

*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 U-1 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 U-1 Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes. No opinion is expressed whether such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Series U-1 Bonds. See “TAX MATTERS.”*



**\$215,375,000**  
**CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY**  
**Revenue Bonds (Stanford University)**  
**Series U-1**

**Dated: Date of Delivery****Due: April 1, 2040**

The Series U-1 Bonds (the “Series U-1 Bonds”) will be issued in book-entry form in denominations of \$5,000 or any integral multiple thereof. Interest on the Series U-1 Bonds is payable semiannually on each April 1 and October 1, commencing October 1, 2010. The Series U-1 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 U-1 Bonds. Principal of and interest on the Series U-1 Bonds will be payable directly to DTC, as the registered owner of the Series U-1 Bonds, by The Bank of New York Mellon Trust Company, N.A., as trustee (the “Trustee”). For so long as DTC or its nominee, Cede & Co., is the registered owner of the Series U-1 Bonds, all notices will be mailed only to Cede & Co. See Appendix C – “BOOK-ENTRY SYSTEM” herein.

The Series U-1 Bonds are subject to redemption prior to maturity, as described herein. See “THE SERIES U-1 BONDS – Redemption.”

The Series U-1 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 May 1, 2010 (the “Indenture”), by and between the Authority and the Trustee. The Series U-1 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 U-1 Bonds to finance and refinance certain capital projects of the University and pay certain costs of issuance related to the Series U-1 Bonds. See “PLAN OF FINANCE.”

THE SERIES U-1 BONDS DO NOT CONSTITUTE A DEBT OR LIABILITY OF 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 OR PREMIUM (IF ANY) OF THE SERIES U-1 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, OR PREMIUM (IF ANY) OF OR THE INTEREST ON THE SERIES U-1 BONDS. THE ISSUANCE OF THE SERIES U-1 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.

#### MATURITY SCHEDULE

**\$215,375,000 5.25% Term Bonds due April 1, 2040 Yield 4.25% CUSIP†: 130178VU7**

*The Series U-1 Bonds are offered by the Underwriters when, as and if issued by the Authority and accepted by the Underwriters subject to the approval of legality by Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority, 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 Underwriters by Hawkins Delafield & Wood LLP, and for the University by its General Counsel. It is expected that the Series U-1 Bonds will be available for delivery through the facilities of DTC in New York, New York on or about May 6, 2010.*

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

**Morgan Stanley**

**Goldman, Sachs & Co.**

**J.P. Morgan**

**Prager, Sealy & Co., LLC**

April 23, 2010

† Copyright American Bankers Association. CUSIP data herein is provided by Standard and Poor’s CUSIP Service Bureau, a division of The McGraw Hill Companies, Inc., and is set forth herein for convenience of reference only. None of the Authority, the Underwriters or the University assumes any responsibility for the accuracy of such numbers.

This Official Statement does not constitute an offer to sell the Series U-1 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 Underwriters to give any information or to make any representations, other than those contained herein, in connection with the offering of the Series U-1 Bonds and, if given or made, such information or representations must not be relied upon.

The information set forth herein under the captions "THE AUTHORITY" and "REGULATORY MATTERS AND LITIGATION" (solely as it relates to 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. The accuracy or completeness of any information other than that contained under the captions "THE AUTHORITY" and "REGULATORY MATTERS AND LITIGATION" (solely as it relates to the Authority) is not guaranteed by, and is not to be construed as a representation by, the Authority.

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

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 Underwriters may over allot or effect transactions that stabilize or maintain the market price of the Series U-1 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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**\$215,375,000**  
**CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY**  
**Revenue Bonds (Stanford University)**  
**Series U-1**

**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 \$215,375,000 aggregate principal amount of California Educational Facilities Authority Revenue Bonds (Stanford University) Series U-1 (the "the Series U-1 Bonds").

The Series U-1 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 U-1 Bonds will be issued pursuant to and secured by an Indenture dated as of May 1, 2010 (the "Indenture"), between the California Educational Facilities Authority (the "Authority") and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"). The Authority will lend the proceeds of the Series U-1 Bonds to The Board of Trustees of the Leland Stanford Junior University (the "University") pursuant to a Loan Agreement dated as of May 1, 2010 (the "Loan Agreement"), between the Authority and the University.

**Plan of Finance**

On March 17, 2010, the Authority adopted a resolution authorizing the issuance of bonds to finance and/or refinance certain capital projects of the University (the "Series U Project").

The Authority will lend the proceeds of the Series U-1 Bonds to the University pursuant to the Loan Agreement in order to finance certain capital expenditures of the University, refinance certain outstanding obligations of the University, and pay certain costs of issuance related to the Series U-1 Bonds. See "PLAN OF FINANCE" 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 U-1 Bonds**

The Series U-1 Bonds are to be dated as of the date of their initial issuance and delivery. The Series U-1 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 U-1 BONDS."

The Series U-1 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 U-1 Bonds. Individual purchases of the Series U-1 Bonds will be made in book-entry form only. Principal of and interest on the Series U-1 Bonds will be payable by the Trustee directly to DTC, as the registered owner of the Series U-1 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 U-1 Bonds. Purchasers will not receive certificates representing the Series U-1 Bonds purchased by them. See Appendix C – "BOOK-ENTRY SYSTEM."

### **Security for the Series U-1 Bonds**

The Series U-1 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 U-1 Bonds and the Authority. See Appendix B – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Loan Agreement." The Series U-1 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 U-1 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 U-1 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 U-1 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 U-1 Bonds, to provide to the Trustee certain annual information and notices required to be provided by Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended. See "CONTINUING DISCLOSURE" and Appendix D – "FORM OF CONTINUING DISCLOSURE AGREEMENT."

## **Miscellaneous**

Included in this Official Statement and the Appendices hereto are descriptions of the University, the Series U-1 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 U-1 Bonds is qualified in its entirety by reference to the terms thereof and the information regarding the Series U-1 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 U-1 Bonds are fully set forth in the Indenture, and neither any advertisement of the Series U-1 Bonds nor this Official Statement is to be construed as constituting an agreement with the Holders of the Series U-1 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 U-1 Bonds under the Act, to make the loan contemplated by the Loan Agreement and to secure the Series U-1 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 as a governing board member or in an administrative capacity and the other must be affiliated with a private institution of higher education as a governing board member or in an administrative capacity.

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

*Ana J. Matosantos*, 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

Ronald L. Washington 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 December 31, 2009, the Authority had outstanding \$4,624,586,060 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 U-1 Bonds to the University pursuant to the Loan Agreement in order to (i) finance certain capital expenditures of the University as described below, (ii) refinance certain outstanding commercial paper notes and (iii) pay costs of issuance related to the Series U-1 Bonds.

The University intends to finance various capital projects with the proceeds of the Series U-1 Bonds. Certain of these projects have been or may be financed on an interim basis with the proceeds of Commercial Paper Notes issued by the Authority on behalf of the University or taxable Commercial Paper Notes issued by the University and then will be refinanced with the proceeds of the Series U-1 Bonds.

The Indenture provides that additional series of Bonds (as such term is defined in the Indenture) may be issued after satisfying certain conditions under the Indenture. See Appendix B – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS." The Authority has authorized the issuance of up to \$702,940,000 in additional Bonds. The University currently plans to utilize the remaining authorization of unissued Bonds for financing and refinancing various capital projects of the University.

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.



## SOURCES AND USES OF FUNDS

Estimated sources and uses of funds related to the Series U-1 Bonds are shown below:

|  |                         |
|--|-------------------------|
| SOURCES                                  |                         |
| Principal amount of the Series U-1 Bonds | \$215,375,000.00        |
| Plus Original Issue Premium              | <u>36,256,227.50</u>    |
| Total Sources                            | <u>\$251,631,227.50</u> |
| USES                                     |                         |
| Project Construction Fund                | \$250,000,000.00        |
| Costs of Issuance <sup>(1)</sup>         | <u>1,631,227.50</u>     |
| Total Uses                               | <u>\$251,631,227.50</u> |

<sup>(1)</sup> Includes fees of the Authority, the Rating Agencies, the Trustee, Bond Counsel, Counsel to the University and Underwriters' discount, as well as certain other costs incurred in connection with the issuance and delivery of the Series U-1 Bonds.

## THE SERIES U-1 BONDS

### General

The Series U-1 Bonds will be issued in book-entry form in denominations of \$5,000 or any integral multiple thereof. The Series U-1 Bonds are being issued in the aggregate principal amount and will mature on the dates set forth on the cover page hereof. The Series U-1 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 page hereof. Interest on the Series U-1 Bonds will be calculated based on a 360-day year of twelve (12) 30-day months.

The Series U-1 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 U-1 Bonds. See Appendix C – "BOOK-ENTRY SYSTEM." Except as described in Appendix C – "BOOK-ENTRY SYSTEM," Beneficial Owners of the Series U-1 Bonds will not receive, or have the right to receive, physical delivery of certificates representing their ownership interests in the Series U-1 Bonds. For so long as any purchaser is the Beneficial Owner of a Series U-1 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 U-1 Bond.

Interest payable on any Interest Payment Date will be payable to the registered owner of the Series U-1 Bonds as of the Record Date for such payment. So long as the Series U-1 Bonds are held in the book-entry system, the principal and interest on the Series U-1 Bonds will be paid through the facilities of DTC (or a successor securities depository). Otherwise, the principal of and premium, if any on the Series U-1 Bonds is payable in lawful money of the United States of America upon surrender thereof at the principal corporate trust office of the Trustee, and interest on the Series U-1 Bonds is payable by check mailed on each Interest Payment Date to the Holders of the Series U-1 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 U-1 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 U-1 Bonds will be paid in accordance with the wire transfer instructions provided by the Holder of such Series U-1 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 U-1 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 U-1 Bond to pay a reasonable sum to cover expenses incurred by the Trustee or the Authority in connection with such transfer or exchange.

## **Redemption**

***Make-Whole Redemption.*** The Series U-1 Bonds are subject to optional redemption prior to their stated maturity as a whole or in part on any date, by the Authority at the direction of the University, from any moneys received by the Trustee from the University pursuant to the Loan Agreement at a redemption price equal to the greater of:

- one hundred percent (100%) of the Amortized Value (as described below) of such Series U-1 Bonds to be redeemed, plus accrued and unpaid interest to the date of redemption; or
- an amount equal to the sum of the present values of the remaining unpaid payments of principal and interest to be paid on such Series U-1 Bonds to be redeemed from and including the date of redemption to the stated maturity date of such Series U-1 Bonds, discounted to the date of redemption on a semiannual basis at a discount rate equal to the Applicable Tax-Exempt Municipal Bond Rate (as described below) for such Series U-1 Bonds minus 25 basis points (0.25%).

The "Applicable Tax-Exempt Municipal Bond Rate" for such Series U-1 Bonds will be the "Comparable AAA General Obligations" yield curve rate for the stated maturity date of such Series U-1 Bonds as published by Municipal Market Data five business days prior to the date of redemption. If no such yield curve rate is established for the applicable year, the "Comparable AAA General Obligations" yield curve rate for the two published maturities most closely corresponding to the applicable year will be determined, and the "Applicable Tax-Exempt Municipal Bond Rate" will be interpolated or extrapolated from those yield curve rates on a straight-line basis. This rate is made available daily by Municipal Market Data and is available to its subscribers through its internet address: [www.tm3.com](http://www.tm3.com).

In calculating the Applicable Tax-Exempt Municipal Bond Rate, should Municipal Market Data no longer publish the "Comparable AAA General Obligations" yield curve rate, then the Applicable Tax-Exempt Municipal Bond Rate will equal the Consensus Scale yield curve rate for the applicable year. The Consensus Scale yield curve rate is made available daily by Municipal Market Advisors and is available to its subscribers through its internet address: [www.mma-research.com](http://www.mma-research.com).

In the further event Municipal Market Advisors no longer publishes the Consensus Scale, the Applicable Tax-Exempt Municipal Bond Rate will be determined by Morgan Stanley & Co. Incorporated, as the quotation agent, based upon the rate per annum equal to the semiannual equivalent yield to maturity of those tax-exempt general obligation bonds rated in the highest rating category by Moody's Investors Service and Standard & Poor's Rating Services with a maturity date equal to the stated maturity date of such Series U-1 Bonds having characteristics (other than the ratings) most comparable to those of such Series U-1 Bonds in the judgment of the quotation agent. The quotation agent's determination of the Applicable Tax-Exempt Municipal Bond Rate is final and binding in the absence of manifest error.

The "Amortized Value" will equal the principal amount of the Series U-1 Bonds to be redeemed multiplied by the price of such Series U-1 Bonds expressed as a percentage, calculated based on the industry standard method of calculating bond prices, with a delivery date equal to the date of redemption, a maturity date equal to the stated maturity date of such Series U-1 Bonds and a yield equal to such Series U-1 Bonds' original reoffering yield as set forth on the cover of this Official Statement.

The redemption price of the Series U-1 Bonds described above will be determined by an independent accounting firm, investment banking firm or financial advisor (which accounting firm or financial advisor shall be retained by the University at the expense of the University) to calculate such redemption price. The Trustee, the Authority and the University may conclusively rely on such accounting firm's, investment banking firm's or financial advisor's determination of such redemption price and shall bear no liability for such reliance.

***No Mandatory Sinking Fund Redemption.*** The Series U-1 Bonds are not subject to mandatory redemption prior to their stated maturities.

***Selection of Bonds for Redemption.*** Whenever provision is made in the Indenture for the redemption of less than all of the Series U-1 Bonds, the Trustee will select the Series U-1 Bonds to be redeemed, from all Series U-1 Bonds subject to redemption or such given portion thereof not previously called for redemption, in such order as will be specified in a Request of the University or, if there is no such Request, in the order of maturity, and by lot within a maturity. The Trustee will promptly notify the Authority in writing of the numbers of the Series U-1 Bonds so selected for redemption.

***Notice of Redemption.*** After receipt of the notice of prepayment pursuant to the Loan Agreement, notice of redemption will be given by the Trustee for and on behalf of the Authority, by Mail, not less than fifteen (15) nor more than sixty (60) days prior to the date fixed for redemption, to: (1) the Authority, (2) the Holder of each Series U-1 Bond affected at the address shown on the registration books of the Trustee on the date such notice is mailed, (3) the Depository, (4) the Municipal Securities Rulemaking Board, and (5) in the case of optional redemption, each Rating Agency then rating the Series U-1 Bonds.

Each notice of redemption will state the date of such notice, the Series U-1 Bonds to be redeemed, the date of issue of the Series U-1 Bonds, the date fixed for redemption, the Redemption Price of the Series U-1 Bonds to be redeemed, the place or places of redemption (including the name and appropriate address or addresses of the Trustee), the source of funds for any optional redemption and, as further described in the following paragraph, if such funds are not then held by the Trustee, that such redemption will be cancelled if the funds are not held by the Trustee on the date fixed for redemption, the CUSIP number of the Series U-1 Bonds, the principal amount, the distinctive certificate numbers of the Series U-1 Bonds or portions thereof to be redeemed, the interest rate on the Series U-1 Bonds to be redeemed and will also state that the interest on the Series U-1 Bonds designated for redemption will cease to accrue from and after such date fixed for redemption and that on said date there will become due and payable on each of said Series U-1 Bonds the principal amount thereof to be redeemed, interest accrued thereon to the date fixed for redemption and the Redemption Price thereof and will require that such Series U-1 Bonds be then surrendered at the address or addresses of the Trustee specified in the redemption notice.

Failure by the Trustee to give notice pursuant to the Indenture to any one or more of the securities information services or depositories designated by the University or the insufficiency of any such notice will not affect the sufficiency of the proceedings for redemption. Failure by the Trustee to mail notice of redemption pursuant to the Indenture to any one or more of the respective Holders of any Series U-1

Bonds designated for redemption will not affect the sufficiency of the proceedings for redemption with respect to the Holders to whom such notice was mailed.

Notice of redemption of Series U-1 Bonds will be given by the Trustee, at the expense of the University, for and on behalf of the Authority.

With respect to any notice of optional redemption of Series U-1 Bonds, such notice may state that such redemption will be conditional upon the receipt by the Trustee on or prior to the date fixed for such redemption of moneys sufficient to pay the principal of, premium, if any, and interest on such Series U-1 Bonds to be redeemed and that, if such moneys will not have been so received, said notice will be of no force and effect and the Trustee will not be required to redeem such Series U-1 Bonds. In the event that such notice of redemption contains such a condition and such moneys are not so received, the redemption will not be made, and the Trustee will within a reasonable time thereafter give notice, in the manner in which the notice of redemption was given, that such moneys were not so received.

Any notice given pursuant to the Indenture may be rescinded by written notice given to the Trustee by the University no later than five (5) Business Days prior to the date fixed for redemption. The Trustee will give notice of such rescission as soon thereafter as practicable in the same manner, and to the same persons, as notice of such redemption was given pursuant to the Indenture.

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

***Partial Redemption of Bonds.*** Upon surrender of any Series U-1 Bond redeemed in part only, the Trustee will provide a replacement Series U-1 Bond in a principal amount equal to the portion of such Series U-1 Bond not redeemed, and deliver it to the registered owner thereof. The Series U-1 Bond so surrendered will be cancelled by the Trustee as provided in the Indenture. The Authority and the Trustee will be fully released and discharged from all liability to the extent of payment of the redemption price for such partial redemption.

***Effect of Redemption.*** Notice of redemption having been duly given as aforesaid, and moneys for payment of the redemption price (including accrued interest to the date fixed for redemption) being held by the Trustee, the Series U-1 Bonds so called for redemption will, on the date fixed for redemption designated in such notice, become due and payable at the redemption price specified in such notice, interest on the Series U-1 Bonds so called for redemption will cease to accrue, said Series U-1 Bonds will cease to be entitled to any lien, benefit or security under the Indenture, and the Holders of said Series U-1 Bonds will have no rights in respect thereof except to receive payment of the redemption price thereof. If such moneys are invested, they will be invested only in United States Government Obligations having a maturity of thirty (30) days or less.

All Series U-1 Bonds redeemed pursuant to the provisions of the Indenture will be cancelled upon surrender thereof and delivered to or upon the Order of the Authority.

## **SECURITY FOR THE SERIES U-1 BONDS**

The Series U-1 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 U-1 Bonds and the Authority. See Appendix B – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Loan Agreement." The Series U-1 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 U-1 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 U-1 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 U-1 Bonds.

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

The Series U-1 Bonds do not constitute a debt or liability of 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 or premium (if any) of the Series U-1 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 or premium (if any) of or the interest on the Series U-1 Bonds. The issuance of the Series U-1 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 U-1 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 U-1 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 U-1 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 U-1 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, 6 and 11 to the consolidated financial statements of the University for the years ended August 31, 2009 and 2008 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 property insurance for losses resulting from fire and other hazards, including terrorism, 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 Hospitals' ability to absorb these increased costs through greater volume. In addition, adverse legislative and regulatory developments and government enforcement actions could negatively impact the Hospitals' results.

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 2009 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.

## **REGULATORY MATTERS AND LITIGATION**

There is no litigation pending (with service of process having been accomplished) concerning the validity of the Series U-1 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 U-1 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 U-1 Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes. No opinion is expressed whether 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.

To the extent the issue price of any maturity of the Series U-1 Bonds is less than the amount to be paid at maturity of such Series U-1 Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Series U-1 Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each Bondholder thereof, is treated as interest on the Series U-1 Bonds which is excluded from gross income for federal income tax purposes and State of California personal income taxes. For this purpose, the issue price of a particular maturity of the Series U-1 Bonds is the first price at which a substantial amount of such maturity of the Series U-1 Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Series U-1 Bonds accrues daily over the term to maturity of such Series U-1 Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Series U-1 Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Series U-1 Bonds. Bondholders should consult their own tax advisors with respect to the tax consequences of ownership of Series U-1 Bonds with original issue discount, including the treatment of Bondholders who do not purchase such Series U-1 Bonds in the original offering to the public at the first price at which a substantial amount of such Series U-1 Bonds is sold to the public.

Series U-1 Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Bonds")



will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Bondholder's basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Bondholder. Bondholders of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

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 U-1 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 U-1 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 U-1 Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Series U-1 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), or any other matters coming to Bond Counsel's attention after the date of issuance of the Series U-1 Bonds may adversely affect the value of, or the tax status of interest on, the Series U-1 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 Counsel 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 Counsel has given any opinion or assurance concerning Section 513(a) of the Code and neither Bond Counsel nor the University's General Counsel 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 U-1 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 U-1 Bonds being included in federal gross income, possibly from the date of the original issuance of the Series U-1 Bonds.

Although Bond Counsel is of the opinion that interest on the Series U-1 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 U-1 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, clarification of the Code or court decisions, may cause interest on the Series U-1 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 Bondholders from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislative proposals or clarification of the Code or court decisions may also affect the market price for, or

marketability of, the Series U-1 Bonds. Prospective purchasers of the Series U-1 Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel 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 U-1 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 U-1 Bonds ends with the issuance of the Series U-1 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 U-1 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 U-1 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 U-1 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 U-1 Bonds under California law is subject to the approval of Orrick, Herrington & Sutcliffe LLP, acting as Bond Counsel to the Authority. A proposed form of Bond Counsel's legal opinion is attached hereto as Appendix E. Certain legal matters will be passed upon for the Underwriters 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 U-1 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 as representative of the underwriters (the "Underwriters") pursuant to which and subject to certain conditions, the Underwriters have agreed to purchase the Series U-1 Bonds from the Authority at a price of \$250,525,690.19 (being the principal amount of the Series U-1 Bonds, plus an original issue premium of \$36,256,227.50, and less an underwriter's discount of \$1,105,537.31). The Series U-1 Bonds may be offered and sold by the Underwriters 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 Underwriters.

Morgan Stanley, parent company of Morgan Stanley & Co. Incorporated, an underwriter of the Series U-1 Bonds, has entered into a retail brokerage joint venture with Citigroup Inc. As part of the joint venture, Morgan Stanley & Co. Incorporated 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, Morgan Stanley & Co. Incorporated will compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Series U-1 Bonds.

J.P. Morgan Securities Inc., one of the underwriters of the Series U-1 Bonds, has entered into an agreement (the "Distribution Agreement") with UBS Financial Services Inc. for the retail distribution of certain municipal securities offerings at the original issue prices. Pursuant to the Distribution Agreement (if applicable for this transaction), J.P. Morgan Securities Inc. will share a portion of its underwriting compensation with respect to the Series U-1 Bonds with UBS Financial Services Inc.

### **INDEPENDENT ACCOUNTANTS**

The Consolidated Financial Statements of the University as of August 31, 2009 and 2008 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 U-1 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 U-1 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 U-1 Bonds or to any decision to purchase, hold or sell the Series U-1 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 U-1 Bonds as described below, and the Authority shall have no liability to the Holders of the Series U-1 Bonds or any other person with respect to the Rule.

In order to assist the Underwriters 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 U-1 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 U-1 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 Underwriters 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 set forth herein under the captions "THE AUTHORITY" and "REGULATORY MATTERS AND LITIGATION" (solely as it relates to the Authority) 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

April 23, 2010

/s/ Ronald Washington  
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

April 23, 2010

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

**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 2009 Financial Review, including its audited Consolidated Financial Statements for the years ended August 31, 2009 and 2008 (the "Financial Statements"), selected financial data and management's discussion of financial results for the year ended August 31, 2009. Financial information presented in Part I of this Appendix A with respect to the University relates solely to the University; financial information regarding the University and its affiliates is stated separately and on a consolidated basis in the Financial Statements.

#### **PART I**

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

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

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

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

Stanford's research enterprise extends throughout the University. 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 March 1, 2010:

|                                       |                                |
|---------------------------------------|--------------------------------|
| Leslie P. Hume (Chair)                | Ann H. Lamont                  |
| William M. Barnum, Jr. <sup>(2)</sup> | Goodwin Liu                    |
| Robert M. Bass                        | Susan R. McCaw                 |
| William R. Brody                      | Hamid R. Moghadam              |
| Mariann Byerwalter                    | Wendy Munger                   |
| James E. Canales                      | Miriam Rivera                  |
| James G. Coulter                      | Richard A. Sapp                |
| Mary B. Cranston <sup>(1)</sup>       | Philip G. Satre <sup>(2)</sup> |
| Lauren B. Dachs                       | John H. Scully <sup>(1)</sup>  |
| Steven A. Denning                     | Kavitark R. Shriram            |
| Bruce W. Dunlevie                     | Ronald P. Spogli               |
| Ying-Ying Goh <sup>(2)</sup>          | Isaac Stein                    |
| John A. Gunn                          | Thomas F. Steyer               |
| Christine U. Hazy                     | Ross H. Walker <sup>(2)</sup>  |
| John L. Hennessy                      | Vaughn C. Williams             |
| Pete Higgins                          | Jerry Yang                     |

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<sup>(1)</sup> Term expires June 8, 2010.

<sup>(2)</sup> Term expires August 31, 2010.

**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 March 1, 2010:

### **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*

### **Faculty and Staff**

For the 2009 fall quarter, the Stanford professoriate had 1,910 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 1,910 member professoriate 54% were tenured professors and associate professors and more than

### **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*

Garth Saloner  
*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*

99% hold the highest degrees in their respective fields. The Academic Council comprises the main body of the faculty. Of its 1,475 members, 1,337 professors, associate professors and assistant professors are in the tenure line, and 138 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 but are not attending classes) is 9.4 to 1.

As of August 31, 2009, the University, including the SLAC National Accelerator Laboratory, employed 11,182 non-academic staff members. Of these employees, 1,262 were represented by the Service Employees International Union, and 26 were police officers represented by the Stanford Deputy Sheriffs' Association. Contracts between the University and those unions expire on August 31, 2014 and July 31, 2010, respectively.

## Students

For the 2009 fall quarter, the University enrolled 6,878 undergraduate and 8,441 graduate students. During academic year 2008-2009, 1,680 bachelor degrees and 2,932 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<br>Year | Undergraduate <sup>(1)(2)(3)</sup> |                   |                   | Graduate <sup>(2)(3)</sup> |                   |                   |
|------------------|------------------------------------|-------------------|-------------------|----------------------------|-------------------|-------------------|
|                  | <u>Applications</u>                | <u>Admissions</u> | <u>Enrollment</u> | <u>Applications</u>        | <u>Admissions</u> | <u>Enrollment</u> |
| 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             |
| 2009-10          | 31,731                             | 2,451             | 1,715             | 36,326                     | 4,419             | 2,345             |

(1) Includes both freshman and transfer students.

(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 2008-2009, approximately 80% of undergraduates received some form of financial aid, and approximately 46% 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> |
|----------------------|-------------------------|-----------------------|--------------|---|
| 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       | 11,125                                      |
| 2008-09              | 36,030                  | 11,182                | 47,212       | 15,122                                      |
| 2009-10              | 37,380                  | 11,463                | 48,843       | 16,300 <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 2009-10 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 \$72.4 million and \$71.0 million as of August 31, 2009 and 2008, 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 Classic Residence by Hyatt® senior living facility, 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 and is subject to change based on funding availability and University priorities. The approved Capital Budget for fiscal year 2010 is \$646.7 million. The Board of Trustees 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 consisted of

\$883.1 million of gifts, \$438.1 million of debt, \$469.6 million of reserves and other funds with \$9.2 million of resources to be identified. In addition, medium-term debt will be required to bridge timing differences between the 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 upon which such developments are contingent. Through August 31, 2009, projects using approximately 700,000 gross square feet of the GUP allotment were completed or under construction and 1,288 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 Stanford University 2009 Financial Review included as Part II of this Appendix A under the caption "Management Responsibility for Financial Statements"). Management of each Hospital reports to the chief executive officer of that Hospital, and the chief executive officer reports to the board of directors appointed for that Hospital. Management of the Hospitals does not report to management of the University. Each Hospital has its own separate liabilities, including bond debt. 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, 2009, the University held investments with a fair value of approximately \$16.5 billion. Additional information regarding the fair value of the investments of the University and its affiliates is found in the table captioned "Selected Financial Data" and Note 5, "Investments," to the Consolidated Financial Statements, each found in Part II of this Appendix A. For a discussion of investment income distributed to operations in the past two fiscal years and as budgeted in the current and next fiscal years, see "Investment Income Distributed for Operations" found in Part II of this Appendix A.

## **Liquidity**

As of March 1, 2010, 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 \$1.2 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, invested at present in marketable securities to provide additional liquidity for the University's general purposes.

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

## **Recent Changes in University Indebtedness**

Subsequent to the date of the University's Consolidated Financial Statements found in Part II of this Appendix A, the University has incurred additional indebtedness as of February 23, 2010 comprising an increase (net of repayments) in outstanding commercial paper obligations of \$70.5 million.

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**PART II**

**PORTIONS OF STANFORD UNIVERSITY 2009 FINANCIAL REVIEW**

# DISCUSSION OF FINANCIAL RESULTS

Fiscal year 2009 (FY09) was dominated by significant turmoil in the financial markets and global economy. During the year Stanford recognized a large decrease in the overall value of its investments. Consolidated net assets decreased \$4.9 billion or 20% to \$19.9 billion at August 31, 2009. Although Stanford's operating results were strong, with consolidated revenues, including endowment payout, exceeding expenses by \$509 million, FY09 financial results were overshadowed by investment losses.

Below are additional details about the University's and Hospitals' operations and financial results.

## University

In FY09, the University's investments declined \$5.3 billion or 24% to \$16.5 billion, the endowment declined \$4.6 billion or 27% to \$12.6 billion, and net assets declined \$4.7 billion or 21% to \$18.0 billion. Despite the economic climate, the University ended the year with a surplus from operations of \$362 million compared to \$300 million in fiscal year 2008 (FY08). The operating surplus was largely due to three factors: 1) endowment payout was fixed prior to the beginning of the fiscal year and the financial downturn; 2) substantial operating funds were allocated for facilities projects and were capitalized rather than expensed; and 3) as the financial downturn unfolded, expenses were reduced in anticipation of lower revenues in fiscal year 2010 (FY10) and thereafter. The effects of the market decline on the University's operations will be felt more fully in the next few years as endowment payout is reduced.

Early in FY09, the University's President and Provost announced plans to curtail spending, and required budget units to identify specific actions to achieve this goal. FY09 operating results reflected a 1% decrease in total expenses. By year end, more than 400 staff had been laid off and more than 50 faculty searches were frozen. In addition, the University suspended or cancelled over \$1 billion of planned construction projects.

Maintaining adequate liquidity was a focal point throughout the year. In April, the University issued \$1 billion of taxable debt of which \$800 million, net of issuance costs, was set aside in a fund invested in money market securities to provide additional liquidity for the University's general purposes.

Despite the financial crisis, the University has not lost sight of its purpose. Teaching and research remain the highest priorities. The University continues to support the expanded student aid programs introduced in FY08 which make Stanford more affordable to students and their families.

Throughout this year, our donors have continued to show their support. The Stanford Challenge, the five-year effort launched in 2006, surpassed the \$4.3 billion milestone, reaching a total of \$4.48 billion in FY09. It is important to note that many priority areas included in the original goal have not yet been funded, and new needs have been identified since the campaign began. Campaign accomplishments in FY09 included the establishment of 11 new endowed professorships, 66 new funds for graduate fellowships, and 30 new undergraduate scholarship funds.

## OPERATIONS

Operating activities include all revenues and expenses that support current-year teaching and research efforts and other University priorities. Total revenues of \$3.5 billion exceeded expenses by \$362 million in FY09.

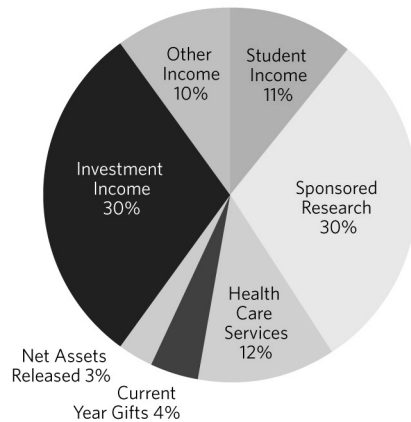
## OPERATING REVENUES

The University's operating revenues were primarily comprised of sponsored research support (30%), investment income distributed for operations (30%), student income (11%) and health care services revenues (12%).

**Total student income** declined a modest 1% to \$401 million in FY09. Tuition rates increased 3.5% for undergraduate students and, on average, 4.5% for graduate students. In keeping with



**FIGURE 1**  
**FY09 UNIVERSITY OPERATING REVENUES (\$3.5 BILLION)**



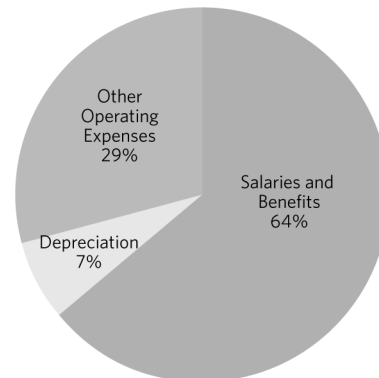
Stanford's commitment to provide an affordable education to all students, financial aid increased 19% to \$210 million in FY09.

**Sponsored research support** decreased \$45 million or 4% to \$1 billion in FY09, primarily due to a decrease in funding from the Department of Energy for construction of SLAC's Linac Coherent Light Source facilities which were completed in FY09. Approximately 80% of sponsored research support was received directly or indirectly from the federal government. Other sponsors included the California Institute for Regenerative Medicine, voluntary health organizations, corporations and foundations.

**Investment Income Distributed to Operations** was a significant source of operating revenue for the University, covering approximately 34% of expenses in FY09 compared to 31% in FY08. Endowment payout increased 9% from FY08 levels to \$957 million. Other investment income decreased 15% to \$94 million due to lower interest rates on cash and short-term investments. In light of the decline in the value of the University's investments, the endowment payout on existing funds is budgeted to decrease 10% in FY10 and expected to decrease a further 15% in fiscal year 2011 (FY11).

**Health care services revenues** increased \$57 million or 15% to \$429 million in FY09. Health care services included the School of Medicine faculty physician services and blood center services provided to the Hospitals. These amounts were

**FIGURE 2**  
**FY09 UNIVERSITY OPERATING EXPENSES (\$3.1 BILLION)**



eliminated in consolidation. Faculty physicians also provided services to external parties, including the Santa Clara Valley Medical Center and the Palo Alto Veterans Affairs Hospital generating \$16 million in revenue.

**Special program fees and other income** totaled \$341 million in FY09, a 4% decrease over FY08 due primarily to lower participation in travel study programs, professional education programs, other special programs and conferences. Also included in this category were revenues from technology licensing, operations of residential housing and dining (other than student room and board) and intercollegiate athletic activities.

#### **OPERATING EXPENSES**

With the economic downturn in October 2008, the Provost requested all University units to significantly reduce their operating expenses. These actions resulted in a decline in operating expenses of \$46 million or 1% from prior year levels.

**Salaries and benefits** increased 6% in FY09 to \$2.0 billion. Average staff headcount in FY09 was about 3% higher than during FY08. Most of the staff reductions occurred during the second half of FY09, and the University incurred one-time severance expenses for terminated employees. In addition, health care costs and expenses associated with retirement plans drove FY09 benefit costs higher.

**Depreciation expense** declined 4% to \$214 million in FY09. FY08 was moderately higher due to the demolition and related write-off of buildings to make way for new construction.

**Other operating expenses** decreased 14% to \$920 million in FY09. This decline reflects the cost cutting efforts implemented by University departments and includes a reduction of \$53 million in supplies, food and travel. In addition, SLAC construction costs were lower by \$50 million due to the completion of the Linac Coherent Light Source facility. Interest costs declined \$20 million due to lower interest rates.

## **OTHER FINANCIAL HIGHLIGHTS**

### **Gifts and Pledges**

Total gifts and pledges decreased \$384 million from FY08 levels. Despite these difficult times, University donors continued to show their support as evidenced by over 104,000 gifts totaling \$542 million as reported in the financial statements (\$640 million on a cash basis as reported by the University Office of Development).

### **Investments**

Total investment losses were \$4.0 billion, compared to positive returns of \$767 million in FY08. These losses occurred during a year in which U.S. and international equity markets, and most other asset classes were also down. Investment income, including interest and dividends, was \$162 million in FY09 compared to \$268 million in FY08. Net realized and unrealized losses on investments were \$4.2 billion in FY09 compared to gains of \$499 million in FY08. See the report from the Stanford Management Company on page 47 for additional analysis of University investment strategies and performance.

### **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, 2009, the endowment totaled \$12.6 billion, a decline of 27% from the previous year and represented approximately 70% of the University's net assets. Investment losses and distribution of funds to operations were the principal factors in the endowment's decline. See Note 11 to the consolidated financial statements for a detailed discussion of the University's endowment.

### **Plant Facilities**

Plant facilities increased \$383 million to \$3.3 billion as of August 31, 2009. Projects completed in FY09 include four of the five Munger Graduate Residence buildings and renovations of Crothers Hall and Crothers Memorial Hall which have been converted to undergraduate housing. Progress continues on the Knight Management Center, the new Graduate School of Business campus. Other major construction projects underway include the Huang School of Engineering Center, the Lorry I. Lokey Stem Cell Research Building, the School of Medicine's Li Ka Shing Center for Learning and Knowledge, and the Center for Nanoscale Science and Technology.

### **Borrowings**

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, and other infrastructure projects.

Total borrowings increased \$984 million to \$2.5 billion as of August 31, 2009. In FY09 the University issued \$1 billion in taxable bonds, of which approximately \$800 million is being held for liquidity purposes. The remaining proceeds were used to convert taxable commercial paper to fixed rate debt to take advantage of favorable interest rates. In connection with the bond issuance, the University's AAA/Aaa/AAA ratings were affirmed by Standard & Poor's, Moody's and Fitch, respectively. See Note 9 to the consolidated financial statements for further discussion.

### **Net Assets—Permanently Restricted, Temporarily Restricted, Unrestricted**

Net assets are presented in three categories in the financial statements, reflecting the nature of the restrictions placed on gifts by donors. These net asset categories reflect the results described above.

Permanently restricted net assets represent gifts whose original principal is to be maintained in perpetuity. Income from these gifts provides critical ongoing funding to support important University programs and activities. The decrease in permanently restricted net assets of \$101 million to \$4.7 billion in FY09 reflects investment losses of \$243 million offset by \$172 million in new gifts and pledges.

Temporarily restricted net assets increased \$3.8 billion to \$5.1 billion in FY09. The adoption of a new accounting principle (FSP 117-1) resulted in reclassifying \$6.3 billion of expendable appreciation on donor-restricted endowment funds from unrestricted to temporarily restricted net assets. Investment losses of \$2.5 billion and new gifts and pledges of \$209 million also impacted temporarily restricted net assets.

Unrestricted net assets of the University declined \$8.3 billion in FY09. The \$362 million excess of revenues over expenses was offset by the \$6.3 billion reclassification discussed above and a \$2.2 billion decrease in reinvested gains.

## 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 in FY09. At August 31, 2009, the Hospitals' net assets were \$1.9 billion compared to \$2.2 billion at August 31, 2008, a decrease of \$289 million. As discussed in Note 1 to the consolidated financial statements, the consolidated statement of cash flows for 2008 was restated to correct errors in the classification of cash flow activities among operating, investing and financing activities. There was no impact on the reported amounts for cash and cash equivalents as of August 31, 2008 or for the net increase in cash and cash equivalents for the year then ended.

The following discussion summarizes the individual financial results of SHC and LPCH.

### STANFORD HOSPITAL AND CLINICS

SHC generated \$95 million of income from operations in FY09 compared to \$105 million for FY08. Despite these solid results, overall net assets declined by \$165 million to \$807 million in FY09.

In February 2009, SHC expanded its patient care capacity by opening the Stanford Medicine Outpatient Center in Redwood City, California, that includes 96 exam rooms, advanced imaging service, and eight operating rooms. In addition, in FY09, SHC completed implementation of a new Clinical Information System.

### Statement of Activities

SHC revenues increased by 10% to \$1.8 billion in FY09 due to increased patient revenues. Inpatient revenues, comprising 54% of total patient revenues, grew by 9% due to continuing increases in patient volume. Outpatient revenues increased by 12%. Other income, which includes the results of various related entities, increased by 13% to \$58 million.

Expenses increased by 12% to \$1.7 billion. Salaries and benefits grew 10% to \$787 million due to the growth in patient volumes, staffing of expanded clinical facilities and the competitive market for health care professionals. Physicians' services and support increased 14% to \$296 million which includes all payments to the University for services. Additionally, other operating expenses increased by 13% to \$576 million largely as a result of costs related to the increase in patient activity and expanded clinical services.

### Financial Position

SHC's unrestricted net assets decreased \$178 million to \$731 million due to investment losses of \$143 million, fair market value adjustments of \$48 million on interest rate exchange agreements, and \$75 million increase in accrued liability on certain pension and post retirement plans. Temporarily restricted net assets increased by \$14 million to \$70 million due to new gifts and transfers from the University of \$21 million offset by assets released from restrictions of \$6 million and investment losses of \$1 million. Permanently restricted net assets remained constant at \$6 million in FY09.

### LUCILE PACKARD CHILDREN'S HOSPITAL

LPCH generated excess operating revenues over expenses of \$53 million in FY09, an increase of \$11 million from FY08. Operating results were strengthened by several factors in FY09, including the addition of MediCal Disproportionate Share Hospital (DSH) revenue, favorable contract rate increases, increased outpatient activity, continued enhancements to the hospital's charging processes and successful efforts to decrease the rate of growth in operating costs.

Net assets decreased \$125 million to \$1.1 billion as of August 31, 2009. Investment losses of \$167 million drove the decrease.

Operating expenses grew by 9%. Salaries and benefits representing 44% of total expenses increased 7% in FY09.

Full time equivalent staff increased 3% due, in part, to the opening of new operating rooms and additional beds; these increases were somewhat offset by a transfer of lab personnel to SHC. Additionally, salaries and benefits increased to remain competitive in the market for health care professionals. Supply costs increased 33%, principally due to the addition of the new operating rooms and a 14% increase in pharmaceutical costs. The completion of the Phase I building program, which consisted of construction of 25 additional beds and seven surgical suites was completed during the year and drove a 29% increase in depreciation.

Unrestricted cash and investments decreased by \$110 million to \$386 million at August 31, 2009. This represents a decrease in day's cash on hand from 293 to 212. The decrease in unrestricted cash and investments is the result of investment losses and LPCH's implementation of FSP 117-1, which resulted in a reclassification of \$112 million from unrestricted to temporarily restricted net assets.

## Challenges facing the University and Hospitals

Global equity markets are continuing to recover in the early months of FY10, although it will take years of economic gains and continued vigilance of expenditure levels to restore the University and Hospital investment balances to the 2008 levels. We anticipate that gifts will not return to the strong levels of the past few years in the near term, as donors also feel the strain of declining investment portfolios. In addition, we expect families of University students will continue to need increased financial assistance in the years to come.



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



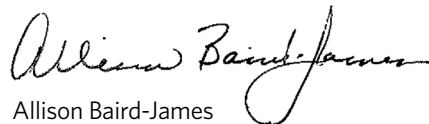
Daniel J. Morissette  
Chief Financial Officer  
Stanford Hospital and Clinics

As a result of our swift response to the economic downturn, our cost reduction measures are largely identified and in place to support the future. In addition, we are beginning to receive awards from the federal research stimulus funds under the American Recovery and Reinvestment Act of 2009 (ARRA). To date, ARRA awarded Stanford funds totaling \$173 million.

The University's President and Provost are asking all faculty and staff to find new ways to function efficiently and provide high levels of service with reduced resources. The Provost has announced plans to focus our ingenuity and energies on increasing efficiency as we adjust to the loss of various programs and valued employees. As part of this effort, the Provost has launched several task forces to examine major functions that cut across organizational boundaries at the University.

On the health care side, the Hospitals continue to be constrained by inpatient capacity, along with escalating costs. Construction of new facilities to meet community health care needs continues to be a priority. These new facilities are projected to cost more than \$3 billion, representing the largest capital projects ever undertaken by the Hospitals.

With the financial challenges that the University and Hospitals faced this past year, we have recommitted and refocused on our core missions of teaching, research and health care, and are poised to continue addressing future challenges. We continue to critically examine our resources and processes to ensure they support the excellence of our world class institutions, allowing us to identify solutions to global problems, educate a new generation of leaders and provide preeminent health care services. We appreciate the continued support of the entire Stanford community that enables us to achieve these goals.



Allison Baird-James  
Controller  
Stanford University



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

# SELECTED FINANCIAL DATA

*Fiscal Years Ended August 31*

|  | 2009             | 2008             | 2007             | 2006             | 2005             | 2004             |
|--|------------------|------------------|------------------|------------------|------------------|------------------|
| (in millions of dollars)                                 |                  |                  |                  |                  |                  |                  |
| STATEMENT OF ACTIVITIES DATA:                            |                  |                  |                  |                  |                  |                  |
| Student income (A)                                       | \$ 401           | \$ 405           | \$ 394           | \$ 376           | \$ 356           | \$ 332           |
| Sponsored research support                               | 1,031            | 1,076            | 1,058            | 994              | 973              | 924              |
| Health care services                                     | 2,424            | 2,193            | 1,997            | 1,851            | 1,699            | 1,501            |
| Current year gifts in support of operations              | 155              | 189              | 198              | 168              | 144              | 105              |
| Net assets released from restrictions                    | 97               | 104              | 122              | 117              | 104              | 64               |
| Investment income distributed for operations             | 1,071            | 1,007            | 710              | 609              | 514              | 460              |
| Special program fees and other income                    | 423              | 429              | 398              | 396              | 351              | 329              |
| <b>Total Revenues</b>                                    | <b>5,602</b>     | <b>5,403</b>     | <b>4,877</b>     | <b>4,511</b>     | <b>4,141</b>     | <b>3,715</b>     |
| <b>Total Expenses</b>                                    | <b>5,093</b>     | <b>4,957</b>     | <b>4,467</b>     | <b>4,212</b>     | <b>3,842</b>     | <b>3,572</b>     |
| Excess of revenues over expenses                         | 509              | 446              | 410              | 299              | 299              | 143              |
| Other changes in net assets                              | (5,450)          | 471              | 3,647            | 2,709            | 2,598            | 1,596            |
| <b>Net change to total net assets</b>                    | <b>(4,941)</b>   | <b>917</b>       | <b>4,057</b>     | <b>3,008</b>     | <b>2,897</b>     | <b>1,739</b>     |
| FINANCIAL POSITION HIGHLIGHTS:                           |                  |                  |                  |                  |                  |                  |
| Cash and cash equivalents                                | \$ 1,781         | \$ 859           | \$ 647           | \$ 579           | \$ 629           | \$ 638           |
| Pledges receivable, net                                  | 894              | 883              | 758              | 619              | 507              | 454              |
| Investments at fair value                                | 17,757           | 23,470           | 23,119           | 19,263           | 16,351           | 13,318           |
| Plant facilities, net of accumulated depreciation        | 4,530            | 3,967            | 3,472            | 3,164            | 2,800            | 2,743            |
| Notes and bonds payable:                                 |                  |                  |                  |                  |                  |                  |
| University   | 2,517            | 1,532            | 1,494            | 1,309            | 1,266            | 1,288            |
| Hospitals  | 999              | 1,007            | 1,015            | 1,006            | 582              | 587              |
| <b>Total net assets, end of year</b>                     | <b>19,914</b>    | <b>24,855</b>    | <b>23,938</b>    | <b>19,881</b>    | <b>16,873</b>    | <b>13,976</b>    |
| <b>University endowment</b>                              | <b>12,619</b>    | <b>17,214</b>    | <b>17,165</b>    | <b>14,085</b>    | <b>12,205</b>    | <b>9,922</b>     |
| STUDENTS:  |                  |                  |                  |                  |                  |                  |
| ENROLLMENT: (B)  |                  |                  |                  |                  |                  |                  |
| Undergraduate  | 6,878            | 6,812            | 6,759            | 6,689            | 6,705            | 6,753            |
| Graduate   | 8,441            | 8,328            | 8,186            | 8,201            | 8,176            | 8,093            |
| DEGREES CONFERRED:                                       |                  |                  |                  |                  |                  |                  |
| Bachelor degrees   | 1,680            | 1,646            | 1,709            | 1,756            | 1,790            | 1,713            |
| Advanced degrees   | 2,932            | 2,928            | 3,100            | 3,093            | 2,945            | 2,931            |
| FACULTY:   |                  |                  |                  |                  |                  |                  |
| Members of The Academic Council                          | 1,451            | 1,459            | 1,428            | 1,418            | 1,400            | 1,410            |
| <b>ANNUAL UNDERGRADUATE TUITION RATE</b><br>(in dollars) | <b>\$ 36,030</b> | <b>\$ 34,800</b> | <b>\$ 32,994</b> | <b>\$ 31,200</b> | <b>\$ 29,847</b> | <b>\$ 28,563</b> |

(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, 2009 and 2008 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 financial statements, effective September 1, 2008 the University adopted the provisions of Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* and changed the manner in which it evaluates the fair value of financial assets and liabilities. Also, as discussed in Note 1, effective September 1, 2008 the University adopted the provisions of Financial Accounting Standards Board (FASB) Staff Position No. 117-1, *Endowments of 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* and changed the manner in which it classifies donor-restricted endowment funds.

As described in Note 1, the fiscal year 2008 consolidated statement of cash flows has been restated.

December 14, 2009

*Princeton House LLP*

# CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

At August 31, 2009 and 2008 (in thousands of dollars)

|  | 2009                 |                     |                      | 2008                 |
|--|----------------------|---------------------|----------------------|----------------------|
|  | UNIVERSITY           | HOSPITALS           | CONSOLIDATED         | CONSOLIDATED         |
| <b>ASSETS</b>  |                      |                     |                      |                      |
| Cash and cash equivalents  | \$ 1,335,145         | \$ 446,129          | \$ 1,781,274         | \$ 859,030           |
| Accounts receivable, net   | 186,613              | 369,357             | 555,970              | 599,779              |
| Receivables (payables) from SHC and LPCH, net  | 51,942               | (51,942)            | -                    | -                    |
| Prepaid expenses and other assets  | 51,595               | 79,872              | 131,467              | 146,974              |
| Pledges receivable, net  | 782,523              | 111,922             | 894,445              | 883,347              |
| Student loans receivable, net  | 72,375               | -                   | 72,375               | 70,950               |
| Faculty and staff mortgages and other loans receivable, net  | 421,052              | -                   | 421,052              | 376,491              |
| Investments at fair value, including securities pledged or on loan<br>of \$193,862 and \$464,777 for 2009 and 2008, respectively | 16,500,670           | 1,256,803           | 17,757,473           | 23,469,799           |
| Plant facilities, net of accumulated depreciation  | 3,269,635            | 1,260,001           | 4,529,636            | 3,967,183            |
| Works of art and special collections   | -                    | -                   | -                    | -                    |
| <b>TOTAL ASSETS</b>  | <b>22,671,550</b>    | <b>3,472,142</b>    | <b>26,143,692</b>    | <b>30,373,553</b>    |
| <b>LIABILITIES AND NET ASSETS</b>  |                      |                     |                      |                      |
| <b>LIABILITIES:</b>  |                      |                     |                      |                      |
| Accounts payable and accrued expenses  | 637,868              | 452,766             | 1,090,634            | 1,107,114            |
| Accrued pension and post retirement benefit cost   | 415,747              | 145,305             | 561,052              | 287,987              |
| Pending trades   | 66,160               | -                   | 66,160               | 170,919              |
| Liabilities under security lending agreements  | 248,048              | -                   | 248,048              | 548,951              |
| Deferred rental income   | 378,496              | -                   | 378,496              | 388,018              |
| Income beneficiary share of split interest agreements  | 316,404              | -                   | 316,404              | 423,197              |
| Notes and bonds payable  | 2,516,584            | 999,006             | 3,515,590            | 2,539,536            |
| U.S. government refundable loan funds  | 53,203               | -                   | 53,203               | 52,848               |
| <b>TOTAL LIABILITIES</b>   | <b>4,632,510</b>     | <b>1,597,077</b>    | <b>6,229,587</b>     | <b>5,518,570</b>     |
| <b>NET ASSETS:</b>   |                      |                     |                      |                      |
| Unrestricted   | 8,286,639            | 1,372,851           | 9,659,490            | 18,261,974           |
| Temporarily restricted   | 5,094,032            | 213,133             | 5,307,165            | 1,558,349            |
| Permanently restricted   | 4,658,369            | 289,081             | 4,947,450            | 5,034,660            |
| <b>TOTAL NET ASSETS</b>  | <b>18,039,040</b>    | <b>1,875,065</b>    | <b>19,914,105</b>    | <b>24,854,983</b>    |
| <b>TOTAL LIABILITIES AND NET ASSETS</b>  | <b>\$ 22,671,550</b> | <b>\$ 3,472,142</b> | <b>\$ 26,143,692</b> | <b>\$ 30,373,553</b> |

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

# CONSOLIDATED STATEMENTS OF ACTIVITIES

For the years ended August 31, 2009 and 2008 (in thousands of dollars)

|   | 2009              |                   |                   | 2008              |
|---|-------------------|-------------------|-------------------|-------------------|
|   | UNIVERSITY        | HOSPITALS         | CONSOLIDATED      | CONSOLIDATED      |
| UNRESTRICTED NET ASSETS                                   |                   |                   |                   |                   |
| REVENUES:   |                   |                   |                   |                   |
| Student income:   |                   |                   |                   |                   |
| Undergraduate programs                                    | \$ 252,291        | \$ -              | \$ 252,291        | \$ 241,302        |
| Graduate programs   | 249,401           | -                 | 249,401           | 234,986           |
| Room and board  | 110,123           | -                 | 110,123           | 104,977           |
| Student financial aid                                     | (210,320)         | -                 | (210,320)         | (176,444)         |
| <b>TOTAL STUDENT INCOME</b>                               | <b>401,495</b>    | <b>-</b>          | <b>401,495</b>    | <b>404,821</b>    |
| Sponsored research support:                               |                   |                   |                   |                   |
| Direct costs - University                                 | 563,695           | -                 | 563,695           | 555,898           |
| Direct costs - SLAC National Accelerator Laboratory       | 293,666           | -                 | 293,666           | 350,989           |
| Indirect costs  | 173,984           | -                 | 173,984           | 169,042           |
| <b>TOTAL SPONSORED RESEARCH SUPPORT</b>                   | <b>1,031,345</b>  | <b>-</b>          | <b>1,031,345</b>  | <b>1,075,929</b>  |
| Health care services:                                     |                   |                   |                   |                   |
| Patient care, net   | -                 | 2,407,724         | 2,407,724         | 2,179,841         |
| Physicians' services and support - SHC and LPCH, net      | 412,883           | (412,883)         | -                 | -                 |
| Physicians' services and support - other facilities, net  | 16,205            | -                 | 16,205            | 13,127            |
| <b>TOTAL HEALTH CARE SERVICES</b>                         | <b>429,088</b>    | <b>1,994,841</b>  | <b>2,423,929</b>  | <b>2,192,968</b>  |
| <b>CURRENT YEAR GIFTS IN SUPPORT OF OPERATIONS</b>        | <b>149,035</b>    | <b>6,002</b>      | <b>155,037</b>    | <b>189,378</b>    |
| Net assets released from restrictions:                    |                   |                   |                   |                   |
| Prior year pledges released                               | 58,334            | 1,037             | 59,371            | 57,006            |
| Prior year gifts released from donor restrictions         | 30,668            | 7,389             | 38,057            | 47,350            |
| <b>TOTAL NET ASSETS RELEASED FROM RESTRICTIONS</b>        | <b>89,002</b>     | <b>8,426</b>      | <b>97,428</b>     | <b>104,356</b>    |
| Investment income distributed for operations:             |                   |                   |                   |                   |
| Endowment   | 956,518           | 20,039            | 976,557           | 896,011           |
| Expendable funds pool and other investment income         | 94,248            | -                 | 94,248            | 110,908           |
| <b>TOTAL INVESTMENT INCOME DISTRIBUTED FOR OPERATIONS</b> | <b>1,050,766</b>  | <b>20,039</b>     | <b>1,070,805</b>  | <b>1,006,919</b>  |
| <b>SPECIAL PROGRAM FEES AND OTHER INCOME</b>              | <b>341,265</b>    | <b>81,476</b>     | <b>422,741</b>    | <b>429,188</b>    |
| <b>TOTAL REVENUES</b>                                     | <b>3,491,996</b>  | <b>2,110,784</b>  | <b>5,602,780</b>  | <b>5,403,559</b>  |
| EXPENSES:   |                   |                   |                   |                   |
| Salaries and benefits                                     | 1,995,889         | 1,094,394         | 3,090,283         | 2,884,928         |
| Depreciation  | 213,673           | 107,937           | 321,610           | 315,415           |
| Other operating expenses                                  | 920,284           | 761,291           | 1,681,575         | 1,756,741         |
| <b>TOTAL EXPENSES</b>                                     | <b>3,129,846</b>  | <b>1,963,622</b>  | <b>5,093,468</b>  | <b>4,957,084</b>  |
| <b>EXCESS OF REVENUES OVER EXPENSES</b>                   | <b>\$ 362,150</b> | <b>\$ 147,162</b> | <b>\$ 509,312</b> | <b>\$ 446,475</b> |

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



# CONSOLIDATED STATEMENTS OF ACTIVITIES

For the years ended August 31, 2009 and 2008 (in thousands of dollars)

|  | 2009                 |                     |                      | 2008                 |
|--|----------------------|---------------------|----------------------|----------------------|
|  | UNIVERSITY           | HOSPITALS           | CONSOLIDATED         | CONSOLIDATED         |
| UNRESTRICTED NET ASSETS (continued)  |                      |                     |                      |                      |
| <b>EXCESS OF REVENUES OVER EXPENSES</b>  | <b>\$ 362,150</b>    | <b>\$ 147,162</b>   | <b>\$ 509,312</b>    | <b>\$ 446,475</b>    |
| Other changes in unrestricted net assets:  |                      |                     |                      |                      |
| Decrease in reinvested gains (1)   | (2,214,825)          | (244,604)           | (2,459,429)          | (201,623)            |
| Donor advised funds, net   | 1,010                | -                   | 1,010                | 165,583              |
| Current year gifts not included in operations  | 10,711               | -                   | 10,711               | 8,976                |
| Contribution revenue from merger with CASBS  | -                    | -                   | -                    | 29,198               |
| Hospital equity transfers  | 12,904               | (12,904)            | -                    | -                    |
| Capital and other gifts released from restrictions   | 101,741              | 76,293              | 178,034              | 66,742               |
| Pension and other post employment benefit related changes<br>other than net periodic benefit expense       | (200,258)            | (78,070)            | (278,328)            | (13,572)             |
| Transfer to permanently restricted net assets, net   | (52,236)             | -                   | (52,236)             | (41,348)             |
| Transfer to temporarily restricted net assets, net   | (6,552)              | -                   | (6,552)              | (43,657)             |
| Swap interest and unrealized losses  | (17,650)             | (48,338)            | (65,988)             | (52,243)             |
| Loss on extinguishment of debt   | -                    | -                   | -                    | (17,855)             |
| Other  | 6,235                | -                   | 6,235                | 1,028                |
| <b>Net change in unrestricted net assets<br/>before effect of change in accounting principle</b>           | <b>(1,996,770)</b>   | <b>(160,461)</b>    | <b>(2,157,231)</b>   | <b>347,704</b>       |
| Effect of change in accounting principle (see Note 1)  | (6,333,634)          | (111,619)           | (6,445,253)          | -                    |
| <b>NET CHANGE IN UNRESTRICTED NET ASSETS<br/>AFTER EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE</b>            | <b>(8,330,404)</b>   | <b>(272,080)</b>    | <b>(8,602,484)</b>   | <b>347,704</b>       |
| TEMPORARILY RESTRICTED NET ASSETS  |                      |                     |                      |                      |
| Gifts and pledges, net   | 209,293              | 18,509              | 227,802              | 366,471              |
| (Decrease) increase in reinvested gains (1)  | (2,546,249)          | (65,056)            | (2,611,305)          | 5,883                |
| Change in value of split interest agreements, net  | (3,070)              | (490)               | (3,560)              | 5,530                |
| Net assets released to operations  | (89,002)             | (34,467)            | (123,469)            | (125,764)            |
| Capital and other gifts released to unrestricted net assets  | (101,741)            | (76,293)            | (178,034)            | (66,742)             |
| Capital gifts transferred to Hospitals   | (15,167)             | 15,167              | -                    | -                    |
| Transfer from unrestricted net assets, net   | 6,552                | -                   | 6,552                | 43,657               |
| Transfer (to) from permanently restricted net assets, net  | (12,859)             | 508                 | (12,351)             | (18,396)             |
| Other  | (2,072)              | -                   | (2,072)              | (781)                |
| <b>Net change in temporarily restricted net assets<br/>before effect of change in accounting principle</b> | <b>(2,554,315)</b>   | <b>(142,122)</b>    | <b>(2,696,437)</b>   | <b>209,858</b>       |
| Effect of change in accounting principle   | 6,333,634            | 111,619             | 6,445,253            | -                    |
| <b>NET CHANGE IN TEMPORARILY RESTRICTED NET ASSETS<br/>AFTER EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE</b>  | <b>3,779,319</b>     | <b>(30,503)</b>     | <b>3,748,816</b>     | <b>209,858</b>       |
| PERMANENTLY RESTRICTED NET ASSETS  |                      |                     |                      |                      |
| Gifts and pledges, net   | 172,128              | 18,740              | 190,868              | 299,459              |
| Contribution revenue from merger with CASBS  | -                    | -                   | -                    | 29,690               |
| Investment losses  | (243,488)            | -                   | (243,488)            | (13,458)             |
| Change in value of split interest agreements, net  | (97,236)             | (1,917)             | (99,153)             | (12,285)             |
| Transfer from unrestricted net assets, net   | 52,236               | -                   | 52,236               | 41,348               |
| Transfer from (to) temporarily restricted net assets, net  | 12,859               | (508)               | 12,351               | 18,396               |
| Other  | 2,998                | (3,022)             | (24)                 | (3,255)              |
| <b>NET CHANGE IN PERMANENTLY RESTRICTED NET ASSETS</b>   | <b>(100,503)</b>     | <b>13,293</b>       | <b>(87,210)</b>      | <b>359,895</b>       |
| <b>NET CHANGE IN TOTAL NET ASSETS</b>  | <b>(4,651,588)</b>   | <b>(289,290)</b>    | <b>(4,940,878)</b>   | <b>917,457</b>       |
| Total net assets, beginning of year  | 22,690,628           | 2,164,355           | 24,854,983           | 23,937,526           |
| <b>TOTAL NET ASSETS, END OF YEAR</b>   | <b>\$ 18,039,040</b> | <b>\$ 1,875,065</b> | <b>\$ 19,914,105</b> | <b>\$ 24,854,983</b> |

(1) Investment returns for the year ended August 31, 2009 reflect net gains and losses under the guidelines of FSP117-1. Results for the year ended August 31, 2008 have not been restated.

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

# CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended August 31, 2009 and 2008 (in thousands of dollars)

|  | 2009                  |                   |                     | 2008              |
|--|-----------------------|-------------------|---------------------|-------------------|
|  | UNIVERSITY            | HOSPITALS         | CONSOLIDATED        | CONSOLIDATED      |
| CASH FLOW FROM OPERATING ACTIVITIES:   |                       |                   |                     |                   |
|  | (as restated, Note 1) |                   |                     |                   |
| Change in net assets   | \$ (4,651,588)        | \$ (289,290)      | \$ (4,940,878)      | \$ 917,457        |
| Adjustments to reconcile change in net assets to net cash (used for) provided by operating activities: |                       |                   |                     |                   |
| Depreciation, amortization and loss on disposal of fixed assets  | 215,452               | 109,505           | 324,957             | 317,287           |
| Net realized and unrealized losses (gains) on investments and security agreements                      | 4,239,363             | 316,028           | 4,555,391           | (439,399)         |
| Net realized and unrealized losses on derivatives  | 12,679                | 48,338            | 61,017              | 52,212            |
| Actuarial change in split interest agreements  | (54,707)              | -                 | (54,707)            | (55,947)          |
| Permanently restricted investment income   | (11,957)              | -                 | (11,957)            | (18,838)          |
| Gifts restricted for long-term investments   | (227,204)             | (24,042)          | (251,246)           | (473,693)         |
| Gifts of securities and properties   | (81,544)              | -                 | (81,544)            | (167,038)         |
| Contribution revenue from merger with CASBS  | -                     | -                 | -                   | (59,319)          |
| Gain from sale of discontinued operations  | -                     | -                 | -                   | (21,273)          |
| Loss on extinguishment of debt   | 260                   | -                 | 260                 | 25,452            |
| Net decrease (increase) in accounts receivable, pledges receivable and receivables from SHC and LPOCH  | 3,133                 | 5,144             | 8,277               | (21,757)          |
| Decrease in prepaid expenses and other assets  | 24,935                | 13,639            | 38,574              | 14,111            |
| (Decrease) increase in accounts payable and accrued expenses   | (67,047)              | (17,668)          | (84,715)            | 120,973           |
| Increase in accrued pension and post retirement benefit costs  | 196,795               | 76,270            | 273,065             | 10,714            |
| Decrease in deferred rental income   | (9,522)               | -                 | (9,522)             | (4,981)           |
| Increase in U.S. government refundable loan funds  | 355                   | -                 | 355                 | 163               |
| <b>NET CASH (USED FOR) PROVIDED BY OPERATING ACTIVITIES</b>  | <b>(410,597)</b>      | <b>237,924</b>    | <b>(172,673)</b>    | <b>196,124</b>    |
| CASH FLOW FROM INVESTING ACTIVITIES:   |                       |                   |                     |                   |
| Land, building and equipment purchases   | (579,308)             | (293,580)         | (872,888)           | (723,822)         |
| Student, faculty and other loans:  |                       |                   |                     |                   |
| New loans made   | (76,634)              | -                 | (76,634)            | (78,620)          |
| Principal collected  | 25,203                | -                 | 25,203              | 29,642            |
| Contribution revenue from merger with CASBS  | -                     | -                 | -                   | 59,319            |
| Net proceeds from sale of discontinued operations  | -                     | -                 | -                   | 21,273            |
| Purchases of investments   | (12,975,015)          | (44,496)          | (13,019,511)        | (21,767,875)      |
| Sales and maturities of investments  | 13,954,656            | 161,085           | 14,115,741          | 22,141,467        |
| <b>NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES</b>  | <b>348,902</b>        | <b>(176,991)</b>  | <b>171,911</b>      | <b>(318,616)</b>  |
| CASH FLOW FROM FINANCING ACTIVITIES:   |                       |                   |                     |                   |
| Gifts and reinvested endowment income, capital projects and other restricted purposes                  | 188,575               | 50,709            | 239,284             | 400,872           |
| Investment income for restricted purposes  | 11,957                | -                 | 11,957              | 18,838            |
| Proceeds from borrowing  | 1,141,955             | 70,500            | 1,212,455           | 1,123,646         |
| Bond issuance costs and interest rate swaps  | (5,179)               | -                 | (5,179)             | (13,380)          |
| Repayment of notes and bonds payable   | (154,262)             | (80,346)          | (234,608)           | (1,095,302)       |
| Decrease in liabilities under security agreements  | (300,903)             | -                 | (300,903)           | (99,772)          |
| <b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>   | <b>882,143</b>        | <b>40,863</b>     | <b>923,006</b>      | <b>334,902</b>    |
| <b>INCREASE IN CASH AND CASH EQUIVALENTS</b>   | <b>820,448</b>        | <b>101,796</b>    | <b>922,244</b>      | <b>212,410</b>    |
| Cash and cash equivalents, beginning of year   | 514,697               | 344,333           | 859,030             | 646,620           |
| <b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>  | <b>\$ 1,335,145</b>   | <b>\$ 446,129</b> | <b>\$ 1,781,274</b> | <b>\$ 859,030</b> |
| SUPPLEMENTAL DATA:   |                       |                   |                     |                   |
| Interest paid during the year  | \$ 78,066             | \$ 43,668         | \$ 121,734          | \$ 118,390        |
| Cash collateral received under securities lending agreements   | \$ 205,622            | \$ -              | \$ 205,622          | \$ 491,944        |
| (Increase) decrease in payables for plant facilities   | \$ (14,326)           | \$ (5,719)        | \$ (20,045)         | \$ 4,638          |

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. The "University" category presented in the financial statements comprises all of the accounts of the University, including 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 certain 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 and permanently restricted net assets are primarily the result of donor redesignations or matching funds that are added to the donor gift funds and then take on the same restrictions as the donor gift.

### **Temporarily Restricted Net Assets**

Temporarily restricted net assets include gifts and pledges that are subject to donor-imposed restrictions that expire with the passage of time, payment of pledges or specific actions to be undertaken by the University or the Hospitals, which are then released and reclassified to unrestricted support. In addition, appreciation and income on certain donor-restricted endowment funds are classified as temporarily restricted net assets until authorized for spending (see Note 11). 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.

### **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 original maturities of 90 days or less at the time of purchase. These amounts are carried at cost, which approximates fair value. Cash and cash 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. The discount rate considers market and realizability factors, as applicable. 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. Gains and losses (realized and unrealized) on investments, except for donated assets and undeveloped land, are recognized in the consolidated statements of activities (see Note 5).

Cash and cash equivalents categorized as investments include money market funds and overnight receivables on repurchase agreements. Collateral held for securities loaned originates in the form of short-term U.S. government obligations, as well as cash which is reinvested for income in cash equivalent vehicles.

Publicly traded equity securities and mutual funds are valued based on quoted market prices (and exchange rates, if applicable). Securities transactions are reported on a trade-date basis. Non-exchange traded debt instruments are primarily valued using independent pricing services or by broker/dealers who actively make markets in these securities.

Derivatives such as forward contracts, currency options, interest rate swaps and credit default swaps are valued using models based on market verifiable inputs, or by using independent broker quotes.

All other investments are recorded based on estimated fair values. Most non-public equity investments and limited partnerships are considered alternative investments, with the investment manager reporting the Net Asset Value (NAV) of the underlying investments on a periodic basis. These investments are generally less liquid than other investments, and the value reported by the general partner or investment manager may differ from the values that would have been reported had a ready market for these securities existed. The University exercises due diligence in assessing the policies, procedures, and controls implemented by its external investment managers, and believes the carrying amount of these assets is a reasonable estimate of fair value.

For these alternative investments, the University has reported the NAV per share, adjusted as described below, as a reasonable estimate of fair value. The most recent NAV reported by the investment manager is adjusted for capital calls, distributions and significant known valuation changes in market values of publicly held securities contained in the portfolio and securities distributions through August 31, 2009.

A majority of the non-public equity investments consist of absolute return interests, held as corporate equity investments. Other investments in this category include hedge funds investing in public equities, as well as funds investing in natural resources and real estate. Direct equity investments in private companies are also included in this category.

Limited partnerships include various investment strategies owned in partnership form. Limited partnerships include investments in the asset classes of Private Equity, Real Estate, Natural Resources, Absolute Return, and Public Equity.

Assets held by other trustees generally represent the University's and the Hospitals' residual interest in split interest agreements, which are discussed in more detail below. The residual (or beneficial) interest represents the present value of the future distributions expected to be received over the term of the agreement, which approximates fair value, and the assets are based on estimates provided by trustees.

The fair value of real estate and improvements is based primarily on discounted cash flows, using estimates from the asset manager or general partner, corroborated by appraisals and market data, if available.

Assets limited as to use include various hospital accounts held by a trustee in accordance with indenture requirements. The indenture terms require that the trustee control the expenditure of bonds proceeds for hospital capital projects, and the assets are recorded at fair value. Assets limited as to use of \$49,327,000 and \$189,770,000 as of August 31, 2009 and 2008, respectively, are included in "Cash and cash equivalents" on the investment table in Note 5.

Donated assets are recorded at fair value at the date of donation. 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.

With the exceptions of cash equivalents, public equities, mutual funds and derivatives, the above investments generally are not readily convertible to cash, except to the extent the investment agreement provides for redemption periods or liquidating payments. Although certain of these investments may be sold in a secondary market, these markets generally are inactive. If the University were to sell an asset in the secondary market, it is possible the sale could occur at a price materially different from the reported fair value. Fair value reporting requires management to make estimates and assumptions about the effects of matters that are inherently uncertain, including risks related to inactive markets. Estimates developed using methods such as discounted cash flow are subjective, requiring significant judgments such as the amount and timing of future cash flows and the selection of appropriate discount rates that reflect market and credit risks. Estimates, by their nature, are based on judgment and available information. Changes in assumptions could have a significant effect on the fair value of these instruments. Actual results could differ from these estimates and such differences could have a material impact on the financial statements.

**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, 2009 and 2008 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  | 3-20 years  |

**WORKS OF ART AND SPECIAL COLLECTIONS**

Works of art, historical treasures, literary works and artifacts, which are preserved and protected for educational, research and public exhibition purposes, are not capitalized. 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 certain 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 on the statement of activities as a reduction to other changes in unrestricted net assets at the time the transfer is made. At August 31, 2009 and 2008, approximately \$139,000,000 and \$180,000,000, respectively, 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 3% to 6%. Discount rates used apply to the year the gift was received and consider market and realizability factors, as applicable. 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 \$60,500,000 and \$52,674,000 for the years ended August 31, 2009 and 2008, 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, 2009 and 2008 were \$186,033,000 and \$178,573,000, respectively.

## **RECENT PRONOUNCEMENTS**

Effective September 1, 2008, the University and the Hospitals adopted Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (FAS 157), which defines fair value, establishes a framework for measuring fair value and expands the related disclosure requirements about fair value measurements. The impact of adopting FAS 157 is discussed in Note 6.

Effective September 1, 2008, the University and the Hospitals adopted FASB Staff Position No. 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* (FSP FAS 157-4). FSP FAS 157-4 provides additional guidance on estimating the fair value of an asset or liability where the level of activity has decreased significantly, and affirms that the objective fair value is the price that would be received to sell the asset in an orderly transaction, even when the market for the asset is not active. The University's valuation methodology is consistent with FSP FAS 157-4.

In September 2009, the FASB issued FASB Accounting Standards Update No. 2009-12, *Investments in Certain Entities That Calculate Net Asset Value per Share (or its Equivalent)* (ASU 2009-12). ASU 2009-12 amends FASB Statement No. 157, *Fair Value Measurements*, and provides guidance for estimating the fair value of investments in investment companies that calculate net asset value per share, allowing the Net Asset Value per Share (NAV), or its equivalent, to be used as a practical expedient for fair value where investment companies follow the American Institute of Certified Public Accounts (AICPA) Guide in arriving at their reported

NAV. Effective September 1, 2008, the University early-adopted the “practical expedient” provisions of ASU 2009-12. As permitted by ASU 2009-12, the disclosure provisions will not be adopted until the year ended August 31, 2010.

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”). FAS 159 was effective for the University and the Hospitals for their fiscal year ended August 31, 2009. The University and the Hospitals chose not to elect the fair value option for any eligible items under FAS 159.

Effective September 1, 2008, the University and the Hospitals adopted Statement of Financial Accounting Standards No. 165, *Subsequent Events* (FAS 165). FAS 165 establishes standards of accounting for and disclosure of events occurring after the reporting date but before issuance of the financial statements. The adoption of FAS 165 did not have a significant impact on the University's financial statements.

Effective September 1, 2008, the University and the Hospitals adopted FASB Staff Position No. 117-1, *Endowments of 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 FAS 117-1). FSP FAS 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) and requires additional disclosures about an organization's endowment funds. California adopted a version of UPMIFA effective January 1, 2009. The impact of adopting FSP FAS 117-1 was a reclassification of \$6,333,634,000 and \$111,619,000 from unrestricted net assets to temporarily restricted net assets for the University and the Hospitals, respectively, and is discussed in Notes 11 and 12 to the consolidated financial statements.

Effective September 1, 2008, the University and the Hospitals adopted FASB Staff Position No. 133-1 and FIN 45-4, *Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161* (FSP FAS 133-1 and FIN 45-4). FSP FAS 133-1 and FIN 45-4 establishes additional disclosure requirements for credit derivatives and certain guarantee contracts. The adoption of FSP FAS 133-1 and FIN 45-4 did not have a significant impact on the financial statements and is discussed in Note 5.

The following accounting pronouncements will be effective for the University and the Hospitals for the year ending August 31, 2010 and are currently being assessed to determine their impact on the financial statements:

FSP FAS 157-2, *Effective FAS Date of FASB Statement No. 157* (FSP FAS 157-2) delays the effective date of FAS 157 as it relates to nonfinancial assets and nonfinancial liabilities.

Statement of Financial Accounting Standards No. 161, *Disclosures about Derivative Instruments and Hedging Activities — An Amendment of FASB Statement No. 133* (FAS 161) requires entities that utilize derivative instruments or hedges to include enhanced disclosures about these activities in their financial statements, including their objectives for using derivative instruments in terms of underlying risk and accounting designation, the fair values of derivative instruments and related gains and losses, and information about credit-risk-related contingent features.

FASB Staff Position No. 132(R)-1, *Employers' Disclosures about Postretirement Benefit Plan Assets* (FSP 132(R)-1) requires entities with defined benefit or other postretirement plans to provide information regarding how investment decisions are made, major categories of plan assets, inputs and valuation techniques used in measuring the fair value of plan assets, the effect of fair value measurements using significant unobservable inputs on changes in plan assets, and significant concentrations of risk within plan assets.



Accounting Standards Update No. 2009-05, *Measuring Liabilities at Fair Value* (ASU 2009-05) provides guidance on measuring the fair value of liabilities and establishes that the quoted market price for an identical liability, when traded in an active market as an asset, qualifies as a Level 1 measurement for that liability when there is no adjustment to the quoted market price required.

## RESTATEMENT OF FISCAL YEAR 2008 CONSOLIDATED STATEMENT OF CASH FLOWS

The fiscal year 2008 consolidated statement of cash flows has been restated to correct errors in the classification of cash flow activities among operating, investing and financing activities in the consolidated statement of cash flows. There is no impact on the reported amounts for cash and cash equivalents as of August 31, 2008 or for the net increase in cash and cash equivalents for the year then ended. The fiscal year 2008 cash flow statement misclassified approximately \$170,000,000 of cash activity related to changes in assets limited as to use, held by trustees, from SHC as operating activities rather than investing activities; certain SHC donor restricted gifts as financing activities rather than as operating activities; and certain LPCH noncash transactions as investing activities rather than operating activities. The effect of the restatement adjustments on the accompanying fiscal year 2008 consolidated statement of cash flows are as follows, in thousands of dollars:

|  | AS PREVIOUSLY<br>REPORTED | ADJUSTMENT   | AS RESTATED       |
|--|---------------------------|--------------|-------------------|
| Net cash provided by operating activities    | \$ 352,091                | \$ (155,967) | \$ 196,124        |
| Net cash used for investing activities       | (480,146)                 | 161,530      | (318,616)         |
| Net cash provided by financing activities    | 340,465                   | (5,563)      | 334,902           |
| <b>INCREASE IN CASH AND CASH EQUIVALENTS</b> | <b>\$ 212,410</b>         | <b>\$ -</b>  | <b>\$ 212,410</b> |

## 2. Accounts Receivable

Accounts receivable at August 31, 2009 and 2008, in thousands of dollars, are as follows:

|  | 2009              | 2008              |
|--|-------------------|-------------------|
| UNIVERSITY:                                  |                   |                   |
| U.S. government                              | \$ 66,010         | \$ 70,048         |
| Non-government sponsors                      | 31,273            | 27,122            |
| Due from brokers                             | 45,488            | 46,819            |
| Accrued interest on investments              | 3,892             | 12,608            |
| Student                                      | 8,000             | 7,322             |
| Other  | 34,044            | 38,962            |
|  | 188,707           | 202,881           |
| Less bad debt allowances                     | (2,094)           | (2,007)           |
| University accounts receivable, net          | 186,613           | 200,874           |
| HOSPITALS:                                   |                   |                   |
| Patient receivables                          | 435,891           | 448,241           |
| Other  | 13,327            | 33,739            |
|  | 449,218           | 481,980           |
| Less bad debt allowances                     | (79,861)          | (83,075)          |
| Hospitals' accounts receivable, net          | 369,357           | 398,905           |
| <b>CONSOLIDATED ACCOUNTS RECEIVABLE, NET</b> | <b>\$ 555,970</b> | <b>\$ 599,779</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 1.5% to 6.4%. At August 31, 2009 and 2008, pledges receivable are as follows, in thousands of dollars:

|                                 | 2009              |                   |                   | 2008              |
|---------------------------------|-------------------|-------------------|-------------------|-------------------|
|                                 | UNIVERSITY        | HOSPITALS         | CONSOLIDATED      | CONSOLIDATED      |
| One year or less                | \$ 84,244         | \$ 48,349         | \$ 132,593        | \$ 117,792        |
| Between one year and five years | 660,128           | 78,210            | 738,338           | 708,660           |
| More than five years            | 309,687           | 3,333             | 313,020           | 366,083           |
|                                 | 1,054,059         | 129,892           | 1,183,951         | 1,192,535         |
| Less discount and allowances    | (271,536)         | (17,970)          | (289,506)         | (309,188)         |
| <b>PLEDGES RECEIVABLE, NET</b>  | <b>\$ 782,523</b> | <b>\$ 111,922</b> | <b>\$ 894,445</b> | <b>\$ 883,347</b> |

Conditional pledges for the University, which depend on the occurrence of a specified future and uncertain event, were \$17,802,000 and \$13,772,000 at August 31, 2009 and 2008, 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 receivable amounting to \$418,166,000 and \$375,582,000 at August 31, 2009 and 2008, 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, 2009 and 2008 are as follows, in thousands of dollars:

|   | 2009                 |                     |                      | 2008                 |
|---|----------------------|---------------------|----------------------|----------------------|
|   | UNIVERSITY           | HOSPITALS           | CONSOLIDATED         | CONSOLIDATED         |
| Cash and cash equivalents   | \$ 327,154           | \$ 83,900           | \$ 411,054           | \$ 535,193           |
| Collateral held for securities loaned   | 205,622              | -                   | 205,622              | 491,944              |
| Public equities and mutual funds  | 1,929,878            | 42,629              | 1,972,507            | 3,457,453            |
| Derivatives   | 1,379                | -                   | 1,379                | (17,026)             |
| Bonds and short-term investments  | 227,827              | -                   | 227,827              | 695,816              |
| Non-public equities   | 2,153,117            | -                   | 2,153,117            | 3,106,040            |
| Assets held by other trustees (net of income beneficiary share of \$160,400 and \$94,151 at August 31, 2009 and 2008, respectively) | 139,474              | 13,997              | 153,471              | 213,208              |
| Real estate and improvements, including Stanford Shopping Center and Research Park  | 2,054,793            | -                   | 2,054,793            | 2,069,029            |
| Limited partnership investments   | 10,507,461           | -                   | 10,507,461           | 12,819,211           |
| Other   | 70,242               | -                   | 70,242               | 98,931               |
|   | 17,616,947           | 140,526             | 17,757,473           | 23,469,799           |
| The Hospitals' investment in the University's Merged Pool   | (1,116,277)          | 1,116,277           | -                    | -                    |
| <b>INVESTMENTS AT FAIR VALUE</b>  | <b>\$ 16,500,670</b> | <b>\$ 1,256,803</b> | <b>\$ 17,757,473</b> | <b>\$ 23,469,799</b> |

The University managed a portion of the Hospitals' investments including the Hospitals' investment in the Merged Pool, with a combined fair value of \$1,116,277,000 and \$1,441,181,000 at August 31, 2009 and 2008, respectively.

Total investment (losses) returns for the years ended August 31, 2009 and 2008, in thousands of dollars, are as follows:

|  | 2009                  |                     |                       | 2008              |
|--|-----------------------|---------------------|-----------------------|-------------------|
|  | UNIVERSITY            | HOSPITALS           | CONSOLIDATED          | CONSOLIDATED      |
| Investment income                          | \$ 162,068            | \$ 3,589            | \$ 165,657            | \$ 292,288        |
| Net realized and unrealized (losses) gains | (4,178,144)           | (315,656)           | (4,493,800)           | 538,342           |
| <b>TOTAL INVESTMENT (LOSS) RETURN</b>      | <b>\$ (4,016,076)</b> | <b>\$ (312,067)</b> | <b>\$ (4,328,143)</b> | <b>\$ 830,630</b> |

Investment returns are net of investment management expenses, including both external management fees and internal University salaries, benefits and operating expenses, and the portion of interest expense and amortization related to the 2009 bond issuance held for liquidity purposes (see Note 9).

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, 2009 and 2008, in thousands of dollars:

|   | 2009                 | 2008                 |
|---|----------------------|----------------------|
| UNIVERSITY:   |                      |                      |
| Merged Pool   | \$ 15,093,093        | \$ 20,436,127        |
| Expendable Funds Pool   | 2,034,885            | 2,087,214            |
| Endowment Income Funds Pool   | 356,319              | 292,698              |
| Other Investment Pools  | 361,418              | 450,909              |
| Specific Investments  | 2,147,272            | 2,272,284            |
|   | 19,992,987           | 25,539,232           |
| Less amounts included in cash and cash equivalents  | (510,843)            | (467,018)            |
| Less funds cross-invested in investment pools<br>(including the Hospitals' investment of<br>\$1,116,277 and \$1,425,087 in 2009 and 2008,<br>respectively, in the University's Merged Pool) | (2,981,474)          | (3,314,498)          |
|   | 16,500,670           | 21,757,716           |
| HOSPITALS:  |                      |                      |
| Investments   | 1,256,803            | 1,712,083            |
| <b>INVESTMENTS AT FAIR VALUE</b>  | <b>\$ 17,757,473</b> | <b>\$ 23,469,799</b> |

The Merged Pool (MP) is the primary investment pool in which endowment (see Note 11) 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.

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 year ended August 31, 2008, the distribution was \$3,354,000. For the year ended August 31, 2009, the EIFP experienced losses on its investments, resulting in a reduction of the fund holders' principal balances of \$867,000.

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, 2009 and 2008, the results of the EFP, in thousands of dollars, are as follows:

|   | 2009                | 2008               |
|---|---------------------|--------------------|
| Total investment (loss)/return of the EFP         | \$ (406,091)        | \$ 44,796          |
| Less distributions to fund holders and operations | (81,896)            | (91,495)           |
| <b>AMOUNTS WITHDRAWN FROM THE ENDOWMENT</b>       | <b>\$ (487,987)</b> | <b>\$ (46,699)</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 on these derivatives was \$25,634,000 and \$25,805,000 at August 31, 2009 and 2008, respectively.

The University's derivative activities include both the purchase and sale of credit default swaps. Credit default swaps (CDSs) are contracts under which counterparties are provided protection against the risk of default on a set of debt obligations issued by specific companies (or group of companies combined in an index). The buyer of the CDSs will make payment to the seller and in return receives payment if the underlying instrument goes into default or is triggered by some other credit event. The University's CDS transactions include both single name entities as well as index CDSs. Under the index CDSs, the credit events that would trigger settlement of the credit default swap and require the University to remit payment are generally bankruptcy and failure to pay. The table below summarizes certain information regarding protection sold through CDSs as of August 31, 2009, in thousands of dollars:

| CREDIT RATINGS OF THE REFERENCE<br>OBLIGATION (1) | PROTECTION SOLD<br>MAXIMUM POTENTIAL PAYOUT/NOTIONAL AMOUNT<br>YEARS TO MATURITY |                   |                    |                   |                    | TOTAL              | FAIR VALUE<br>ASSET/<br>(LIABILITY) |
|---|--|-------------------|--------------------|-------------------|--------------------|--------------------|-------------------------------------|
|   | LESS THAN 1  | 1 - 3             | 3 - 5              | OVER 5            |                    |                    |                                     |
| Single name credit default swaps:                 |  |                   |                    |                   |                    |                    |                                     |
| A+  | \$ -   | \$ -              | \$ -               | \$ (2,300)        | \$ (2,300)         | \$ (2,300)         | \$ (152)                            |
| A   | -  | -                 | (400)              | (6,400)           | (6,800)            | (6,800)            | (205)                               |
| BBB+  | -  | (1,200)           | -                  | -                 | (1,200)            | (1,200)            | (56)                                |
| Total single name credit default swaps            | \$ -   | \$ (1,200)        | \$ (400)           | \$ (8,700)        | \$ (10,300)        | \$ (10,300)        | \$ (413)                            |
| Index credit default swaps (2)                    | -  | -                 | (35,865)           | -                 | (35,865)           | (35,865)           | 751                                 |
| <b>TOTAL CREDIT DEFAULT SWAPS SOLD</b>            | <b>\$ -</b>  | <b>\$ (1,200)</b> | <b>\$ (36,265)</b> | <b>\$ (8,700)</b> | <b>\$ (46,165)</b> | <b>\$ (46,165)</b> | <b>\$ 338</b>                       |

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

(2) Index credit default swaps are made up of approximately 125 North American investment grade entities with at least 80% of the included entities having a Standard & Poor's rating of BBB- or higher.

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, 2009, the aggregated amount of such unfunded commitments was \$5,068,997,000.

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, 2009, is as follows, in thousands of dollars:

| YEAR         |                     |
|--------------|---------------------|
| 2010         | \$ 71,350           |
| 2011         | 62,948              |
| 2012         | 59,027              |
| 2013         | 56,054              |
| 2014         | 54,068              |
| Thereafter   | 1,390,849           |
| <b>TOTAL</b> | <b>\$ 1,694,296</b> |

6. Fair Value of Financial Instruments

FAS 157 defines fair value as the price received upon sale of an asset or paid upon transfer of a liability in an orderly transaction between market participants and establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity’s assumptions about how market participants would value the financial instrument. Valuation techniques used under FAS 157 must maximize the use of observable inputs to the extent available.

The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

LEVEL 1 - Quoted prices in active markets for identical assets or liabilities, at the reporting date, without adjustment. Market price data is generally obtained from relevant exchange or dealer markets.

LEVEL 2 - Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the same term of the assets or liabilities. Inputs are obtained from various sources including market participants, dealers and brokers.

LEVEL 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

A financial instrument’s categorization within this hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Investments and interest rate exchange agreements measured at fair value as of August 31, 2009, in thousands of dollars, are as follows:

|  | FAIR VALUE MEASUREMENTS AT REPORTING DATE USING |  |   |  |
|--|---|--|---|--|
|  | AS OF AUGUST 31,<br>2009                        | QUOTED PRICES IN<br>ACTIVE MARKETS<br>FOR IDENTICAL<br>ASSETS<br>(LEVEL 1) | SIGNIFICANT OTHER<br>OBSERVABLE INPUTS<br>(LEVEL 2) | SIGNIFICANT<br>UNOBSERVABLE<br>INPUTS<br>(LEVEL 3) |
| <b>ASSETS</b>  |   |  |   |  |
| <b>UNIVERSITY*</b>   |   |  |   |  |
| Cash and cash equivalents  | \$ 327,154                                      | \$ 303,308   | \$ 23,846   | \$ -   |
| Collateral held for securities loaned  | 205,622   | 110,000  | 95,622  | -  |
| Public equities and mutual funds   | 1,929,878                                       | 1,691,009  | 238,869   | -  |
| Derivatives  | 1,379   | 80   | 1,299   | -  |
| Bonds and short-term investments   | 227,827   | 5,162  | 196,671   | 25,994   |
| Non-public equities  | 2,153,117                                       | -  | 924,164   | 1,228,953  |
| Assets held by other trustees  | 139,474   | -  | -   | 139,474  |
| Real estate and improvements, including<br>Stanford Shopping Center and<br>Research Park | 2,054,793                                       | -  | -   | 2,054,793  |
| Limited partnership investments  | 10,507,461                                      | -  | 665,625   | 9,841,836  |
| Other  | 70,242  | 262  | 1,548   | 68,432   |
| <b>TOTAL</b>   | <b>\$ 17,616,947</b>                            | <b>\$ 2,109,821</b>  | <b>\$ 2,147,644</b>                                 | <b>\$ 13,359,482</b>                               |
| <b>HOSPITALS</b>   |   |  |   |  |
| Cash and cash equivalents  | \$ 83,900                                       | \$ 83,900  | \$ -  | \$ -   |
| Public equities and mutual funds   | 42,629  | -  | 42,629  | -  |
| Assets held by other trustees  | 13,997  | -  | -   | 13,997   |
| <b>TOTAL</b>   | <b>\$ 140,526</b>                               | <b>\$ 83,900</b>   | <b>\$ 42,629</b>                                    | <b>\$ 13,997</b>                                   |
| <b>CONSOLIDATED</b>  |   |  |   |  |
| Cash and cash equivalents  | \$ 411,054                                      | \$ 387,208   | \$ 23,846   | \$ -   |
| Collateral held for securities loaned  | 205,622   | 110,000  | 95,622  | -  |
| Public equities and mutual funds   | 1,972,507                                       | 1,691,009  | 281,498   | -  |
| Derivatives  | 1,379   | 80   | 1,299   | -  |
| Bonds and short-term investments   | 227,827   | 5,162  | 196,671   | 25,994   |
| Non-public equities  | 2,153,117                                       | -  | 924,164   | 1,228,953  |
| Assets held by other trustees  | 153,471   | -  | -   | 153,471  |
| Real estate and improvements   | 2,054,793                                       | -  | -   | 2,054,793  |
| Limited partnership investments  | 10,507,461                                      | -  | 665,625   | 9,841,836  |
| Other  | 70,242  | 262  | 1,548   | 68,432   |
| <b>TOTAL ASSETS</b>  | <b>\$ 17,757,473</b>                            | <b>\$ 2,193,721</b>  | <b>\$ 2,190,273</b>                                 | <b>\$ 13,373,479</b>                               |
| <b>LIABILITIES</b>   |   |  |   |  |
| <b>HOSPITALS</b>   |   |  |   |  |
| Interest rate exchange agreements  | \$ (87,311)                                     | \$ -   | \$ (87,311)   | \$ -   |

\* Amounts include the Hospitals' cross investment in the University's Merged Pool of \$1,116,277.

The following table presents a reconciliation of beginning and ending balances for Level 3 investments for the year ended August 31, 2009, in thousands of dollars:

| FAIR VALUE MEASUREMENTS USING<br>SIGNIFICANT UNOBSERVABLE INPUTS<br>(LEVEL 3) | BEGINNING                                |  |                               | CHANGE IN                       |                              | ENDING                                 |
|---|--|--|-------------------------------|---------------------------------|------------------------------|--|
|   | BALANCE<br>AS OF<br>SEPTEMBER 1,<br>2008 | NET<br>PURCHASES<br>(SALES AND<br>SETTLEMENTS) | REALIZED<br>GAINS<br>(LOSSES) | UNREALIZED<br>GAINS<br>(LOSSES) | NET<br>TRANSFERS<br>IN (OUT) | BALANCE<br>AS OF<br>AUGUST 31,<br>2009 |
| <b>UNIVERSITY</b>   |  |  |                               |                                 |                              |  |
| Bonds and short-term investments  | \$ 88,550                                | \$ (66,689)                                    | \$ (1,004)                    | \$ 5,137                        | \$ -                         | \$ 25,994                              |
| Non-public equities   | 1,682,364                                | (27,653)                                       | 1,641                         | (427,399)                       | -                            | 1,228,953                              |
| Assets held by other trustees   | 196,814                                  | 20,298   | -                             | (77,638)                        | -                            | 139,474                                |
| Real estate and improvements  | 2,069,029                                | 97,458   | (4,081)                       | (107,613)                       | -                            | 2,054,793                              |
| Limited partnership investments   | 12,312,105                               | 644,561  | 70,854                        | (2,856,793)                     | (328,891)                    | 9,841,836                              |
| Other   | 94,651                                   | (13,231)                                       | 5,235                         | (18,223)                        | -                            | 68,432                                 |
|   | <b>\$ 16,443,513</b>                     | <b>\$ 654,744</b>                              | <b>\$ 72,645</b>              | <b>\$ (3,482,529)</b>           | <b>\$ (328,891)</b>          | <b>\$13,359,482</b>                    |
| <b>HOSPITALS</b>  |  |  |                               |                                 |                              |  |
| Assets held by other trustees   | \$ 16,394                                | \$ -   | \$ 10                         | \$ (2,407)                      | \$ -                         | \$ 13,997                              |
|   | <b>\$ 16,394</b>                         | <b>\$ -</b>                                    | <b>\$ 10</b>                  | <b>\$ (2,407)</b>               | <b>\$ -</b>                  | <b>\$ 13,997</b>                       |
| <b>CONSOLIDATED</b>   |  |  |                               |                                 |                              |  |
| Bonds and short-term investments  | \$ 88,550                                | \$ (66,689)                                    | \$ (1,004)                    | \$ 5,137                        | \$ -                         | \$ 25,994                              |
| Non-public equities   | 1,682,364                                | (27,653)                                       | 1,641                         | (427,399)                       | -                            | 1,228,953                              |
| Assets held by other trustees   | 213,208                                  | 20,298   | 10                            | (80,045)                        | -                            | 153,471                                |
| Real estate and improvements  | 2,069,029                                | 97,458   | (4,081)                       | (107,613)                       | -                            | 2,054,793                              |
| Limited partnership investments   | 12,312,105                               | 644,561  | 70,854                        | (2,856,793)                     | (328,891)                    | 9,841,836                              |
| Other   | 94,651                                   | (13,231)                                       | 5,235                         | (18,223)                        | -                            | 68,432                                 |
| <b>TOTAL</b>  | <b>\$ 16,459,907</b>                     | <b>\$ 654,744</b>                              | <b>\$ 72,655</b>              | <b>\$ (3,484,936)</b>           | <b>\$ (328,891)</b>          | <b>\$13,373,479</b>                    |

Realized gains (losses) and the change in unrealized gains (losses) in the table above appear in the consolidated statement of activities primarily as unrestricted net assets – decrease in reinvested gains; temporarily restricted net assets – (decrease) increase in reinvested gains; and permanently restricted net assets – investment losses. These captions also include the change in unrealized gains (losses) relating to investments still held at the August 31, 2009 reporting date.

The University's net asset balances are classified as unrestricted, temporarily or permanently restricted based upon donor restrictions. Funds representing these net asset balances primarily own shares in the Merged Pool or other similar unitized investment pools. Accordingly, the total Level 3 realized gains (losses) and change in unrealized gains (losses) are distributed pro-rata among unrestricted, temporarily or permanently restricted net asset balances based upon the relative ownership of the unitized investment pools. The total gains (losses) are allocated among the unrestricted, temporarily restricted and permanently restricted net asset sections of the statement of activities.

## 7. Plant Facilities

Plant facilities at August 31, 2009 and 2008, in thousands of dollars, are as follows:

|  | 2009                |                     |                     | 2008                |
|--|---------------------|---------------------|---------------------|---------------------|
|  | UNIVERSITY          | HOSPITALS           | CONSOLIDATED        | CONSOLIDATED        |
| Land and improvements  | \$ 409,861          | \$ 93,584           | \$ 503,445          | \$ 450,969          |
| Buildings and building improvements                          | 3,308,637           | 1,075,271           | 4,383,908           | 3,852,739           |
| Furniture, fixtures and medical equipment                    | 61,120              | 302,610             | 363,730             | 333,524             |
| Equipment, books and software                                | 1,469,958           | 320,146             | 1,790,104           | 1,685,827           |
| Construction in progress                                     | 580,851             | 292,451             | 873,302             | 742,183             |
| Plant facilities   | 5,830,427           | 2,084,062           | 7,914,489           | 7,065,242           |
| Less accumulated depreciation                                | (2,560,792)         | (824,061)           | (3,384,853)         | (3,098,059)         |
| <b>PLANT FACILITIES, NET OF<br/>ACCUMULATED DEPRECIATION</b> | <b>\$ 3,269,635</b> | <b>\$ 1,260,001</b> | <b>\$ 4,529,636</b> | <b>\$ 3,967,183</b> |

At August 31, 2009, \$1,543,145,000 of fully depreciated plant facilities were still in use.

## 8. Liabilities Under Security Lending Agreements

At August 31, 2009 and 2008, the University received \$206,277,000 and \$491,944,000, 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 \$41,771,000 and \$57,007,000 at August 31, 2009 and 2008, 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, 2009 and 2008, was \$193,862,000 and \$464,777,000, 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.



## 9. University Notes and Bonds Payable

Notes and bonds payable at August 31, 2009 and 2008, in thousands of dollars, are as follows:

|  | YEAR OF<br>MATURITY | EFFECTIVE<br>INTEREST RATE<br>2009/2008 | OUTSTANDING PRINCIPAL |                     |
|--|---------------------|---|-----------------------|---------------------|
|  |                     |   | 2009                  | 2008                |
| Tax-exempt:  |                     |   |                       |                     |
| California Educational Facilities Authority (CEFA) Fixed Rate Revenue Bonds: |                     |   |                       |                     |
| Series O   | 2031                | 5.1%                                    | \$ 89,555             | \$ 89,555           |
| Series P   | 2013                | 5.3%                                    | 51,260                | 110,440             |
| Series Q   | 2032                | 5.3%                                    | 101,860               | 101,860             |
| Series R   | 2011-2021           | 4.0%-5.0%                               | 111,585               | 111,585             |
| Series T   | 2014-2039           | 4.0%-5.0%                               | 361,310               | 309,545             |
| CEFA Variable Rate Revenue Notes and Bonds:                                  |                     |   |                       |                     |
| Series L   | 2014-2022           | 0.14%/1.55%                             | 83,818                | 83,818              |
| Series S   | 2039-2050           | 0.4%-0.6%/1.42%                         | 181,200               | 181,200             |
| Commercial Paper   | 2009                | 0.2%/1.41%                              | 152,140               | 69,951              |
| Taxable:   |                     |   |                       |                     |
| Fixed Rate Notes and Bonds:  |                     |   |                       |                     |
| Stanford University Bonds  | 2024                | 6.9%                                    | 150,000               | 150,000             |
| Medium Term Notes  | 2011-2026           | 6.2%-7.7%                               | 100,000               | 150,000             |
| Stanford University Series 2009A   | 2014-2019           | 3.6%-4.8%                               | 1,000,000             | -                   |
| Other  | 2015-2016           | Various                                 | 1,601                 | 1,032               |
| Variable Notes and Bonds:  |                     |   |                       |                     |
| Commercial Paper   | 2009                | 0.5%/2.5% *                             | 97,476                | 140,250             |
| University notes and bonds payable   |                     |   | 2,481,805             | 1,499,236           |
| Net premium  |                     |   | 34,779                | 32,963              |
| <b>TOTAL</b>   |                     |   | <b>\$ 2,516,584</b>   | <b>\$ 1,532,199</b> |

\*Exclusive of interest rate exchange agreements.

At August 31, 2009 and 2008, 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). Although CEFA is the issuer, Stanford is responsible for the repayment of the tax-exempt debt. The CEFA debt is a general unsecured obligation of the University.

In March 2009 the taxable Medium Term Notes 2A in the amount of \$50,000,000 matured.

In April 2009, the University issued \$1,000,000,000 of taxable fixed rate Series 2009A bonds. The series was comprised of \$350,000,000 in principal amount that will mature in 2014, \$250,000,000 in principal amount that will mature in 2016 and \$400,000,000 in principal amount that will mature in 2019 and bear interest at a rate of 3.625%, 4.25% and 4.75%, respectively. Proceeds of \$200,000,000 from the taxable Series 2009A were used to refinance the debt incurred to fund certain capital improvements of the University and the \$794,198,000 unspent balance, net of issuance costs, is currently invested in cash and cash equivalents to provide additional liquidity for the University's general purposes.

In May 2009, CEFA Series S4 (Tranche One) revenue bonds in the amount of \$51,200,000 were converted from a daily rate mode to a commercial paper rate mode. Series S bonds bear interest at a commercial paper municipal rate and are outstanding for various periods which may be from one day to 270 days.

In August 2009, CEFA T-5 revenue bonds (the T5 Bonds) in the amount of \$51,765,000 plus an original issue premium of \$7,382,700 were issued. Proceeds were used to refund a portion of CEFA P revenue bonds. During fiscal year 2009, the University legally defeased approximately \$59,180,000 of CEFA P revenue bonds. The T5 Bonds bear interest at a rate of 5%, mature on March 15, 2023 and are subject to redemption prior to maturity at the option of the University.

In connection with the issuances of Series 2009A bonds, the conversion of CEFA Series S4 (Tranche One) revenue bonds and CEFA T5 bonds, the University's long-term ratings of AAA/Aaa/AAA were affirmed with Standard and Poor's, Moody's Investors Service and Fitch Ratings, respectively.

The University's taxable commercial paper facility provides for borrowings up to \$350,000,000 outstanding at any time. As of August 31, 2009 the outstanding balance was \$97,476,000, the weighted average days to maturity were 19.2 and the weighted average effective interest rate was 0.51%.

The University's tax-exempt commercial paper facility provides for borrowings up to \$300,000,000 outstanding at any time. As of August 31, 2009 the outstanding balance was \$152,140,000, the weighted average days to maturity were 32.3 and the weighted average effective interest rate was 0.23%.

The University has \$265,018,000 of variable-rate revenue notes and bonds (VRDBs) outstanding (excluding commercial paper). CEFA Series L bonds bear interest at a weekly rate and CEFA Series S bonds bear interest at a commercial paper rate and are outstanding for various interest periods of 270 days or less. In the event the University receives notice of any optional tender of its VRDBs, or if the bonds become subject to mandatory tender, the purchase price of the bonds will be paid from the remarketing of such bonds. However, if the remarketing proceeds are insufficient, the University will have a current obligation to purchase the bonds tendered. The University has identified several sources of funding including cash, money market funds, U.S. treasury securities and agencies' discount notes to provide for the full and timely purchase price of any bonds tendered in the event of a failed remarketing.

The University uses interest rate exchange agreements 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, 2009, the University had exchange 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 Series S VRDBs and exchange 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 notional amount and the fair value of the exchange agreements were \$150,000,000 and (\$24,848,000), respectively, as of August 31, 2009, and \$150,000,000 and (\$12,169,000), respectively, as of August 31, 2008. Collateral posted with various counterparties was \$20,000,000 as of August 31, 2009, and is included in unrestricted net assets.

The University incurred interest expense of approximately \$57,901,000 and \$71,589,000 for fiscal years 2009 and 2008, respectively, which is net of \$460,000 and \$4,770,000, respectively, of interest income and approximately \$3,818,000 and \$2,902,000, respectively, in interest capitalized as a cost of construction. Interest expense associated with the Series 2009A bonds in the amount of \$10,529,000 (net of interest income of \$1,144,000) is included as an investment expense and has been excluded from the interest expense amount above. Payments on interest rate exchange agreements, which are included in other changes in unrestricted net assets, totaled \$4,971,000 and \$1,800,000 for fiscal years 2009 and 2008, respectively.

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

| YEAR ENDING AUGUST 31 | PRINCIPAL           |
|-----------------------|---------------------|
| 2010 Commercial Paper | \$ 249,616          |
| 2010 Other            | 265,068             |
| 2011                  | 50,050              |
| 2012                  | 61,635              |
| 2013                  | 50                  |
| 2014                  | 573,720             |
| Thereafter            | 1,281,666           |
| <b>TOTAL</b>          | <b>\$ 2,481,805</b> |

## 10. Hospitals' Notes and Bonds Payable

Bonds, certificates of participation and capital lease obligations at August 31, 2009 and 2008, in thousands of dollars, are as follows:

|   | YEAR OF MATURITY | EFFECTIVE INTEREST RATE 2009/2008 | OUTSTANDING PRINCIPAL |                     |
|---|------------------|-----------------------------------|-----------------------|---------------------|
|   |                  |                                   | 2009                  | 2008                |
| SHC:  |                  |                                   |                       |                     |
| California Health Facilities Financing Authority (CHFFA) Bonds: |                  |                                   |                       |                     |
| 1998 Series B Fixed Rate Bonds                                  | 2031             | 5.0%                              | \$ 163,435            | \$ 167,195          |
| 2003 Series A Fixed Rate Bonds                                  | 2007-2023        | 2.0% - 5.0%                       | 88,015                | 91,990              |
| 2003 Series B, C and D Variable Rate Bonds                      | 2036             | 0.67%/1.8%*                       | 150,000               | 150,000             |
| 2008 Series A Variable Rate Bonds                               | 2040             | 1.38%/2.2%                        | 260,300               | 260,300             |
| 2008 Series B Variable Rate Bonds                               | 2045             | 0.16%/1.5%                        | 168,200               | 168,200             |
| Promissory Note   | 2014             | 7.03%                             | 857                   | 999                 |
| LPCH:   |                  |                                   |                       |                     |
| California Health Facilities Financing Authority (CHFFA) Bonds: |                  |                                   |                       |                     |
| 2003 Series C Fixed Rate Bonds                                  | 2013-2027        | 3.25%                             | 55,000                | 55,000              |
| 2008 Series A and B Variable Rate Bonds                         | 2027-2033        | 0.15% & 0.14%/1.4% & 1.6%         | 60,680                | 60,680              |
| 2008 Series C Variable Rate Bonds                               | 2015-2023        | 0.14%/1.6%                        | 32,770                | 32,770              |
| Capital lease obligation  |                  |                                   | 15,748                | 15,896              |
| Hospitals notes and bonds payable                               |                  |                                   | 995,005               | 1,003,030           |
| Net premium   |                  |                                   | 4,001                 | 4,307               |
| <b>TOTAL</b>  |                  |                                   | <b>\$ 999,006</b>     | <b>\$ 1,007,337</b> |

\*Exclusive of interest rate exchange agreements.

At August 31, 2009 and 2008, the fair value of these debt instruments approximated their recorded value.

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 of the revenues of the respective hospital. Although CHFFA is the issuer, the Hospitals are responsible for the repayment of the tax-exempt debt. Payments of principal and interest on 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. Subject to applicable no-call provisions, the Hospitals may cause the redemption of the bonds, in whole or in part, prior to the stated maturities.

SHC has \$578,500,000 of Variable Rate Demand Bonds (VRDBs) outstanding, including \$150,000,000 of 2003 Series B, C and D, \$104,100,000 of 2008 Series A-2 and \$168,200,000 of 2008 Series B, all of which bear interest at weekly rates. Additionally, SHC has \$70,500,000 of 2008 Series A-1 and \$85,700,000 of 2008 Series A-3, which are VRDBs that bear interest at a long term rate and are subject to mandatory tender on June 15, 2010 and June 15, 2011, respectively.

In order to provide liquidity for the 2003 Series B, C and D VRDBs, SHC entered into standby bond purchase agreements in the aggregate amount of \$150,000,000, each of which expires in June 2011. Liquidity for the 2008 Series A-2 VRDBs is secured by a direct pay letter of credit that expires in June 2011.

The 2008 Series B, Series A-1 and Series A-3 VRDBs are supported with self-liquidity, including an agreement with the University to access on a same-day basis, up to \$200,000,000 of SHC's investments that are managed for SHC by the University. In the event SHC receives notice of any optional or mandatory tender of the 2008 Series B VRDBs, or if the 2008 Series A-1 or Series A-3 become subject to mandatory tender, the purchase price of the bonds will be paid from the remarketing of such bonds. However, if the remarketing proceeds are insufficient, SHC will have a current obligation to purchase any tendered bonds that are not remarketed.

During 2009, SHC obtained standby letters of credit in the amount of \$85,000,000 to support collateral requirements under certain interest rate exchange agreements. Additionally, SHC has irrevocable letters of credit in the amount of \$14,619,000 which are posted as collateral for the workers' compensation self-insurance arrangement. No amounts have been drawn on these letters of credit as of August 31, 2009.

SHC uses interest rate exchange agreements to reduce the effect of interest rate fluctuations with respect to the VRDBs. Certain exchange agreements require mutual posting of collateral by SHC and the counterparties if the termination payments exceed a predetermined threshold dollar amount.

At August 31, 2009, SHC had interest rate exchange agreements expiring through November 2045 to pay fixed interest rates varying from 3.4% to 3.9% on the outstanding balance of \$749,400,000. The aggregate notional amount and the fair value of the exchange agreements were \$749,400,000 and (\$87,311,000), respectively, as of August 31, 2009 and \$749,400,000 and (\$38,973,000), respectively, as of August 31, 2008. The amount of collateral required to be posted with counterparties was \$29,718,000 as of August 31, 2009 and was met by the posting of standby letters of credit in the aggregate amount of \$85,000,000, which may only be drawn upon in the event of a default by SHC.

LPCH has \$93,450,000 of VRDBs outstanding, CHFFA 2008 Series A, B and C (the LPCH 2008 Bonds) which bear interest at a weekly rate.

The LPCH 2008 Bonds are supported by self-liquidity and holders have the option to tender these certificates weekly. In order to ensure the availability of funds to purchase any bonds tendered that the remarketing agent is unable to remarket, LPCH has entered into a liquidity agreement with the University. The agreement allows immediate availability of LPCH funds invested in the University Merged Pools for the purpose of funding tenders. The entire 2008 CHFFA Series A, B, and C issue is classified as a liability.

LPCH has irrevocable letters of credit in the amount of \$5,788,000 which are posted as collateral for the workers' compensation deductible plan. No amounts have been drawn on these letters of credit as of August 31, 2009.

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.

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         |
|-----------------------|-------------------|
| 2010                  | \$ 369,738        |
| 2011                  | 9,985             |
| 2012                  | 25,327            |
| 2013                  | 13,135            |
| 2014                  | 14,794            |
| Thereafter            | 562,026           |
| <b>TOTAL</b>          | <b>\$ 995,005</b> |

## 11. University Endowment

The University classifies a substantial portion of its financial resources as endowment, which is invested to generate income to be used to support operating and strategic initiatives. 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. 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.

The University classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are authorized for expenditure. Net unrealized losses on permanently restricted endowment funds are classified as a reduction to unrestricted net assets until such time as the fair value of the fund equals or exceeds historic value. At August 31, 2009, unrestricted net assets were reduced by \$203,089,000 for such losses.

Endowment funds by net asset classification as of August 31, 2009, in thousands of dollars, are as follows:

|                                  | UNRESTRICTED        | TEMPORARILY<br>RESTRICTED | PERMANENTLY<br>RESTRICTED | TOTAL                |
|----------------------------------|---------------------|---------------------------|---------------------------|----------------------|
| Donor restricted endowment funds | \$ (203,089)        | \$ 3,917,921              | \$ 4,180,875              | \$ 7,895,707         |
| Funds functioning as endowment   | 4,723,387           | -                         | -                         | 4,723,387            |
| <b>TOTAL ENDOWMENT FUNDS</b>     | <b>\$ 4,520,298</b> | <b>\$ 3,917,921</b>       | <b>\$ 4,180,875</b>       | <b>\$ 12,619,094</b> |

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

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

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

In February 2007 the Board approved an increase in the targeted spending rate from 5% to 5.5% effective beginning in fiscal year 2008. 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.

In fiscal years 2009 and 2008, earned income and realized and previously reinvested gains on endowment funds were distributed for University operations, as follows, in thousands of dollars:

|  | 2009      |                | 2008      |                |
|--|-----------|----------------|-----------|----------------|
| Earned income                            | \$        | 111,186        | \$        | 176,072        |
| Realized and previously reinvested gains |           | 845,332        |           | 705,498        |
| <b>APPROVED PAYOUT</b>                   | <b>\$</b> | <b>956,518</b> | <b>\$</b> | <b>881,570</b> |

Changes in the University's endowment, excluding pledges, for the years ended August 31, 2009 and 2008, in thousands of dollars, are as follows:

|   | 2009                |                        |                        |                      | 2008                 |
|---|---------------------|------------------------|------------------------|----------------------|----------------------|
|   | UNRESTRICTED        | TEMPORARILY RESTRICTED | PERMANENTLY RESTRICTED | TOTAL                | TOTAL                |
| ENDOWMENT, BEGINNING OF YEAR                                  | \$ 12,929,342       | \$ 88,226              | \$ 4,196,805           | \$ 17,214,373        | \$ 17,164,836        |
| Net asset reclassification based on adoption of FSP FAS 117-1 | (6,333,634)         | 6,333,634              | -                      | -                    | -                    |
| Endowment after reclassification                              | 6,595,708           | 6,421,860              | 4,196,805              | 17,214,373           | 17,164,836           |
| Investment returns:   |                     |                        |                        |                      |                      |
| Earned income   | 111,186             | -                      | -                      | 111,186              | 176,072              |
| Unrealized and realized gains (losses)                        | (1,429,929)         | (1,905,295)            | (246,805)              | (3,582,029)          | 467,949              |
| Total investment (losses) returns                             | (1,318,743)         | (1,905,295)            | (246,805)              | (3,470,843)          | 644,021              |
| Amounts distributed for operations                            | (353,084)           | (603,434)              | -                      | (956,518)            | (881,570)            |
| Gifts and pledge payments                                     | 11,841              | 2,238                  | 141,280                | 155,359              | 188,283              |
| Funds invested in endowment, net                              | 82,739              | (663)                  | 80,792                 | 162,868              | 118,331              |
| EFP funds withdrawn from the endowment                        | (487,987)           | -                      | -                      | (487,987)            | (46,699)             |
| Other   | (10,176)            | 3,215                  | 8,803                  | 1,842                | 27,171               |
| NET (DECREASE) INCREASE IN ENDOWMENT                          | (2,075,410)         | (2,503,939)            | (15,930)               | (4,595,279)          | 49,537               |
| <b>ENDOWMENT, END OF YEAR</b>                                 | <b>\$ 4,520,298</b> | <b>\$ 3,917,921</b>    | <b>\$ 4,180,875</b>    | <b>\$ 12,619,094</b> | <b>\$ 17,214,373</b> |

## 12. Hospitals' Endowments

The endowments of SHC and LPCH are intended to generate investment income that can be used to support their current operating and strategic initiatives. The Hospitals invest the majority of their endowments in the University's MP. As such, the Hospitals' endowments are subject to the same investment and spending strategies as described in Note 11. These policies provide for annual amounts (payout) to be distributed. The Hospitals' endowment income distributed for operations of \$20,039,000 in fiscal year 2009 and \$14,441,000 in fiscal year 2008 represents current year payout spent for designated purposes during the year.

The Hospitals classify as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are authorized for expenditure.

Net unrealized losses on permanently restricted endowment funds are classified as a reduction to unrestricted net assets until such time as the fair value equals or exceeds historic value. The aggregate amount by which fair value was below historic value was approximately \$11,280,000 as of August 31, 2009.

Changes in the Hospitals' endowments, for the years ended August 31, 2009 and 2008, in thousands of dollars, are as follows:

|  | 2009               |                           |                           |                   | 2008              |
|--|--------------------|---------------------------|---------------------------|-------------------|-------------------|
|  | UNRESTRICTED       | TEMPORARILY<br>RESTRICTED | PERMANENTLY<br>RESTRICTED | TOTAL             | TOTAL             |
| ENDOWMENT, BEGINNING OF YEAR                                     | \$ 111,619         | \$ 18,347                 | \$ 275,788                | \$ 405,754        | \$ 355,785        |
| Net asset reclassification based on<br>adoption of FSP FAS 117-1 | (111,619)          | 111,619                   | -                         | -                 | -                 |
| Endowment after reclassification                                 | -                  | 129,966                   | 275,788                   | 405,754           | 355,785           |
| Investment returns:  |                    |                           |                           |                   |                   |
| Earned income  | -                  | 19,614                    | -                         | 19,614            | 21,208            |
| Unrealized and realized losses                                   | (10,918)           | (85,782)                  | (1,917)                   | (98,617)          | (7,377)           |
| Total investment (losses) returns                                | (10,918)           | (66,168)                  | (1,917)                   | (79,003)          | 13,831            |
| Amounts distributed for operations                               | -                  | (17,761)                  | -                         | (17,761)          | (14,957)          |
| Gifts and pledge payments  | -                  | -                         | 18,740                    | 18,740            | 52,846            |
| Other  | -                  | -                         | (3,530)                   | (3,530)           | (1,751)           |
| NET (DECREASE) INCREASE IN ENDOWMENT                             | (10,918)           | (83,929)                  | 13,293                    | (81,554)          | 49,969            |
| <b>ENDOWMENT, END OF YEAR</b>                                    | <b>\$ (10,918)</b> | <b>\$ 46,037</b>          | <b>\$ 289,081</b>         | <b>\$ 324,200</b> | <b>\$ 405,754</b> |

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

### 13. 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, 2009 and 2008, per the statement of activities reconciled to the cash basis (as reported by OOD), in thousands of dollars:

|   | 2009              | 2008              |
|---|-------------------|-------------------|
| Current year gifts in support of operations                               | \$ 149,035        | \$ 182,411        |
| Donor advised funds, net  | 1,010             | 165,583           |
| Current year gifts not included in operations                             | 10,711            | 8,976             |
| Temporarily restricted gifts and pledges, net                             | 209,293           | 322,366           |
| Permanently restricted gifts and pledges, net                             | 172,128           | 246,613           |
| <b>TOTAL PER STATEMENT OF ACTIVITIES</b>                                  | <b>542,177</b>    | <b>925,949</b>    |
| Adjustments to gift total as reported by OOD:                             |                   |                   |
| New pledges   | (279,505)         | (378,372)         |
| Payments made on pledges  | 243,581           | 215,453           |
| Pledge discounts and other adjustments                                    | 48,089            | 40,646            |
| Donor advised funds not designated for Stanford                           | 43                | (88,386)          |
| Non-cash gifts  | 1,361             | 3,351             |
| Non-government grants, recorded as sponsored research support when earned | 74,772            | 63,774            |
| Stanford Hospital grants  | 7,167             | -                 |
| Other   | 2,422             | 2,628             |
| <b>TOTAL AS REPORTED BY OOD</b>   | <b>\$ 640,107</b> | <b>\$ 785,043</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.

### 14. Functional Expenses

Expenses for each of the years ended August 31, 2009 and 2008 are categorized on a functional basis as follows, in thousands of dollars:

|                                       | 2009                |                     |                     | 2008                |
|---------------------------------------|---------------------|---------------------|---------------------|---------------------|
|                                       | UNIVERSITY          | HOSPITALS           | CONSOLIDATED        | CONSOLIDATED        |
| Organized research (direct costs)     | \$ 816,477          | \$ -                | \$ 816,477          | \$ 838,607          |
| Instruction and departmental research | 1,098,245           | -                   | 1,098,245           | 1,089,872           |
| Auxiliary activities                  | 595,263             | -                   | 595,263             | 564,647             |
| Administration and general            | 209,961             | 129,963             | 339,924             | 331,006             |
| Libraries                             | 147,956             | -                   | 147,956             | 154,718             |
| Development                           | 78,935              | 11,543              | 90,478              | 89,551              |
| Student services                      | 128,608             | -                   | 128,608             | 120,880             |
| SLAC construction                     | 54,401              | -                   | 54,401              | 108,730             |
| Patient services                      | -                   | 1,822,116           | 1,822,116           | 1,659,073           |
| <b>TOTAL EXPENSES</b>                 | <b>\$ 3,129,846</b> | <b>\$ 1,963,622</b> | <b>\$ 5,093,468</b> | <b>\$ 4,957,084</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, Stanford Alumni Association, other activities and certain patient care provided by the School of Medicine faculty.

## 15. 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) and a retirement incentive bonus for eligible faculty (other benefits).

For fiscal year 2008, 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 is required to use August 31 as its measurement date in accordance with the measurement date provisions of Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* (FAS 158). The impact of the change in measurement date during fiscal year 2009 was a net decrease to unrestricted net assets of \$6,259,000.

### **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 \$97,705,000 and \$92,652,000 for the years ended August 31, 2009 and 2008, 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 AND OTHER BENEFIT PLANS**

The University's employees and their covered dependents may become eligible for post retirement medical and other 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 and Other 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 AND OTHER |                     |
|--|--------------------|--------------------|-----------------------------------|---------------------|
|  | 2009               | 2008               | 2009                              | 2008                |
| <b>CHANGE IN PLAN ASSETS</b>   |                    |                    |                                   |                     |
| Fair value of plan assets, beginning of year   | \$ 268,886         | \$ 289,646         | \$ 101,350                        | \$ 102,081          |
| Actual return on plan assets   | (7,447)            | (2,682)            | (12,108)                          | (6,285)             |
| Employer contributions   | -                  | -                  | 22,861                            | 14,830              |
| Plan participants' contributions   | -                  | -                  | 6,475                             | 6,206               |
| Benefits paid  | (15,273)           | (18,078)           | (19,389)                          | (15,926)            |
| Adjustments due to adoption of FAS 158   |                    |                    |                                   |                     |
| measurement date provisions  | (4,870)            | -                  | 896                               | -                   |
| Merger with CASBS  | -                  | -                  | -                                 | 444                 |
| <b>FAIR VALUE OF PLAN ASSETS, END OF YEAR</b>  | <b>\$ 241,296</b>  | <b>\$ 268,886</b>  | <b>\$ 100,085</b>                 | <b>\$ 101,350</b>   |
| <b>CHANGE IN PROJECTED BENEFIT OBLIGATION</b>  |                    |                    |                                   |                     |
| Benefit obligation, beginning of year  | \$ 246,408         | \$ 250,554         | \$ 323,842                        | \$ 313,368          |
| Service cost   | 3,493              | 3,950              | 11,104                            | 10,810              |
| Interest cost  | 15,670             | 15,016             | 21,990                            | 19,895              |
| Plan participants' contributions   | -                  | -                  | 6,475                             | 6,206               |
| Actuarial loss (gain)  | 22,357             | (5,034)            | (30,304)                          | (11,850)            |
| Benefits paid, net of Medicare subsidy   | (15,273)           | (18,078)           | (17,889)                          | (15,031)            |
| Adjustments due to adoption of FAS 158   |                    |                    |                                   |                     |
| measurement date provisions  | (1,676)            | -                  | 4,994                             | -                   |
| Merger with CASBS  | -                  | -                  | -                                 | 444                 |
| Benefit obligation, Faculty Retirement Incentive Program (FRIP)  | -                  | -                  | 165,937                           | -                   |
| <b>BENEFIT OBLIGATION, END OF YEAR</b>   | <b>\$ 270,979</b>  | <b>\$ 246,408</b>  | <b>\$ 486,149</b>                 | <b>\$ 323,842</b>   |
| <b>AMOUNTS RECOGNIZED IN FINANCIAL STATEMENTS</b>  |                    |                    |                                   |                     |
| Plan assets minus projected benefit obligation   | \$ (29,683)        | \$ 22,478          | \$ (386,064)                      | \$ (222,492)        |
| Contributions after the measurement date   | -                  | -                  | -                                 | 3,540               |
| <b>NET (LIABILITY) ASSET RECOGNIZED IN THE STATEMENT OF FINANCIAL POSITION</b>                           | <b>\$ (29,683)</b> | <b>\$ 22,478</b>   | <b>\$ (386,064)</b>               | <b>\$ (218,952)</b> |
| Prior service cost   | \$ 4,390           | \$ 6,141           | \$ 48,169                         | \$ 57,041           |
| Net actuarial loss (gain)  | 23,221             | (27,427)           | 51,733                            | 64,419              |
| FRIP cost  | -                  | -                  | 165,937                           | -                   |
| <b>PENSION AND OTHER POST EMPLOYMENT BENEFIT RELATED CHANGES OTHER THAN NET PERIODIC BENEFIT EXPENSE</b> | <b>\$ 27,611</b>   | <b>\$ (21,286)</b> | <b>\$ 265,839</b>                 | <b>\$ 121,460</b>   |

The accumulated benefit obligation for the Pension plan was \$266,750,000 as of August 31, 2009 and \$242,198,000 as of June 30, 2008. The accumulated benefit obligation of the FRIP plan was \$135,961,000 as of August 31, 2009.

Net periodic benefit expense (income) and other changes in net assets related to the Pension and Post Retirement Medical and Other Benefit plans for the years ended August 31, 2009 and 2008, in thousands of dollars, includes the following components:

|  | PENSION          |                   | POST RETIREMENT MEDICAL AND OTHER |                   |
|--|------------------|-------------------|-----------------------------------|-------------------|
|  | 2009             | 2008              | 2009                              | 2008              |
| Service cost   | \$ 3,493         | \$ 3,950          | \$ 11,104                         | \$ 10,810         |
| Interest cost  | 15,670           | 15,016            | 21,990                            | 19,895            |
| Expected return on plan assets   | (17,803)         | (19,535)          | (8,509)                           | (8,287)           |
| Amortization of prior service cost   | 1,501            | 1,654             | 7,605                             | 7,605             |
| Recognized net actuarial (gains) losses  | (63)             | (2,126)           | 2,570                             | 2,184             |
| <b>NET PERIODIC BENEFIT EXPENSE (INCOME)</b>   | <b>\$ 2,798</b>  | <b>\$ (1,041)</b> | <b>\$ 34,760</b>                  | <b>\$ 32,207</b>  |
| Prior service cost during period   | \$ -             | \$ -              | \$ -                              | \$ -              |
| Net actuarial loss (gain) during period  | 50,574           | 17,182            | (9,648)                           | 2,723             |
| Amortization of:   |                  |                   |                                   |                   |
| Prior service cost   | (1,501)          | (1,654)           | (7,605)                           | (7,605)           |
| Actuarial gain (loss)  | 63               | 2,126             | (2,570)                           | (2,184)           |
| <b>TOTAL AMOUNTS RECOGNIZED IN UNRESTRICTED NET ASSETS</b>                                 | <b>\$ 49,136</b> | <b>\$ 17,654</b>  | <b>\$ (19,823)</b>                | <b>\$ (7,066)</b> |
| <b>TOTAL AMOUNT RECOGNIZED IN NET PERIODIC BENEFIT EXPENSE AND UNRESTRICTED NET ASSETS</b> | <b>\$ 51,934</b> | <b>\$ 16,613</b>  | <b>\$ 14,937</b>                  | <b>\$ 25,141</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 AND OTHER |
|--------------------|----------|-----------------------------------|
| Net actuarial loss | \$ -     | \$ 1,317                          |
| Prior service cost | \$ 1,501 | \$ 7,605                          |

### ACTUARIAL ASSUMPTIONS

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

|                             | PENSION |       | POST RETIREMENT MEDICAL AND OTHER |       |
|-----------------------------|---------|-------|-----------------------------------|-------|
|                             | 2009    | 2008  | 2009                              | 2008  |
| Discount rate               | 5.75%   | 6.75% | 5.75% - 6.00%                     | 6.50% |
| Covered payroll growth rate | 4.21%   | 4.29% | 3.50%                             | N/A   |

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

|                                | PENSION |       | POST RETIREMENT MEDICAL AND OTHER |       |
|--------------------------------|---------|-------|-----------------------------------|-------|
|                                | 2009    | 2008  | 2009                              | 2008  |
| Discount rate                  | 6.75%   | 6.25% | 5.75% - 6.50%                     | 6.25% |
| Expected return on plan assets | 7.00%   | 7.00% | 8.00%                             | 8.00% |
| Covered payroll growth rate    | 4.29%   | 5.52% | 3.50%                             | 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 and Other 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 August 31, 2009, an 8.5% annual rate of increase in the per capita costs of covered health care was assumed for 2009-2010, declining gradually to 5% by 2017 and remaining at this rate thereafter. For covered dental plans, a 5% annual rate of increase was assumed for 2009-2010 and remains 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 \$43,822,000 and the aggregate annual service and interest cost by \$5,039,000. Decreasing the health care cost trend rate by 1% in each future year would decrease the accumulated post retirement medical benefit obligation by \$36,306,000 and the aggregate annual service and interest cost by \$4,059,000.

## PLAN ASSETS

Asset allocations by asset category at August 31, 2009 and June 30, 2008 are as follows:

| ASSET CATEGORY            | PENSION     |             | POST RETIREMENT MEDICAL AND OTHER |             |
|---------------------------|-------------|-------------|-----------------------------------|-------------|
|                           | 2009        | 2008        | 2009                              | 2008        |
| Domestic equity           | 34%         | 33%         | 38%                               | 38%         |
| International equity      | 11%         | 11%         | 37%                               | 37%         |
| Fixed income              | 54%         | 55%         | 25%                               | 25%         |
| Cash and cash equivalents | 1%          | 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 and Other 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, 2010. The University expects to contribute \$11,596,000 to its Post Retirement Medical and Other Benefit plans during the fiscal year ending August 31, 2010.

## 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<br>PLAN | POST RETIREMENT MEDICAL AND OTHER |                          |
|-------------|-----------------|-----------------------------------|--------------------------|
|             |                 | EXCLUDING<br>MEDICARE SUBSIDY     | WITH<br>MEDICARE SUBSIDY |
| 2010        | \$ 24,984       | \$ 60,105                         | \$ 57,919                |
| 2011        | 21,411          | 27,672                            | 25,186                   |
| 2012        | 21,468          | 29,637                            | 26,828                   |
| 2013        | 21,163          | 31,165                            | 27,992                   |
| 2014        | 20,779          | 33,355                            | 29,797                   |
| 2015 - 2019 | 102,550         | 197,133                           | 172,212                  |

## 16. Hospitals' Retirement Plans

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

For fiscal year 2008, the Hospitals 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 Hospitals are required to use August 31 as their measurement date in accordance with the provisions of FAS 158. The impact of the change in measurement date during fiscal year 2009 was a net decrease to unrestricted net assets of \$694,000.

### **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 \$55,581,000 and \$50,342,000 for the years ended August 31, 2009 and 2008, 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 certain of its 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. Effective January 2009, the Hospitals implemented a change to their postretirement medical plan to add retiree health reimbursement accounts for certain participants, which resulted in an increase to the benefit obligation of \$3,632,000 for the year ended August 31, 2009.

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 |                    |
|--|--------------------|-------------------|-------------------------|--------------------|
|  | 2009               | 2008              | 2009                    | 2008               |
| <b>CHANGE IN PLAN ASSETS</b>   |                    |                   |                         |                    |
| Fair value of plan assets, beginning of year   | \$ 145,724         | \$ 157,456        | \$ -                    | \$ -               |
| Actual return on plan assets   | (23,078)           | (11,516)          | -                       | -                  |
| Plan participants' contributions   | -                  | -                 | 665                     | 682                |
| Employer contributions   | 3,075              | 6,898             | 4,490                   | 3,657              |
| Benefits paid  | (7,763)            | (7,114)           | (4,580)                 | (4,339)            |
| Adjustments due to adoption of FAS 158 measurement date provisions                                       | (1,179)            | -                 | (575)                   | -                  |
| <b>FAIR VALUE OF PLAN ASSETS, END OF YEAR</b>  | <b>\$ 116,779</b>  | <b>\$ 145,724</b> | <b>\$ -</b>             | <b>\$ -</b>        |
| <b>CHANGE IN PROJECTED BENEFIT OBLIGATION</b>  |                    |                   |                         |                    |
| Benefit obligation, beginning of year  | \$ 151,941         | \$ 162,628        | \$ 63,543               | \$ 66,339          |
| Service cost   | 1,747              | 1,720             | 1,665                   | 1,583              |
| Interest cost  | 12,664             | 10,270            | 5,067                   | 4,071              |
| Plan participants' contributions   | -                  | -                 | 665                     | 682                |
| Actuarial (gain) loss  | 25,787             | (15,563)          | 9,411                   | (4,793)            |
| Benefits paid  | (7,763)            | (7,114)           | (4,580)                 | (4,339)            |
| Plan amendment   | -                  | -                 | 3,632                   | -                  |
| Adjustments due to adoption of FAS 158 measurement date provisions                                       | (1,120)            | -                 | (575)                   | -                  |
| <b>BENEFIT OBLIGATION, END OF YEAR</b>   | <b>\$ 183,256</b>  | <b>\$ 151,941</b> | <b>\$ 78,828</b>        | <b>\$ 63,543</b>   |
| <b>AMOUNTS RECOGNIZED IN FINANCIAL STATEMENTS</b>  |                    |                   |                         |                    |
| Plan assets minus projected benefit obligation   | \$ (66,477)        | \$ (6,217)        | \$ (78,828)             | \$ (63,543)        |
| Contributions made after measurement date  | -                  | -                 | -                       | 725                |
| <b>NET LIABILITY RECOGNIZED IN THE STATEMENT OF FINANCIAL POSITION</b>                                   | <b>\$ (66,477)</b> | <b>\$ (6,217)</b> | <b>\$ (78,828)</b>      | <b>\$ (62,818)</b> |
| Prior service cost (credit)  | \$ -               | \$ -              | \$ 2,020                | \$ (2,585)         |
| Net actuarial loss (gain)  | 67,292             | 4,295             | 1,495                   | (8,972)            |
| <b>PENSION AND OTHER POST EMPLOYMENT BENEFIT RELATED CHANGES OTHER THAN NET PERIODIC BENEFIT EXPENSE</b> | <b>\$ 67,292</b>   | <b>\$ 4,295</b>   | <b>\$ 3,515</b>         | <b>\$ (11,557)</b> |

The accumulated benefit obligation for the Pension plan was \$179,184,000 as of August 31, 2009 and \$147,989,000 as of June 30, 2008.

Net periodic benefit expense and other changes in net assets related to the plans for the years ended August 31, 2009 and 2008, in thousands of dollars, includes the following components:

|  | PENSION          |                 | POST RETIREMENT MEDICAL |                   |
|--|------------------|-----------------|-------------------------|-------------------|
|  | 2009             | 2008            | 2009                    | 2008              |
| Service cost   | \$ 1,747         | \$ 1,720        | \$ 1,665                | \$ 1,583          |
| Interest cost  | 12,664           | 10,270          | 5,067                   | 4,071             |
| Expected return on plan assets   | (14,195)         | (11,386)        | -                       | -                 |
| Amortization of prior service cost   | -                | -               | (973)                   | (834)             |
| Recognized net actuarial losses (gains)  | 97               | 36              | (1,056)                 | (448)             |
| <b>NET PERIODIC BENEFIT EXPENSE</b>  | <b>\$ 313</b>    | <b>\$ 640</b>   | <b>\$ 4,703</b>         | <b>\$ 4,372</b>   |
| Prior service cost during period   | \$ -             | \$ -            | \$ 3,632                | \$ -              |
| Net actuarial loss (gain) during period  | 63,109           | 7,338           | 9,411                   | (4,793)           |
| Amortization of:   |                  |                 |                         |                   |
| Prior service credit   | -                | -               | 973                     | 834               |
| Actuarial (loss) gain  | (97)             | (36)            | 1,056                   | 448               |
| <b>TOTAL AMOUNTS RECOGNIZED IN UNRESTRICTED NET ASSETS</b>                                 | <b>\$ 63,012</b> | <b>\$ 7,302</b> | <b>\$ 15,072</b>        | <b>\$ (3,511)</b> |
| <b>TOTAL AMOUNT RECOGNIZED IN NET PERIODIC BENEFIT EXPENSE AND UNRESTRICTED NET ASSETS</b> | <b>\$ 63,325</b> | <b>\$ 7,942</b> | <b>\$ 19,775</b>        | <b>\$ 861</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 loss | \$ 1,508 | \$ 105                  |
| Prior service cost | \$ -     | \$ 574                  |

### 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 |       |
|-----------------------------|--------------|--------------|-------------------------|-------|
|                             | 2009         | 2008         | 2009                    | 2008  |
| Discount rate               | 5.93 - 6.10% | 7.31 - 7.38% | 5.83%                   | 7.12% |
| 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 |       |
|--------------------------------|--------------|--------------|-------------------------|-------|
|                                | 2009         | 2008         | 2009                    | 2008  |
| Discount rate                  | 7.31 - 7.38% | 6.43 - 6.47% | 7.12%                   | 6.35% |
| Expected return on plan assets | 6.25 - 8.00% | 6.25 - 8.00% | N/A                     | N/A   |
| Covered payroll growth rate    | 5.50%        | 5.50%        | N/A                     | N/A   |

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

To determine the accumulated post retirement medical benefit obligation as of August 31, 2009, a 9.5% annual rate of increase in the pre-65 per capita costs, a 10% annual rate of increase in the post-65 prescription drug per capita costs, and a 7% rate of increase in the post-65 per capita cost of all other medical benefits was assumed for 2009-2010, 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 \$2,764,000 and the aggregate annual service and interest cost by \$251,000. Decreasing the health care cost trend rate by 1% in each future year would decrease the accumulated post retirement medical benefit obligation by \$2,509,000 and the aggregate annual service and interest cost by \$227,000.

### PLAN ASSETS

Asset allocations by asset category at August 31, 2009 and June 30, 2008 are as follows:

| ASSET CATEGORY         | PENSION     |             |
|------------------------|-------------|-------------|
|                        | 2009        | 2008        |
| Cash equivalents       | 9%          | 1%          |
| Equity securities      | 42%         | 66%         |
| Fixed income           | 42%         | 21%         |
| Real estate            | 7%          | 12%         |
| <b>TOTAL PORTFOLIO</b> | <b>100%</b> | <b>100%</b> |

The weighted-average target asset allocation of 46% equity securities, 44% fixed income, 10% 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 \$14,446,000 to their Pension plan and \$4,739,000 to their Post Retirement Medical Benefit plan during the fiscal year ending August 31, 2010.

### 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<br>PLAN | POST RETIREMENT MEDICAL       |                          |
|-------------|-----------------|-------------------------------|--------------------------|
|             |                 | EXCLUDING<br>MEDICARE SUBSIDY | WITH<br>MEDICARE SUBSIDY |
| 2010        | \$ 9,004        | \$ 5,202                      | \$ 4,739                 |
| 2011        | 9,707           | 5,763                         | 5,232                    |
| 2012        | 10,353          | 6,284                         | 5,682                    |
| 2013        | 10,993          | 6,816                         | 6,143                    |
| 2014        | 11,729          | 7,227                         | 6,485                    |
| 2015 - 2019 | 67,972          | 38,040                        | 33,310                   |



## 17. 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, 2009 and 2008 was \$32,172,000 and \$29,612,000, respectively, for the University and \$51,084,000 and \$47,264,000, respectively, for the Hospitals.

Net minimum future operating lease payments and related present value, assuming a 5.75% discount rate for periods subsequent to August 31, 2009, in thousands of dollars, are as follows:

| YEAR ENDED AUGUST 31 | MINIMUM LEASE PAYMENTS |                   | PRESENT VALUE OF<br>MINIMUM LEASE PAYMENTS |                   |
|----------------------|------------------------|-------------------|--|-------------------|
|                      | UNIVERSITY             | HOSPITALS         | UNIVERSITY                                 | HOSPITALS         |
| 2010                 | \$ 23,949              | \$ 37,288         | \$ 23,220                                  | \$ 36,325         |
| 2011                 | 21,936                 | 28,801            | 20,111                                     | 26,532            |
| 2012                 | 19,369                 | 25,616            | 16,793                                     | 22,315            |
| 2013                 | 16,583                 | 24,591            | 13,595                                     | 20,257            |
| 2014                 | 16,146                 | 19,461            | 12,517                                     | 15,159            |
| Thereafter           | 96,427                 | 114,285           | 58,756                                     | 79,578            |
| <b>TOTAL</b>         | <b>\$ 194,410</b>      | <b>\$ 250,042</b> | <b>\$ 144,992</b>                          | <b>\$ 200,166</b> |

## 18. 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.

## 19. 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 2009 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.

The State of California has classified a substantial portion of SHC's facilities as compliant with seismic safety structural standards until 2030 and beyond. However, some acute care activities are located in facilities that current law requires to be made compliant or to be taken out of service by 2013 or, under prescribed circumstances, by 2015. SHC plans to construct a new hospital facility to address seismic safety requirements and other needs. Applications for state and local approvals are pending. SHC also is seeking passage of legislation to extend deadlines and requirements. In light of uncertainties in the timing of approvals and in the duration of construction of the new hospital, and considering economic conditions and other factors that will likely extend completion of replacement facilities beyond currently applicable deadlines, SHC has also developed preliminary contingency plans to retrofit portions of noncompliant facilities in order to reduce the duration of service disruptions and closures of bed units should such action be required. If undertaken, the preliminary estimated construction cost of such retrofitting currently ranges between \$200,000,000 and \$300,000,000.

## **LABOR AGREEMENTS**

Approximately 9% of the University's, 38% of SHC's and 51% 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, 2009.

## **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, 2009, the University had contractual obligations of approximately \$507,288,000 in connection with major construction projects. Remaining expenditures on construction in progress are estimated to be \$819,272,000, 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 \$141,031,000 at August 31, 2009.

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, 2009, the aggregated amount of such unfunded commitments was \$5,068,997,000.

**GUARANTEES AND INDEMNIFICATIONS**

The University and the Hospitals enter into mutual indemnification agreements with third parties in the normal course of business. The impact of these agreements is not expected to be material. As a result, no liabilities related to guarantees and indemnifications have been recorded as of August 31, 2009.

The University guarantees certain recourse loans in connection with its partnership investments. At August 31, 2009, these guarantees totaled \$58,000,000. As of August 31, 2009, it is not likely that the University will be required to provide funding for these loans.

**20. Subsequent Events**

The University and the Hospitals have evaluated subsequent events for the period from August 31, 2009 through December 14, 2009, the date the financial statements were available to be issued.

# 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.

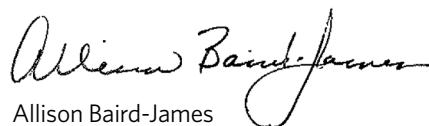
In accumulating and controlling financial data, management of the University and the Hospitals maintains separate systems of internal accounting controls. Management of the respective entities believes that effective internal controls are maintained and communication of accounting and business policies, 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



Allison Baird-James  
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 Series U-1 Bonds are issued and secured pursuant to the Indenture and the Loan Agreement. References to the Indenture, the Loan Agreement, or a fund or account refer to the related document, fund or account with respect to the Series U-1 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), issued in one or more Series, 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 or its 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 each Continuing Disclosure Agreement, dated the date of issuance and delivery of the Bonds, between the Borrower and the Trustee, as originally executed and as it may be amended in accordance with its terms.

*“Depository”* means any securities depository that is a clearing agency under federal law operating and maintaining, with its participants or otherwise, a book entry-system to record ownership of book-entry interests in Bonds, and to effect transfers of book-entry interests in Bonds in book-entry form, and includes, and means initially, 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 Indenture, as originally executed or as it may from time to time be supplemented, modified or amended by any Supplemental Indenture entered into pursuant to the provisions thereof.

*“Interest Payment Date”* means, with respect to the Series U-1 Bonds, April 1 and October 1 in each year, commencing October 1, 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 mutual funds have a rating in the highest investment category granted thereby from S&P or Moody’s, including, without limitation any mutual fund for which the Trustee or an affiliate of the Trustee serves as investment manager, administrator, shareholder servicing agent, and/or custodian or subcustodian, notwithstanding that (i) the Trustee or an affiliate of the Trustee receives fees

from funds for services rendered, (ii) the Trustee collects fees for services rendered pursuant to the Indenture, which fees are separate from the fees received from such funds, and (iii) services performed for such funds and pursuant to the Indenture may at times duplicate those provided to such funds by the Trustee or an affiliate of the Trustee;

(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) or its agent 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 Loan 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.

“*MSRB*” means the Municipal Securities Rulemaking Board.

“*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.

“*Prior Bonds*” means the bonds of the California Educational Facilities Authority refunded with proceeds of a Series of the 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.

“*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.

“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.

“Series U-1 Bonds” means the California Educational Facilities Authority Revenue Bonds (Stanford University) Series U-1, authorized by, and at any time Outstanding pursuant to the Indenture.

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

“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.*

### **Terms of the Series U-1 Bonds**

The Series U-1 Bonds shall be dated as of their date of delivery and shall bear interest from the Interest Payment Date to which interest has been paid as of the date on which such Bonds are authenticated or, if they are authenticated on or before the Record Date for the first Interest Payment Date, from their date of delivery; provided, however, that if, at the time of authentication of any Series U-1 Bonds, interest is in default on Outstanding Series U-1 Bonds, such Series U-1 Bond shall bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment on the Outstanding Series U-1 Bonds. Interest on the Series U-1 Bonds shall be calculated on the basis of a 360-day year and twelve 30-day months and shall be payable in arrears on each Interest Payment Date, upon maturity or upon prior redemption.

The Trustee shall not be required to transfer or exchange (i) any Bond during the 15 days next preceding the date on which notice of redemption of Bonds of such Series is given, or (ii) any Bond called for redemption.

### **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 and to enforce

its rights with respect to any Administrative Fees and Expenses or Additional Payments to the extent payable to the Authority, (ii) any rights of the Authority or its officers, directors, agents or employees with respect to reimbursement or indemnification or any express rights to give consents or approvals or to receive notices, and (iii) any rights of the Authority to inspection). The Trustee shall be entitled to, and shall, subject to the provisions of the Indenture, collect and receive all of the Revenues and any Revenues collected or received by the Authority shall be deemed to be held and to have been collected or received, by the Authority as the agent of the Trustee and shall forthwith be paid by the Authority to the Trustee. The Trustee also shall be entitled to, and shall, take all steps, actions and proceedings reasonably necessary in its judgment to enforce all of the rights of the Authority and all of the obligations of the Borrower under the Loan Agreement.

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

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

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

*Stanford University TECP Repayment Fund.* The moneys in the Stanford University CP Repayment Fund shall be transferred by the Trustee to the Borrower pursuant to the Indenture and applied by the Borrower in accordance with the Loan Agreement to repay tax-exempt commercial paper notes.

*Stanford University Taxable CP Repayment Fund.* The moneys in the Stanford University CP Repayment Fund shall be transferred by the Trustee to the Borrower pursuant to the Indenture and applied by the Borrower in accordance with the Loan Agreement to repay taxable commercial paper notes.

*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.

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

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

*Rebate Fund.* Subject to the transfer provisions provided in the Indenture, all money at any time deposited in the Rebate Fund shall be held by the Trustee in trust, to the extent required to satisfy the Rebate Amount (as defined in the Tax Agreement), for payment to the federal government of the United States of America. Neither the Authority, the Borrower nor the Holder of any Bonds shall have any rights in or claim to such money. All amounts deposited into or on deposit in the Rebate Fund shall be governed by the Indenture and by the Tax Agreement (which is incorporated in the Loan Agreement by reference). The Trustee shall be deemed conclusively to have complied with such provisions if it follows the directions of the Borrower including supplying all necessary information as directed by the Borrower, 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 U 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 Series U-1 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 Series U-1 Bonds under the Indenture (allowing for such changes to such opinion as are necessary or appropriate to reflect the tax treatment of such Bonds);

(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 Series U-1 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 Bonds in connection with the issuance of the Series U-1 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.

## **Redemption**

Redemption provisions applicable to the Bonds are described in the front part of this Official Statement under the heading “THE BONDS – Redemption.”

## **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, as evidenced by a Certificate of the Borrower or an Opinion of Counsel described in the Indenture, 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, as evidenced by a Certificate of the Borrower or the Opinion of Counsel described in the Indenture, 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 or an additional Series of Bonds the interest on which is subject to federal income taxation; provided, that no such amendment shall, as evidenced by a Certificate of the Borrower or an Opinion of Counsel described in the Indenture, materially adversely affect the interests of the Holders of the Bonds; or (10) to modify, alter, amend or supplement the Indenture in any other respect which is not, as evidenced by a Certificate of the Borrower or an Opinion of Counsel described in the Indenture, 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 Borrower 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 Borrower 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 Borrower 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 in lieu of making such determination, the Trustee may obtain the consent of the Holders holding a majority in aggregate principal amount of the Bonds, 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, as evidenced by a Certificate of the Borrower, 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, as evidenced by a Certificate of the Borrower, 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, as evidenced by a Favorable Opinion of Bond Counsel delivered to the Trustee.

## **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.

## **Certain Covenants of the Borrower**

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

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

(b) it will maintain or cause to be maintained insurance of such type, against such risks and in such amounts, with insurance companies or by means of self-insurance, as are customarily carried by organizations of a nature similar to that of the Borrower, which insurance shall include property damage,

fire and extended coverage, public liability and property damage liability insurance in amounts estimated to indemnify the reasonably anticipated damage, loss or liability;

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

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

### **Prepayment**

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

### **Amendment**

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

**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 Underwriters and the Trustee takes no responsibility for the completeness or accuracy thereof. The Authority, the University, the Underwriters 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 U-1 Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Series U-1 Bonds, or (c) notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Series U-1 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 U-1 Bonds. The Series U-1 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 U-1 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 U-1 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series U-1 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series U-1 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 U-1 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 U-1 Bonds, except in the event that use of the book-entry system for the Series U-1 Bonds is discontinued.

To facilitate subsequent transfers, all Series U-1 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 U-1 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 U-1 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series U-1 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 U-1 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series U-1 Bonds, such as defaults and proposed amendments to the Series U-1 Bond documents. For example, Beneficial Owners of the Series U-1 Bonds may wish to ascertain that the nominee holding the Series U-1 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 U-1 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 U-1 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 U-1 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 U-1 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 U-1 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 U-1 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 U-1 Bond certificates will be printed and delivered.

THE AUTHORITY, THE UNIVERSITY, THE UNDERWRITERS 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 Underwriters 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 U-1 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 Underwriters and the Trustee believe to be reliable, but the Authority, the University, the Underwriters 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 May 1, 2010, by and between The Board of Trustees of the Leland Stanford Junior University (the "University") and The Bank of New York Mellon Trust Company, N.A., bond trustee (the "Trustee") under an Indenture dated as of May 1, 2010 (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 Revenue Bonds (Stanford University) Series U-1 (the "Series U-1 Bonds"). The proceeds of the Series U-1 Bonds are to be loaned by the Authority to the University pursuant to a Loan Agreement dated as of May 1, 2010 between the Authority and the University (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 U-1 Bonds and is being executed and delivered solely to assist the Underwriters 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 U-1 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, 2010 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 received from the University 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 U-1 Bonds shall state whether the Series U-1 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 April 1, 2005, 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 U-1 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 U-1 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 U-1 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 U-1 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 U-1 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 U-1 Bonds or (ii) the holders of the Series U-1 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 U-1

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 U-1 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 U-1 Bonds, except that Beneficial Owners of the Series U-1 Bonds shall be third-party beneficiaries of this Agreement and shall be deemed to be holders of the Series U-1 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 U-1 Bonds or by the Trustee on behalf of the holders of the outstanding Series U-1 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 U-1 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 U-1 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, 2010 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 U-1 Bonds under the headings "PART I – GENERAL INFORMATION ABOUT STANFORD UNIVERSITY – Faculty and Staff," "– Students," and "– Capital Improvement Programs" and (ii) the information regarding amendments to this Agreement required pursuant to Sections 3.2(c) and (d) of this Agreement. Annual Financial Information shall include Audited Financial Statements, if available, or Unaudited Financial Statements.

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

(2) "Audited Financial Statements" means the annual financial statements for each fiscal year ended on and after August 31, 2010, if any, of the University, audited by such auditor as shall then be required or permitted by State law or the Indenture. Audited Financial Statements shall be prepared in accordance with GAAP.

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

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

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

(6) "Material Events" means any of the following events with respect to the Series U-1 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) "State" means the State of California.

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

(14) "Underwriters" means Morgan Stanley & Co. Incorporated, Goldman, Sachs & Co., J.P. Morgan Securities Inc. and Prager, Sealy & Co., LLC.

## ARTICLE V

### Miscellaneous

Section 5.1. Duties, Immunities and Liabilities of Dissemination Agent and Trustee. The Dissemination Agent and the Trustee shall have only such duties under this Agreement as are specifically set forth in this Agreement and the Dissemination Agent shall not be liable except for its negligence or willful misconduct hereunder. The University agrees to indemnify and save the Dissemination Agent and the Trustee, their officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys' fees and expenses) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's or the Trustee's negligence or willful misconduct in the performance of its duties hereunder. Such indemnity shall be separate from, and in addition to, that provided to the Trustee under the Indenture. The Dissemination Agent shall be paid compensation by the University for its services provided hereunder in accordance with its schedule of fees as amended from time to time and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent shall have no duty or obligation to review any information provided to it hereunder and shall not be deemed to be acting in any fiduciary capacity for the Issuer, the University, the holders of the Series U-1 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 U-1 Bonds. The Dissemination Agent shall have the same rights, protections and immunities hereunder as provided to the Trustee under the Indenture.

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

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

Section 5.4. Filing. The University and the Dissemination Agent may satisfy 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

THE BANK OF NEW YORK MELLON TRUST  
COMPANY, N.A., 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  
Revenue Bonds (Stanford University)  
Series U-1  

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 (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 \$215,375,000 aggregate principal amount of California Educational Facilities Authority Revenue Bonds (Stanford University) Series U-1 (the "Bonds"), issued pursuant to an indenture, dated as of May 1, 2010 (the "Indenture"), between the Authority and The Bank of New York Mellon Trust Company, N.A., 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 May 1, 2010 (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 (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 assets 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 assets. 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. No opinion is expressed whether interest on the Bonds is included in adjusted current earnings when calculating corporate alternative minimum taxable income. We express no opinion regarding any 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

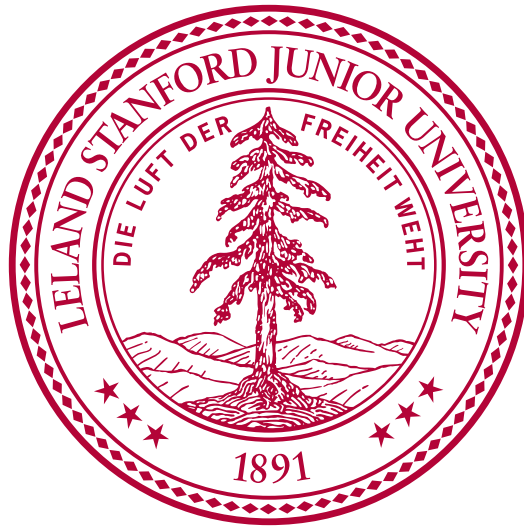
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