

*In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series T-5 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. In the further opinion of Bond Counsel, interest on the Series T-5 Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings in calculating federal corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other tax consequences relating to the ownership or disposition of or the accrual or receipt of interest on, the Series T-5 Bonds. See “TAX MATTERS” herein.*



**\$51,765,000**  
**CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY**  
**Refunding Revenue Bonds (Stanford University)**  
**Series T-5**

**Dated: Date of Delivery****Due: March 15, 2023**

The Series T-5 Bonds (the “Series T-5 Bonds”) will be issued in book-entry form in denominations of \$5,000 or any integral multiple thereof. Interest on the Series T-5 Bonds is payable semiannually on each March 15 and September 15, commencing March 15, 2010. The Series T-5 Bonds will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). DTC will act as securities depository of the Series T-5 Bonds. Principal of and interest on the Series T-5 Bonds will be payable directly to DTC, as the registered owner of the Series T-5 Bonds, by U.S. Bank National Association, as trustee (the “Trustee”). For so long as DTC or its nominee, Cede & Co., is the registered owner of the Series T-5 Bonds, all notices will be mailed only to Cede & Co. See Appendix C – “BOOK-ENTRY SYSTEM” herein.

The Series T-5 Bonds are not subject to redemption prior to maturity.

The Series T-5 Bonds are being issued by the California Educational Facilities Authority (the “Authority”) on behalf of The Board of Trustees of the Leland Stanford Junior University (the “University”) pursuant to an Indenture, dated as of June 1, 2007, as supplemented from time to time, including a Fourth Supplemental Indenture dated as of August 1, 2009 (as supplemented, the “Indenture”), by and between the Authority and the Trustee. The Series T-5 Bonds are limited obligations of the Authority payable only out of Revenues as defined in the Indenture and other amounts held in the funds established by the Indenture. The Revenues consist primarily of payments to be made by

## STANFORD UNIVERSITY

The University intends to use the proceeds of the Series T-5 Bonds to refinance certain outstanding obligations of the University. See “PLAN OF FINANCE.”

THE SERIES T-5 BONDS SHALL NOT BE DEEMED TO CONSTITUTE A DEBT OR LIABILITY OF THE AUTHORITY, THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF OTHER THAN THE AUTHORITY, BUT SHALL BE PAYABLE SOLELY FROM THE FUNDS PROVIDED THEREFOR. NEITHER THE STATE OF CALIFORNIA NOR THE AUTHORITY OR ANY POLITICAL SUBDIVISION THEREOF SHALL BE OBLIGATED TO PAY THE PRINCIPAL OF THE SERIES T-5 BONDS OR THE INTEREST THEREON, EXCEPT FROM THE FUNDS PROVIDED UNDER THE LOAN AGREEMENT AND INDENTURE, ALL AS DESCRIBED HEREIN. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF, INCLUDING THE AUTHORITY, IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR THE INTEREST ON THE SERIES T-5 BONDS. THE ISSUANCE OF THE SERIES T-5 BONDS SHALL NOT DIRECTLY, INDIRECTLY OR CONTINGENTLY OBLIGATE THE STATE OF CALIFORNIA, THE AUTHORITY, OR ANY POLITICAL SUBDIVISION THEREOF TO LEVY OR TO PLEDGE ANY FORM OF TAXATION WHATSOEVER OR TO MAKE ANY APPROPRIATION FOR THEIR PAYMENT. THE AUTHORITY HAS NO TAXING POWER.

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

**\$51,765,000 5.00% Series T-5 Bonds due March 15, 2023 Yield 3.66% CUSIP†: 130178 TQ9**

*The Series T-5 Bonds are offered by the Underwriter when, as and if issued by the Authority and accepted by the Underwriter subject to the approval of legality by Orrick, Herrington & Sutcliffe LLP, Bond Counsel, and subject to certain other conditions. Certain legal matters will be passed upon for the Authority by the Attorney General of the State of California, for the Underwriter by Hawkins Delafield & Wood LLP, and for the University by its General Counsel. It is expected that the Series T-5 Bonds will be available for delivery through the facilities of DTC in New York, New York on or about August 4, 2009.*

***Honorable Bill Lockyer***  
***Treasurer of the State of California***

**Morgan Stanley**

July 15, 2009

† Copyright 2009, American Bankers Association. CUSIP data herein is provided by Standard and Poor’s CUSIP Service Bureau, a division of the McGraw Hill Companies, Inc. CUSIP numbers are provided for reference only. The Authority, the University and the Underwriter do not take responsibility for the accuracy of such numbers.

This Official Statement does not constitute an offer to sell the Series T-5 Bonds in any jurisdiction in which or to any person to whom it is unlawful to make such an offer. No dealer, salesperson or other person has been authorized by the Authority, the University or the Underwriter to give any information or to make any representations, other than those contained herein, in connection with the offering of the Series T-5 Bonds and, if given or made, such information or representations must not be relied upon.

The information set forth herein under the caption "THE AUTHORITY" has been obtained from the Authority. All other information set forth herein has been obtained from the University and other sources which are believed to be current and reliable, but is not to be construed as a representation by the Authority.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

Estimates and opinions are included and should not be interpreted as statements of fact. Summaries of documents do not purport to be complete statements of their provisions. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority or the University since the date hereof.

In connection with this offering, the Underwriter may over allot or effect transactions that stabilize or maintain the market price of the Series T-5 Bonds at levels above those which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

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**\$51,765,000**  
**CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY**  
**Refunding Revenue Bonds (Stanford University)**  
**Series T-5**

**INTRODUCTION**

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

**General**

This Official Statement, including the cover page and Appendices hereto (this "Official Statement"), provides certain information in connection with the offering of \$51,765,000 aggregate principal amount of California Educational Facilities Authority Refunding Revenue Bonds (Stanford University) Series T-5 (the "Series T-5 Bonds").

The Series T-5 Bonds will be issued pursuant to the provisions of the California Educational Facilities Authority Act, constituting Chapter 2 (commencing with Section 94100) of Part 59 of Division 10 of Title 3 of the Education Code of the State of California, as amended (the "Act"), and the Indenture (defined below).

The Series T-5 Bonds will be issued pursuant to and secured by an Indenture dated as of June 1, 2007, as supplemented from time to time, including a Fourth Supplemental Indenture dated as of August 1, 2009 (as supplemented, the "Indenture"), between the California Educational Facilities Authority (the "Authority") and U.S. Bank National Association, as trustee (the "Trustee"). The Authority will lend the proceeds of the Series T-5 Bonds to The Board of Trustees of the Leland Stanford Junior University (the "University") pursuant to a Loan Agreement dated as of June 1, 2007, as supplemented from time to time, including a Fourth Supplemental Loan Agreement dated as of August 1, 2009 (as supplemented, the "Loan Agreement"), between the Authority and the University.

**Plan of Finance**

On April 26, 2007, the Authority adopted Resolution No. 245, authorizing the issuance of bonds to finance and/or refinance certain capital projects of the University (the "Series T Project").

The Authority will lend the proceeds of the Series T-5 Bonds to the University pursuant to the Loan Agreement in order to refund certain outstanding obligations of the University. See "PLAN OF FINANCE," "VERIFICATION OF MATHEMATICAL COMPUTATIONS" and "SOURCES AND USES OF FUNDS" herein.

**The University**

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

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

### **The Series T-5 Bonds**

The Series T-5 Bonds are to be dated as of the date of their initial issuance and delivery. The Series T-5 Bonds are issuable in fully registered, book-entry form, have interest and payment terms as set forth in the Indenture and as described herein. See "THE SERIES T-5 BONDS."

The Series T-5 Bonds, when issued, will be registered in the name of Cede & Co., as nominee of DTC. DTC will act as securities depository of the Series T-5 Bonds. Individual purchases of the Series T-5 Bonds will be made in book-entry form only. Principal of and interest on the Series T-5 Bonds will be payable by the Trustee directly to DTC, as the registered owner of the Series T-5 Bonds. Upon receipt of payments of principal and interest, DTC is to remit such principal and interest to the DTC Participants for subsequent disbursement to the Beneficial Owners (as defined in Appendix C) of the Series T-5 Bonds. Purchasers will not receive certificates representing the Series T-5 Bonds purchased by them. See Appendix C – "BOOK-ENTRY SYSTEM."

### **Security for the Series T-5 Bonds**

The Series T-5 Bonds are payable from loan payments to be paid by the University to the Trustee pursuant to the Loan Agreement. The obligation of the University to make loan payments under the Loan Agreement is an unsecured general obligation of the University. The Loan Agreement contains certain covenants for the protection of the Holders of the Series T-5 Bonds and the Authority. See Appendix B – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Loan Agreement." The Series T-5 Bonds are not secured by a reserve fund, or a lien on, or security interests in, any funds, revenues or other assets of the University, except for certain funds and accounts held from time to time by the Trustee for the benefit of the Holders of the Series T-5 Bonds under the Indenture. The hospital affiliates of the University described in Appendix A hereto are not obligated with respect to the payment of debt service on the Series T-5 Bonds and their assets and revenues are not pledged and are not expected to be available to the University or the Bondholders for such purpose.

The Indenture provides that revenues received by the Trustee are to be held in trust and are exclusively and irrevocably pledged for the security and payment of the principal of and interest on the Series T-5 Bonds.

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

### **Continuing Disclosure**

The University will undertake in a Continuing Disclosure Agreement, for the benefit of the Holders of the Series T-5 Bonds, to provide to the Trustee certain annual information and notices required to be provided by Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended. See "CONTINUING DISCLOSURE."

### **Miscellaneous**

Included in this Official Statement and the Appendices hereto are descriptions of the University, the Series T-5 Bonds, the Indenture and the Loan Agreement. All references herein to the Indenture and the Loan Agreement are qualified in their entirety by reference to such documents, and the description

herein of the Series T-5 Bonds is qualified in its entirety by reference to the terms thereof and the information regarding the Series T-5 Bonds included in the Indenture. All descriptions are further qualified in their entirety by reference to laws relating to or effecting the enforcement of creditors' rights. The agreements of the Authority with the Holders of the Series T-5 Bonds are fully set forth in the Indenture, and neither any advertisement of the Series T-5 Bonds nor this Official Statement is to be construed as constituting an agreement with the Holders of the Series T-5 Bonds. Insofar as any statements are made in this Official Statement involving matters of opinion, regardless of whether expressly so stated, they are intended merely as such and not as representations of fact. The information and expressions of opinion herein speak only as of their date and are subject to change without notice. Neither delivery of this Official Statement nor any sale made hereunder nor any future use of this Official Statement shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority or the University.

Additional information regarding this Official Statement and copies of the documents referred to herein may be obtained by contacting the Office of the Vice President for Business Affairs and Chief Financial Officer, Stanford University, Building 60, 450 Serra Mall, Stanford, California 94305-2065, (650) 723-5660. In addition, certain documents referred to herein may be obtained on-line at <http://bondholder-information.stanford.edu/home.html>. The information on the University's website is not a part of this Official Statement.

## THE AUTHORITY

The California Educational Facilities Authority is a public instrumentality of the State of California created pursuant to the provisions of the Act. The Authority is authorized to issue the Series T-5 Bonds under the Act, to make the loan contemplated by the Loan Agreement and to secure the Series T-5 Bonds by a pledge of the Revenues derived by the Authority pursuant to the Loan Agreement.

### Organization and Membership of the Authority

The Authority consists of the Treasurer, the Controller and the Director of Finance of the State of California and two members appointed by the Governor of the State of California. Of the two appointed members, one must be affiliated with a public institution of higher education and the other must be affiliated with a private institution of higher education.

The members of the Authority serve without compensation but are entitled to reimbursement of actual and necessary expenses incurred in the performance of their duties.

The present members and officers of the Authority and their occupations are as follows:

*Bill Lockyer*, Chair, Treasurer of the State of California

*John Chiang*, member, Controller of the State of California

*Michael C. Genest*, member, Director of Finance of the State of California

*Sylvia Scott-Hayes*, member, Trustee, Los Angeles Community College District Board

*Michael L. Jackson*, member, Vice President for Student Affairs, University of Southern California



Barbara J. Liebert is the Executive Director of the Authority and is responsible to the Authority for the management of its affairs. The Attorney General of the State of California is counsel to the Authority. Public Financial Management, Inc., San Francisco, California, serves as pricing advisor to the Authority.

### **Outstanding Indebtedness of the Authority**

The Authority is empowered under the Act to have outstanding from time to time an unlimited amount of indebtedness. As of March 31, 2009, the Authority had outstanding \$4,427,073,115 aggregate principal amount of bonds and notes (excluding certain bonds and notes which have been defeased) issued on behalf of various California independent colleges and universities.

### **PLAN OF FINANCE**

The Authority will lend the proceeds of the Series T-5 Bonds to the University pursuant to the Loan Agreement in order to advance refund \$59,180,000 in aggregate principal amount of the California Educational Facilities Authority Revenue Bonds (Stanford University) Series P, maturing on December 1, 2023 (the "Refunded Bonds"). The remainder of the Series P Bonds, maturing on December 1, 2013, are not being refunded and will remain outstanding.

Pursuant to the terms of the Indenture and the Loan Agreement, the Trustee will deposit the proceeds of the Series T-5 Bonds in the CEFA Series P Account within the Escrow Fund (the "Escrow Fund"). In order to defease the Refunded Bonds, the University will also transfer internal funds to the Trustee for deposit into the Escrow Fund that, when invested with the deposited proceeds of the Series T-5 Bonds, are expected to be sufficient to pay the principal and redemption premium of and accrued interest on the Refunded Bonds upon their redemption on December 1, 2009. The amounts deposited in the Escrow Fund will be invested in federal securities to be held by the Trustee, acting in its capacity as trustee for the Refunded Bonds, and will mature at such times and in such amounts so that sufficient moneys will be available to redeem the Refunded Bonds on December 1, 2009 at their redemption price in accordance with the applicable provisions of the indenture pursuant to which the Refunded Bonds were issued. See "VERIFICATION OF MATHEMATICAL COMPUTATIONS" herein. Amounts on deposit in the Escrow Fund will not be available to pay the Series T-5 Bonds.

For more information on the University's outstanding indebtedness and current plans for future indebtedness, see Appendix A – "STANFORD UNIVERSITY (INCLUDING FINANCIAL STATEMENTS AND DISCUSSION OF FINANCIAL RESULTS)" attached hereto.

### **VERIFICATION OF MATHEMATICAL COMPUTATIONS**

The arithmetical accuracy of the mathematical computations of the adequacy of the cash and the maturing principal of and interest on the investment securities to be held in the Escrow Fund to provide for the payment, when due, of all redemption premium, principal and interest with respect to the Refunded Bonds to and including December 1, 2009 and to redeem such Refunded Bonds on December 1, 2009 at a redemption price equal to 101 percent of the aggregate principal amount of such Refunded Bonds, will be verified by Chris D. Berens, CPA, P.C., a firm of independent certified public accountants. See "PLAN OF FINANCE" above.



## SOURCES AND USES OF FUNDS

Estimated sources and uses of funds related to the Series T-5 Bonds are shown below:

SOURCES	
Principal amount of the Series T-5 Bonds	\$51,765,000.00
Plus Original Issue Premium	7,382,724.30
Plus University's Contribution <sup>(1)</sup>	<u>2,647,392.33</u>
Total Sources	\$61,795,116.63
USES	
Deposit to Escrow Fund	\$61,217,380.48
Costs of Issuance <sup>(2)</sup>	<u>577,736.15</u>
Total Uses	\$61,795,116.63

<sup>(1)</sup> The University's contribution from internal funds will fund costs of issuance and an amount to be deposited in the Escrow Fund. See "PLAN OF FINANCE" herein.

<sup>(2)</sup> Includes fees of the Authority, the Rating Agencies, the Trustee, the Verification Agent, Bond Counsel, Counsel to the University and Underwriter's discount, as well as certain other costs incurred in connection with the issuance and delivery of the Series T-5 Bonds. Costs of issuance will be paid out of the University's contribution.

## THE SERIES T-5 BONDS

### General

The Series T-5 Bonds will be issued in book-entry form in denominations of \$5,000 or any integral multiple thereof. The Series T-5 Bonds are being issued in the aggregate principal amount and will mature on the dates set forth on the cover hereof. The Series T-5 Bonds are to be dated as of the date of their initial issuance and delivery and will bear interest from such date at the rates set forth on the cover hereof. Interest on the Series T-5 Bonds is payable semiannually on each March 15 and September 15, commencing March 15, 2010 (an "Interest Payment Date"). Interest on the Series T-5 Bonds will be calculated based on a 360-day year of twelve (12) 30-day months. The Series T-5 Bonds are not subject to redemption prior to maturity. See "No Redemption" below.

The Series T-5 Bonds will be issued only in book-entry form and, when issued, will be registered in the name of Cede & Co. or such other name as may be requested by an authorized representative of The Depository Trust Company ("DTC") as nominee of DTC. DTC will act as securities depository for the Series T-5 Bonds. See Appendix C – "BOOK-ENTRY SYSTEM." Except as described in Appendix C – "BOOK-ENTRY SYSTEM," Beneficial Owners of the Series T-5 Bonds will not receive, or have the right to receive, physical delivery of certificates representing their ownership interests in the Series T-5 Bonds. For so long as any purchaser is the Beneficial Owner of a Series T-5 Bond, such purchaser must maintain an account with a broker or dealer who is or acts through a Direct Participant (as defined below) to receive payment of the principal and interest on such Series T-5 Bond.

Interest payable on any Interest Payment Date will be payable to the registered owner of the Series T-5 Bonds as of the Record Date for such payment. So long as the Series T-5 Bonds are held in the book-entry system, the principal and interest on the Series T-5 Bonds will be paid through the facilities of DTC (or a successor securities depository). Otherwise, the principal on the Series T-5 Bonds is payable upon presentation and surrender thereof at the corporate trust office of the Trustee, and interest

on the Series T-5 Bonds is payable by check mailed on each Interest Payment Date to the Holders of the Series T-5 Bonds at the close of business on the Record Date in respect of such Interest Payment Date at the registered addresses of Holders as appears on the registration books of the Trustee. In the case of any Holder of the Series T-5 Bonds in an aggregate principal amount in excess of \$1,000,000 as shown on the registration books of the Trustee who, prior to the Record Date next preceding any Interest Payment Date, has provided the Trustee with wire transfer instructions, interest payable on such Series T-5 Bonds will be paid in accordance with the wire transfer instructions provided by the Holder of such Series T-5 Bond and at the Holder's risk and expense.

Pursuant to the Indenture, the Trustee will require the Bondholder requesting a transfer or exchange of any Series T-5 Bond to pay any tax or other charge required to be paid with respect to such transfer or exchange, and the Trustee also may require the Bondholder requesting a transfer or exchange of any Series T-5 Bond to pay a reasonable sum to cover expenses incurred by the Trustee or the Authority in connection with such transfer or exchange.

### **No Redemption**

The Series T-5 Bonds are not subject to redemption prior to maturity.

### **SECURITY FOR THE SERIES T-5 BONDS**

The Series T-5 Bonds are payable from loan payments to be paid by the University to the Trustee pursuant to the Loan Agreement. The obligation of the University to make loan payments under the Loan Agreement is an unsecured general obligation of the University. The Loan Agreement contains certain covenants for the protection of the Holders of the Series T-5 Bonds and the Authority. See Appendix B – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Loan Agreement." The Series T-5 Bonds are not secured by a reserve fund, or a lien on, or security interests in, any funds, revenues or other assets of the University, except for certain funds and accounts held from time to time by the Trustee for the benefit of the Holders of the Series T-5 Bonds under the Indenture. The affiliates of the University described in Appendix A hereto are not obligated with respect to the payment of debt service on the Series T-5 Bonds and their assets and revenues are not pledged and are not expected to be available to the University or the Bondholders for such purpose.

The Indenture provides that revenues received by the Trustee are to be held in trust and are exclusively and irrevocably pledged for the security and payment of the principal of and interest on the Series T-5 Bonds.

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

The Series T-5 Bonds shall not be deemed to constitute a debt or liability of the Authority, the State of California or of any political subdivision thereof other than the Authority, but shall be payable solely from the funds provided therefor. Neither the State of California nor the Authority or any political subdivision thereof shall be obligated to pay the principal of the Series T-5 Bonds or the interest thereon, except from the funds provided under the Loan Agreement and Indenture, all as described herein. Neither the faith and credit, nor the taxing power, of the State of California or of any political subdivision thereof, including the Authority, is pledged to the payment of the principal of or the interest on the Series T-5 Bonds. The issuance of the Series T-5 Bonds shall not directly, indirectly or contingently obligate the State of California, the Authority, or any political subdivision thereof to levy or to pledge any form of taxation whatsoever or to make any appropriation for their payment. The Authority has no taxing power.

## **ENFORCEABILITY OF REMEDIES**

The remedies available to the Trustee or the Holders of the Series T-5 Bonds upon an event of default under the Indenture or the Loan Agreement are in many respects dependent upon judicial actions which are often subject to discretion and delay, and such remedies may not be readily available or may be limited. In particular, under the United States Bankruptcy Code, a bankruptcy case may be filed by the Authority, by or against the University or by or against any of their affiliates. In general, the filing of any such petition operates as a stay against enforcement of the terms of the agreements to which the bankrupt entity is a party and, in the bankruptcy process, executory contracts such as the Loan Agreement or the Indenture may be subject to assumption or rejection by the bankrupt party. In the event of any such rejection, the non-rejecting party or its assigns may become an unsecured claimant of the rejecting party. The various legal opinions to be delivered concurrently with the Series T-5 Bonds (including Bond Counsel's approving opinion) will be qualified, as to the enforceability of the various legal instruments, by limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally and by general principles of equity applied in the exercise of judicial discretion.

## **CERTAIN INVESTMENT CONSIDERATIONS**

The following are certain investment considerations that have been identified by the University and should be carefully considered by prospective purchasers of the Series T-5 Bonds. The following list should not be considered to be exhaustive. Investors should read the Official Statement in its entirety. Inclusion of certain factors below is not intended to signify that there are no other investment considerations or risks attendant to the Series T-5 Bonds. See Appendix A - "STANFORD UNIVERSITY (INCLUDING FINANCIAL STATEMENTS AND DISCUSSION OF FINANCIAL RESULTS)" for additional information about the University.

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

Success in these areas depends upon the ability of the University and its management to respond to substantial challenges in a rapidly changing environment including, among others:

(i) Volatility and dislocations in the global financial markets which may impact investment returns and reduce investment income distributable from the endowment for operations and affect the ability of donors to contribute resources to support University operations and capital needs (see Notes 5, 10 and 11 to the consolidated financial statements of the University for the years ended August 31, 2008 and 2007 included in Appendix A hereto).

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

(iii) Developments in the regional, national and global economies, such as a protracted economic recession, variations in economic growth, changes in monetary policy and the related impact on

the University's investment portfolio; federal research funding; increased demand for financial aid; extension of pledge payments; and increased interest rates and the associated impact on debt service.

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

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

The preservation and growth of the University's endowment are affected not only by the factors noted above but by discretionary changes in the annual payout to operations from endowment earnings, transfers of expendable funds and other distributions, all of which are subject to changes in policies and practices made by the Board of Trustees and University management. Recent significant declines, and in some cases illiquidity, in the markets for nearly all classes of investments have significantly lowered the value and liquidity of the University's endowment. The University cannot predict whether these trends will continue.

In addition to the challenges noted above, a variety of risks, uncertainties and other factors may affect the financial strength and stature of the University. By its nature, the University is an open environment, potentially vulnerable to disruption of operations, injury and damage notwithstanding its security and public safety programs. It is subject to governmental investigations and enforcement action and private suits, and may incur substantial costs of defense, sanctions, penalties and reputational harm for violation of laws applicable to the University in its routine operations. The University is a large landowner; it routinely stores, uses and produces hazardous substances in its operations; it houses several thousand students, faculty and others. The University purchases third-party insurance for losses resulting from fire and related natural hazards to the extent such losses exceed a self-insured loss limit of \$1,000,000. The University carries limited third-party insurance for damage to facilities sustained from flooding and no third party insurance for damage to facilities due to seismic events. The University is located in a region that is subject to significant seismic activity. In the event of a significant seismic event, the University could suffer substantial damage to its facilities and disruption of its operations.

Because the financial results of the University are reported on a consolidated basis with those of its hospital affiliates (the "Hospitals"), these consolidated financial results will be affected by the financial results of the Hospitals. The Hospitals' financial results, in turn, will be affected not only by the factors set forth above but specifically by demand for the medical services they provide, inadequate third-party payments, limitations on and inadequate governmental reimbursement for medical services and graduate medical education, increasing costs of providing indigent care, escalating costs of personnel and equipment and inpatient capacity constraints which limit the Hospital's ability to absorb these increased costs through greater volume. In addition, adverse legislative and regulatory developments and government enforcement actions could negatively impact the Hospitals' results in the current and subsequent fiscal years.

The Hospitals are seeking approval from local authorities to construct new facilities to address seismic requirements and to meet the health care needs of the community. The Hospitals' future performance may be impacted by their ability to obtain timely approval of the necessary entitlements in order to meet the current schedule for completion of these new facilities. The new facilities have projected costs in excess of \$3 billion which will require substantial new debt. Each Hospital has its own separate liabilities, including bond debt obligations. The University and the Hospitals are not obligated to

pay the debt of each other, and the University and the Hospitals receive separate ratings from the rating agencies.

For a discussion of certain financial challenges facing the University, see Appendix A – "STANFORD UNIVERSITY (INCLUDING FINANCIAL STATEMENTS AND DISCUSSION OF FINANCIAL RESULTS) – Part I – General Information About Stanford University – Capital Improvement Programs" and "– Investments" and "– Part II, Portions of Stanford University 2008 Financial Review – Discussion of Financial Results – Challenges Facing the University and Hospitals" attached hereto.

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

## **REGULATORY MATTERS AND LITIGATION**

There is no litigation pending concerning the validity of the Series T-5 Bonds. The University is, however, a party to certain litigation which is described in "Regulatory Matters and Litigation" in Appendix A.

## **FORWARD-LOOKING STATEMENTS**

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

## **TAX MATTERS**

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series T-5 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code") and is exempt from State of California personal income taxes. Bond Counsel is of the further opinion that interest on the Series T-5 Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current



earnings in calculating corporate alternative minimum taxable income. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix E hereto.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Series T-5 Bonds. The Authority and the University have made certain representations and have covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Series T-5 Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Series T-5 Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Series T-5 Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Series T-5 Bonds may adversely affect the value of, or the tax status of interest on, the Series T-5 Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

In addition, Bond Counsel will rely on the opinion of the University's General Council regarding the qualification of the University as an organization described in Section 501(c)(3) of the Code. Such opinion is subject to a number of qualifications and limitations. Bond Counsel has also relied upon representations of the University concerning the University's "unrelated trade or business" activities as defined in Section 513(a) of the Code. Neither Bond Counsel nor the University's General Council has given any opinion or assurance concerning Section 513(a) of the Code and neither Bond Counsel nor the University's General Council can give, or has given, any opinion or assurance about the future activities of the University, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the resulting changes in enforcement thereof by the Internal Revenue Service ("IRS"). Failure of the University to be organized and operated in accordance with the IRS's requirements for the maintenance of its status as an organization described in Section 501(c)(3) of the Code, or to operate the facilities financed by the Series T-5 Bonds in a manner that is substantially related to the University's charitable purpose under Section 513(a) of the Code, may result in interest payable with respect to the Series T-5 Bonds being included in federal gross income, possibly from the date of the original issuance of the Series T-5 Bonds.

Although Bond Counsel is of the opinion that interest on the Series T-5 Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Series T-5 Bonds may otherwise affect a Bondholder's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Bondholder or the Bondholder's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Future legislative proposals, if enacted into law, or clarification of the Code, or court decisions, may cause interest on the Series T-5 Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Holders from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislation or clarification of the Code or court decisions may also affect the market price for, or marketability of, the Series T-5 Bonds. Prospective purchasers of the Series T-5 Bonds should consult their own tax advisers regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment

of the Series T-5 Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give, and has not given, any opinion or assurance about the future activities of the Authority or the University, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The Authority and the University have covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Series T-5 Bonds ends with the issuance of the Series T-5 Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the Authority, the University or the Bondholders regarding the tax-exempt status of the Series T-5 Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the Authority, the University and their appointed counsel, including the Bondholders, would have little, if any, right to participate in, the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the Authority or the University legitimately disagrees may not be practicable. Any action of the IRS, including, but not limited to, selection of the Series T-5 Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Series T-5 Bonds, and may cause the Authority, the University or the Bondholders to incur significant expense.

#### **APPROVAL OF LEGAL PROCEEDINGS**

The validity of the issuance of the Series T-5 Bonds under California law is subject to the approval of Orrick, Herrington & Sutcliffe LLP, acting as Bond Counsel. A proposed form of Bond Counsel's legal opinion is attached hereto as Appendix E. Certain legal matters will be passed upon for the Underwriter by Hawkins Delafield & Wood LLP, for the Authority by the Attorney General of the State of California and for the University by its General Counsel. None of the counsel mentioned above undertakes any responsibility to Holders of the Series T-5 Bonds for the accuracy, completeness or fairness of this Official Statement.

#### **UNDERWRITING**

The Treasurer of the State of California, with the approval of the Authority and the University, has entered into a Bond Purchase Agreement with Morgan Stanley & Co. Incorporated (the "Underwriter"), pursuant to which and subject to certain conditions, the Underwriter has agreed to purchase the Series T-5 Bonds from the Authority at a price of \$58,879,981.97 (being the principal amount of the Series T-5 Bonds, plus an original issue premium of \$7,382,724.30 and less an underwriter's discount of \$267,742.33). The Series T-5 Bonds may be offered and sold by the Underwriter to certain dealers and others at prices lower than the public offering prices, and the public offering prices may be changed, from time to time, by the Underwriter.

Morgan Stanley, the parent company of the Underwriter, has entered into a retail brokerage joint venture with Citigroup Inc. As part of the joint venture, the Underwriter will distribute municipal securities to retail investors through the financial advisor network of a new broker-dealer, Morgan Stanley Smith Barney LLC. This distribution arrangement became effective on June 1, 2009. As part of this arrangement, the Underwriter will compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Series T-5 Bonds.



## **INDEPENDENT ACCOUNTANTS**

The Consolidated Financial Statements of the University as of August 31, 2008 and 2007 and for the years then ended, attached hereto as Part II of Appendix A, have been audited by PricewaterhouseCoopers LLP, independent accountants, as stated in their report appearing therein.

## **RATINGS**

The Series T-5 Bonds have been given an "Aaa" rating by Moody's, an "AAA" rating by S&P and an "AAA" rating by Fitch. An explanation of the significance of the ratings given can be obtained from Moody's at 7 World Trade Center at 250 Greenwich Street, 23<sup>rd</sup> Floor, New York, New York, 10007, from S&P at 55 Water Street, New York, New York 10041 and from Fitch at One State Street Plaza, New York, New York, 10004. Such ratings reflect only the views of Moody's, S&P and Fitch, respectively, and there is no assurance that any of the ratings, if received, will continue for any given period of time or that such ratings will not be lowered or withdrawn entirely if, in the judgment of Moody's, S&P or Fitch, circumstances so warrant. Any such change in, or withdrawal of, the ratings received could have an adverse effect on the market price of the Series T-5 Bonds.

## **CONTINUING DISCLOSURE**

The Authority has determined that no financial or operating data concerning the Authority is material to an evaluation of the offering of the Series T-5 Bonds or to any decision to purchase, hold or sell the Series T-5 Bonds, and the Authority will not provide any such information. The University has undertaken all responsibilities for any continuing disclosure to Holders of the Series T-5 Bonds as described below, and the Authority shall have no liability to the Holders of the Series T-5 Bonds or any other person with respect to the Rule.

In order to assist the Underwriter in complying with the Rule, the University has agreed to undertake in a Continuing Disclosure Agreement between the University and the Trustee, for the benefit of Holders of the Series T-5 Bonds, to provide to the Trustee certain annual information and notices of material events required to be provided by the Rule. The proposed form of that Undertaking is set forth in Appendix D hereto. The Undertaking may be amended or modified without the consent of the Holders of the Series T-5 Bonds under certain circumstances set forth therein.

## **MISCELLANEOUS**

Appendix A has been prepared by the University. The Consolidated Financial Statements appearing as Part II of Appendix A were audited by PricewaterhouseCoopers LLP and were furnished by the University for inclusion herein.

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

All of the Appendices hereto are incorporated as an integral part of this Official Statement. The Authority makes no representations or warranties whatsoever with respect to the information contained in Appendices A through E.

The Authority has reviewed the information contained herein which relates to it and has approved all such information for use in this Official Statement.

The execution and delivery of this Official Statement by the undersigned have been duly authorized by the Authority.

CALIFORNIA EDUCATIONAL FACILITIES  
AUTHORITY

July 15, 2009

/s/ Barbara J. Liebert  
Executive Director

Appendix A has been reviewed and approved by the Vice President for Business Affairs and Chief Financial Officer of the University.

THE BOARD OF TRUSTEES OF THE LELAND  
STANFORD JUNIOR UNIVERSITY

July 15, 2009

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

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**APPENDIX A**

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

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## **APPENDIX A**

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

Part I of this Appendix A contains general information with respect to Stanford. Part II consists of portions of the University's 2008 Financial Review, including its audited Consolidated Financial Statements for the years ended August 31, 2008 and 2007 (the "Financial Statements"), selected financial data and management's discussion of financial results for the year ended August 31, 2008.

#### **PART I**

##### **GENERAL INFORMATION ABOUT STANFORD UNIVERSITY**

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

##### **Academic and Research Programs**

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

Stanford's research enterprise extends throughout the University. In addition to research conducted in the Schools, Stanford has a number of interdisciplinary research centers, independent laboratories and institutes, which bring together faculty and students from throughout the University to collaborate on research topics that cross traditional boundaries. A representative sample includes the SLAC National Accelerator Laboratory, the Hopkins Marine Station and Jasper Ridge Biological Preserve, the Center for Advanced Study in the Behavioral Sciences, the Center for the Study of Language and Information, the Edward L. Ginzton Laboratory, the Freeman Spogli Institute for International Studies, the Global Climate and Energy Project, the Kavli Institute for Particle Astrophysics and Cosmology, the Precourt Institute for Energy, the Stanford Institute for Economic Policy Research, the W.W. Hansen Experimental Physics Laboratory, the Woods Institute for the Environment, the Michelle R. Clayman Institute for Gender Research, and the five Institutes of Medicine: the Stanford Cancer Center, the Institute for Stem Cell Biology and Regenerative Medicine, the Cardiovascular Institute, the Institute for Neuro-Innovation and Translational Neuroscience, and the Institute for Immunity, Transplantation and Infection. Extensive library and archival resources are available through the Stanford University Libraries and Academic Information Resources and the Hoover Institution on War, Revolution and Peace.

## Governance and Management

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

The following table lists the members of the Board of Trustees as of June 11, 2009:

Leslie P. Hume (Chair)	Ann H. Lamont
William M. Barnum, Jr.	John P. Levin <sup>(1)</sup>
Robert M. Bass	Goodwin Liu
William R. Brody	Susan R. McCaw
Mariann Byerwalter	Hamid R. Moghadam
James E. Canales	Wendy Munger
James G. Coulter	Ellen Ochoa <sup>(1)</sup>
Mary B. Cranston	Miriam Rivera
Lauren B. Dachs	Richard A. Sapp
Steven A. Denning	Philip G. Satre
Bruce W. Dunlevie	John H. Scully
Ying-Ying Goh	Isaac Stein
John A. Gunn	Thomas F. Steyer
Christine U. Hazy	Ross H. Walker
John L. Hennessy	Vaughn C. Williams
Pete Higgins	Jerry Yang

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<sup>(1)</sup> Term expires June 12, 2009.

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



The following table sets forth in summary form certain members of the principal administration of the University as of June 1, 2009:

**University Officers**

John L. Hennessy  
*President*

John W. Etchemendy  
*Provost*

David F. Demarest  
*Vice President for Public Affairs*

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

William J. Madia  
*Vice President for SLAC National Accelerator  
Laboratory*

Diane Peck  
*Vice President for Human Resources*

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

Martin W. Shell  
*Vice President for Development*

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

Debra L. Zumwalt  
*Vice President and General Counsel*

**Stanford Management Company**

John F. Powers  
*President and Chief Executive Officer*

**University Cabinet**

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

John C. Bravman  
*Vice Provost for Undergraduate Education*

Persis S. Drell  
*Director, SLAC National Accelerator Laboratory*

Patricia J. Gumport  
*Vice Provost for Graduate Education*

Robert L. Joss<sup>(1)</sup>  
*Dean, Graduate School of Business*

Larry Kramer  
*Dean, School of Law*

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

Philip A. Pizzo, M.D.  
*Dean, School of Medicine*

James D. Plummer  
*Dean, School of Engineering*

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

Richard Saller  
*Dean, School of Humanities and Sciences*

Deborah J. Stipek  
*Dean, School of Education*

<sup>(1)</sup> It is expected that Garth Saloner will succeed Robert L. Joss upon the latter's retirement effective September 1, 2009.

## Faculty and Staff

For the 2008 fall quarter, the Stanford professoriate had 1,878 members, including members of the Academic Council, certain Medical Center line faculty, assistant professors who have been appointed subject to their receipt of the Ph.D. degree, and other faculty who are not Academic Council members. Of the 1,878 member professoriate 54% were tenured professors and associate professors and more than 99% hold the highest degrees in their respective fields. The Academic Council comprises the main body of the faculty. Of its 1,459 members, 1,314 professors, associate professors and assistant professors are in the tenure line, and 145 professors, associate professors and assistant professors are in the non-tenure line. The student-Academic Council ratio (excluding graduate students who are completing their dissertations and are not attending classes) is 9.4 to 1.

As of August 31, 2008, the University, including the SLAC National Accelerator Laboratory, employed 11,024 non-academic staff members. Of these employees, 1,251 were represented by the United Stanford Workers Local 715, Service Employees International Union, and 21 were police officers represented by the Stanford Deputy Sheriffs' Association. Contracts between the University and those unions expire on August 31, 2009 and July 31, 2010, respectively.

## Students

For the 2008 fall quarter, the University enrolled 6,812 undergraduate and 8,328 graduate students. During academic year 2007-2008, 1,646 bachelor degrees and 2,928 advanced degrees were conferred. Both the undergraduate and graduate student bodies are among the most highly qualified in the country. The following table provides a summary for the last five academic years of undergraduate and graduate applications, admissions and enrollment.

Academic Year	<u>Undergraduate</u> <sup>(1)(2)(3)</sup>			<u>Graduate</u> <sup>(2)(3)</sup>		
	<u>Applications</u>	<u>Admissions</u>	<u>Enrollment</u>	<u>Applications</u>	<u>Admissions</u>	<u>Enrollment</u>
2004-05	20,517	2,586	1,726	30,630	4,361	2,378
2005-06	21,476	2,488	1,682	30,222	4,356	2,405
2006-07	23,740	2,516	1,708	31,583	4,323	2,337
2007-08	25,358	2,487	1,741	33,623	4,352	2,400
2008-09	26,479	2,425	1,725	34,566	4,350	2,379

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

(2) Fall only.

(3) Certain statistics have been restated to conform to current definitions of applications, admissions and enrollment.

## Tuition, Fees and Financial Aid

Stanford is committed to a policy of "need-blind" admission for eligible U.S. Citizens and permanent resident undergraduate students. For academic year 2007-2008, approximately 77% of undergraduates received some form of financial aid, and approximately 42% of undergraduates were awarded need-based financial aid from Stanford. Student financial aid has traditionally included scholarships and grants, student employment, and low-interest student loans. Graduate student financial aid is awarded based on academic merit and the availability of aid and consists of fellowships, stipends, and trainee/assistantships. The following table provides a summary of Stanford's undergraduate tuition, average room and board expenses and average financial aid for the last five academic years:

<u>Academic Year</u>	<u>Tuition and Fees</u>	<u>Room and Board</u>	<u>Total</u>	<u>Average Financial Aid</u> <sup>(1)</sup>
2004-05	\$29,847	\$ 9,503	\$39,606	\$ 8,717
2005-06	31,200	9,932	41,132	9,078
2006-07	32,994	10,367	43,361	9,897
2007-08	34,800	10,808	45,608	11,150
2008-09	36,030	11,182	47,212	14,500 <sup>(2)</sup>

<sup>(1)</sup> Includes only Stanford-funded scholarship aid awarded on the basis of financial need averaged over the total number of undergraduate students.

<sup>(2)</sup> Average Financial Aid amount for 2008-09 is an estimate.

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 \$71.0 million and \$65.6 million as of August 31, 2008 and 2007, respectively.

### **The Stanford Campus and Other Real Property**

Stanford's campus consists of approximately 8,200 acres of land owned by the University near Palo Alto, California, much of which was given to the University under the Founding Grant on the condition that the lands subject to the grant may not be sold. The main campus is in six different governmental jurisdictions. Approximately 5,200 acres are in Santa Clara County, including the municipality of Palo Alto, and approximately 3,000 acres are in San Mateo County, including the municipalities of Woodside, Menlo Park and Portola Valley. The principal academic, research and residential facilities of the University occupy approximately 1,300 acres. Approximately 3,900 acres of Stanford lands are leaseholds related to commercial, residential, agriculture and other developments which provide rental income for the University. Income-generating properties include the Stanford Research Park, the Stanford Shopping Center, the Welch Road professional office buildings, the Hyatt Senior Residences, the Rosewood Sand Hill Hotel and Office Complex and buildings along El Camino Real and Sand Hill Road occupied by venture capital firms, investment banks, law firms, other service-oriented entities and retailers. Much of the University's other land remains undeveloped and is used primarily for agricultural purposes.

Stanford also owns substantial real property elsewhere. Some of this property has been acquired for expansion or relocation of programs including approximately 35 acres in Redwood City, California and a library storage facility in Livermore, California. The University also owns facilities for use in study programs in Pacific Grove, California, in the District of Columbia and in other countries. Other holdings have been acquired by gift or purchase, and are widely dispersed throughout the United States and abroad.

### **Capital Improvement Programs**

The University makes a significant investment in its facilities for teaching, research and related activities. The University's Capital Plan is based on a projection of the major capital projects that the University intends to pursue relating to its academic mission. The Board of Trustees approves the Capital Budget at its June meeting. The approved Capital Budget for fiscal year 2010 is \$646.7 million. The Board of Trustees also reviews the Capital Plan which is subject to change based on funding availability and University priorities. The Capital Plan is a rolling, three-year plan which includes projects that are in progress or are expected to commence during that three-year period. The fiscal year 2010 three-year Capital Plan presented to the Board of Trustees in June 2009, includes capital projects with estimated total costs of \$1.8 billion. Funding sources included in the fiscal year 2010 Capital Plan consist of \$883.1 million of gifts, \$438.1 million of debt, \$469.6 million of reserves and other funds with \$9.7 million of

resources to be identified. In addition, medium-term debt will be required to bridge timing differences between capital expenditures and the receipt of gifts.

In 2000, the Santa Clara County Board of Supervisors approved a General Use Permit (the "2000 GUP") and the Stanford University Community Plan (the "Community Plan"), updating and extending the general use permit and plan previously in force since 1989. These documents govern the use and development of University lands within the County. Any change to either document is subject to the approval of the Santa Clara County Board of Supervisors. The 2000 GUP permits Stanford to develop approximately 2,000,000 gross square feet of new academic facilities and approximately 3,000 new housing units for students, faculty and staff. The 2000 GUP contains a number of significant restrictions and conditions governing and limiting such developments. Through August 31, 2008, projects using approximately 625,000 gross square feet of the GUP allotment were completed or under construction and 774 housing units were added.

### **Hospitals**

The University is the sole member of Stanford Hospital and Clinics and Lucile Salter Packard Children's Hospital (collectively, the "Hospitals"). Stanford Hospital and Clinics and Lucile Salter Packard Children's Hospital are each separate not-for-profit public benefit corporations operating the adult and pediatric hospitals and clinics, respectively, which together with the University's School of Medicine, comprise the Stanford University Medical Center. Each Hospital corporation has its own management with responsibility for its own financial reporting (see Appendix A – "STANFORD UNIVERSITY (INCLUDING FINANCIAL STATEMENTS AND DISCUSSION OF FINANCIAL RESULTS) – Part II – Stanford University 2008 Financial Review – Management Responsibility for Financial Statements"). Management of each Hospital reports to the chief executive officer of that Hospital, and the chief executive officer reports to the board of directors appointed for that Hospital. Management of the Hospitals does not report to management of the University. Each Hospital has its own separate liabilities, including bond debt. The University and the Hospitals are not obligated to pay the debt of one another, and the University and the Hospitals receive separate ratings from the rating agencies.

The Hospitals are seeking approval from local authorities to construct new facilities to address seismic requirements and to meet the health care needs of the community. The facilities have projected capital requirements in excess of \$3 billion which will require substantial new debt (see "Certain Investment Considerations" in the forepart of this Official Statement).

### **Regulatory Matters and Litigation**

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

### **Investments**

At August 31, 2008 the University held investments with a fair value of approximately \$21.8 billion. The following table summarizes the fair value of the University's investments for each of the past five fiscal years.

	<b>August 31, (in thousands)</b>				
	<u><b>2008</b></u>	<u><b>2007</b></u>	<u><b>2006</b></u>	<u><b>2005</b></u>	<u><b>2004</b></u>
Total Investments	\$21,757,716	\$21,167,073	\$17,524,666	\$15,131,630	\$11,963,733
Less: Permanently Restricted Investments	<u>4,865,486</u>	<u>4,480,745</u>	<u>4,230,293</u>	<u>3,538,198</u>	<u>3,150,037</u>
Unrestricted and Temporarily Restricted Investments	<u>\$16,892,230</u>	<u>\$16,686,328</u>	<u>\$13,294,373</u>	<u>\$11,593,432</u>	<u>\$8,813,696</u>

During the University's current fiscal year, global investment markets have experienced dramatic declines that have negatively impacted all major asset classes of the University's investments. As of March 31, 2009, the estimated fair value of the University's total investments was approximately \$16.2 billion. This estimate is unaudited. Investments in non-public equities, real estate, natural resources and limited partnerships, which are largely illiquid, are typically reported as updated values become available from outside fund managers, generally on a calendar quarter basis.

At August 31, 2008, the value of the University's endowment was \$17.2 billion, and in fiscal year 2008 the distribution from the endowment for University operations provided approximately one quarter of operating revenues. Management estimates that the value of the University's endowment will be reduced by at least thirty percent by August 31, 2009, taking into account investment declines, the annual distribution for University operations, new endowment gifts and transfers into and out of the endowment. The University is planning to reduce the distribution from the endowment for University operations by approximately twenty-five percent in the aggregate over the next two fiscal years. Consequently, management is taking steps to reduce expenditures consistent with this and other anticipated declining revenue sources. Measures to reduce expenditures include a freeze on salary increases in fiscal year 2010, elimination of staff positions, reduction in the number of faculty searches, and curtailment of travel and other expenses.

### **Liquidity**

As of April 30, 2009, the University had approximately \$1.7 billion invested in assets that, in the opinion of management, qualify as sources of same-day liquidity, and an additional \$1.0 billion invested in assets that qualify as sources of less than seven-day liquidity. Of the amounts included in sources of same-day liquidity, approximately \$800 million consisted of the proceeds of the University's Taxable Bonds Series 2009A (as described in the following section) remaining unspent after the University applied approximately \$200 million to repay commercial paper related to capital projects. At present, the unspent balance is invested in marketable securities to provide additional liquidity for the University's general purposes.

The University has significant contractual commitments outstanding for limited partnership investments and major construction projects (see discussion on capital improvement programs above and Notes 5 and 17 in the attached financial statements). Management closely monitors its cash, cash equivalents and investments to ensure that it maintains adequate liquidity to cover its outstanding commitments. In the event of continued instability in the financial markets and in light of the overall current economic environment, management believes that it has adequate resources to allow the University to address expected needs for liquidity.

## **Recent Changes in University Indebtedness**

On April 29, 2009, the University issued its Taxable Bonds Series 2009A (the "Taxable Bonds Series 2009A") in the aggregate principal amount of \$1,000,000,000. The University plans to use the proceeds of the Taxable Bonds Series 2009A for general purposes, including without limitation, refinancing commercial paper and other external indebtedness, financing operating and capital expenditures and liquidity.

On May 26, 2009, the University converted the interest rate mode of its Series S-4 bonds from the daily rate mode to the commercial paper rate mode (the "Converted S-4 Bonds"). While in the commercial paper rate mode, the Converted S-4 Bonds will be subject to mandatory tender for purchase on the business day following the end of each commercial paper rate period.

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**PART II**

**PORTIONS OF STANFORD UNIVERSITY 2008 FINANCIAL REVIEW**



# DISCUSSION OF FINANCIAL RESULTS

FISCAL YEAR 2008 (FY08) was a year of disruption and volatility in both the equity and debt markets, in which Stanford recognized a slight increase in both its net assets and endowment balances. During the year, strong donor support and modest investment returns produced a \$917 million increase in consolidated net assets, which rose to \$24.9 billion at August 31, 2008 (Figure 1). The University's endowment increased \$50 million to \$17.2 billion. See Figure 4. Stanford's consolidated operating revenues exceeded expenses by \$446 million in FY08 compared to \$410 million in fiscal year 2007 (FY07).

## University

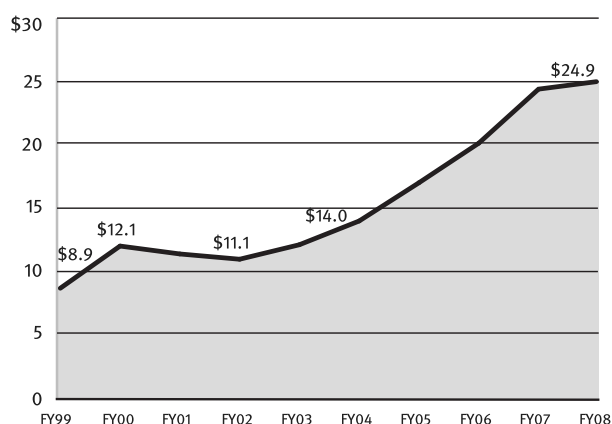
The University ended the year with a surplus from operations of nearly \$300 million compared to \$250 million in FY07, due largely to an increase in endowment income distributed for operations. As discussed in further detail on page 25, the target endowment payout rate was increased to 5.5% in FY08, and endowment income distributed for operations increased by 45% or \$273 million. Total revenues increased by 10%, with expenses increasing by 9%.

### FY08 FINANCIAL HIGHLIGHTS

**Strong support from donors.** FY08 marked another year of outstanding donor support with over 111,000 gifts from 72,000 donors totaling \$926 million as reported in the financial statements (\$785 million on a cash basis as reported by the University Office of Development). Highlights included:

- › A \$30 million commitment from engineering alumnus Jen-Hsun Huang and his wife, Lori, to name the new School of Engineering Center.
- › A commitment of \$30 million from Deedee and Burt McMurtry, alumnus and former board chair, for a new building to house the Department of Art and Art History.
- › A \$25 million gift from the David and Lucile Packard Foundation to help establish the Center for Ocean Solutions and to support the Initiative on the Environment and Sustainability.

**FIGURE 1**  
CONSOLIDATED NET ASSETS (IN BILLIONS)



- › Significant commitments to the Graduate School of Business including \$60 million from alumnus Richard Rainwater for the Knight Management Center, \$25 million from alumni Anne T. and Robert M. Bass for the Bass Center in the Knight Management Center, and \$25 million from an anonymous donor to name the Arbuttle Dining Pavilion within the Knight Management Center, as well as support for the Arbuttle Leadership Fellows Program and the Center for Leadership Development and Research.
- › A record \$90.6 million in life income gifts from a number of donors.

As in FY07, the majority of these gifts and pledges counted toward The Stanford Challenge, which was publicly launched in October 2006 with a goal of raising \$4.3 billion over five years for efforts aimed at seeking solutions to intractable global problems and educating a new generation of leaders for the complexities of today's world. Two years into the campaign, a total of \$3.8 billion has been raised from over 350,000 gifts.

**Positive investment performance.** Total investment returns were \$767 million, down from a record \$3.6 billion in FY07. The positive returns, although much smaller than in FY07, were achieved during a year in which U.S. and international equity markets declined by more than 10%. See the report from the Stanford Management Company on page 59 for an in-depth analysis of University investment strategies and performance.

**STATEMENT OF ACTIVITIES**

The Statement of Activities details operating revenues and expenses and other non-operating changes in net assets during the year. The University’s total net assets increased \$733 million in FY08, considerably less than the \$3.6 billion increase in FY07.

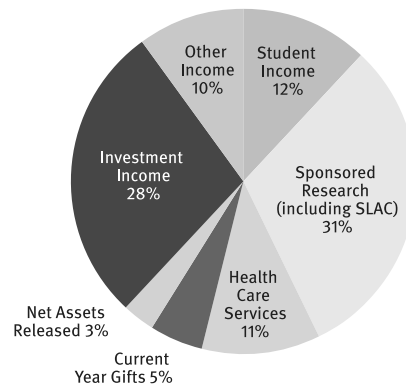
**Unrestricted Net Assets – Results of Operations**

Operating activities include all revenues and expenses that support current-year teaching and research efforts and other University priorities.

The components of the University’s \$3.5 billion in operating revenues are shown in Figure 2. Sponsored research support accounts for 31% of total operating revenues, with an additional 28% resulting from investment income distributed for operations, 12% from student income and 11% from health care services revenues. The University’s operating activities are summarized below:

› Total student income increased a modest 3% to \$405 million in FY08, representing 12% of University operating revenues, consistent with FY07. Revenues from undergraduate tuition increased by 6% and graduate tuition increased by 5%. The undergraduate student body grew by 72 students and the graduate student body by 128 students. Offsetting tuition and room and board revenues is financial aid. Financial aid was \$176 million, or 30%, of gross student income, up from \$156 million, or 28%, in FY07. The increase was the result of more students requiring aid, higher aid per student and policy enhancements. Changes to undergraduate financial aid policies in FY08, aimed at making Stanford more affordable for middle-income families, included reduced parental contributions for families with significant home equity and for families with annual income between \$45,000 and \$60,000. Approximately 70% of undergraduate students and 78% of graduate students received some financial aid from Stanford in FY08.

**FIGURE 2**  
FY08 UNIVERSITY OPERATING REVENUES (\$3.5 BILLION)



› Sponsored research support was relatively flat at \$1.1 billion, increasing only \$18 million, or 2%, in FY08. Approximately 77% of sponsored research support was received directly or indirectly from the federal government. Other sponsors include the California Institute for Regenerative Medicine, corporations and foundations. Despite an increase in the indirect cost rate for federally sponsored research of 1.5% to 58% in FY08, indirect cost recovery was down slightly to \$169 million. The decrease in FY08 was due to the mix of federal and non-federal research as well as the amount of revenue generated through subcontracts, which draw lower indirect costs. The University has experienced a reduction in federally sponsored research which has been offset by increases in non-federally funded research.

› Health care services revenues for the University increased \$6 million or 2% in FY08 to \$372 million and represented 11% of operating revenues.

Health care services revenues consisted primarily of payments made by the Hospitals to the University, including \$321 million to the School of Medicine for faculty physicians’ services, the blood center and other essential services. An additional \$38 million was paid for other services provided by the School of Medicine and other University departments to the Hospitals, reduced by the value of certain services provided by the Hospitals to the School of Medicine and the University. These amounts are eliminated in consolidation.

Faculty physicians also generated \$13 million in revenues from services provided to external parties, including the Santa Clara Valley Medical Center and the Palo Alto Veterans Administration Hospital.

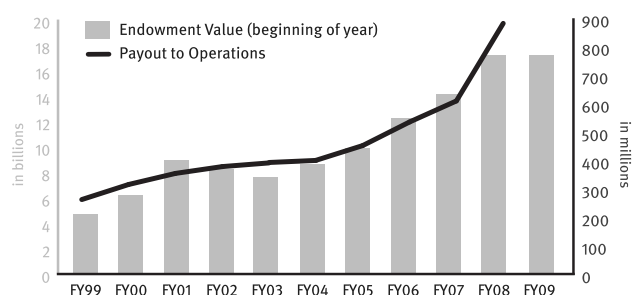
- › Current year gifts were down \$16 million to \$182 million in FY08, from the record high of \$198 million in FY07. As noted earlier, the University received over 111,000 gifts in FY08, most of which were immediately expendable for purposes prescribed by the donor.
- › Net assets released from restrictions, which consisted of payments on prior year pledges and prior year gifts released from donor restrictions, totaled \$92 million, down slightly from the \$96 million in FY07.
- › Total investment income included in operations represented 28% of University revenues.
- Endowment income distributed for operations increased to \$882 million in FY08, up from \$609 million in FY07. The largest component of endowment income is the payout from endowment funds invested in the University's Merged Pool (MP). MP payout in FY08 was \$832 million, up from \$541 million in FY07. Over the last 10 years, the payout amount has grown appreciably due primarily to growth of endowment principal from continued strong investment returns, substantial new gifts and transfers of expendable funds into the endowment. In addition to growth of the endowment, in FY08 the Board approved a half point increase in the target payout rate to 5.5%. (See page 25 for a discussion of the increase in the endowment payout amount.)

Also included in endowment income is rental income from ground leases of the University's endowed lands, including the Stanford Research Park, payout from other endowment investment pools and other specifically invested assets.

See Figure 3 for a comparison of payout to endowment value.

- Other investment income was \$111 million in FY08, up slightly from \$101 million in FY07. This category includes the payout to operations from the Expendable Funds Pool (EFP), the Endowment Income Funds Pool (EIFP) and income from the faculty and staff mortgage loan program. The EFP and the EIFP are

**FIGURE 3**  
ENDOWMENT VALUE vs. PAYOUT TO OPERATIONS



the principal investment vehicles for the University's expendable funds. The EFP payout policy seeks to achieve a stable payout to operations by providing that the difference between the actual return of the pool and the approved payout is deposited in, or withdrawn from, funds functioning as endowment. The EIFP, which holds payout previously distributed to permanently restricted endowment fund holders that has not yet been expended, distributes actual return on its investments to the fund holders. The combined EFP and EIFP payout was approximately \$84 million in FY08, compared to \$83 million in FY07. The investment returns of the EFP were less than the required distribution, requiring a withdrawal of \$47 million from funds functioning as endowment to cover the shortfall.

- Special program fees and other income totaled \$355 million in FY08, a 7% increase over FY07. This revenue category consists of the external revenues generated by auxiliary enterprises and service centers, executive education, corporate affiliate programs, technology licensing and other programs. Also included are the operations of residential housing and dining (other than room and board revenues from students), catering services, revenues from the Stanford West Apartments and from intercollegiate athletic activities. Increases in FY08 were due to slightly higher patent income, increased participation in travel study programs and conference revenue. In addition, special programs and other professional education programs have grown over the past year.

## 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, 2008, the Endowment totaled \$17.2 billion and represented approximately 76% of the University's net assets. The Endowment includes pure endowment funds, endowed lands, term endowment funds and funds functioning as endowment.

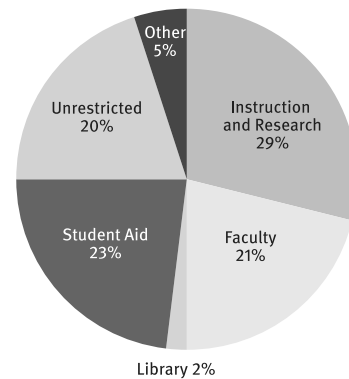
Gifts and pledge payments to the Endowment, along with modest investment returns and other funds invested into the endowment, created a small increase in total value after the distribution of funds to operations of \$882 million.

Payout to operations from the Endowment is a significant source of operating revenue for the University, covering approximately 28% of expenses in FY08 compared to 21% in FY07. As discussed previously, in FY08 the University's Trustees approved an increase in the target payout rate for endowment funds invested in the MP from 5.0% to 5.5%. In addition, the smoothing formula normally used to determine the dollar amount per share of payout was not employed in calculating the FY08 payout. These changes resulted in an increase in payout to existing endowment funds of approximately 45% from FY07. Nearly 75% of the incremental endowment income was available to support program activities previously funded by unrestricted funds. Most of the freed-up unrestricted funds will be used to fund capital projects and other infrastructure needs.

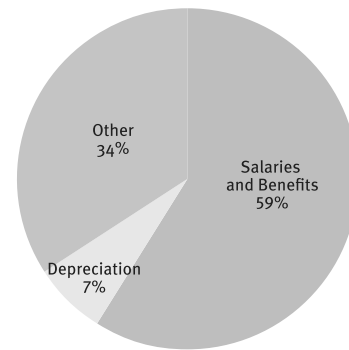
The University's endowment provides funding annually for a wide variety of important purposes. See Figure 4 for a distribution of endowment payout by purpose. Approximately 29% funds instruction and research activities, 23% goes to student aid, 21% is for faculty salaries and support, 20% is unrestricted and the remainder is split between library support and other purposes.

Endowment payout distributions were approximately 5.1% and 4.3%, respectively, of the beginning of the year endowment value in FY08 and FY07.

**FIGURE 4**  
ENDOWMENT PAYOUT BY PURPOSE



**FIGURE 5**  
FY08 UNIVERSITY OPERATING EXPENSES (\$3.2 BILLION)



Total expenses increased \$271 million, or 9%, to \$3.2 billion in FY08. As depicted in Figure 5, salaries and benefits comprised approximately 59% of the University's total expenses, depreciation expense was 7% and other operating expenses represented approximately 34%.

- › Salaries and benefits increased 10% in FY08 to \$1.9 billion. Increases in salaries were a result of annual salary increases and increases in faculty and staff headcount of over 4%. Salary-related benefits expenses increased in concert with the faculty and staff headcount. In addition, increases in health care costs and expenses associated with the University's retirement plans drove benefit costs higher.
- › Depreciation expense increased 10% to \$223 million in FY08 from \$202 million in FY07. The significant increase in depreciation was due to the new buildings that were placed in service in FY08. In addition, the University wrote off the remaining value of buildings that were demolished to make way for new construction. The

undepreciated value that remained on these buildings (\$8 million) is included in depreciation expense.

- › Other operating expenses increased 8% to \$1.1 billion from \$991 million in FY07. Costs associated with The Stanford Challenge increased during the year as the campaign activities continued to surge. There was also an overall increase in travel and related expenses, as the University undertook a number of new programs of a global nature, including the Global Study Trips program within the Graduate School of Business, which offers students the opportunity to interact with global leaders from around the world. In addition, interest and other costs related to the University's debt increased as a full year of interest was paid on bonds issued in late FY07 and previously capitalized bond discounts were written off when bonds were refinanced in FY08.

#### **Other Changes in Unrestricted Net Assets**

In total, unrestricted net assets of the University increased \$210 million, with nearly \$300 million coming from operating results. This was offset by a \$90 million decrease in non-operating changes to unrestricted net assets.

The most significant component of other changes in unrestricted net assets in FY08 was a \$237 million decrease in reinvested investment gains. The University's endowment and EFP payout policies establish the amounts to be distributed to fund holders annually to support operations. In years such as FY07, when investment returns exceed the amounts to be distributed, the excess is invested in the endowment. In FY08, the investment returns were not sufficient to meet the Board approved payout. As a result, the amount of the approved distribution in excess of returns was funded through the application of previously reinvested gains.

Also included in non-operating activities was approximately \$166 million in net gifts to donor advised funds. Gifts received by the University under donor advised fund agreements (DAFs) are owned and controlled by the University, over which donors have advisory privileges with respect to the distribution of the amounts in the funds. In addition, \$29 million of contribution revenue was recorded in connection with the merger of the Center for Advanced Study in the Behavioral Sciences (CASBS) into the University. Offsetting these increases to unrestricted net assets was approximately \$85 million of unrestricted funds that were transferred to temporarily and permanently restricted net assets to satisfy matching and other restrictions required by donors.

#### **Temporarily Restricted Net Assets**

Temporarily restricted net assets increased \$214 million to \$1.3 billion in FY08. Included in this category are pledges that will become expendable upon payment, gifts pending designation by the donor, funds for which donor-imposed restrictions have not yet been met, including gifts for capital construction and certain other purposes. The University recorded \$322 million of new temporarily restricted gifts and pledges in FY08, net of discounts and allowances. During the year, \$92 million of temporarily restricted net assets were released from their restrictions and utilized to fund operating activities. Another \$36 million was released to unrestricted net assets related to capital assets placed in service during the year and other gifts which no longer carried donor restrictions. A total of \$44 million of Board designated funds was transferred from unrestricted net assets into donor gift funds held in temporarily restricted net assets. Upon transfer, these amounts take on the same restriction as the donor gifts.

#### **Permanently Restricted Net Assets**

Permanently restricted net assets increased \$310 million to \$4.8 billion during FY08. The increase was due primarily to the receipt of \$247 million in new gifts and pledges to the Endowment, net of discounts and allowances. The principal value of these funds must be invested in perpetuity to generate endowment income to be used only for purposes designated by donors. In addition, \$60 million was transferred into permanently restricted net assets from unrestricted and temporarily restricted net assets in order to satisfy matching gift conditions required by donors.

#### **FINANCIAL POSITION**

The University's Statement of Financial Position reflects strong donor support and solid operating results. Total University assets increased \$816 million in FY08 to end the year at \$26.7 billion. Total University liabilities increased \$83 million to \$4 billion.

Highlights of the Statement of Financial Position are as follows:

- › Cash and cash equivalents decreased \$32 million as cash balances were invested to the fullest extent possible. In addition, bond proceeds held in an escrow account at the end of FY07 were used to fund capital projects during FY08.

- › Net pledges receivable were \$769 million at August 31, 2008, an increase of \$102 million over FY07 evidencing the continued strong support by donors. Valuation allowances have been recorded for pledges that may not be collectible or where the pledge term may be extended.
- › The University provides home mortgage financing assistance as a means of attracting and retaining outstanding faculty and senior staff. Most of the properties are located on University land near the main campus. Total notes outstanding under this program increased \$42 million to \$376 million in FY08.
- › Total investments increased by \$591 million, up 3% from FY07. See Figure 6 (below) for investment asset allocation at August 31. Alternative investments, including various types of limited partnerships, private equity funds, venture capital funds, natural resources, real estate and hedge funds, represent approximately 67% of total investments at August 31, 2008. Having such a large percentage of its investments in relatively illiquid vehicles requires the University to closely monitor liquidity required to meet operating and other contractual commitments.

FIGURE 6  
INVESTMENT ASSET ALLOCATION  
(\$21.8 BILLION)

	(\$ in millions)	
Cash, securities lending collateral, short-term investments and derivatives	\$ 804	4%
Bonds and mutual funds	656	3%
Equities and investment funds	6,078	28%
Limited partnerships	12,031	55%
Real estate	1,942	9%
Other	247	1%
Total investments	\$21,758	100%

- › Plant facilities, net of accumulated depreciation, increased \$181 million to \$2.9 billion in FY08. Net additions to plant facilities in FY08 totaled \$367 million, bringing gross plant facilities before accumulated depreciation to \$5.3 billion. Additions to the University's plant facilities in FY08 included the Jerry Yang and Akiko Yamazaki Environment and Energy building, an energy-efficient "green" building that is projected to use roughly half the energy and 90% less potable water for fixtures than a typical building of its size; a new four-level underground parking structure that provides parking for over 1,200 vehicles to the nearby Munger Graduate Residences, scheduled to open in FY09; and

the significant renovation of the Durand Building, part of a larger plan to renovate a number of buildings to provide 21st-century teaching and research facilities for all departments within the School of Engineering.

- › Deferred rental income, consisting of prepaid rents on properties leased by the University, was \$388 million at August 31, 2008. These amounts are recognized as revenue ratably over the terms of the associated leases. The majority of the balance, \$299 million, relates to the Stanford Shopping Center 51-year ground lease which the University entered into in 2003.
- › Notes and bonds payable were \$1.5 billion at August 31, 2008, up \$38 million from FY07, due primarily to increased commercial paper borrowing. Proceeds from the University's debt are used primarily to fund capital projects. Several major building and infrastructure projects currently under way will require debt to fund them. The University has commercial paper facilities totaling \$650 million, of which approximately \$440 million was available to fund future capital expenditures at August 31, 2008.

With the collapse of the auction rate securities markets during the year, the University restructured \$318 million of tax-exempt auction rate securities in its debt portfolio to fixed rate six-year bonds and variable rate demand bonds, and redeemed \$50 million of taxable auction rate securities, as further described in note 8 to the financial statements.

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



## Hospitals

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

The Hospitals had a combined operating surplus of \$147 million, down 8% from \$159 million in FY07 after reclassification of amounts related to the sale of SHC's outreach clinics. At August 31, 2008, the Hospitals' net assets were \$2.2 billion compared to \$2 billion at August 31, 2007, an increase of \$184 million. The following discussion summarizes the individual financial results of SHC and LPCH as shown in the consolidated financial statements.

### STANFORD HOSPITAL AND CLINICS

SHC continued to improve its financial position, generating income from operations of \$105 million for FY08 compared to \$138 million for FY07 after excluding losses from discontinued operations. During the year, SHC sold certain assets and liabilities of its clinical laboratory testing outreach business for \$30 million plus the assumption of various property leases valued at approximately \$2 million. The sales proceeds net of sales expenses and exit costs were \$21 million.

### STATEMENT OF ACTIVITIES

Revenues increased by 8% to \$1.7 billion.

- › Patient revenues increased by 8%, to \$1.6 billion.
  - Inpatient revenues, which make up 55% of the total, grew by 11% on continuing increases in patient volume and favorable negotiations of payor contracts. Despite significant capacity limitations, total patient days were up by 2%.
  - Outpatient revenues increased by 4%, accounting for 45% of the total.
- › Other income, which includes the results of the various related entities, was up 5% to \$51 million.
- › Net assets released from restrictions grew 10% from FY07 to \$5 million.

Expenses increased by 11% to \$1.6 billion with a portion of the increase related to major patient safety and service projects, including the implementation of Phase I of the electronic Clinical Information System (CIS).

- › Salaries and benefits grew by 12% to \$715 million. Excluding the costs related to the implementation of CIS, salaries and benefits increased 10%. The number of employees was up 5% in response to growth in patient volumes, while salaries were increased to maintain SHC's position in the competitive market for health care professionals.
- › Physicians' services and support increased by 5% from \$247 million to \$260 million. This category includes all payments to the University for services, the majority of which are payments to the School of Medicine for physician services.
- › Depreciation increased by 49% to \$66 million, primarily as a result of the implementation of CIS and other projects for the hospital and clinics facilities.
- › Other operating expenses, including such categories as supplies, purchased and professional services and bad debt expense, were up by 10% to \$509 million as a result of both increases in patient volumes and increases in prices.

Total net assets increased \$71 million to \$972 million as SHC continued to rebuild its balance sheet to support the expansion of services to the community and to support the shared missions of the Hospital and the School of Medicine.

- › Unrestricted net assets increased by \$65 million to \$909 million. Most of this growth came from SHC's operating surplus of \$105 million and from an increase of \$32 million in investment income and gains, netted with a loss of \$18 million on extinguishment of debt and a loss of \$43 million on swap valuations.
- › Temporarily restricted net assets increased by \$5 million to \$56 million, and permanently restricted net assets remained constant at \$6 million in FY08.

### FINANCIAL POSITION

SHC's Statement of Financial Position reflects continued investments in the facilities and systems required to remain at the forefront of medicine and to be the provider of choice for complex care in the communities it serves.

- › Unrestricted cash and investments were \$985 million at the end of FY08, an increase of \$110 million. As a result, days cash on hand increased from 236 to 243.



- › Assets held by an outside trustee decreased by \$170 million to \$164 million. The decrease represents the expended proceeds of the 2006 bond issue, which was spent on the new outpatient facility, the clinical information system, and other facilities and systems projects.
- › Property and equipment, net of depreciation, increased \$195 million to \$707 million during FY08. The largest elements of the increase were the expenditures for a new electronic clinical information system; continued investment in the Stanford Medicine Outpatient Center in Redwood City which will open in FY09 and will expand the availability of outpatient care; and equipment to support clinical operations.
- › During the year, SHC restructured its debt and enhanced liquidity by refunding and converting \$579 million in auction rate bonds to fixed rate term bonds and variable rate demand bonds. Various agreements were made for liquidity support related to the restructuring.

#### **LUCILE PACKARD CHILDREN'S HOSPITAL**

LPCH generated income from operations of \$42 million in FY08, an increase of \$21 million from FY07. Operating results were strengthened by several factors, including a slightly more favorable payer mix, rate increases for managed care contracts and improvements in the charging process. High labor costs, incurred during the first half of the year related to the installation of a new electronic medical record system, somewhat tempered the revenue improvements.

Net assets increased \$113 million to \$1.2 billion at August 31, 2008. The increase in net assets stems primarily from operating income, investment earnings of \$16 million and \$46 million of donor contributions that are temporarily or permanently restricted.

#### **STATEMENT OF ACTIVITIES**

- › Volume remained flat between FY07 and FY08. Planned expansion of oncology beds and operating room capacity scheduled to be completed by summer of 2008 were delayed until December 2008. Despite the delay in acquiring the capacity to access additional volume, net patient revenues grew 12% to \$630 million. The increase in net patient revenue was driven by a slight shift away from Medi-Cal utilization to commercial and other government payers, increased commercial contract rate increases and improved charge capture.
- › Operating expenses grew by 10% due in large part to increases in labor costs, which were up 14% in FY08. Over the course of the fiscal year, full-time equivalent staff increased 6% owing to a temporary increase in staff during the installation of an electronic medical record system, as well as new staff hired for the planned opening of additional oncology beds and operating room capacity, which were subsequently delayed. Salaries were also increased to maintain LPCH's position in the competitive market for health care professionals. Additionally, benefits increased 16% due to increased health care, workers compensation and pension costs. Services purchased from SHC and the University, which include such items as operating room and cardiac catheterization lab access, laboratory testing and certain information systems, remained flat between FY07 and FY08.

#### **Other financial highlights:**

- › LPCH's community benefits, including services to patients under Medi-Cal and other publicly sponsored programs that reimburse at amounts less than the cost of services provided to the recipients, were \$142 million in FY08, compared with \$133 million in FY07. LPCH also invests additional funds to improve the health of the children of San Mateo and Santa Clara counties through a range of community based programs.

- › Unrestricted cash and investments increased by \$57 million to \$496 million at August 31, 2008. This represents an increase in day's cash on hand from 280 to 294 days. The increase in unrestricted cash and investments is largely the result of operating income, as well as reimbursement from tax-exempt bond proceeds and California State Proposition 61 funds for the acquisition of approximately \$86 million in capital improvements.

- › Due to the downgrade of the insurer of LPCH's 1993 bonds and ongoing issues with the auction rate bond market, in August 2008, LPCH refinanced its 1993 variable rate bonds and 2003 auction rate bonds through the issuance of \$93 million of variable rate demand bonds utilizing self-liquidity as support.

- › LPCH continues to battle with inpatient capacity issues, which are being addressed by current and planned expansions of bed and operating room capacity, as well as by adding LPCH-managed satellite operations throughout the greater community. The construction of additional beds, as well as surgical suites and enhancements to radiology services, is scheduled to be completed by March 2009.

## Challenges facing the University and Hospitals

Global equity markets experienced dramatic declines in the early months of fiscal year 2009 (FY09), and the global economy has entered a deep recession. We anticipate a significant decline in total investment returns and a corresponding unfavorable impact on investment income distributed for operations, one of our largest sources of operating revenue. In addition, we expect the decline in federal research funding experienced over the past few years to continue. We are concerned that gifts will decline from the strong levels of the past few years as donors also feel the strain of declining investment portfolios.

The University President and Provost have communicated the need to plan for a tighter financial future. The Provost has announced plans for reductions in the general funds budget of 15%, or \$100 million, over the next two years. The specific actions to reduce the costs will be determined through the University's annual budget process.

The significant volatility in the financial markets experienced in early FY09, which was spearheaded by the severe credit crisis and subsequent demand for liquidity, has prompted the University and the Hospitals to be more attentive to their cash management. Throughout FY08, we undertook a number of actions to preserve a sufficient amount of liquidity to meet our commitments for construction, investment partnerships, possible tenders of our variable rate debt and basic operating needs. We are carefully monitoring the performance and valuations of the more illiquid investments in our portfolio and are working to ensure that we have sufficient working capital available to meet our needs.

As the University continues with its policy of need-blind admissions, we recognize that students will need more

financial aid in order to afford the quality education that Stanford provides. In February 2008, we announced significant enhancements to our financial aid program for undergraduates, including waiving tuition payment for families with incomes of less than \$100,000. Additionally, families with incomes of less than \$60,000 will not be expected to pay tuition or contribute to the costs of room, board and other expenses. Despite the economic outlook, we remain committed to these program enhancements and to providing the support that our students will need.

On the health care side, we continue to see rapidly escalating costs of personnel and equipment which often exceed the increases in medical reimbursement rates. Due to inpatient capacity constraints, the Hospitals have limited ability to absorb these increased costs through greater volume. The process of seeking approval from local authorities to construct new facilities to meet community health care needs, which was started last year, continues. These new facilities are projected to cost more than \$3 billion, representing the largest capital projects ever undertaken by the University or the Hospitals. Although the majority of the cost of the new facilities is expected to be funded from capital reserves, operating surpluses and gifts, the Hospitals will also need to take on substantial new debt.

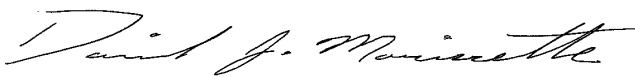
The University and Hospitals have accomplished a great deal in the past fiscal year. As we look forward, we will make strategic adjustments that will allow us to maintain the momentum that we have built up in recent years. We remain strongly committed to excellence in teaching, research and health care. With the continued support of the faculty, staff, students, trustees, alumni and other friends, we will continue to move toward achieving the goals set out in The Stanford Challenge and to offer an outstanding education to future generations of students.



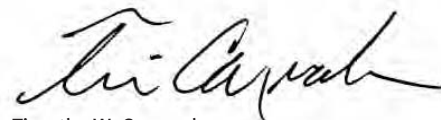
Randall S. Livingston  
Vice President for Business Affairs and  
Chief Financial Officer  
Stanford University



M. Suzanne Calandra  
Controller  
Stanford University



Daniel J. Morissette  
Chief Financial Officer  
Stanford Hospital and Clinics



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

# SELECTED FINANCIAL DATA

*Fiscal Years Ended August 31*

	2008	2007	2006	2005	2004	2003
(in millions of dollars)						
STATEMENT OF ACTIVITIES DATA:						
Student income (A)	\$ 405	\$ 394	\$ 376	\$ 356	\$ 332	\$ 318
Sponsored research support	1,076	1,058	994	973	924	860
Health care services	2,193	1,997	1,851	1,699	1,501	1,277
Current year gifts in support of operations	189	198	168	144	105	113
Net assets released from restrictions	104	122	117	104	64	72
Investment income distributed for operations	1,007	710	609	514	460	495
Special program fees and other income	429	398	396	351	329	320
<b>Total Revenues</b>	<b>5,403</b>	<b>4,877</b>	<b>4,511</b>	<b>4,141</b>	<b>3,715</b>	<b>3,455</b>
<b>Total Expenses</b>	<b>4,957</b>	<b>4,467</b>	<b>4,212</b>	<b>3,842</b>	<b>3,572</b>	<b>3,319</b>
Excess of revenues over expenses	446	410	299	299	143	136
Other changes in net assets	471	3,647	2,709	2,598	1,596	1,028
<b>Net change to total net assets</b>	<b>917</b>	<b>4,057</b>	<b>3,008</b>	<b>2,897</b>	<b>1,739</b>	<b>1,164</b>
FINANCIAL POSITION HIGHLIGHTS:						
Cash and cash equivalents	\$ 859	\$ 647	\$ 579	\$ 629	\$ 638	\$ 602
Pledges receivable, net	883	758	619	507	454	475
Investments at fair value	23,470	23,119	19,263	16,351	13,318	11,806
Plant facilities, net of accumulated depreciation	3,967	3,472	3,164	2,800	2,743	2,723
Notes and bonds payable:						
University	1,532	1,494	1,309	1,266	1,288	1,275
Hospitals	1,007	1,015	1,006	582	587	591
<b>Total net assets, end of year</b>	<b>24,855</b>	<b>23,938</b>	<b>19,881</b>	<b>16,873</b>	<b>13,976</b>	<b>12,237</b>
<b>University endowment</b>	<b>17,214</b>	<b>17,165</b>	<b>14,085</b>	<b>12,205</b>	<b>9,922</b>	<b>8,614</b>
STUDENTS:						
ENROLLMENT: (B)						
Undergraduate	6,812	6,759	6,689	6,705	6,753	6,654
Graduate	8,328	8,186	8,201	8,176	8,093	7,800
DEGREES CONFERRED:						
Bachelor's degrees	1,646	1,709	1,756	1,790	1,713	1,788
Advanced degrees	2,928	3,100	3,093	2,945	2,931	2,855
FACULTY:						
Members of the Academic Council	1,459	1,428	1,418	1,400	1,410	1,396
ANNUAL UNDERGRADUATE TUITION RATE						
(in dollars)	\$ 34,800	\$ 32,994	\$ 31,200	\$ 29,847	\$ 28,563	\$ 27,204

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

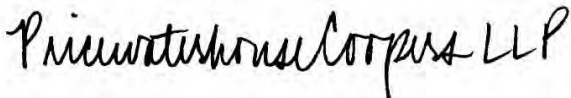
(B) Enrollment for fall quarter immediately following fiscal year end.

# REPORT OF INDEPENDENT AUDITORS

To the Board of Trustees  
Stanford University

In our opinion, the accompanying consolidated statements of financial position and the related consolidated statements of activities and cash flows, present, fairly, in all material respects, the financial position of Stanford University (the "University") at August 31, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1 to the consolidated financial statements, in 2007 the University adopted Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Postretirement Plans*.

A handwritten signature in black ink that reads "PricewaterhouseCoopers LLP". The signature is written in a cursive, flowing style.

San Francisco, California  
December 11, 2008

# CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

At August 31, 2008 and 2007 (in thousands of dollars)

	2008			2007
	UNIVERSITY	HOSPITALS	CONSOLIDATED	CONSOLIDATED
<b>ASSETS</b>				
Cash and cash equivalents	\$ 514,697	\$ 344,333	\$ 859,030	\$ 646,620
Accounts receivable, net	200,874	398,905	599,779	656,896
Receivables (payables) from SHC and LPCH, net	54,289	(54,289)	-	-
Prepaid expenses and other assets	72,274	74,700	146,974	237,661
Pledges receivable, net	769,224	114,123	883,347	757,631
Student loans receivable, net	70,950	-	70,950	65,626
Faculty and staff mortgages and other loans receivable, net	376,491	-	376,491	334,268
Investments at fair value, including securities pledged or on loan of \$464,777 and \$553,869 for 2008 and 2007, respectively	21,757,716	1,712,083	23,469,799	23,118,655
Plant facilities, net of accumulated depreciation	2,887,106	1,080,077	3,967,183	3,472,369
Works of art and special collections	-	-	-	-
<b>TOTAL ASSETS</b>	<b>26,703,621</b>	<b>3,669,932</b>	<b>30,373,553</b>	<b>29,289,726</b>
<b>LIABILITIES AND NET ASSETS</b>				
<b>LIABILITIES:</b>				
Accounts payable and accrued expenses	677,909	429,205	1,107,114	916,772
Accrued post retirement benefit cost	218,952	69,035	287,987	277,273
Pending trades	170,919	-	170,919	141,838
Liabilities under security agreements	548,951	-	548,951	648,723
Deferred rental income	388,018	-	388,018	392,999
Income beneficiary share of split interest agreements	423,197	-	423,197	413,403
Notes and bonds payable	1,532,199	1,007,337	2,539,536	2,508,507
U.S. government refundable loan funds	52,848	-	52,848	52,685
<b>TOTAL LIABILITIES</b>	<b>4,012,993</b>	<b>1,505,577</b>	<b>5,518,570</b>	<b>5,352,200</b>
<b>NET ASSETS:</b>				
Unrestricted	16,617,043	1,644,931	18,261,974	17,914,270
Temporarily restricted	1,314,713	243,636	1,558,349	1,348,491
Permanently restricted	4,758,872	275,788	5,034,660	4,674,765
<b>TOTAL NET ASSETS</b>	<b>22,690,628</b>	<b>2,164,355</b>	<b>24,854,983</b>	<b>23,937,526</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 26,703,621</b>	<b>\$ 3,669,932</b>	<b>\$ 30,373,553</b>	<b>\$ 29,289,726</b>

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

# CONSOLIDATED STATEMENTS OF ACTIVITIES

For the years ended August 31, 2008 and 2007 (in thousands of dollars)

	2008			2007
	UNIVERSITY	HOSPITALS	CONSOLIDATED	CONSOLIDATED
UNRESTRICTED NET ASSETS				
REVENUES:				
Student income:				
Undergraduate programs	\$ 241,302	\$ -	\$ 241,302	\$ 227,359
Graduate programs	234,986	-	234,986	222,858
Room and board	104,977	-	104,977	99,907
Student financial aid	(176,444)	-	(176,444)	(156,062)
<b>TOTAL STUDENT INCOME</b>	<b>404,821</b>	<b>-</b>	<b>404,821</b>	<b>394,062</b>
Sponsored research support:				
Direct costs - University	555,898	-	555,898	541,073
Direct costs - SLAC National Accelerator Laboratory	350,989	-	350,989	345,725
Indirect costs	169,042	-	169,042	171,360
<b>TOTAL SPONSORED RESEARCH SUPPORT</b>	<b>1,075,929</b>	<b>-</b>	<b>1,075,929</b>	<b>1,058,158</b>
Health care services:				
Patient care, net	-	2,179,841	2,179,841	1,983,312
Physicians' services and support - SHC and LPCH, net	358,972	(358,972)	-	-
Physicians' services and support - other facilities, net	13,127	-	13,127	13,170
<b>TOTAL HEALTH CARE SERVICES</b>	<b>372,099</b>	<b>1,820,869</b>	<b>2,192,968</b>	<b>1,996,482</b>
<b>CURRENT YEAR GIFTS IN SUPPORT OF OPERATIONS</b>	<b>182,411</b>	<b>6,967</b>	<b>189,378</b>	<b>198,454</b>
Net assets released from restrictions:				
Payments received on prior year pledges	55,394	1,612	57,006	53,878
Prior year gifts released from donor restrictions	36,934	10,416	47,350	68,555
<b>TOTAL NET ASSETS RELEASED FROM RESTRICTIONS</b>	<b>92,328</b>	<b>12,028</b>	<b>104,356</b>	<b>122,433</b>
Investment income distributed for operations:				
Endowment	881,570	14,441	896,011	608,969
Expendable funds pool and other investment income	110,908	-	110,908	100,580
<b>TOTAL INVESTMENT INCOME DISTRIBUTED FOR OPERATIONS</b>	<b>992,478</b>	<b>14,441</b>	<b>1,006,919</b>	<b>709,549</b>
<b>SPECIAL PROGRAM FEES AND OTHER INCOME</b>	<b>355,390</b>	<b>73,798</b>	<b>429,188</b>	<b>397,975</b>
<b>TOTAL REVENUES</b>	<b>3,475,456</b>	<b>1,928,103</b>	<b>5,403,559</b>	<b>4,877,113</b>
EXPENSES:				
Salaries and benefits	1,883,404	1,001,524	2,884,928	2,602,987
Depreciation	223,114	92,301	315,415	265,564
Other operating expenses	1,069,340	687,401	1,756,741	1,599,029
<b>TOTAL EXPENSES</b>	<b>3,175,858</b>	<b>1,781,226</b>	<b>4,957,084</b>	<b>4,467,580</b>
<b>EXCESS OF REVENUES OVER EXPENSES</b>	<b>\$ 299,598</b>	<b>\$ 146,877</b>	<b>\$ 446,475</b>	<b>\$ 409,533</b>

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

# CONSOLIDATED STATEMENTS OF ACTIVITIES

For the years ended August 31, 2008 and 2007 (in thousands of dollars)

	2008			2007
	UNIVERSITY	HOSPITALS	CONSOLIDATED	CONSOLIDATED
UNRESTRICTED NET ASSETS (continued)				
<b>EXCESS OF REVENUES OVER EXPENSES</b>	<b>\$ 299,598</b>	<b>\$ 146,877</b>	<b>\$ 446,475</b>	<b>\$ 409,533</b>
Other changes in unrestricted net assets:				
(Decrease) increase in reinvested gains	(236,992)	35,369	(201,623)	2,868,521
Donor advised funds, net	165,583	-	165,583	32,527
Current year gifts not included in operations	8,976	-	8,976	5,838
Contribution revenue from merger with CASBS	29,198	-	29,198	-
Hospital equity transfers	11,564	(11,564)	-	-
Capital and other gifts released from restrictions	35,554	31,188	66,742	142,828
Capital gifts released to Hospitals	-	-	-	2,547
Decrease in minimum pension liability	-	-	-	3,593
Pension related changes other than net periodic benefit expense	(10,589)	(2,983)	(13,572)	-
Transfer to permanently restricted net assets	(41,348)	-	(41,348)	(40,676)
Transfer to temporarily restricted net assets	(43,657)	-	(43,657)	(14,598)
Swap interest and unrealized losses	(9,643)	(42,600)	(52,243)	(3,126)
Loss on extinguishment of debt	-	(17,855)	(17,855)	-
Income (loss) from discontinued operations	-	890	890	(23,869)
Cumulative effect of change in accounting principle	-	-	-	(82,232)
Other	1,770	(1,632)	138	(9,879)
<b>NET CHANGE IN UNRESTRICTED NET ASSETS</b>	<b>210,014</b>	<b>137,690</b>	<b>347,704</b>	<b>3,291,007</b>
TEMPORARILY RESTRICTED NET ASSETS				
Gifts and pledges, net	322,366	44,105	366,471	435,595
Investment (losses) gains	(9,633)	15,516	5,883	75,373
Change in value of split interest agreements, net	6,098	(568)	5,530	(9,769)
Net assets released to operations	(92,328)	(33,436)	(125,764)	(122,433)
Capital and other gifts released to unrestricted net assets	(35,554)	(31,188)	(66,742)	(142,828)
Capital gifts released to Hospitals' unrestricted net assets	-	-	-	(2,547)
Transfer from unrestricted net assets	43,657	-	43,657	14,598
Transfer to permanently restricted net assets	(18,396)	-	(18,396)	(13,474)
Other	(2,532)	1,751	(781)	(1,240)
<b>NET CHANGE IN TEMPORARILY RESTRICTED NET ASSETS</b>	<b>213,678</b>	<b>(3,820)</b>	<b>209,858</b>	<b>233,275</b>
PERMANENTLY RESTRICTED NET ASSETS				
Gifts and pledges, net	246,613	52,846	299,459	360,930
Contribution revenue from merger with CASBS	29,690	-	29,690	-
Investment (losses) gains	(13,458)	-	(13,458)	97,950
Change in value of split interest agreements, net	(11,578)	(707)	(12,285)	24,252
Transfer from unrestricted net assets	41,348	-	41,348	40,676
Transfer from temporarily restricted net assets	18,396	-	18,396	13,474
Other	(1,504)	(1,751)	(3,255)	(4,199)
<b>NET CHANGE IN PERMANENTLY RESTRICTED NET ASSETS</b>	<b>309,507</b>	<b>50,388</b>	<b>359,895</b>	<b>533,083</b>
<b>NET CHANGE IN TOTAL NET ASSETS</b>	<b>733,199</b>	<b>184,258</b>	<b>917,457</b>	<b>4,057,365</b>
Total net assets, beginning of year	21,957,429	1,980,097	23,937,526	19,880,161
<b>TOTAL NET ASSETS, END OF YEAR</b>	<b>\$ 22,690,628</b>	<b>\$ 2,164,355</b>	<b>\$ 24,854,983</b>	<b>\$ 23,937,526</b>

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

# CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended August 31, 2008 and 2007 (in thousands of dollars)

	2008			2007
	UNIVERSITY	HOSPITALS	CONSOLIDATED	CONSOLIDATED
<b>CASH FLOW FROM OPERATING ACTIVITIES:</b>				
Change in net assets	\$ 733,199	\$ 184,258	\$ 917,457	\$ 4,057,365
Adjustments to reconcile change in net assets to net cash (used for) provided by operating activities:				
Cumulative effect of change in accounting principle	-	-	-	82,232
Depreciation, amortization and loss on disposal of fixed assets	223,316	96,225	319,541	281,122
Net realized and unrealized gains on investments and security agreements	(427,381)	(23,752)	(451,133)	(3,377,236)
Net realized and unrealized losses on derivatives	9,643	42,571	52,214	2,368
Actuarial change in split interest agreements	(55,947)	1,275	(54,672)	50,824
Permanently restricted investment income	(18,838)	-	(18,838)	(27,138)
Gifts restricted for long-term investments	(395,462)	(87,181)	(482,643)	(355,652)
Gifts of securities and properties	(167,038)	-	(167,038)	(219,696)
Contribution revenue from merger with CASBS	(59,319)	-	(59,319)	-
Gain from sale of discontinued operations	-	(21,273)	(21,273)	-
Loss on extinguishment of debt	5,343	17,855	23,198	-
Net decrease (increase) in accounts receivable, pledges receivable and receivables from SHC and LPCH	4,197	142,223	146,420	(110,956)
Decrease (increase) in prepaid expenses and other assets	12,499	833	13,332	(108,209)
Increase in accounts payable and accrued expenses	82,449	46,500	128,949	21,162
Increase in accrued post retirement costs	8,643	2,071	10,714	48,097
(Decrease) increase in deferred rental income	(4,981)	-	(4,981)	25,434
Increase in U.S. government refundable loan funds	163	-	163	291
<b>NET CASH (USED FOR) PROVIDED BY OPERATING ACTIVITIES</b>	<b>(49,514)</b>	<b>401,605</b>	<b>352,091</b>	<b>370,008</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES:</b>				
Land, building and equipment purchases	(390,121)	(338,813)	(728,934)	(523,341)
Student, faculty and other loans:				
New loans made	(78,620)	-	(78,620)	(75,645)
Principal collected	29,642	-	29,642	37,112
Contribution revenue from merger with CASBS	59,319	-	59,319	-
Net proceeds from sale of discontinued operations	-	21,273	21,273	-
Purchases of investments	(21,566,315)	(201,560)	(21,767,875)	(13,377,614)
Sales and maturities of investments	21,689,813	295,236	21,985,049	13,126,518
<b>NET CASH USED FOR INVESTING ACTIVITIES</b>	<b>(256,282)</b>	<b>(223,864)</b>	<b>(480,146)</b>	<b>(812,970)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES:</b>				
Gifts and reinvested endowment income, capital projects and other restricted purposes	320,529	87,181	407,710	318,374
Increase (decrease) in investment income for restricted purposes	18,838	(1,275)	17,563	24,520
Proceeds from borrowing	515,996	607,650	1,123,646	187,361
Bond issuance costs and interest rate swaps	(2,545)	(10,835)	(13,380)	(816)
Repayment of notes and bonds payable	(478,847)	(616,455)	(1,095,302)	(9,468)
Decrease in liabilities under security agreements	(99,772)	-	(99,772)	(9,473)
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>274,199</b>	<b>66,266</b>	<b>340,465</b>	<b>510,498</b>
<b>(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(31,597)</b>	<b>244,007</b>	<b>212,410</b>	<b>67,536</b>
Cash and cash equivalents, beginning of year	546,294	100,326	646,620	579,084
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 514,697</b>	<b>\$ 344,333</b>	<b>\$ 859,030</b>	<b>\$ 646,620</b>
<b>SUPPLEMENTAL DATA:</b>				
Interest paid during the year	\$ 72,347	\$ 46,043	\$ 118,390	\$ 116,344
Gifts of equipment	\$ 4,891	\$ -	\$ 4,891	\$ 1,477
Gifts of securities and properties	\$ 162,147	\$ -	\$ 162,147	\$ 219,696
Cash collateral received under securities lending agreements	\$ 491,944	\$ -	\$ 491,944	\$ 583,872

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



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. Basis of Presentation and Significant Accounting Policies

**BASIS OF PRESENTATION** The consolidated financial statements include the accounts of Stanford University (the University), Stanford Hospital and Clinics (SHC), Lucile Salter Packard Children's Hospital at Stanford (LPCH) and other majority-owned or controlled entities. All significant inter-entity transactions and balances have been eliminated upon consolidation. Certain prior year amounts have been reclassified to conform to the current year's presentation. These reclassifications and revisions 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, which is organized into seven schools with 1,878 faculty and 15,140 graduate and undergraduate students. The "University" category presented in the financial statements comprises all of the accounts of the University, including the Stanford Alumni Association (SAA), the Hoover Institution and other institutes and research centers, the Stanford Management Company and the SLAC National Accelerator Laboratory (SLAC).

The University manages and operates SLAC for the Department of Energy (DOE) under a management and operating contract; therefore, the revenues and expenditures of SLAC are included in the statement of activities. SLAC is a federally funded research and development center owned by the DOE and, accordingly, the assets and liabilities are not included in the University's statement of financial position, other than employee-related accrued compensation and related receivables from the DOE.

### **Hospitals**

The health care activities of SHC and LPCH (the Hospitals), including revenues, expenses, assets and liabilities, are consolidated into these financial statements. Each of the Hospitals is a California not-for-profit public benefit corporation. The University is the sole member of each of the Hospitals. The Hospitals support the mission of medical education and clinical research of the University's School of 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. The Hospitals jointly control a captive insurance company.

Each of the Hospitals prepares separate, stand-alone financial statements. For purposes of presentation of the Hospitals' balance sheets, statements of operations and changes in net assets and statements of cash flows in these consolidated financial statements, conforming reclassifications have been made to the Hospitals' revenues, expenses, investment income and inter-entity receivables and payables consistent with categories in these consolidated financial statements.

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

**BASIS OF ACCOUNTING** The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. 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 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 used to support the University's core activities of teaching and research or the Hospitals' patient care, teaching and research missions. 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. Unrestricted net assets include funds designated for operations, plant facilities, certain investment and endowment gains and funds functioning as endowment.

Management considers all revenues and expenses to be related to operations. Increases (decreases) in reinvested gains, donor advised funds, capital and other gifts released from restrictions, hospital equity transfers, amounts transferred to other net asset categories and certain other non-operating changes are reported in other changes in unrestricted net assets.

Transfers from unrestricted net assets to temporarily restricted net assets consist primarily of amounts approved by the Board to be added to donor gift funds which then take on the same restrictions as the donor gifts. Transfers from unrestricted net assets to permanently restricted net assets are matching gift funds provided by the University.

#### **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, at which time they are released and reclassified to unrestricted support. Donor-restricted resources intended for capital projects are initially recorded as temporarily restricted and released from their temporary restrictions and reclassified as unrestricted support when the asset is placed in service. Of the amounts included in temporarily restricted net assets, approximately 54% are for capital projects and 46% are for other institutional support. Transfers from temporarily restricted net assets to permanently restricted net assets are the result of donor redesignations of original gifts.

#### **Permanently Restricted Net Assets**

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

**CASH AND CASH EQUIVALENTS** Cash and cash equivalents consist of U.S. Treasury bills, commercial paper, certificates of deposit, money market funds and all other short-term investments with remaining maturities of 90 days or less at the time of purchase. These amounts are carried at cost, which approximates market. Cash and cash equivalent amounts held for investment purposes, collateral held for securities loaned and certain cash restricted in its use, are classified as investments.

**PLEDGES RECEIVABLE** Unconditional promises to give are included in the financial statements as pledges receivable and are classified as temporarily restricted or permanently restricted, depending upon donor requirements. Pledges are recorded at the present value of the discounted cash flows, net of an allowance for doubtful accounts. 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.

**ACCOUNTS AND STUDENT LOANS RECEIVABLE** Accounts and student loans receivable are carried at cost, less an allowance for doubtful accounts.

**INVESTMENTS** Investments are recorded at fair value.

The values of publicly traded fixed income, equity securities and mutual funds are based on quoted market prices and exchange rates, if applicable. Securities transactions are reported on a trade-date basis.

Non-public equity investments, assets held by other trustees, real estate and improvements, limited partnerships and other investments are recorded based on estimated fair values. Methods for determining estimated fair values include discounted cash flows and estimates provided by trustees and general partners. The estimated fair value of certain of the limited partnership and hedge fund investments is based on valuations provided by the external investment managers as of June 30, adjusted for cash receipts, cash disbursements, significant known valuation changes in market values of publicly held securities contained in the portfolio and securities distributions through August 31. The University believes the carrying amounts of these investments are a reasonable estimate of fair value. Because the limited partnership investments are not readily marketable, their estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for such investments existed. Such differences could be material.

Donated assets are recorded at fair value at the date of donation. Estimates of fair value involve assumptions and estimation methods that are uncertain and, therefore, the estimates could differ from actual results.

Undeveloped land is reported at fair value at the date of acquisition. Under the original endowment from Senator Leland and Mrs. Jane Stanford, a significant portion of University land may not be sold.

DERIVATIVES Derivative financial instruments are recorded at fair value with the resulting gain or loss recognized in the consolidated statement of activities (see note 5).

PLANT FACILITIES Plant facilities are recorded at cost or, for donated assets, at fair value at the date of donation. Interest for construction financing 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, 2008 and 2007 are as follows:

	UNIVERSITY	HOSPITALS
Land improvements	10-25 years	10-25 years
Buildings and building improvements	4-50 years	7-40 years
Furniture, fixtures and medical equipment	5-10 years	3-20 years
Equipment, books and software	3-10 years	3-10 years

WORKS OF ART AND SPECIAL COLLECTIONS Works of art, historical treasures, literary works and artifacts, which are preserved and protected for educational, research and public exhibition purposes, are not capitalized. Purchases of such collections are recorded as operating expenses in the period in which they are acquired.

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.

DONOR ADVISED FUNDS The University receives gifts from donors under donor advised fund agreements (DAFs). These funds are owned and controlled by the University and are separately identified by the donor. A substantial portion of the gift must be designated to the University. The balance may be used to support other approved charities. The donors have advisory privileges with respect to the distribution of the amounts in the funds. DAFs are recorded in other changes in unrestricted net assets at the full amount of the gift. Transfers of funds to other charitable organizations are recorded as a reduction to other changes in unrestricted net assets at the time the transfer is made. At August 31, 2008, approximately \$180 million of DAFs are not designated to the University.

SPLIT INTEREST AGREEMENTS Split interest agreements represent trusts with living income beneficiaries where the University has a residual interest. The discounted present value of any income beneficiary interest is reported as a liability in the statement of financial position based on actuarial tables established by the Internal Revenue Service using discount rates ranging from 4% to 6%. Gifts subject to such agreements are recorded as revenue, net of the income beneficiary share, at the date of the gift. Actuarial gains or losses are included in "Change in value of split interest agreements" in the statement of activities. Resources that are expendable upon maturity are classified as temporarily restricted net assets; all others are classified as permanently restricted net assets.

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.

HEALTH CARE SERVICES The Hospitals derive a majority of patient-care revenues from contractual agreements with third-party payers including Medicare, Medi-Cal and other payers. Payments under these agreements and programs are based on a percentage of charges, per diem, per discharge, per service, a fee schedule, cost reimbursement or negotiated charges.

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

**CHARITY CARE** The Hospitals provide care to patients who meet certain criteria under their charity care policies without charge or at amounts less than their established rates. The Hospitals do not record revenue for amounts determined to qualify as charity care. The amount of charity care services, quantified at established rates, was \$52,674,000 and \$42,619,000 for the years ended August 31, 2008 and 2007, respectively. The Hospitals also provide services to other patients under 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 Medi-Cal and county services for the years ended August 31, 2008 and 2007 were \$207,465,000 and \$184,774,000, respectively.

**FISCAL YEAR 2008 TRANSACTIONS**

**Merger with the Center for Advanced Study in the Behavioral Sciences**

In January 2008, the Center for Advanced Study in the Behavioral Sciences (CASBS) merged with the University pursuant to a Reorganization Agreement dated December 10, 2007. All assets and liabilities of CASBS at the time of the merger were transferred to the University. The excess of assets over liabilities of \$59,319,000 has been recorded as contribution revenue in the statement of activities. CASBS operates as an independent center under the cognizance of the Office of the Vice Provost and Dean of Research within the University.

**Discontinued Operations**

In August 2008, SHC sold certain assets and liabilities of its clinical laboratory testing outreach business to an unrelated party. The following table sets forth the components of discontinued operations as presented in the Hospitals column of the statement of activities for the years ended August 31, 2008 and 2007, in thousands of dollars.

	2008	2007
Total revenues	\$ 29,520	\$ 27,490
Total expenses	49,903	51,359
Loss from operations	(20,383)	(23,869)
Gain on sale of discontinued operations	21,273	-
Income (loss) from discontinued operations	\$ 890	\$ (23,869)

**RECENT PRONOUNCEMENTS** In fiscal year 2007, the University adopted Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R)* (FAS 158). The effect of the adoption of FAS 158 for fiscal year 2007 is discussed in notes 13 and 14 for the University and Hospitals, respectively. The provision of FAS 158 that requires measurement of plan assets and benefit obligations as of the end of the fiscal year is effective for the University and the Hospitals for the fiscal year ending August 31, 2009.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (FAS 157). FAS 157 establishes a common definition for fair value to be applied to generally accepted accounting principles requiring use of fair value, establishes a framework for measuring fair value and expands the related disclosure requirements about fair value measurements. This accounting standard is effective for the University and the Hospitals for the fiscal year ending August 31, 2009. The University and the Hospitals are assessing the impact of adopting FAS 157.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities—Including an Amendment of FASB Statement No. 115* (FAS 159). FAS 159 permits entities to choose to measure eligible items at fair value at specific election dates (the “fair value option”). Unrealized gains and losses on items for which the fair value option has been elected shall be reported in earnings at each subsequent reporting period. This accounting standard is effective for the University and the Hospitals for their fiscal year ending August 31, 2009. The University and the Hospitals are evaluating whether to adopt any of the provisions of FAS 159.

In August 2008, the FASB issued FASB Staff Position No. 117-1, *Endowments for Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act and Enhanced Disclosures for All Endowment Funds* (FSP 117-1). FSP 117-1 provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA). California adopted a version of UPMIFA which will be effective January 1, 2009. FSP 117-1 also requires additional disclosures about an organization’s endowment funds, whether or not the organization is subject to UPMIFA.

FSP 117-1 is effective for the University and the Hospitals for the fiscal year ended August 31, 2009. The University and the Hospitals are assessing the impact of adopting FSP 117-1.

In September 2007, the University adopted FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), an interpretation of FASB Statement No. 109. FIN 48 requires tax positions to be evaluated to determine whether they are more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation process based on the technical merits of these positions. FIN 48 must be applied to all existing tax positions upon initial adoption and the cumulative effect, if any, is to be reported as an adjustment to net assets. The adoption of FIN 48 had an insignificant impact on the University's financial statements for fiscal years 2007 and 2008.

## 2. Accounts Receivable

Accounts receivable at August 31, 2008 and 2007, in thousands of dollars, are as follows:

	2008	2007
<b>UNIVERSITY:</b>		
U.S. government	\$ 70,048	\$ 84,820
Non-government sponsors	27,122	29,428
Due from brokers	46,819	89,628
Accrued interest on investments	12,608	12,166
Student	7,322	6,752
Other	38,962	38,959
	202,881	261,753
Less bad debt allowances	(2,007)	(2,111)
University accounts receivable, net	200,874	259,642
<b>HOSPITALS:</b>		
Patient receivables	448,241	418,659
Other	33,739	66,916
	481,980	485,575
Less bad debt allowances	(83,075)	(88,321)
Hospitals accounts receivable, net	398,905	397,254
<b>CONSOLIDATED ACCOUNTS RECEIVABLE, NET</b>	<b>\$ 599,779</b>	<b>\$ 656,896</b>

## 3. Pledges Receivable

Pledges are recorded at the present value of the discounted future cash flows, net of allowances, using discount rates ranging from 3.10% to 6.01%. At August 31, 2008 and 2007, pledges receivable are as follows, in thousands of dollars:

	2008			2007
	UNIVERSITY	HOSPITALS	CONSOLIDATED	CONSOLIDATED
One year or less	\$ 73,366	\$ 44,426	\$ 117,792	\$ 107,288
Between one year and five years	621,925	86,735	708,660	609,356
More than five years	362,478	3,605	366,083	320,242
	1,057,769	134,766	1,192,535	1,036,886
Less discount and allowances	(288,545)	(20,643)	(309,188)	(279,255)
<b>PLEDGES RECEIVABLE, NET</b>	<b>\$ 769,224</b>	<b>\$ 114,123</b>	<b>\$ 883,347</b>	<b>\$ 757,631</b>

Conditional pledges for the University, which depend on the occurrence of a specified future and uncertain event, were \$13,772,000 and \$50,000 at August 31, 2008 and 2007, respectively. The Hospitals do not have any conditional pledges.

#### 4. Faculty and Staff Mortgages

In a program to attract and retain excellent faculty and senior staff, the University provides home mortgage financing assistance. Notes amounting to \$375,582,000 and \$333,359,000 at August 31, 2008 and 2007, respectively, from University faculty and staff are included in "Faculty and staff mortgages and other loans receivable, net" in the consolidated statements of financial position and are collateralized by deeds of trust on properties concentrated in the region surrounding the University.

#### 5. Investments

Investments held by the University and the Hospitals at August 31, 2008 and 2007 are as follows, in thousands of dollars:

	2008			2007
	UNIVERSITY	HOSPITALS	CONSOLIDATED	CONSOLIDATED
Cash and cash equivalents	\$ 349,062	\$ 186,131	\$ 535,193	\$ 1,356,282
Collateral held for securities loaned	491,944	-	491,944	583,872
Public equities and mutual funds	3,410,832	46,621	3,457,453	5,022,454
Derivatives	(17,026)	-	(17,026)	180,684
Bonds and short-term investments	657,966	37,850	695,816	635,529
Non-public equities	3,106,040	-	3,106,040	3,319,154
Assets held by other trustees (net of income beneficiary share of \$94,151 and \$86,263 at August 31, 2008 and 2007, respectively)	196,814	16,394	213,208	174,540
Real estate and improvements, including Stanford Shopping Center and Research Park	2,069,029	-	2,069,029	1,767,651
Limited partnership investments	12,819,211	-	12,819,211	10,003,199
Other	98,931	-	98,931	75,290
	23,182,803	286,996	23,469,799	23,118,655
The Hospitals' investment in University's Merged Pool	(1,425,087)	1,425,087	-	-
<b>INVESTMENTS AT FAIR VALUE</b>	<b>\$ 21,757,716</b>	<b>\$ 1,712,083</b>	<b>\$ 23,469,799</b>	<b>\$ 23,118,655</b>

The University managed a portion of the Hospitals' investments, with a combined fair value of \$1,441,181,000 and \$1,493,012,000 at August 31, 2008 and 2007, respectively.

Total investment returns reflected in the statements of activities for the years ended August 31, 2008 and 2007, in thousands of dollars, are as follows:

	2008			2007
	UNIVERSITY	HOSPITALS	CONSOLIDATED	CONSOLIDATED
Investment income	\$ 267,986	\$ 24,302	\$ 292,288	\$ 387,309
Net realized and unrealized gains	498,593	39,749	538,342	3,414,991
<b>TOTAL INVESTMENT RETURN</b>	<b>\$ 766,579</b>	<b>\$ 64,051</b>	<b>\$ 830,630</b>	<b>\$ 3,802,300</b>

Investment returns are net of investment management expenses, including both external management fees and internal University salaries, benefits and operating expenses. For the year ended August 31, 2007, total investment returns of \$3,058,918,000 were reinvested by the University and Hospitals after the distributions to operations and split interest agreement beneficiaries. For the year ended August 31, 2008, prior year gains of \$215,954,000 were applied to make the guaranteed distributions to operations and split interest agreement beneficiaries. These amounts are reported in other changes in unrestricted net assets and changes in temporarily and permanently restricted net assets.

The University's investments are held in various pools or in specific instruments to comply with donor requirements as indicated in the following table, as of August 31, 2008 and 2007, in thousands of dollars:

	2008	2007
<b>UNIVERSITY:</b>		
Merged Pool	\$ 20,436,127	\$ 19,548,492
Expendable Funds Pool	2,087,214	1,880,264
Endowment Income Funds Pool	292,698	287,216
Other Investment Pools	450,909	500,592
Specific Investments	2,272,284	2,217,366
	25,539,232	24,433,930
Less amounts included in cash and cash equivalents	(467,018)	(461,600)
Less funds cross-invested in investment pools (including the Hospitals' investment of \$1,425,087 and \$1,258,892 in 2008 and 2007, respectively, in the University's Merged Pool)	(3,314,498)	(2,805,257)
	21,757,716	21,167,073
<b>HOSPITALS:</b>		
Investments	1,712,083	1,951,582
<b>INVESTMENTS AT FAIR VALUE</b>	<b>\$ 23,469,799</b>	<b>\$ 23,118,655</b>

The Merged Pool (MP) is the primary investment pool in which endowment (see note 10) and other long-term funds are invested. The MP is invested with the objective of maximizing long-term total return. It is a unitized pool in which the fund holders purchase investments and withdraw funds based on a monthly share value.

Earned income and realized and previously reinvested gains on endowment funds were distributed for University operations in fiscal years 2008 and 2007, as follows, in thousands of dollars:

	2008	2007
Endowment income	\$ 176,072	\$ 235,450
Realized and previously reinvested gains	705,498	373,519
<b>APPROVED PAYOUT</b>	<b>\$ 881,570</b>	<b>\$ 608,969</b>

Hospital endowment income distributed for operations of \$14,441,000 in fiscal year 2008 represents current year payout spent for designated purposes during the year.

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 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 statement of financial position as cash and cash equivalents. The total return on investments in the EIFP is distributed to fund holders. For the years ended August 31, 2008 and 2007, the distributions were \$3,354,000 and \$8,393,000, respectively.

The Board has established a policy for the distribution of the investment returns of the EFP. The difference between the actual return of this pool and the approved payout is deposited in, or withdrawn from, funds functioning as endowment. For the years ended August 31, 2008 and 2007, the results of the EFP, in thousands of dollars, are as follows:

	2008	2007
Total investment return of the EFP	\$ 44,796	\$ 314,021
Less distributions to fund holders and operations	(91,495)	(87,155)
<b>AMOUNTS (WITHDRAWN FROM) ADDED TO THE ENDOWMENT</b>	<b>\$ (46,699)</b>	<b>\$ 226,866</b>

The University utilizes derivatives and other strategies to reduce investment risk, to serve as a temporary surrogate for investment in stocks and bonds, to manage interest exposure on the University's variable rate debt or to achieve specific exposure to foreign currencies. The University's derivative positions include forward contracts, swaps, options and futures contracts. The net unrealized (depreciation)/appreciation on these derivatives was (\$25,805,000) and \$178,164,000 at August 31, 2008 and 2007, respectively.

Foreign currency forward contracts, interest rate swaps and stock lending and repurchase agreements necessarily involve counterparty credit risk. The University seeks to control this risk by entering into transactions with high-quality counterparties and through counterparty credit evaluations and approvals, counterparty credit limits and exposure monitoring.

The University has committed to invest in numerous investment partnerships over a period of years pursuant to provisions of the individual partnership agreements. As of August 31, 2008, the aggregated amount of such unfunded commitments was \$6,106,949,313.

The University holds certain investment properties that it leases to third parties. Future minimum rental income due from the Stanford Shopping Center, Research Park and other properties under non-cancelable leases in effect with tenants at August 31, 2008, is as follows, in thousands of dollars:

YEAR	
2009	\$ 63,220
2010	60,324
2011	54,179
2012	50,105
2013	43,529
Thereafter	1,218,952
<b>TOTAL</b>	<b>\$ 1,490,309</b>

## 6. Plant Facilities

Plant facilities at August 31, 2008 and 2007, in thousands of dollars, are as follows:

	2008			2007
	UNIVERSITY	HOSPITALS	CONSOLIDATED	CONSOLIDATED
Land and improvements	\$ 359,035	\$ 91,934	\$ 450,969	\$ 382,815
Buildings and building improvements	3,121,147	731,592	3,852,739	3,595,097
Furniture, fixtures and medical equipment	58,738	274,786	333,524	284,596
Equipment, books and software	1,410,855	274,972	1,685,827	1,462,024
Construction in progress	312,508	429,675	742,183	571,729
Plant facilities	5,262,283	1,802,959	7,065,242	6,296,261
Less accumulated depreciation	(2,375,177)	(722,882)	(3,098,059)	(2,823,892)
<b>PLANT FACILITIES, NET OF ACCUMULATED DEPRECIATION</b>	<b>\$ 2,887,106</b>	<b>\$ 1,080,077</b>	<b>\$ 3,967,183</b>	<b>\$ 3,472,369</b>

At August 31, 2008, \$957,877,000 of fully depreciated plant facilities were still in use.

## 7. Liabilities Under Security Agreements

At August 31, 2008 and 2007, the University held \$491,944,000 and \$583,872,000, respectively, of short-term U.S. government obligations and cash as collateral deposits for certain securities loaned temporarily to brokers. The University also entered into certain forward sale and purchase agreements totaling \$57,007,000 and \$64,851,000 at August 31, 2008 and 2007, respectively. These amounts are included as investments and liabilities in the University's financial statements. The estimated fair value of securities on loan at August 31, 2008 and 2007, was \$464,777,000 and \$553,869,000, respectively. It is the University's policy to require receipt of collateral on securities lending contracts and repurchase agreements equal to a minimum of 102% of the fair market value of the security loaned.



## 8. University Notes and Bonds Payable

Notes and bonds payable at August 31, 2008 and 2007, in thousands of dollars, are as follows:

	YEAR OF MATURITY	EFFECTIVE INTEREST RATE 2008	OUTSTANDING PRINCIPAL	
			2008	2007
<b>TAX-EXEMPT:</b>				
California Educational Facilities Authority (CEFA) Fixed Rate Revenue Bonds:				
Series M	-	-	\$ -	\$ 28,320
Series N	-	-	-	180,000
Series O	2031	5.1%	89,555	89,555
Series P	2013-2023	5.1%	110,440	110,440
Series Q	2032	5.3%	101,860	101,860
Series R	2011-2021	4.9%	111,585	111,585
Series T	2014-2039	4.0%-5.0%	309,545	111,775
CEFA Variable Rate Revenue Notes and Bonds:				
Series L	2014-2022	1.55%	83,818	83,818
Series S	2039-2050	1.42% *	181,200	181,200
Commercial Paper	2008	1.41%	69,951	24,751
<b>TAXABLE:</b>				
Fixed Rate Notes and Bonds:				
Stanford University Bonds	2024	6.9%	150,000	150,000
Medium Term Notes	2009-2026	6.6%	150,000	150,000
Other	2015-2016	various	1,032	8,925
Variable Notes and Bonds:				
Stanford University Bonds PARS	-	-	-	50,000
Commercial Paper	2008	2.5% *	140,250	98,200
University notes and bonds payable			1,499,236	1,480,429
Net premium			32,963	13,332
<b>TOTAL</b>			<b>\$ 1,532,199</b>	<b>\$ 1,493,761</b>

\*Exclusive of interest rate swaps.

At August 31, 2008 and 2007, the fair value of these debt instruments approximated their recorded value.

Stanford's tax exempt debt is issued through the California Educational Facilities Authority (CEFA). The CEFA debt is a general obligation of the University secured by its revenues. Although CEFA is the issuer, Stanford is responsible for the repayment of the tax exempt debt.

In September 2007, CEFA T3 revenue bonds (the T3 Bonds) in the amount of \$25,360,000 plus an original issue premium of \$2,250,700 were issued. Proceeds were used to refund a portion of the CEFA M Bonds. The T3 Bonds bear interest at a rate of 5%, mature on March 15, 2026 and are subject to redemption prior to maturity at the option of the University.

In September 2007, \$187,550,000 of CEFA T2 variable rate Auction Rate Securities (ARS) (the T2 Bonds) were issued. The proceeds were used to refund the CEFA N Bonds. In March 2008, the University refunded the T2 Bonds with proceeds from the issuance of \$187,911,000 of taxable commercial paper notes. In May 2008, CEFA T4 fixed rate revenue bonds (the T4 Bonds) were issued in the amount of \$172,410,000 plus an original issue premium of \$16,091,621. The proceeds were used to refinance certain capital improvements of the University previously funded from proceeds of the CEFA T2 Bonds. The T4 Bonds mature on March 15, 2014 and are not subject to mandatory redemption prior to the stated maturity.

In April and May 2008, the University converted the \$50,000,000 CEFA S1, \$40,000,000 CEFA S2 and \$40,000,000 CEFA S3 variable ARS to Variable Rate Demand Bonds (VRDB) in a commercial paper mode. The VRDBs are subject to mandatory tender for purchase at the end of each commercial paper rate period. The VRDBs may be tendered for purchase, in whole or in part, at the option of the bondholder.

In July 2008, the University redeemed the \$50,000,000 of taxable variable rate Periodic Auction Rate Securities (PARS).

In February 2008, the Board of Trustees of the University increased the authorized maximum amount of the University's taxable and tax-exempt commercial paper programs from \$350,000,000 to \$650,000,000 in the aggregate. Authorized uses of proceeds include funding capital projects.

The University's taxable commercial paper facility provides for borrowings up to \$350,000,000 outstanding at any time. The outstanding balance at August 31, 2008 was \$140,250,000. The weighted average days to maturity were 35.6 and the weighted average effective interest rate was 2.50% as of August 31, 2008.

The University's tax-exempt commercial paper facility provides for borrowings up to \$300,000,000 outstanding at any time. The outstanding balance at August 31, 2008 was \$69,951,000. The weighted average days to maturity were 36.3 and the weighted average effective interest rate was 1.41% as of August 31, 2008.

In October 2007, the University entered into a one-year unsecured Standby Liquidity Support Agreement to supplement existing sources of liquidity for certain of the University's VRDBs and commercial paper notes. The agreement expired October 22, 2008 and was not renewed.

The University uses interest rate swaps to manage the interest rate exposure of its variable rate debt portfolio. Under the terms of these agreements, the University pays a fixed interest rate, determined at inception, and receives a variable rate on the underlying notional principal amount. At August 31, 2008, the University had swap agreements expiring November 1, 2039 to pay an interest rate of approximately 3.69% on \$130,000,000 of the outstanding balance of the CEFA S VRDBs and swap agreements expiring through 2011 to pay an interest rate of approximately 5.58% on approximately \$20,000,000 of the variable rate taxable commercial paper.

The University incurred interest expense of approximately \$71,589,000 and \$67,327,000 for fiscal years 2008 and 2007, respectively, which is net of approximately \$2,902,000 and \$3,070,000, respectively, in interest capitalized as a cost of construction. Interest expense on swap agreements, which are included in other changes in unrestricted net assets, totaled \$1,800,000 and \$600,000 for fiscal years 2008 and 2007, respectively.

Scheduled principal payments on notes and bonds, in thousands of dollars, are as follows:

YEAR ENDING AUGUST 31	PRINCIPAL
2009 Commercial Paper	\$ 210,201
2009 Other	50,050
2010	50
2011	50,050
2012	61,635
2013	50
Thereafter	1,127,200
<b>TOTAL</b>	<b>\$ 1,499,236</b>

## 9. Hospitals' Notes and Bonds Payable

Bonds, certificates of participation and capital lease obligations at August 31, 2008 and 2007, in thousands of dollars, are as follows:

	YEAR OF MATURITY	EFFECTIVE INTEREST RATE 2008	OUTSTANDING PRINCIPAL	
			2008	2007
SHC:				
California Health Facilities Financing Authority (CHFFA) Bonds:				
1998 Series B Fixed Rate Bonds	2031	5.0%	\$ 167,195	\$ 170,775
2003 Series A Fixed Rate Bonds	2007-2023	2.0% - 5.0%	91,990	96,310
2003 Series B, C and D Variable Rate Bonds	2036	1.8% *	150,000	150,000
2006 Series A Variable Rate Bonds	-	-	-	260,300
2006 Series B Variable Rate Bonds	-	-	-	168,200
2008 Series A Variable Rate Bonds	2040	2.2%	260,300	-
2008 Series B Variable Rate Bonds	2045	1.5%	168,200	-
Promissory Note	2014	7.0%	999	1,132
LPCH:				
Variable Rate Certificates of Participation (Certificates)	-	-	-	32,400
California Health Facilities Financing Authority (CHFFA):				
Auction Rate Revenue Bonds	-	-	-	60,000
Fixed Rate Revenue Bonds	2013-2027	3.3%	55,000	55,000
2008 Series A	2027-2033	1.4%	30,340	-
2008 Series B	2027-2033	1.6%	30,340	-
2008 Series C	2015-2033	1.6%	32,770	-
Capital lease obligation			15,896	16,016
Hospitals' notes and bonds payable			1,003,030	1,010,133
Net premium			4,307	4,613
<b>TOTAL</b>			<b>\$ 1,007,337</b>	<b>\$ 1,014,746</b>

\*Exclusive of interest rate swaps.

At August 31, 2008 and 2007, the fair value of these debt instruments approximated their recorded value.

At August 31, 2008, SHC had swap agreements expiring through November 15, 2040 to pay fixed interest rates varying from 3.4% to 3.8% on a notional amount of \$749,400,000.

The Hospitals' tax exempt debt is issued through the California Health Facilities Financing Authority (CHFFA). The CHFFA debt is a general obligation of the Hospitals. Payments of principal and interest on the Hospitals' bonds are collateralized by a pledge against the revenues of the respective hospital. Although CHFFA is the issuer, the Hospitals are responsible for the repayment of the tax exempt debt. Certain of the bonds are insured by municipal bond guaranty policies.

SHC and LPCH are each party to separate Master Trust Indentures that include, among other things, limitations on the incurrence of additional indebtedness, liens on property, restrictions on disposition or transfer of assets and compliance with certain financial ratios. The Hospitals may redeem the bonds, in whole or in part, prior to the stated maturities.

In June 2008, SHC refunded the 2006 Variable Rate Bonds in the aggregate principal amount of \$428,500,000 and issued 2008 Variable Rate Bonds in the aggregate principal amount of \$428,500,000. The 2008 bonds were comprised of \$260,300,000 of 2008 Series A Variable Rate Bonds issued as Series A-1, Series A-2 and Series A-3; and \$168,200,000 of 2008 Series B Variable Rate Bonds issued as Series B-1 and Series B-2. As a result of the refunding of the 2006 Variable Rate Bonds, previously capitalized bond issuance costs in the amount of \$17,855,000 were included in loss on extinguishment of debt in other changes in unrestricted net assets in the statement of activities.

The 2008 \$70,500,000 Series A-1 and \$85,700,000 Series A-3 Variable Rate Bonds are subject to mandatory repurchase tenders after June 15, 2009 and June 15, 2011, respectively. The 2008 \$104,100,000 Series A-2 bonds are 7-day Variable Rate Demand Bonds (VRDB) and are secured by a letter of credit that expires in June 2011. The 2008 Series B-1 and B-2 bonds are 7-day VRDBs with self-liquidity.

In June 2008, SHC converted the \$150,000,000 2003 Series B, C and D Variable Rate Bonds from 35-day auction rate notes to 7-day VRDBs. In order to provide liquidity for the VRDBs, SHC entered into a three-year Standby Bond Purchase Agreement in the amount of \$150,000,000.

In 1998, SHC advance refunded its 1993 and 1995 bonds in the amount of \$111,014,000 by issuing the 1998 bonds. As of August 31, 2008 and 2007, \$32,415,000 and \$39,725,000, respectively, of advance refunded bonds, which are considered extinguished, remain outstanding.

In August 2008, LPCH issued the CHFFA 2008 Series A, B and C variable rate revenue bonds (the 2008 Bonds) in the aggregate amount of \$93,450,000. The 2008 Bonds bear interest at a Weekly Rate reset every seven days. Proceeds from the issuance of the 2008 Bonds were used to redeem the \$60,000,000 of the Auction Rate Revenue Bonds and the \$32,400,000 of the Certificates of Participation.

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 has four irrevocable letters of credit with a bank in the amount of \$126,866,000, which are required as security for the workers' compensation self-insurance arrangement. No amounts have been drawn on these letters of credit as of August 31, 2008.

Estimated principal payments on bonds, promissory notes and capital lease obligations, assuming remarketing of the 2003 and 2008 variable rate bonds, in thousands of dollars, are as follows:

YEAR ENDING AUGUST 31	PRINCIPAL
2009	\$ 8,632
2010	9,524
2011	9,985
2012	24,720
2013	13,135
Thereafter	937,034
<b>TOTAL</b>	<b>\$ 1,003,030</b>

## 10. University Endowment

The University classifies a substantial portion of its financial resources as endowment. These assets include pure endowment funds, endowed lands, term endowment funds and funds functioning as endowment. Depending on the nature of the donor's stipulation, these resources are recorded as permanently restricted, temporarily restricted or unrestricted net assets. The endowment is intended to generate investment income that can be used to support the current operations of the University.

Most of the University's endowment, \$15,673,000,000 at August 31, 2008, is invested in the MP. The University's Board has adopted investment and spending policies for endowment assets that provide for annual amounts (payout) to be distributed to endowment fund holders to support operating activities. The University invests its endowment portfolio and distributes annual amounts for spending in accordance with its total return strategy.

The Board approves the amounts to be paid out annually from the merged investment pools. In February 2007 the Board approved an increase in the targeted spending rate from 5% to 5.5% effective in fiscal year 2008. Normally, the payout amount is determined by applying a smoothing rule that limits payout in a given year to the sum of 70% of the previous year's actual rate and 30% of the long-term spending target rate applied to the projected per share value of the endowment. The smoothing rule and the diversification of the investment asset allocation mitigate the impact of short-term market volatility on the flow of funds to support the University's operations. In FY08, the smoothing rule was not applied. The sources of payout are earned income on endowment assets (interest, dividends, rents and royalties), realized capital gains and funds functioning as endowment, as needed. Approximately 3% of endowment funds invested in the MP receive a payout equal to income earned during the year pursuant to donor stipulations. Net rental and lease income from the University's endowed lands is fully paid out to operations each year.

Pure endowment funds and endowed lands are subject to the restrictions of the gift instruments requiring that the principal be held in perpetuity and the income and an appropriate portion of gains only be spent as provided for under the California Uniform Management of Institutional Funds Act (CUMIFA). In the absence of further donor restrictions, the amount of gains that are to be

expended in a given year is determined through the endowment payout policy. The University classifies all original endowment gifts as permanently restricted net assets and all reinvested gains as unrestricted net assets, except when a donor requires the gains to be reinvested as permanently restricted net assets. The University recognizes the limitations on expending such gains that are specified in CUMIFA.

Term endowments are similar to other endowment funds except that, upon the passage of a stated period of time or the occurrence of a particular event, all or part of the principal may be expended. These resources are classified as temporarily restricted net assets.

Funds functioning as endowment 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. Funds functioning as endowment are recorded as unrestricted net assets.

Endowment funds by net asset classification as of August 31, 2008 and 2007, in thousands of dollars, are as follows:

	2008				2007
	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL	TOTAL
Donor restricted endowment funds	\$ 7,836,311	\$ 88,226	\$ 4,196,805	\$ 12,121,342	\$ 11,976,156
Funds functioning as endowment	5,093,031	-	-	5,093,031	5,188,680
<b>Total endowment funds</b>	<b>\$ 12,929,342</b>	<b>\$ 88,226</b>	<b>\$ 4,196,805</b>	<b>\$ 17,214,373</b>	<b>\$ 17,164,836</b>

Changes in the University's endowment, excluding pledges, for the years ended August 31, 2008 and 2007, in thousands of dollars, are as follows:

	2008	2007
<b>ENDOWMENT, BEGINNING OF YEAR</b>	<b>\$ 17,164,836</b>	<b>\$ 14,084,676</b>
Investment returns:		
Earned endowment income	176,072	235,450
Unrealized and realized gains	467,949	2,792,706
Total investment returns	644,021	3,028,156
Amounts distributed for operations	(881,570)	(608,969)
Gifts and pledge payments	188,283	361,401
Funds invested in endowment, net	118,331	107,473
EFP funds (withdrawn from) invested in the endowment	(46,699)	226,866
Other	27,171	(34,767)
Net increase in endowment	49,537	3,080,160
<b>ENDOWMENT, END OF YEAR</b>	<b>\$ 17,214,373</b>	<b>\$ 17,164,836</b>

## 11. University Gifts and Pledges

The University's Office of Development (OOD) reports total gifts based on contributions received in cash or property during the fiscal year. Gifts and pledges reported for financial statement purposes are recorded on the accrual basis. The following summarizes gifts and pledges received for the years ended August 31, 2008 and 2007, per the statement of activities reconciled to the cash basis (as reported by OOD), in thousands of dollars:

	2008	2007
Current year gifts in support of operations	\$ 182,411	\$ 198,454
Donor advised funds, net	165,583	32,527
Current year gifts not included in operations	8,976	5,838
Temporarily restricted - general	157,855	261,888
Temporarily restricted - capital	164,511	11,511
Permanently restricted - endowment	246,607	342,282
Permanently restricted - student loans	6	2
<b>TOTAL PER STATEMENT OF ACTIVITIES</b>	<b>925,949</b>	<b>852,502</b>
Adjustments to gift total as reported by OOD:		
New pledges	(378,372)	(404,430)
Payments made on pledges	215,453	266,416
Pledge discounts and other adjustments	40,646	53,724
Donor advised funds not designated for Stanford	(88,386)	(19,827)
Revocable gifts	-	14,085
Non-cash gifts	3,351	8,096
Non-government grants, recorded as sponsored research support when earned	63,774	60,434
Other	2,628	1,345
<b>TOTAL AS REPORTED BY OOD</b>	<b>\$ 785,043</b>	<b>\$ 832,345</b>

Gifts restricted to particular purposes are used for those purposes subject to the University's restricted fund policy. Under this policy, 8% of the expenditure from restricted funds is allocated for space and infrastructure charge. Gifts for building projects and payout from endowments whose primary purpose is to fund financial aid, undergraduate research and tenure-line faculty salaries are exempt from the infrastructure charge.

## 12. Functional Expenses

Expenses for each of the years ended August 31, 2008 and 2007 are categorized on a functional basis as follows, in thousands of dollars:

	2008			2007
	UNIVERSITY	HOSPITALS	CONSOLIDATED	CONSOLIDATED
Organized research (direct costs)	\$ 838,607	\$ -	\$ 838,607	\$ 820,098
Instruction and departmental research	1,089,872	-	1,089,872	969,687
Auxiliary activities	564,647	-	564,647	501,933
Administration and general	216,805	114,201	331,006	300,217
Libraries	154,718	-	154,718	140,111
Development	81,599	7,952	89,551	73,652
Student services	120,880	-	120,880	108,604
SLAC construction	108,730	-	108,730	104,669
Patient Services	-	1,659,073	1,659,073	1,448,609
<b>TOTAL EXPENSES</b>	<b>\$ 3,175,858</b>	<b>\$ 1,781,226</b>	<b>\$ 4,957,084</b>	<b>\$ 4,467,580</b>

Depreciation, interest and operations and maintenance expenses are allocated to program and supporting activities, except for SLAC construction. Auxiliary activities include housing and dining services, intercollegiate athletics, SAA, other activities and certain patient care provided by the School of Medicine faculty.

### 13. University Retirement Plans

The University provides retirement benefits through both contributory and noncontributory retirement plans for substantially all of its employees. The University also provides certain health care benefits for retired employees (post retirement medical benefits).

In 2007, the University adopted FAS 158. The impact of adopting FAS 158 in fiscal year 2007 was a net decrease to unrestricted net assets of \$93,286,000.

For fiscal years 2008 and 2007, the University used June 30 as the measurement date to value the plan assets and the benefit obligation of the Pension and Post Retirement Medical Benefit plans. Beginning with fiscal year 2009, the University will be required to use August 31 as its measurement date in accordance with the provisions of FAS 158.

**DEFINED CONTRIBUTION PLAN** The University offers a defined contribution plan to eligible faculty and staff. University and participant contributions are invested in annuities and mutual funds. University contributions under this plan, which are vested immediately to participants, were approximately \$92,000,000 and \$89,000,000 for the years ended August 31, 2008 and 2007, respectively.

**DEFINED BENEFIT PENSION PLAN** Retirement benefits for certain employees are provided through a noncontributory defined benefit pension plan (the Pension plan). The Pension plan is essentially frozen to new participants. The University's policy is to fund pension costs in accordance with the Employee Retirement Income Security Act minimum funding requirements.

**POST RETIREMENT MEDICAL BENEFIT PLAN** The University's employees and their covered dependents may become eligible for post retirement medical benefits upon the employee's retirement. Retiree health plans are paid for in part by retiree contributions, which are adjusted annually. Benefits for retirees under age 65 are the same as those provided to active employees. A Medicare supplement option is provided for retirees over age 65. The obligation for these benefits has been recorded in the statement of financial position.

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

	PENSION		POST RETIREMENT MEDICAL	
	2008	2007	2008	2007
<b>CHANGE IN PLAN ASSETS</b>				
Fair value of plan assets, beginning of year	\$ 289,646	\$ 274,434	\$ 102,081	\$ 81,189
Actual return on plan assets	(2,682)	32,539	(6,285)	17,857
Employer contributions	-	-	14,830	13,642
Plan participants' contributions	-	-	6,206	5,805
Benefits paid	(18,078)	(17,327)	(15,926)	(16,412)
Merger with CASBS	-	-	444	-
<b>FAIR VALUE OF PLAN ASSETS, END OF YEAR</b>	<b>\$ 268,886</b>	<b>\$ 289,646</b>	<b>\$ 101,350</b>	<b>\$ 102,081</b>
<b>CHANGE IN PROJECTED BENEFIT OBLIGATION</b>				
Benefit obligation, beginning of year	\$ 250,554	\$ 267,778	\$ 313,368	\$ 263,053
Service cost	3,950	4,465	10,810	9,562
Interest cost	15,016	16,049	19,895	16,714
Plan participants' contributions	-	-	6,206	5,805
Amendments	-	398	-	-
Actuarial (gain) loss	(5,034)	(20,809)	(11,850)	33,454
Benefits paid, net of Medicare subsidy	(18,078)	(17,327)	(15,031)	(15,220)
Merger with CASBS	-	-	444	-
<b>BENEFIT OBLIGATION, END OF YEAR</b>	<b>\$ 246,408</b>	<b>\$ 250,554</b>	<b>\$ 323,842</b>	<b>\$ 313,368</b>
<b>AMOUNTS RECOGNIZED IN FINANCIAL STATEMENTS</b>				
Plan assets minus projected benefit obligation	\$ 22,478	\$ 39,092	\$ (222,492)	\$ (211,287)
Contributions after the measurement date	-	-	3,540	978
<b>NET ASSET (LIABILITY) RECOGNIZED IN THE STATEMENT OF FINANCIAL POSITION</b>	<b>\$ 22,478</b>	<b>\$ 39,092</b>	<b>\$ (218,952)</b>	<b>\$ (210,309)</b>
Prior service cost	\$ 6,141	\$ 7,795	\$ 57,041	\$ 64,646
Net actuarial (gain) loss	(27,427)	(46,736)	64,419	63,880
<b>PENSION RELATED CHANGES OTHER THAN NET PERIODIC BENEFIT (INCOME) EXPENSE</b>	<b>\$ (21,286)</b>	<b>\$ (38,941)</b>	<b>\$ 121,460</b>	<b>\$ 128,526</b>

The accumulated benefit obligation for the Pension plan was \$242,198,000 and \$244,939,000 as of June 30, 2008 and 2007, respectively.

Net benefit (income) expense related to the Pension and Post Retirement Medical Benefit plans for the years ended August 31, 2008 and 2007, in thousands of dollars, includes the following components:

	PENSION		POST RETIREMENT MEDICAL	
	2008	2007	2008	2007
Service cost	\$ 3,950	\$ 4,465	\$ 10,810	\$ 9,562
Interest cost	15,016	16,049	19,895	16,714
Expected return on plan assets	(19,535)	(18,421)	(8,287)	(6,750)
Amortization of prior service cost	1,654	1,608	7,605	7,605
Recognized net actuarial (gains) losses	(2,126)	-	2,184	995
<b>NET PERIODIC BENEFIT (INCOME) EXPENSE</b>	<b>\$ (1,041)</b>	<b>\$ 3,701</b>	<b>\$ 32,207</b>	<b>\$ 28,126</b>

The prior service costs and net actuarial (gain) loss expected to be amortized from change in net assets to net periodic benefit expense over the next fiscal year are as follows, in thousands of dollars:

	PENSION	POST RETIREMENT MEDICAL
Net actuarial (gain) loss	\$ (2,126)	\$ 2,175
Prior service cost	\$ 1,654	\$ 7,605

ACTUARIAL ASSUMPTIONS The weighted average assumptions used to determine the benefit obligations for the Pension and Post Retirement Medical Benefit plans are shown below:

	PENSION		POST RETIREMENT MEDICAL	
	2008	2007	2008	2007
Discount rate	6.75%	6.25%	6.50%	6.25%
Covered payroll growth rate	4.29%	5.52%	N/A	N/A

The weighted average assumptions used to determine the net periodic benefit cost for the Pension and Post Retirement Medical Benefit plans are shown below:

	PENSION		POST RETIREMENT MEDICAL	
	2008	2007	2008	2007
Discount rate	6.25%	6.25%	6.25%	6.25%
Expected return on plan assets	7.00%	7.00%	8.00%	8.00%
Covered payroll growth rate	5.52%	5.52%	N/A	N/A

To develop the 7% and the 8% expected long-term rate of return on asset assumptions for the Pension and Post Retirement Medical Benefit plans, respectively, the University considered historical returns and future expectations for returns in each asset class, as well as the target asset allocation of the portfolios.

To determine the accumulated post retirement medical benefit obligation as of June 30, 2008, a 9% annual rate of increase in the per capita costs of covered health care was assumed for 2008-2009, declining gradually to 5% by 2017 and remaining at this rate thereafter. For covered dental plans, a 5.5% annual rate of increase was assumed for 2008-2009, declining to 5% by 2010 and remaining at this rate thereafter.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. Increasing the health care cost trend rate by 1% in each future year would increase the accumulated post retirement medical benefit obligation by \$45,114,000 and the aggregate annual service and interest cost by \$5,523,000. Decreasing the health care cost trend rate by 1% in each future year would decrease the accumulated post retirement medical benefit obligation by \$37,261,000 and the aggregate annual service and interest cost by \$4,440,000.



PLAN ASSETS Asset allocations by asset category at June 30 are as follows:

ASSET CATEGORY	PENSION		POST RETIREMENT MEDICAL	
	2008	2007	2008	2007
Domestic equity	33%	33%	38%	38%
International equity	11%	11%	37%	37%
Fixed income	55%	54%	25%	25%
Cash and cash equivalents	1%	1%	-	-
Other	-	1%	-	-
<b>TOTAL PORTFOLIO</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

The weighted-average target asset allocation for the Pension plan is 45% equity and 55% fixed income. For the Post Retirement Medical Benefit plan, the weighted-average target asset allocation is 38% domestic equity, 37% international equity and 25% fixed income. These target asset allocations are selected to result in a favorable long-term rate of return from a diversified portfolio.

**EXPECTED CONTRIBUTIONS** No contributions are expected to be made to the Pension plan for the fiscal year ending August 31, 2009. The University expects to contribute \$22,412,000 to its Post Retirement Medical Benefit plan during the fiscal year ending August 31, 2009.

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

FISCAL YEAR	PENSION PLAN	POST RETIREMENT MEDICAL	
		EXCLUDING MEDICARE SUBSIDY	WITH MEDICARE SUBSIDY
2009	\$ 24,455	\$ 14,714	\$ 13,175
2010	21,270	16,763	15,015
2011	21,248	18,621	16,651
2012	21,252	20,549	18,336
2013	21,231	22,398	19,904
2014 - 2018	98,349	140,121	122,515

#### 14. Hospitals' Retirement Plans

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

In 2007, the Hospitals adopted FAS 158. The impact of adopting FAS 158 in fiscal year 2007 was a net increase to unrestricted net assets of \$11,054,000.

For fiscal years 2008 and 2007, the Hospitals used June 30 as the measurement date to value the plan assets and the benefit obligations of the Pension and Post Retirement Medical Benefit plans. Beginning with fiscal year 2009, the Hospitals will be required to use August 31 as their measurement date in accordance with the provisions of FAS 158.

**DEFINED CONTRIBUTION PLAN** Employer contributions to the defined contribution retirement plan are based on a percentage of participant annual compensation. Employer contributions to this plan amounted to approximately \$50,342,000 and \$45,039,000 for the years ended August 31, 2008 and 2007, respectively.

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

**POST RETIREMENT MEDICAL BENEFIT PLAN** The Hospitals currently provide health insurance coverage for employees upon retirement as early as age 55, with years of service as defined by specific criteria. The health insurance coverage for retirees who are under age 65 is the same as that provided to active employees. A Medicare supplement option is provided for retirees over age 65. The obligation for these benefits has been recorded in the statement of financial position.

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

	PENSION		POST RETIREMENT MEDICAL	
	2008	2007	2008	2007
<b>CHANGE IN PLAN ASSETS</b>				
Fair value of plan assets, beginning of year	\$ 157,456	\$ 140,724	\$ -	\$ -
Actual return on plan assets	(11,516)	23,094	-	-
Plan participants' contributions	-	-	682	680
Employer contributions	6,898	1,152	3,657	3,344
Benefits paid	(7,114)	(7,514)	(4,339)	(4,024)
<b>FAIR VALUE OF PLAN ASSETS, END OF YEAR</b>	<b>\$ 145,724</b>	<b>\$ 157,456</b>	<b>\$ -</b>	<b>\$ -</b>
<b>CHANGE IN PROJECTED BENEFIT OBLIGATION</b>				
Benefit obligation, beginning of year	\$ 162,628	\$ 157,562	\$ 66,339	\$ 68,497
Service cost	1,720	1,720	1,583	1,660
Interest cost	10,270	10,062	4,071	4,257
Plan participants' contributions	-	-	682	680
Actuarial (gain) loss	(15,563)	798	(4,793)	(4,731)
Benefits paid	(7,114)	(7,514)	(4,339)	(4,024)
<b>BENEFIT OBLIGATION, END OF YEAR</b>	<b>\$ 151,941</b>	<b>\$ 162,628</b>	<b>\$ 63,543</b>	<b>\$ 66,339</b>
<b>AMOUNTS RECOGNIZED IN FINANCIAL STATEMENTS</b>				
Plan assets minus projected benefit obligation	\$ (6,217)	\$ (5,172)	\$ (63,543)	\$ (66,339)
Contributions made after measurement date	-	4,262	725	607
<b>NET LIABILITY RECOGNIZED IN THE STATEMENT OF FINANCIAL POSITION</b>	<b>\$ (6,217)</b>	<b>\$ (910)</b>	<b>\$ (62, 818)</b>	<b>\$ (65,732)</b>
Prior service credit	\$ -	\$ -	\$ (2,585)	\$ (3,419)
Net actuarial loss (gain)	2,753	(3,624)	(8,972)	(4,627)
<b>PENSION RELATED CHANGES OTHER THAN NET PERIODIC BENEFIT EXPENSE (INCOME)</b>	<b>\$ 2,753</b>	<b>\$ (3,624)</b>	<b>\$ (11,557)</b>	<b>\$ (8,046)</b>

The accumulated benefit obligation for the Pension plan was \$142,876,000 and \$152,418,000 as of June 30, 2008 and 2007, respectively.

Net benefit expense related to the plans for the years ended August 31, 2008 and 2007, in thousands of dollars, includes the following components:

	PENSION		POST RETIREMENT MEDICAL	
	2008	2007	2008	2007
Service cost	\$ 1,720	\$ 1,720	\$ 1,583	\$ 1,660
Interest cost	10,270	10,062	4,071	4,257
Expected return on plan assets	(11,386)	(10,215)	-	-
Amortization of prior service cost	-	-	(834)	(834)
Recognized net actuarial losses	36	115	(448)	11
<b>NET PERIODIC BENEFIT EXPENSE</b>	<b>\$ 640</b>	<b>\$ 1,682</b>	<b>\$ 4,372</b>	<b>\$ 5,094</b>

The prior service costs and net actuarial loss expected to be amortized from change in net assets to net periodic benefit expense over the next fiscal year are as follows, in thousands of dollars:

	PENSION	POST RETIREMENT MEDICAL
Net actuarial gain	\$ -	\$ 1,053
Prior service credit	\$ -	\$ 834

ACTUARIAL ASSUMPTIONS The weighted average assumptions used to determine the benefit obligations for the Pension and Post Retirement Medical Benefit plans are shown below:

	PENSION		POST RETIREMENT MEDICAL	
	2008	2007	2008	2007
Discount rate	7.31 - 7.38%	6.43 - 6.47%	7.12%	6.35%
Covered payroll growth rate	5.50%	5.50%	N/A	N/A

The weighted average assumptions used to determine the net periodic benefit cost for the Pension and Post Retirement Medical Benefit plans are shown below:

	PENSION		POST RETIREMENT MEDICAL	
	2008	2007	2008	2007
Discount rate	6.43 - 6.47%	6.49 - 6.53%	6.35%	6.42%
Expected return on plan assets	6.25 - 8.00%	3.00 - 8.00%	N/A	N/A
Covered payroll growth rate	5.50%	5.50%	N/A	N/A

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

To determine the accumulated post retirement medical benefit obligation as of August 31, 2008, a 10% annual rate of increase in the pre-65 per capita costs, an 11% annual rate of increase in the post-65 prescription drug per capita costs, and an 8% rate of increase in the post-65 per capita cost of all other medical benefits was assumed for 2008-2009, declining gradually to 5% by 2014 for pre-65 per capita costs, 2014 for the post-65 prescription drug per capita cost and 2011 for the post-65 per capita costs of all other medical benefits and remaining at this rate thereafter.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. Increasing the health care cost trend rate by 1% in each future year would increase the accumulated post retirement medical benefit obligation by \$2,136,000 and the aggregate annual service and interest cost by \$218,000. Decreasing the health care cost trend rate by 1% in each future year would decrease the accumulated post retirement medical benefit obligation by \$1,910,000 and the aggregate annual service and interest cost by \$194,000.

PLAN ASSETS Asset allocations by asset category at June 30 are as follows:

ASSET CATEGORY	PENSION	
	2008	2007
Cash equivalents	1%	3%
Equity securities	66%	66%
Fixed income	21%	21%
Real estate	12%	10%
<b>TOTAL PORTFOLIO</b>	<b>100%</b>	<b>100%</b>

The weighted-average target asset allocation of 62% equity securities, 30% fixed income, 8% real estate and less than 1% cash and cash equivalents is selected to result in a favorable long-term rate of return from a diversified portfolio.

EXPECTED CONTRIBUTIONS The Hospitals expect to contribute \$3,075,000 to their Pension plan and \$4,411,000 to their Post Retirement Medical Benefit plan during the fiscal year ending August 31, 2009.

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:

FISCAL YEAR	PENSION PLAN	POST RETIREMENT MEDICAL	
		EXCLUDING MEDICARE SUBSIDY	WITH MEDICARE SUBSIDY
2009	\$ 7,815	\$ 4,826	\$ 4,411
2010	8,308	5,194	4,705
2011	8,836	5,618	5,057
2012	9,472	6,024	5,388
2013	10,182	6,388	5,676
2014 - 2018	59,847	33,873	29,188

## 15. 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, 2008 and 2007 was \$29,612,000 and \$26,715,000, respectively, for the University and \$47,264,000 and \$42,118,000, respectively, for the Hospitals.

Net minimum future operating lease payments and related present value, assuming a 6.5% discount rate for periods subsequent to August 31, 2008, in thousands of dollars, are as follows:

YEAR ENDED AUGUST 31	MINIMUM LEASE PAYMENTS		PRESENT VALUE OF MINIMUM LEASE PAYMENTS	
	UNIVERSITY	HOSPITALS	UNIVERSITY	HOSPITALS
2009	\$ 25,085	\$ 39,148	\$ 24,224	\$ 38,009
2010	19,457	30,349	17,852	27,667
2011	16,675	26,604	14,536	22,773
2012	13,355	24,293	11,061	19,526
2013	10,681	23,773	8,405	17,941
Thereafter	66,671	128,860	42,651	85,703
<b>TOTAL</b>	<b>\$ 151,924</b>	<b>\$ 273,027</b>	<b>\$ 118,729</b>	<b>\$ 211,619</b>

## 16. Related Party Transactions

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

## 17. Commitments and Contingencies

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

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

**HEALTH CARE** Cost reports filed under the Medicare program for services based upon cost reimbursement for fiscal years 2001 through 2008 are subject to audit. The estimated amounts due to or from the program are reviewed and adjusted annually based upon the status of such audits and subsequent appeals.

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

**LABOR AGREEMENTS** Approximately 8% of the University's, 40% of SHC's and 49% of LPCH's employees are covered under union contract arrangements and are, therefore, subject to labor stoppages when contracts expire. There are no expired agreements at August 31, 2008. Approximately 15% of Hospital employees are covered by an agreement that is currently under negotiation.

**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 University's consolidated financial position.

**CONTRACTUAL COMMITMENTS** At August 31, 2008, the University had contractual obligations of approximately \$350,609,000 in connection with major construction projects. Remaining expenditures on construction in progress are estimated to be \$720,753,000, 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 \$174,204,000 at August 31, 2008.

**GUARANTEES AND INDEMNIFICATIONS** The University and the Hospitals enter into mutual indemnification agreements in the normal course of business. The impact of these agreements is not expected to be material. As a result, no liabilities related to guarantees and indemnifications have been recorded as of August 31, 2008.

The University guarantees certain recourse loans in connection with its partnership investments. At August 31, 2008, these guarantees totaled \$53,000,000.

## 18. Subsequent Event

The fair value of the University's investments declined subsequent to August 31, 2008 as a result of significant declines in financial markets globally.

**SUBSEQUENT EVENT (UNAUDITED)** In April 2009, the University issued \$1,000,000,000 of fixed rate Series 2009A taxable bonds (the "Bonds"). The proceeds were used to pay down approximately \$200,000,000 in taxable commercial paper with the balance of approximately \$800,000,000 to be used for general purposes, including refinancing other external indebtedness, financing operating and capital expenditures and to provide liquidity, as necessary.

In May 2009, the University converted the interest rate mode of the Series S-4 bonds from the daily rate mode to the commercial paper rate mode (the "Converted S-4 Bonds"). While in the commercial paper rate mode, the Converted S-4 Bonds will be subject to mandatory tender for purchase on the business day following the end of each commercial paper rate period.

# MANAGEMENT RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

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

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

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

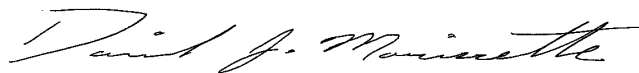
The Board of Trustees of the University and the separate Boards of Directors of the Hospitals, through their respective Audit Committees, comprised of trustees and directors not employed by the University or the Hospitals, are responsible for engaging the independent auditors and meeting with management,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



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



M. Suzanne Calandra  
Controller  
Stanford University



Daniel J. Morissette  
Chief Financial Officer  
Stanford Hospital and Clinics



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

**APPENDIX B**

**SUMMARY OF PRINCIPAL LEGAL DOCUMENTS**



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## APPENDIX B

### SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

*The following is a summary of certain provisions of the Indenture and the Loan Agreement, that are not described elsewhere in this Official Statement. The Bonds, including but not limited to the Series T-5 Bonds which are the primary focus of this Official Statement, are issued and secured pursuant to the Indenture and the Loan Agreement. References to the Indenture, the Loan Agreement, or a fund or account refer to the related document, entity, fund or account with respect to the Bonds, as described in this Official Statement. Unless otherwise specified to the contrary in this Appendix B, all definitions and provisions summarized refer to the Indenture and the Loan Agreement. These summaries do not purport to be comprehensive and reference should be made to the Indenture and the Loan Agreement for a full and complete statement of their provisions.*

### DEFINITIONS OF CERTAIN TERMS

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

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

“Act of Bankruptcy” of the Authority or the Borrower means any of the following with respect to such party:

- (1) the commencement by such party of a voluntary case under the federal bankruptcy laws, as now in effect or hereafter amended, or any other applicable federal or state bankruptcy, insolvency or similar laws;
- (2) the filing of a petition with a court having jurisdiction over such party to commence an involuntary case against such party under the federal bankruptcy laws, as now in effect or hereafter amended, or any other applicable federal or state bankruptcy, insolvency or similar laws, which shall not have been stayed or dismissed within 60 days;
- (3) such party shall admit in writing its inability to pay its debts generally as they become due;
- (4) a receiver, trustee or liquidator of such party shall be appointed in any proceeding brought against such party;
- (5) the making of a general assignment by such party for the benefit of its creditors; or
- (6) the entry by such party into an agreement of composition with its creditors.

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

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

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

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

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

*“Bonds”* means the California Educational Facilities Authority Revenue Bonds (Stanford University), being issued in multiple Series and including but not limited to the Series T-5 Bonds, which are issued as refunding bonds and are the primary focus of this Official Statement, in each case authorized by, and at any time Outstanding pursuant to, the Indenture.

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

*“Certificate,” “Statement,” “Request,” “Order” or “Requisition”* of the Authority or the Borrower mean, respectively, a written certificate, statement, request, order or requisition signed in the name of the Authority by its Chairman or a deputy thereto, its Executive Director, or its Deputy Executive Director or by any other person who is specifically authorized by a resolution of the Authority to execute such a document on its behalf, or in the name of the Borrower by an Authorized Representative of the Borrower. Any such instrument and supporting opinions or representations, if any, may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined shall be read and construed as a single instrument. If and to the extent required by the Indenture, each such instrument shall include the statements provided for in the Indenture.

*“Code”* means the Internal Revenue Code of 1986, as amended, or any successor code or law and any regulations in effect or promulgated thereunder.

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

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

*“Favorable Opinion of Bond Counsel”* means an Opinion of Counsel by a nationally recognized bond counsel firm experienced in matters relating to the exclusion from gross income for federal income tax purposes of interest payable on obligations of state and political subdivisions.

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

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

*“Indenture”* means the 2007 Indenture, dated as of June 1, 2007 (the “2007 Indenture”), between the Authority and the Trustee, providing for the issuance of the Initial Series T Bonds, as supplemented, modified or amended from time to time by any Supplemental Indenture entered into pursuant to the provisions thereof and providing for the issuance of an additional Series of Bonds, including but not limited to the Fourth Supplemental Indenture, providing for the issuance of the Series T-5 Bonds.

*“Initial Series T Bonds”* means the first series of the California Educational Facilities Authority Revenue Bonds (Stanford University), being Series T-1, issued pursuant to the 2007 Indenture and delivered to the original purchasers thereof on June 19, 2007.

*“Interest Payment Date”* means, with respect to the Series T-5 Bonds, March 15 and September 15 in each year, commencing March 15, 2010, and, with respect to any additional Series of Bonds, the date or dates so indicated in the Supplemental Indenture for such Series.

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

(1) direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury, and CATS and TIGRS) or obligations the principal of and interest on which are unconditionally guaranteed by the United States of America;

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

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

(4) money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by S&P of “AAAm-G,” “AAA-m” or “AA-m” and if rated by Moody’s rated “Aaa,” “Aa1” or “Aa2;”

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

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

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

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

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

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

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

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

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

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

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

“*Loan Default Event*” means any of the events of default specified in the provisions of the Agreement summarized below under “LOAN AGREEMENT – Events of Default; Remedies on Default.”

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

“*Notice by Mail*” or “notice” of any action or condition “by Mail” means a written notice meeting the requirements of the Indenture mailed by first-class mail to the Holders of specified registered Bonds, at the addresses shown on the registration books maintained pursuant to the Indenture.

“*Opinion of Counsel*” means a written opinion of counsel (who may be counsel for the Authority) selected by the Authority and reasonably acceptable to the Borrower. If and to the extent required by the provisions of the Indenture, each Opinion of Counsel shall include the statements provided for in the Indenture.

“*Outstanding*” when used as of any particular time (subject to the provisions of the Indenture) with reference to Bonds, means all Bonds theretofore, or thereupon being, authenticated and delivered by the Trustee under the Indenture except (1) Bonds theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation; (2) on or after any Purchase Date for Variable Rate Bonds pursuant to the Indenture, all Variable Rate

Bonds (or portions of Variable Rate Bonds) which have been purchased on such date, but which have not been delivered to the tender agent, provided that funds sufficient for such purchase are on deposit with the tender agent in accordance with the provisions of the Indenture; (3) Bonds with respect to which all liability of the Authority shall have been discharged in accordance with the Indenture; and (4) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Trustee pursuant to the Indenture.

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

“*Principal Payment Date*” means any date on which principal on the Bonds of any Series is due and payable, whether by reason of maturity or of redemption from mandatory sinking account payments, if any, established in connection with such Series of Bonds.

“*Rating Agency*” means Moody’s, S&P or Fitch.

“*Redemption Price*” means, with respect to any Bond (or portion thereof), the principal amount of such Bond (or portion) plus the applicable premium, if any, payable upon the date fixed for redemption thereof pursuant to the provisions of such Bond and the Indenture. The Series T-5 Bonds are not subject to redemption prior to maturity.

“*Refunded Bonds*” means those certain California Educational Facilities Authority Revenue Bonds (Stanford University) Series P maturing on December 1, 2023, in the aggregate principal amount of \$59,180,000.

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

“*Series of Bonds*” means any separate series of Bonds issued pursuant to a Supplemental Indenture.

“*Series T-5 Bonds*” means the Series of Bonds issued pursuant to the 2007 Indenture, as supplemented by the Fourth Supplemental Indenture, which are issued as refunding bonds and are the primary focus of this Official Statement.

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

“*Supplemental Indenture*” means any supplemental indenture hereafter duly authorized and entered into between the Authority and the Trustee, supplementing, modifying or amending the 2007 Indenture; but only if and to the extent that such supplemental indenture is specifically authorized under the 2007 Indenture.

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

“*Variable Rate Bonds*” means Bonds that bear interest at a variable rate or rates.

## INDENTURE

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

### **Pledge and Assignment of Revenues**

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

### **Establishment of Funds and Accounts**

The Indenture creates a CEFA Series P Account within the Escrow Fund (the "CEFA Series P Account"), a Bond Fund (and an Interest Account and a Principal Account therein) and a Rebate Fund, all of which are to be held by the Trustee.

*CEFA Series P Account.* Pursuant to the Indenture and the Loan Agreement, Series T-5 Bond proceeds specified in the Indenture, together with lawfully available funds of the Borrower specified in the Loan Agreement, will be deposited into the CEFA Series P Account and applied to refund the Refunded Bonds in the manner described in the section entitled "PLAN OF FINANCE" in the forepart of this Official Statement.

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

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

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

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



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

### **Issuance of Additional Series of Bonds**

The Authority may issue additional Series of Bonds under the Indenture at any time at the request of the Borrower. Each such additional Series of Bonds shall be executed by the Authority for issuance and delivery to the Trustee and thereupon shall be authenticated by the Trustee and delivered to the Authority upon its order, but only upon receipt by the Trustee of the following:

- (1) An original executed copy of the Supplemental Indenture authorizing such Series of Bonds, which Supplemental Indenture shall specify (a) the purpose for which such Series of Bonds is being issued, provided, that such Series of Bonds shall be approved solely for financing or refinancing the Series T Project; (b) the authorized principal amount and denominations of such Series of Bonds; (c) whether such Bonds shall bear interest at a fixed rate or shall be Variable Rate Bonds and the interest rate mode, including, but not limited to, an interest rate determined pursuant to an auction procedure; and, if such Bonds are to be Variable Rate bonds, the terms of the initial and subsequent interest periods for such Series; (d) whether the interest on such Bonds shall be federally taxable or tax-exempt; (e) the Series designation of such Bonds, the date or dates, the Interest Payment Dates, the Principal Payment Dates and the maturity date or dates of such Bonds; (f) the manner of dating and numbering such Bonds; (g) the place or places of payment of the principal or redemption, tender or purchase price, and the manner of payment of interest on, such Bonds; (h) any redemption, tender or purchase provisions for such Bonds; (i) the amount and due date of each mandatory sinking account payment, if any, for such Bonds; (j) the amounts to be deposited in the funds and accounts created and established by the Indenture and the Supplemental Indenture authorizing such Bonds; (k) the form of such Bond and whether it is a replacement Bond or a newly issued, additional Bond; and (l) any other provisions deemed advisable by the Authority or the Borrower that are not in conflict with the provisions of the Indenture;
- (2) An original executed copy of the Supplemental Loan Agreement with respect to such Series of Bonds;
- (3) An original executed copy of the bond purchase contract, or supplement thereto, with respect to such Series of Bonds;
- (4) An official statement, or supplement thereto, with respect to such Series of Bonds;
- (5) A Written Request of the Authority to the Trustee (i) requesting that the Trustee authenticate such Bonds, (ii) stating that the Authority is not in default in the performance of any of the covenants, conditions, agreements or provisions contained in the Indenture and (iii) stating that the resolution of the Authority authorizing the issuance of such Bonds was duly adopted and is in full force and effect as of the date of issuance of such Bonds;
- (6) A Certificate, Request and Consent of the Borrower with respect to such Bonds;
- (7) A continuing disclosure agreement, or supplement thereto, for such Bonds, if required by law;
- (8) A tax certificate, or supplement thereto, relating to such Bonds;
- (9) Agreements with any liquidity provider or any agents for remarketing or conducting auctions with respect to Variable Rate Bonds;

(10) An opinion of counsel to the Authority with respect to such Bonds in substantially the form delivered by counsel to the Authority in connection with the issuance of the Initial Series T Bonds under the Indenture;

(11) An opinion of Bond Counsel with respect to such Bonds in substantially the form delivered by Bond Counsel in connection with the issuance of the Initial Series T Bonds under the Indenture;

(12) An opinion of Borrower's counsel with respect to such Bonds in substantially the form delivered by Borrower's counsel in connection with the issuance of the Initial Series T Bonds under the Indenture;

(13) An opinion of counsel to the purchaser of such Bonds with respect to such Bonds in substantially the form delivered by counsel to the purchaser of the initial Bonds in connection with the issuance of the Initial Series T Bonds under the Indenture.

Proceeds of each Series of Bonds shall be applied as specified in the Supplemental Indenture establishing the terms and provisions of such Series of Bonds.

#### **No Redemption of Series T-5 Bonds**

The Series T-5 Bonds are not subject to redemption prior to maturity.

#### **Events of Default; Remedies on Default**

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

Upon actual knowledge of the existence of any Event of Default, the Trustee shall notify the Borrower, the Authority, and each notice party designated pursuant to the Indenture in writing as soon as practicable; provided, however, that the Trustee need not provide notice of any Loan Default Event if the Borrower has expressly acknowledged the existence of such Loan Default Event in a writing delivered to the Trustee, the Borrower, the Authority and each notice party designated pursuant to the Indenture.

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

(a) In each and every such case during the continuance of such an Event of Default, unless the principal of all the Bonds has already become due and payable, the Trustee, by notice in writing to the Authority, may, and, upon the written request of the Holders of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding, shall, declare the principal of all the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same will become and will be immediately due and payable, anything in the Indenture or in the Bonds contained to the contrary notwithstanding;

(b) In the case of any Event of Default described in (d) of the first paragraph of this section, the Trustee may take whatever action at law or in equity is necessary or desirable to enforce the performance, observance or compliance by the Authority with any covenant, condition or agreement by the Authority under the Indenture; and

(c) In the case of an Event of Default described in (e) of the first paragraph of this section, the Trustee may take whatever action the Authority would be entitled to take, and shall take whatever action the Authority would be required to take, pursuant to the Loan Agreement in order to remedy the Loan Default Event.

The Trustee shall give notice of any declaration described in subsection (a) above to each Rating Agency then rating the Bonds; provided that failure to give any such Notice shall not affect the sufficiency of the proceedings for such declaration. Any such declaration, however, is subject to the condition that if, at any time after such declaration and before any judgment or decree for the payment of the moneys due shall have been obtained or entered, the Authority or the Borrower shall deposit with the Trustee a sum sufficient to pay all the principal or redemption price of and installments of interest on the Bonds payment of which is overdue, with interest on such overdue principal at the rate borne by the respective Bonds, and the reasonable charges and expenses of the Trustee, and any and all other defaults known to the Trustee (other than in the payment of principal of and interest on the Bonds due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor, then, and in every such case, the Trustee shall, on behalf of the Holders of all of the Bonds, rescind and annul such declaration and its consequences and waive such default; but no such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon.

If one or more Events of Default shall happen and be continuing, the Trustee in its discretion may, and upon the written request of the Holders of a majority in aggregate principal amount of the Bonds then Outstanding, and upon being indemnified to its reasonable satisfaction therefor, shall proceed to protect or enforce its rights or the rights of the Holders of Bonds under the Act or under the Loan Agreement or the Indenture by a suit in equity or action at law, either for the specific performance of any covenant or agreement contained in the Indenture, or in aid of the execution of any power therein granted, or by mandamus or other appropriate proceeding for the enforcement of any other legal or equitable remedy as the Trustee shall deem most effectual in support of any of its rights or duties under the Indenture.

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

No Holder of any Bond shall have the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under the Indenture, the Loan Agreement, the Act or any other applicable law with respect to such Bond; provided, however, the Holders of at least a majority in aggregate principal amount of the Bonds then Outstanding may institute such a suit, action or proceeding at law or in equity, for the protection or enforcement of a right or remedy under the Indenture, the Loan Agreement, the Act or any other applicable law with respect to the Bonds, if (1) such Holder or said Holders shall have given to the Trustee written notice of the occurrence of an Event of Default; (2) such Holder or said Holders shall have made written request upon the Trustee to exercise the powers granted in the Indenture or to institute such suit, action or proceeding in its own name; (3) such Holder or said Holders shall have tendered to the Trustee indemnity satisfactory to it against the costs, expenses and liabilities to be incurred in compliance with such request; and (4) the Trustee shall have refused or omitted to comply with such request for a period of 60 days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee.

#### **Amendment of Indenture and Loan Agreement**

The Indenture and the rights and obligations of the Authority and of the Holders of the Bonds and of the Trustee may be modified or amended from time to time by an indenture or indentures supplemental to the Indenture, which the Authority and the Trustee may enter into when the written consent of the Holders of a majority in aggregate principal amount of the Bonds then Outstanding shall have been filed with the Trustee. No such modification or amendment shall (1) extend the fixed maturity of any Bond, or reduce the amount of principal

thereof, or reduce the rate of interest thereon, or extend the time of payment of interest thereon, or reduce any premium payable upon the redemption thereof (except as permitted with respect to Variable Rate Bonds in the Indenture), without the consent of the Holder of each Bond so affected, or (2) reduce the percentage of Bonds the consent of the Holders of which is required to effect any such modification or amendment, or permit the creation of any lien on the Revenues and other assets pledged under the Indenture prior to or on a parity with the lien created by the Indenture, or deprive the Holders of the Bonds of the lien created by the Indenture on such Revenues and other assets (except as expressly provided in the Indenture), without the consent of the Holders of all Bonds then Outstanding.

The Indenture may also be modified or amended but without the necessity of obtaining the consent of any Bondholders, for one or more of the following purposes: (1) to add to the covenants and agreements of the Authority contained in the Indenture other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power reserved to or conferred upon the Authority, provided, that no such covenant, agreement, pledge, assignment or surrender shall materially adversely affect the interests of the Holders of the Bonds; (2) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in the Indenture, or in regard to matters or questions arising under the Indenture, as the Authority or the Trustee may deem necessary or desirable and not inconsistent with the Indenture, and which shall not materially adversely affect the interests of the Holders of the Bonds; (3) to modify, amend or supplement the Indenture in such manner as to permit the qualification thereof under the Trust Indenture Act of 1939, as amended; (4) to provide any additional procedures, covenants or agreements to maintain the exclusion from gross income for federal income tax purposes of interest on the Bonds; (5) to facilitate (i) the transfer of Bonds from one Securities Depository to another in the succession of Securities Depositories, or (ii) the withdrawal from a Securities Depository of Bonds held in a Book-Entry System and the issuance of replacement Bonds in fully registered form to Persons other than a Securities Depository; (6) to authorize different authorized denominations of the Bonds and to make correlative amendments and modifications to the Bond Indenture regarding exchangeability of Bonds of different authorized denominations, redemptions of portions of Bonds of particular authorized denominations and similar amendments and modifications of a technical nature (7) to make any amendments appropriate or necessary to provide for any liquidity facility or any insurance policy, letter of credit, guaranty, surety bond, line of credit, revolving credit agreement, standby bond purchase agreement or other agreement or security device delivered to the Trustee and providing for (i) payment of the principal, interest and redemption premium on the Bonds or a portion thereof, (ii) payment of the purchase price of Variable Bonds or (iii) both (i) and (ii), including without limitation modification of the maximum liquidity facility rate with respect to Variable Rate Bonds; (8) to make any changes required by a Rating Agency in order to obtain or maintain a rating for the Bonds; (9) to provide for the issuance of an additional Series of Bonds pursuant to the Indenture, including any amendments appropriate or necessary to the provisions of the Indenture to provide for issuance of Variable Rate Bonds; provided, that no such amendment shall materially adversely affect the interests of the Bondholders; (10) to make any change with respect to any provision of the Indenture relating solely to a Series or Tranche of Bonds if the effective date of such change is a Conversion Date; provided such change shall take effect on such Conversion Date only if such Bonds are purchased on the Conversion Date pursuant to the provisions of the Indenture; or (11) to modify, alter, amend or supplement the Indenture in any other respect which is not materially adverse to the Bondholders.

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

the Loan Agreement, or extend the time for making such payments, without the written consent of all of the Holders of the Bonds then Outstanding.

The Loan Agreement may also be supplemented, modified or amended from time to time and at any time by the Authority without the necessity of obtaining the consent of any Bondholders, only to the extent permitted by law and only for any one or more of the following purposes: (1) to add to the covenants and agreements of the Authority or the Borrower contained in the Loan Agreement other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power therein reserved to or conferred upon the Authority or the Borrower, provided, that no such covenant, agreement, pledge, assignment or surrender shall materially adversely affect the interests of the Holders of the Bonds; (2) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in the Loan Agreement, or in regard to matters or questions arising under the Loan Agreement, as the Authority may deem necessary or desirable and not inconsistent with the Loan Agreement or the Indenture, and which shall not materially adversely affect the interests of the Holders of the Bonds; (3) in connection with the issuance of an additional Series of Bonds pursuant to the Indenture; or (4) to maintain the exclusion from gross income for federal income tax purposes of interest payable with respect to the Bonds.

### **Defeasance**

The Bonds may be paid by the Authority or the Trustee on behalf of the Authority in any of the following ways: (a) by paying or causing to be paid the principal or Redemption Price of and interest on all Bonds Outstanding, as and when the same become due and payable; (b) by depositing with the Trustee in trust, at or before maturity, moneys or securities in the necessary amount (as provided in the Indenture) to pay when due or redeem all Bonds then Outstanding; or (c) by delivering to the Trustee, for cancellation by it, all Bonds then Outstanding. If the Authority shall also pay or cause to be paid all other sums payable under the Indenture by the Authority and the Borrower shall have paid all Administrative Fees and Expenses payable to the Authority pursuant to the Loan Agreement, then and in that case at the election of the Authority and notwithstanding that any Bonds shall not have been surrendered for payment, the Indenture and the pledge of Revenues and other assets made under the Indenture and all covenants, agreements and other obligations of the Authority under the Indenture shall cease, terminate, become void and be completely discharged and satisfied.

## **LOAN AGREEMENT**

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

### **Payment of the Bonds and Certain Other Expenses**

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

Any amounts held in the Interest Account within the Bond Fund for the payment of interest on the Bonds (including any investment income credited to the Interest Account pursuant to the Indenture) shall be credited against the Base Loan Payments of interest then required to be met by the Borrower to the extent such



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

The Loan Agreement also provides that if on any Interest Payment Date or Principal Payment Date, the balance in the Interest Account or Principal Account within the Bond Fund is insufficient or unavailable to make required payments of principal of (whether at maturity, by redemption or by acceleration as provided in the Indenture), premium, if any, and interest due on the Bonds on such date, the Borrower shall forthwith pay any such deficiency to the Trustee for deposit in the appropriate account within the Bond Fund. The Borrower acknowledges that the Trustee shall give notice: (1) to the Borrower in accordance with the Indenture at least five (5) Business Days before each Interest Payment Date of the amount, if any, credited or to be credited to the Interest Account by such next Interest Payment Date and the amount of the Base Loan Payment then due from the Borrower; and (2) to the Borrower and the Authority in accordance with the Indenture if the Borrower fails to make any required payment by the due date, such notice to be given by telephone, telecopy or electronic means followed by written notice.

#### **Payment of Certain Amounts for the Refunded Bonds and Costs of Issuance**

Pursuant to the Loan Agreement, the Borrower agrees that it will pay from lawfully available funds of the Borrower the amounts specified in the Loan Agreement: (i) to the Trustee for deposit into the CEFA Series P Account for the refunding of the Refunded Bonds; and (ii) for deposit into the Series T-5 Costs of Issuance Account—Loan Agreement, which the Borrower shall establish and maintain. Amounts deposited into the CEFA Series P Account shall be applied pursuant to the Indenture and in accordance with a Request of the Authority to refund the Refunded Bonds. Amounts deposited into the Series T-5 Costs of Issuance Account—Loan Agreement shall be applied by the Borrower to pay Costs of Issuance relating to the Series T-5 Bonds. Upon determination by the Borrower that amounts in the Series T-5 Costs of Issuance Account—Loan Agreement are no longer required for the payment of Costs of Issuance, any amounts remaining shall be transferred to other accounts of the Borrower as the Borrower may determine.

#### **Certain Covenants of the Borrower**

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

- (a) it will maintain its existence as a body duly exercising corporate powers and privileges under the Constitution and laws of the State of California and will not dissolve, sell or otherwise dispose of all or substantially all of its assets or consolidate with or merge into another entity or permit one or more other entities to consolidate with or merge into it, except under certain circumstances described in the Loan Agreement.
- (b) it will maintain or cause to be maintained insurance of such type, against such risks and in such amounts, with insurance companies or by means of self-insurance, as are customarily carried by organizations of a nature similar to that of the Borrower, which insurance shall include property damage, fire and extended coverage, public liability and property damage liability insurance in amounts estimated to indemnify the reasonably anticipated damage, loss or liability;
- (c) it will furnish to the Authority and the Trustee within 180 days after the end of each of its fiscal years certain financial information as of the end of such year; and,

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

### **Prepayment**

The Borrower shall have the right, so long as all amounts which have become due under the Loan Agreement have been paid, at any time or from time to time to prepay all or any part of the Base Loan Payments and the Authority agrees that the Bond Trustee shall accept such prepayments when the same are tendered. Prepayments may be made by payments of cash, deposit of Investment Securities or surrender of Bonds, as contemplated by the Loan Agreement. All such prepayments (and the additional payment of any amount necessary to pay the applicable premium, if any, payable upon the redemption of Bonds) shall be deposited upon receipt in the Redemption Fund and, at the request of, and as determined by, the Borrower, credited against the Base Loan Payments in the order of their due date or used for the redemption or purchase of Outstanding Bonds in the manner and subject to the terms and conditions set forth in the Indenture. The Series T-5 Bonds are not subject to redemption prior to maturity.

### **Amendment**

The Loan Agreement may not be amended, changed, modified, altered or terminated without the concurring written consent of the Trustee, which consent shall be given in accordance with the provisions of the Indenture. See “INDENTURE – Amendment of Indenture and Loan Agreement.”

### **Events of Default; Remedies on Default**

Events of default under the Loan Agreement include: (a) failure by the Borrower to make any of the payments required by the Loan Agreement by their due date; (b) failure by the Borrower to observe or perform any covenant, condition or agreement contained in the Loan Agreement other than paragraph (a) above, on its part to be observed or performed, for a period of 45 days after written notice thereof has been given to the Borrower by the Authority or the Trustee; provided, however, if the failure stated in the notice is correctable but cannot be corrected within 45 days, the Authority will not unreasonably withhold its consent to an extension of such time if corrective action is instituted by the Borrower within the applicable period and diligently pursued until the default is corrected; (c) the representations or warranties of the Borrower made in the Loan Agreement or in any other document, certificate or writing furnished by the Borrower to the Authority in connection with the application for or the negotiation of the Loan Agreement or the issuance of the Bonds being false or incorrect in any material respect; and (d) an Act of Bankruptcy of the Borrower.

The Authority or the Trustee, in the case of any event of default, may take any one or more of the following remedial steps: (a) declare immediately due and payable all Base Loan Payments due under the Loan Agreement for the remainder of its term; or (b) take whatever action at law or in equity may appear necessary or desirable to collect the payments then due and thereafter to become due under the Loan Agreement or to enforce the performance and observance of any obligation, condition or covenant of the Borrower under the Loan Agreement.



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**APPENDIX C**  
**BOOK-ENTRY SYSTEM**

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## APPENDIX C

### BOOK-ENTRY SYSTEM

The information in this Appendix C concerning The Depository Trust Company ("DTC"), New York, New York, and DTC's book entry system has been obtained from DTC and the Authority, the University, the Underwriter and the Trustee takes no responsibility for the completeness or accuracy thereof. The Authority, the University, the Underwriter and the Trustee cannot, and do not, give any assurances that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest or principal with respect to the Series T-5 Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Series T-5 Bonds, or (c) notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Series T-5 Bonds, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC.

DTC will act as securities depository for the Series T-5 Bonds. The Series T-5 Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered security certificate will be issued for each maturity of the Series T-5 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org); nothing contained in such websites is incorporated into this Official Statement.

Purchases of the Series T-5 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series T-5 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series T-5 Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or

Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series T-5 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series T-5 Bonds, except in the event that use of the book-entry system for the Series T-5 Bonds is discontinued.

To facilitate subsequent transfers, all Series T-5 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Series T-5 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series T-5 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series T-5 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Series T-5 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series T-5 Bonds, such as defaults and proposed amendments to the Series T-5 Bond documents. For example, Beneficial Owners of the Series T-5 Bonds may wish to ascertain that the nominee holding the Series T-5 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series T-5 Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the issuer as soon as possible after the Record Date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series T-5 Bonds are credited on the Record Date (identified in a listing attached to the Omnibus Proxy).

Payments of principal and interest evidenced by the Series T-5 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest on the Series T-5 Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Series T-5 Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Series T-5 Bond certificates are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Series T-5 Bond certificates will be printed and delivered.

THE AUTHORITY, THE UNIVERSITY, THE UNDERWRITER OR THE TRUSTEE WILL NOT HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS WITH RESPECT TO THE PAYMENTS OR THE PROVIDING OF NOTICE TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS.

None of the Authority, the University, the Underwriter or the Trustee can give any assurances that DTC, DTC Participants, Indirect Participants or others will distribute payments of principal and interest on the Series T-5 Bonds paid to DTC or its nominee, as the registered Owner, or any notice, to the Beneficial Owners or that they will do so on a timely basis or that DTC will serve and act in a manner described in this Official Statement.

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

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**APPENDIX D**

**FORM OF CONTINUING DISCLOSURE AGREEMENT**



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## APPENDIX D

### FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the "Agreement") dated as of August 1, 2009, by and between The Board of Trustees of the Leland Stanford Junior University (the "University") and U.S. Bank National Association, bond trustee (the "Trustee") under an Indenture dated as of June 1, 2007 (as supplemented, the "Indenture") between the California Educational Facilities Authority (the "Authority") and the Trustee, the Trustee executing this Agreement both in its capacity as Trustee and in its capacity as Dissemination Agent hereunder, is executed and delivered in connection with the issuance of the Authority's California Educational Facilities Authority Refunding Revenue Bonds (Stanford University) Series T-5 (the "Series T-5 Bonds"). The proceeds of the Series T-5 Bonds are to be loaned by the Authority to the University pursuant to a Loan Agreement dated as of June 1, 2007 between the Authority and the University (as supplemented, the "Loan Agreement"). Capitalized terms used in this Agreement which are not otherwise defined in the Indenture shall have the respective meanings specified in Article IV hereof. The parties agree as follows:

#### ARTICLE I

##### The Undertaking

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

Section 1.2. Annual Financial Information. (a) The University shall provide Annual Financial Information to the Dissemination Agent with respect to each fiscal year of the University, commencing with fiscal year ended August 31, 2009 by no later than one hundred and eighty (180) days after the end of the respective fiscal year. The Dissemination Agent shall provide such Annual Financial Information to the Repository and the Authority, in each case within two Business Days after receipt by the Dissemination Agent, or as soon as reasonably practicable thereafter.

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

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

Section 1.4. Material Event Notices. (a) If a Material Event occurs, the University shall provide, in a timely manner, notice of such Material Event to the Dissemination Agent. The

Dissemination Agent shall provide notice of each such Material Event to the Repository within one Business Day after receipt by the Dissemination Agent, or as soon as reasonably practicable thereafter.

(b) Any such notice of a defeasance of the Series T-5 Bonds shall state whether the Series T-5 Bonds have been escrowed to maturity and the timing of such maturity.

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

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

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

Section 1.7. No Previous Non-Compliance. The University represents that since May 1, 2004, it has not failed to comply in any material respect with any previous undertaking in a written contract or agreement specified in paragraph (b)(5)(i) of the Rule.

## ARTICLE II

### Operating Rules

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

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

Section 2.3. Material Event Notices. Each notice of a Material Event hereunder shall be captioned "Notice of Material Event" and shall prominently state the title, date and CUSIP numbers of the Series T-5 Bonds.

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

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

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

### ARTICLE III

#### Effective Date, Termination, Amendment and Enforcement

Section 3.1. Effective Date, Termination. (a) This Agreement shall be effective upon the issuance of the Series T-5 Bonds.

(b) The University's and the Dissemination Agent's obligations under this Agreement shall terminate upon a legal defeasance or payment in full of all of the Series T-5 Bonds.

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

(d) This Agreement, or any provision hereof, shall be null and void in the event that (1) the University delivers to the Dissemination Agent and the Trustee an opinion of Counsel, addressed to the University, the Authority and the Trustee, to the effect that those portions of the Rule which require this Agreement, or such provision, as the case may be, do not or no longer apply to the Series T-5 Bonds, whether because such portions of the Rule are invalid, have been repealed, or otherwise, as shall be specified in such opinion, and (2) the Dissemination Agent delivers copies of such opinion to the Repository and the Authority. The Dissemination Agent shall so deliver such opinion within one Business Day after receipt by the Dissemination Agent, or as soon as reasonably practicable thereafter.

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

Bonds pursuant to Section 9.01 of the Indenture as in effect on the date of this Agreement, and (5) the Dissemination Agent shall have delivered copies of such opinion(s) and amendment to the Repository and the Authority. The Dissemination Agent shall so deliver such opinion(s) and amendment within one Business Day after receipt by the Dissemination Agent.

(b) In addition to subsection (a) above, this Agreement may be amended by written agreement of the parties, without the consent of the holders of the Series T-5 Bonds, if all of the following conditions are satisfied: (1) an amendment to the Rule is adopted, or a new or modified official interpretation of the Rule is issued, after the effective date of this Agreement which is applicable to this Agreement, (2) the University shall have delivered to the Dissemination Agent and the Trustee an opinion of Counsel, addressed to the University, the Authority and the Trustee, to the effect that performance by the University and the Trustee under this Agreement as so amended will not result in a violation of the Rule and (3) the Dissemination Agent shall have delivered copies of such opinion and amendment to the Repository and the Authority. The Dissemination Agent shall so deliver such opinion and amendment within one Business Day after receipt by the Dissemination Agent or as soon as reasonably practicable thereafter.

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

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

Section 3.3. Benefit; Third-Party Beneficiaries; Enforcement. (a) The provisions of this Agreement shall constitute a contract with and inure solely to the benefit of the holders from time to time of the Series T-5 Bonds, except that Beneficial Owners of the Series T-5 Bonds shall be third-party beneficiaries of this Agreement and shall be deemed to be holders of the Series T-5 Bonds for purposes of Section 3.3(b) hereof. The provisions of this Agreement shall create no rights in any person or entity except as provided in this subsection (a).

(b) The obligations of the University to comply with the provisions of this Agreement shall be enforceable (i) in the case of enforcement of obligations to provide financial statements, financial information, operating data and notices, by any holder of the outstanding Series T-5 Bonds or by the Trustee on behalf of the holders of the outstanding Series T-5 Bonds, or (ii) in the case of challenges to the adequacy of the financial statements, financial information and operating data so provided, by the Trustee on behalf of the holders of the outstanding Series T-5 Bonds; provided, however, that the Trustee shall not be required to take any enforcement action except at the direction of the holders of not less than a majority in aggregate principal amount of the Series T-5 Bonds at the time outstanding, who shall have provided the Trustee with adequate security and indemnity. The holders' and Trustee's rights to enforce the provisions of this Agreement shall be limited solely to a right, by action in mandamus or for specific performance, to compel performance of the University's obligations under this Agreement.

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

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

## ARTICLE IV

### Definitions

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

(1) "Annual Financial Information" means, collectively, (i) the financial information and operating data with respect to the University for each fiscal year of the University ended on and after August 31, 2009 to be provided in any reasonable manner and containing, in substance, such information and data as is set forth in Appendix A to the Authority's Official Statement regarding the Series T-5 Bonds under the headings "PART I – GENERAL INFORMATION ABOUT STANFORD UNIVERSITY – Faculty and Staff," "– Students," "– Capital Improvement Programs" and "– Investments," and (ii) the information regarding amendments to this Agreement required pursuant to Sections 3.2(c) and (d) of this Agreement. Annual Financial Information shall include Audited Financial Statements, if available, or Unaudited Financial Statements.

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

(2) "Audited Financial Statements" means the annual financial statements for each fiscal year ended on and after August 31, 2009, if any, of the University, audited by such auditor as shall then be required or permitted by State law or the Indenture. Audited Financial Statements shall be prepared in accordance with GAAP.

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

(4) "Dissemination Agent" means U.S. Bank National Association, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the University and which has filed with the Trustee and the University a written acceptance of such designation.

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

(6) "Material Events" means any of the following events with respect to the Series T-5 Bonds, whether relating to the University or otherwise, if material:

- (i) principal and interest payment delinquencies;
- (ii) non-payment related defaults;
- (iii) unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) substitution of credit or liquidity providers, or their failure to perform;
- (vi) adverse tax opinions or events affecting the tax-exempt status of the security;
- (vii) modifications to rights of security holders;
- (viii) bond calls;
- (ix) defeasances;
- (x) release, substitution, or sale of property securing repayment of the securities; and
- (xi) rating changes.

(7) "MSRB" means the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934.

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

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

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

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

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

(13) "Underwriter" means Morgan Stanley & Co. Incorporated.

## **ARTICLE V**

### **Miscellaneous**

Section 5.1. Duties, Immunities and Liabilities of Dissemination Agent and Trustee. The Dissemination Agent and the Trustee shall have only such duties under this Agreement as are specifically



set forth in this Agreement, and the University agrees to indemnify and save the Dissemination Agent and the Trustee, their officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's or the Trustee's negligence or willful misconduct in the performance of its duties hereunder. Such indemnity shall be separate from, and in addition to, that provided to the Trustee under the Indenture. The Dissemination Agent shall be paid compensation by the University for its services provided hereunder in accordance with its schedule of fees as amended from time to time and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent shall have no duty or obligation to review any information provided to it hereunder and shall not be deemed to be acting in any fiduciary capacity for the Issuer, the University, the holders of the Series T-5 Bonds, or any other party. The obligations of the University under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Series T-5 Bonds.

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

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

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



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

THE BOARD OF TRUSTEES OF THE LELAND  
STANFORD JUNIOR UNIVERSITY

By: \_\_\_\_\_  
Randall S. Livingston  
Vice President for Business Affairs  
and Chief Financial Officer

U.S. BANK NATIONAL ASSOCIATION,  
as Trustee and as Dissemination Agent

By: \_\_\_\_\_  
Authorized Representative

**APPENDIX E**

**FORM OF BOND COUNSEL OPINION**

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## APPENDIX E

### FORM OF BOND COUNSEL OPINION

[Closing Date]

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

California Educational Facilities Authority  
Refunding Revenue Bonds (Stanford University)  
Series T- 5  
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the California Educational Facilities Authority (the "Authority") in connection with the issuance of \$51,765,000 aggregate principal amount of California Educational Facilities Authority Refunding Revenue Bonds (Stanford University) Series T-5 (the "Bonds"), issued pursuant to the provisions of the California Educational Facilities Authority Act of the State of California (constituting Chapter 2 of Part 59 of Division 10 of Title 3 of the Education Code of the State of California), and an indenture, dated as of June 1, 2007, as supplemented (the "Indenture"), between the Authority and U.S. Bank National Association, as trustee (the "Trustee"). The Indenture provides that the Bonds are issued for the purpose of making a loan of the proceeds thereof to The Board of Trustees of the Leland Stanford Junior University (the "Borrower") pursuant to a loan agreement, dated as of June 1, 2007, as supplemented (the "Loan Agreement"), between the Authority and the Borrower. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Indenture.

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

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

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this

opinion speaks only as of its date and is not intended to, and may not, be relied upon in connection with any such actions, events or matters. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Authority. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second and third paragraphs hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Indenture, the Loan Agreement and the Tax Agreement, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the Indenture, the Loan Agreement and the Tax Agreement and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles and to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against public instrumentalities and agencies of the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any of the real or personal property described in or as subject to the lien of the Indenture or the Loan Agreement or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such property. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

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

1. The Bonds constitute the valid and binding limited obligations of the Authority.
2. The Indenture has been duly executed and delivered by, and constitutes the valid and binding obligation of, the Authority. The Indenture creates a valid pledge, to secure the payment of the principal of and interest on the Bonds, of the Revenues and any other amounts (including proceeds of the sale of the Bonds) held by the Trustee in any fund or account established pursuant to the Indenture, except the Rebate Fund, subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture. The Indenture also creates a valid assignment to the Trustee, for the benefit of the holders from time to time of the Bonds, of the right, title and interest of the Authority in the Loan Agreement (to the extent more particularly described in the Indenture).
3. The Loan Agreement has been duly executed and delivered by, and constitutes a valid and binding agreement of, the Authority.
4. The Bonds are not a lien or charge upon the funds or property of the Authority except to the extent of the aforementioned pledge and assignment. Neither the faith and credit nor the taxing power of the State of California or of any political subdivision thereof is pledged to the payment of the principal of or interest on the Bonds. The Bonds are not a debt of the State of California, and said State is not liable for the payment thereof.

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

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

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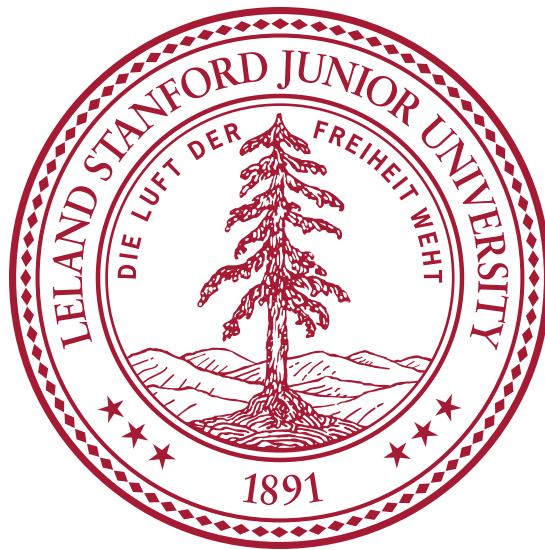
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