual allocations and weighted-average target allocations by asset category for the Pension Plan at August 31, 2015 are as follows:

ASSET CATEGORY	ACTUAL	TARGET
2015		
Cash and cash equivalents	1%	0%
Public equities	48%	50%
Fixed income	51%	50%
TOTAL 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, 2015 and 2014, are all categorized as Level 1 investments and are as follows, in thousands of dollars:

	2015	2014
Cash and cash equivalents	\$ 1,328	\$ 962
Public equities	97,457	107,628
Fixed income	104,768	111,838
TOTAL FAIR VALUE OF PENSION PLAN ASSETS	\$ 203,553	\$ 220,428

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, 2015 and 2014 was \$51.1 million and \$45.3 million, respectively, for the University and \$91.9 million and \$80.5 million, respectively, for the Hospitals.

Net minimum future operating lease payments for periods subsequent to August 31, 2015, in thousands of dollars, are as follows:

YEAR ENDING AUGUST 31	MINIMUM LEASE PAYMENTS	
	UNIVERSITY	HOSPITALS
2016	\$ 46,779	\$ 86,690
2017	35,961	82,309
2018	34,900	79,059
2019	25,825	72,932
2020	17,692	57,995
Thereafter	91,880	157,767
TOTAL	\$ 253,037	\$ 536,752

19. Related Party Transactions

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

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

20. Commitments and Contingencies

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

SPONSORED RESEARCH

The University conducts substantial research for the federal government pursuant to contracts and grants from federal agencies and departments. The University records reimbursements of direct and indirect costs (facilities and administrative costs) from grants and contracts as operating revenues. The Office of Naval Research is the University's cognizant federal agency for determining indirect cost rates charged to federally sponsored agreements. It is supported by the Defense Contract Audit Agency, which has the responsibility for auditing direct and indirect charges under those agreements. Costs recovered by the University in support of sponsored research are subject to audit and adjustment. Fringe benefit costs for the fiscal years ended August 31, 2007 to 2015 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, 2006 for SHC and August 31, 2013 for LPCH.

The health care industry is subject to numerous laws and regulations of federal, state and local governments. Compliance with these laws and regulations can be subject to future government review and interpretation, as well as to regulatory actions unknown or unasserted at this time. Government activity with respect to investigations and allegations concerning possible violations by health care 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 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 civil remedies would not have a material effect on its financial position.

INFORMATION SECURITY AND PRIVACY

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

LABOR AGREEMENTS

Approximately 8% of the University's, 32% of SHC's and 42% of LPCH's employees are covered under union contract arrangements and are, therefore, subject to labor stoppages when contracts expire. There are currently no expired contracts under these union contract arrangements. The University's agreements with the Stanford Deputy Sheriffs' Association and the Service Employees International Union (SEIU) will expire in 2020 and 2019, respectively. The Hospitals' agreements with SEIU and the Committee for Recognition of Nursing Achievement (CRONA) will expire in 2017 and 2016, respectively.

GUARANTEES AND INDEMNIFICATIONS

The University and the Hospitals enter into indemnification agreements with third parties in the normal course of business. The impact of these agreements, individually or in the aggregate, is not expected to be material to the consolidated financial statements. As a result, no liabilities related to guarantees and indemnifications have been recorded at August 31, 2015.

LITIGATION

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

MEDICAL CENTER RENEWAL PROJECT

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

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

SHC's and LPCH's share of the estimated total cost of the Renewal Project is \$2 billion and \$1.2 billion, respectively. The source of funding for the Renewal Project includes operating surpluses, gifts, government grants, and bond proceeds. Through August 2015, the Hospitals have recorded \$1.4 billion in construction in progress, inclusive of \$81.1 million in capitalized interest, related to this project. Based on current estimated schedules, management currently projects that the Renewal Project construction will be complete in 2017.

CONTRACTUAL COMMITMENTS

At August 31, 2015, the University had contractual obligations of approximately \$334.4 million in connection with major construction projects. Remaining expenditures on construction in progress are estimated to be \$747.9 million, which will be financed with certain unexpended plant funds, gifts and debt. Commitments on contracts for the construction and remodeling of Hospital facilities were approximately \$1.0 billion at August 31, 2015.

An agreement with a solar farm developer and operator was executed in 2015 to purchase the output from its proposed solar photovoltaic facility, which is expected to be placed into service by January 1, 2017. The University's total payment under the agreement over 25 years, undiscounted, is \$198.6 million.

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

21. Subsequent Events

The University and the Hospitals have evaluated subsequent events for the period from August 31, 2015 through December 9, 2015, the date the consolidated financial statements were issued.