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

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-2 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-2 Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings 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-2 Bonds. See "TAX MATTERS."

$77,760,000
CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY
REVENUE BONDS (STANFORD UNIVERSITY)
SERIES U-2

Dated: Date of Delivery **Due: October 1, 2032**

The Series U-2 Bonds (the "Series U-2 Bonds") will be issued in book-entry form in denominations of $5,000 or any integral multiple thereof. Interest on the Series U-2 Bonds is payable semiannually on each April 1 and October 1, commencing October 1, 2012. The Series U-2 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-2 Bonds. Principal of and interest on the Series U-2 Bonds will be payable directly to DTC, as the registered owner of the Series U-2 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-2 Bonds, all notices will be mailed only to Cede & Co. See Appendix C – "BOOK-ENTRY SYSTEM" herein.

The Series U-2 Bonds are subject to redemption prior to maturity as described herein. See "THE SERIES U-2 BONDS – Redemption."

The Series U-2 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, as supplemented by the First Supplemental Indenture, dated as of April 1, 2012 (as supplemented, the "Indenture"), by and between the Authority and the Trustee. The Series U-2 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-2 Bonds to refinance certain capital projects which were refinanced by certain outstanding obligations of the University, and pay certain costs of issuance related to the Series U-2 Bonds. See "PLAN OF FINANCE."

THE SERIES U-2 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-2 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-2 BONDS. THE ISSUANCE OF THE SERIES U-2 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

$77,760,000 5.00% Term Bond due October 1, 2032 Yield 3.16% CUSIP†: 130178M86

The Series U-2 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-2 Bonds will be available for delivery through the facilities of DTC in New York, New York on or about April 17, 2012.

Honorable Bill Lockyer
Treasurer of the State of California
As Agent for Sale

Goldman, Sachs & Co. **Morgan Stanley**

Citigroup **J.P. Morgan** **Prager & Co., LLC**

Dated: April 3, 2012

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

This Official Statement does not constitute an offer to sell the Series U-2 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-2 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 overallot or effect transactions that stabilize or maintain the market price of the Series U-2 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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$77,760,000
CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY
REVENUE BONDS (STANFORD UNIVERSITY)
SERIES U-2

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 $77,760,000 aggregate principal amount of California Educational Facilities Authority Revenue Bonds (Stanford University) Series U-2 (the "Series U-2 Bonds").

The Series U-2 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-2 Bonds will be issued pursuant to and secured by an Indenture, dated as of May 1, 2010, as supplemented by a First Supplemental Indenture, dated as of April 1, 2012 (as supplemented, 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-2 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, as supplemented by a First Supplemental Loan Agreement, dated as of April 1, 2012 (as supplemented, the "Loan Agreement"), between the Authority and the University.

Plan of Finance

On March 17, 2010, the Authority adopted a resolution (the "Series U 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-2 Bonds to the University pursuant to the Loan Agreement in order to refinance a portion of the Series U Project which was refinanced by certain outstanding obligations of the University, and to pay costs of issuance of the Series U-2 Bonds. See "PLAN OF FINANCE" and "SOURCES AND USES OF FUNDS" herein.

The University

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

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

The Series U-2 Bonds

The Series U-2 Bonds are to be dated as of the date of their initial issuance and delivery. The Series U-2 Bonds are issuable in fully registered, book-entry form, and have interest and payment terms as set forth in the Indenture and as described herein. See "THE SERIES U-2 BONDS."

The Series U-2 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-2 Bonds. Individual purchases of the Series U-2 Bonds will be made in book-entry form only. Principal of and interest on the Series U-2 Bonds will be payable by the Trustee directly to DTC, as the registered owner of the Series U-2 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-2 Bonds. Purchasers will not receive certificates representing the Series U-2 Bonds purchased by them. See Appendix C – "BOOK-ENTRY SYSTEM."

Security for the Series U-2 Bonds

The Series U-2 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-2 Bonds and the Authority. See Appendix B – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Loan Agreement." The Series U-2 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-2 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-2 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-2 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-2 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-2 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-2 Bonds is qualified in its entirety by reference to the terms thereof and the information regarding the Series U-2 Bonds included in the Indenture. All descriptions are further qualified in their entirety by reference to laws relating to or affecting the enforcement of creditors' rights. The agreements of the Authority with the Holders of the Series U-2 Bonds are fully set forth in the Indenture, and neither any advertisement of the Series U-2 Bonds nor this Official Statement is to be construed as constituting an agreement with the Holders of the Series U-2 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 Treasurer, Stanford University, 3145 Porter Drive, Palo Alto, California 94304-8440, (650) 723-5660. In addition, certain documents referred to herein may be obtained on-line at http://bondholder-information.stanford.edu/home.html. The information on the University's website is not a part of this 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-2 Bonds under the Act, to make the loan contemplated by the Loan Agreement and to secure the Series U-2 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, 2011, the Authority had outstanding $4,379,348,786 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-2 Bonds to the University pursuant to the Loan Agreement in order to (i) refinance a portion of the Series U Project which was financed by the $101,860,000 California Educational Facilities Authority Revenue Bonds (Stanford University) Series Q (the "Series Q Bonds"), which Series Q Bonds were subsequently redeemed from proceeds of certain outstanding commercial paper notes of the University, and (ii) pay certain costs of issuance of the Series U-2 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." After the issuance of the Series U-2 Bonds, $625,180,000 in Bonds will remain authorized and unissued under the Series U Resolution.

On or about April 11, 2012, the University currently plans to issue its Taxable Bonds Series 2012 (the "2012 Taxable Bonds") in the aggregate principal amount of $143,235,000. The University plans to use the proceeds of the 2012 Taxable Bonds to refinance certain capital projects of the University and to pay costs of issuance of the 2012 Taxable Bonds. If issued, the 2012 Taxable Bonds will be unsecured general obligations 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.

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SOURCES AND USES OF FUNDS

Estimated sources and uses of funds related to the Series U-2 Bonds are shown below:

SOURCES	
Principal amount of the Series U-2 Bonds	$77,760,000
Plus Original Issue Premium	21,433,766
Total Sources	$99,193,766
USES	
Retirement of University's Commercial Paper	$98,621,120
Costs of Issuance(1)	572,646
Total Uses	$99,193,766

(1) 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-2 Bonds.

THE SERIES U-2 BONDS

General

The Series U-2 Bonds will be issued in book-entry form in denominations of $5,000 or any integral multiple thereof. The Series U-2 Bonds are being issued in the aggregate principal amount and will mature on the date set forth on the cover page hereof. The Series U-2 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-2 Bonds will be payable on April 1 and October 1 of each year, commencing October 1, 2012, and will be calculated based on a 360-day year of twelve (12) 30-day months.

The Series U-2 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-2 Bonds. See Appendix C – "BOOK-ENTRY SYSTEM." Except as described in Appendix C – "BOOK-ENTRY SYSTEM," Beneficial Owners of the Series U-2 Bonds will not receive, or have the right to receive, physical delivery of certificates representing their ownership interests in the Series U-2 Bonds. For so long as any purchaser is the Beneficial Owner of a Series U-2 Bond, such purchaser must maintain an account with a broker or dealer who is or acts through a Direct Participant (as defined in Appendix C) to receive payment of the principal and interest on such Series U-2 Bond.

Interest payable on any Interest Payment Date will be payable to the registered owner of the Series U-2 Bonds as of the Record Date for such payment. So long as the Series U-2 Bonds are held in the book-entry system, the principal and interest on the Series U-2 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-2 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-2 Bonds is payable by check mailed on each Interest Payment Date to the Holders of the Series U-2 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-2 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-2 Bonds will be paid in accordance with the wire transfer instructions provided by the Holder of such Series U-2 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-2 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-2 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-2 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-2 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-2 Bonds to be redeemed from and including the date of redemption to the stated maturity date of such Series U-2 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-2 Bonds minus 25 basis points (0.25%).

The "Applicable Tax-Exempt Municipal Bond Rate" for such Series U-2 Bonds will be the "Comparable AAA General Obligations" yield curve rate for the stated maturity date of such Series U-2 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.

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.

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. LLC, 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-2 Bonds having characteristics (other than the ratings) most comparable to those of such Series U-2 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-2 Bonds to be redeemed multiplied by the price of such Series U-2 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-2 Bonds and a yield equal to such Series U-2 Bonds' original reoffering yield as set forth on the cover of this Official Statement.

The redemption price of the Series U-2 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-2 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-2 Bonds, the Trustee will select the Series U-2 Bonds to be redeemed, from all Series U-2 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-2 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-2 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-2 Bonds.

Each notice of redemption will state the date of such notice, the Series U-2 Bonds to be redeemed, the date of issue of the Series U-2 Bonds, the date fixed for redemption, the Redemption Price of the Series U-2 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-2 Bonds, the principal amount, the distinctive certificate numbers of the Series U-2 Bonds or portions thereof to be redeemed, the interest rate on the Series U-2 Bonds to be redeemed and will also state that the interest on the Series U-2 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-2 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-2 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-2 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-2 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-2 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-2 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-2 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-2 Bond redeemed in part only, the Trustee will provide a replacement Series U-2 Bond in a principal amount equal to the portion of such Series U-2 Bond not redeemed, and deliver it to the registered owner thereof. The Series U-2 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-2 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-2 Bonds so called for redemption will cease to accrue, said Series U-2 Bonds will cease to be entitled to any lien, benefit or security under the Indenture, and the Holders of said Series U-2 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-2 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-2 BONDS

The Series U-2 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-2 Bonds and the Authority. See Appendix B – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Loan Agreement." The Series U-2 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-2 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-2 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-2 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-2 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-2 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-2 Bonds. The issuance of the Series U-2 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-2 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 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-2 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-2 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-2 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 and other economic factors, which may reduce the value of the University's endowment, impact investment returns, reduce investment income distributable from the endowment for operations and affect the ability of donors to contribute resources to support University operations and capital needs. See Notes 5, 6, 7 and 12 to the consolidated financial statements of the University for the years ended August 31, 2011 and 2010 (the "University's FY2011 Audited Financial Statements") included in Part II of Appendix A hereto.

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

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

(iv) Legislation and regulation by governmental authorities, including developments affecting the tax-exempt status of educational institutions such as the University, changes in levels of governmental research funding and reimbursement for administrative overhead and infrastructure, regulation of tuition levels and endowment payout, and 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.

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

Because the financial results of the University are reported on a consolidated basis with those of its hospital affiliates (the "Hospitals"), these consolidated financial results will be affected by the financial results of the Hospitals. The Hospitals' financial results, in turn, will be affected not only by the factors set forth above but specifically by demand for the medical services they provide, inadequate third-party payments, limitations on and inadequate governmental reimbursement for medical services and graduate medical education, increasing costs of providing indigent care, escalating costs of personnel and equipment and inpatient capacity constraints which limit the Hospitals' ability to absorb these increased costs through greater volume. In addition, adverse legislative and regulatory developments and government enforcement actions could negatively impact the Hospitals' results. Among other things, the Patient Protection and Affordable Care Act (the "ACA") enacted in 2010 is expected to bring about (if it withstands legal challenges) substantial changes in the United States health care system, affecting the delivery of health care services, the financing of health care costs, reimbursement of health care providers and the legal obligations of health insurers, providers, employers and consumers. The ACA could have an adverse financial impact on the Hospitals.

The Hospitals obtained approval from local authorities to construct new facilities to address seismic requirements and to meet the health care needs of the community. The facilities have projected capital requirements of approximately $3.2 billion. The Hospitals have informed the University that the sources of funding for such capital requirements include operating surpluses, gifts, government grants and bond proceeds. For this purpose, Lucile Salter Packard Children's Hospital at Stanford has undertaken a tax-exempt financing this fiscal year and may undertake additional tax-exempt financing within the next two fiscal years, and Stanford Hospital and Clinics has informed the University that it intends to undertake a tax-exempt financing this fiscal year. 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," "– Hospitals," "– Investments" and "– Liquidity," and "– PART II, PORTIONS OF THE UNIVERSITY'S FY2011 ANNUAL FINANCIAL REPORT – Discussion of Financial Results – Looking Forward" attached hereto.

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

REGULATORY MATTERS AND LITIGATION

There is no litigation pending (with service of process having been accomplished) concerning the validity of the Series U-2 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"), 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-2 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-2 Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when 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-2 Bonds is less than the amount to be paid at maturity of such Series U-2 Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Series U-2 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-2 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-2 Bonds is the first price at which a substantial amount of such maturity of the Series U-2 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-2 Bonds accrues daily over the term to maturity of such Series U-2 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-2 Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Series U-2 Bonds. Bondholders should consult their own tax advisors with respect to the tax consequences of ownership of Series U-2 Bonds with original issue discount, including the treatment of Bondholders who do not purchase such Series U-2 Bonds in the original offering to the public at the first price at which a substantial amount of such Series U-2 Bonds is sold to the public.

Series U-2 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-2 Bonds. The Authority and the University have made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Series U-2 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-2 Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Series U-2 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-2 Bonds may adversely affect the value of, or the tax status of interest on, the Series U-2 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 has relied, among other things, on the opinion of the University's General Counsel regarding the current 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 or refinanced by the Series U-2 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-2 Bonds being included in federal gross income, possibly from the date of the original issuance of the Series U-2 Bonds.

Although Bond Counsel is of the opinion that interest on the Series U-2 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-2 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.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Series U-2 Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. As one example, the Obama Administration recently announced a legislative proposal which, for tax years beginning on or after January 1, 2013, generally would limit the exclusion from gross income of interest on obligations like the Series U-2 Bonds to some extent for taxpayers who are individuals and whose income is subject to higher marginal income tax rates. Other proposals have been made that could significantly reduce the benefit of, or otherwise affect, the exclusion from gross income of interest on obligations like the Series U-2 Bonds. The introduction or enactment of any such legislative proposals, clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the Series U-2 Bonds. Prospective purchasers of the Series U-2 Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, and regarding the impact of future 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-2 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-2 Bonds ends with the issuance of the Series U-2 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-2 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-2 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-2 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-2 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-2 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. LLC as representative of the underwriters (the "Underwriters") pursuant to which and subject to certain conditions, the Underwriters have agreed to purchase the Series U-2 Bonds from the Authority at a price of $98,981,949.34 (being the principal amount of the Series U-2 Bonds, plus an original issue premium of $21,433,766.40, and less an underwriters' discount of $211,817.06). The Series U-2 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 and Citigroup Inc., the respective parent companies of Morgan Stanley & Co. LLC and Citigroup Global Markets Inc., each an underwriter of the Series U-2 Bonds, have entered into a retail brokerage joint venture. As part of the joint venture each of Morgan Stanley & Co. LLC and

Citigroup Global Markets Inc. 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, each of Morgan Stanley & Co. LLC and Citigroup Global Markets Inc. will compensate Morgan Stanley Smith Barney LLC for its selling efforts in connection with their respective allocations of Series U-2 Bonds.

J.P. Morgan Securities LLC ("JPMS"), one of the Underwriters of the Series U-2 Bonds, has entered into negotiated dealer agreements (each, a "Dealer Agreement") with each of UBS Financial Services Inc. ("UBSFS") and Charles Schwab & Co., Inc. ("CS&Co.") for the retail distribution of certain securities offerings at the original issue prices. Pursuant to each Dealer Agreement (if applicable to this transaction), each of UBSFS and CS&Co. will purchase Series U-2 Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any Series U-2 Bonds that such firm sells.

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. Certain of the Underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various investment banking services for the University, for which they received or will receive customary fees and expenses.

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

CERTAIN RELATIONSHIPS

Ruth M. Porat, Executive Vice President and Chief Financial Officer of Morgan Stanley, is a member of the University's Board of Trustees.

INDEPENDENT ACCOUNTANTS

The University's FY2011 Audited Financial Statements included in Part II of Appendix A hereto have been audited by PricewaterhouseCoopers LLP, independent accountants, as stated in their report appearing therein.

RATINGS

The Series U-2 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, 23rd Floor, New York, New York, 10007, from S&P at 55 Water Street, New York, New York 10041 and from Fitch at One State Street Plaza, New York, New York, 10004. Such ratings reflect only the views of Moody's, S&P and Fitch, respectively, and there is no assurance that any of the ratings, if received, will continue for any given period of time or that such ratings will not be lowered or withdrawn entirely if, in the judgment of Moody's, S&P or Fitch, circumstances so warrant. Any such change in, or withdrawal of, the ratings received could have an adverse effect on the market price of the Series U-2 Bonds.

CONTINUING DISCLOSURE

Because the Series U-2 Bonds are limited obligations of the Authority, payable solely from amounts received from the University and other sources described in the Indenture, any financial or operating data concerning the Authority is not material to an evaluation of the offering of the Series U-2 Bonds or to any decision to purchase, hold or sell the Series U-2 Bonds. Accordingly, the Authority has not provided any such information. The University has undertaken all responsibilities for any continuing disclosure to Holders of the Series U-2 Bonds as described below, and the Authority shall have no liability to the Holders of the Series U-2 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-2 Bonds, to provide to the Trustee certain annual information and notices of certain listed events required to be provided by the Rule. The proposed form of that Undertaking is set forth in Appendix D hereto. The Undertaking may be amended or modified without the consent of the Holders of the Series U-2 Bonds under certain circumstances set forth therein.

MISCELLANEOUS

Appendix A has been prepared by the University. The University's FY2011 Audited Financial Statements included in Part II of Appendix A hereto were audited by PricewaterhouseCoopers LLP and were furnished by the University for inclusion herein.

Information relating to DTC and the book-entry system described in Appendix C – "BOOK-ENTRY SYSTEM" is based upon information furnished by DTC and is believed to be reliable, but none of the Authority, the University or the 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 and, except for such information, makes no representation as to the adequacy, completeness or accuracy of this Official Statement or the information contained herein.

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

CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY

April 3, 2012

/s/ Ronald L. Washington
Executive Director

Appendix A has been reviewed and approved by the Treasurer of the University.

THE BOARD OF TRUSTEES OF THE LELAND STANFORD JUNIOR UNIVERSITY

April 3, 2012

/s/ Odile Disch-Bhadkamkar
Treasurer

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APPENDIX A

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

Part I of this Appendix A contains general information with respect to Stanford. Part II consists of portions of the University's Annual Financial Report for the fiscal years ended August 31, 2011 and 2010 (the "University's FY2011 Annual Financial Report"), which includes management's discussion of financial results, selected financial and other data, the report of the independent auditors and the University's consolidated financial statements for the years ended August 31, 2011 and 2010 (the "University's FY2011 Audited Financial Statements"). Financial information presented in Part I of this Appendix A with respect to the University relates solely to the University; financial information regarding the University and its affiliates is stated both separately and on a consolidated basis in the University's FY2011 Audited Financial Statements.

PART I

GENERAL INFORMATION ABOUT STANFORD UNIVERSITY

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

Academic and Research Programs

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

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

Governance and Management

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

The following table lists the members of the Board of Trustees as of March 1, 2012:

(1) Term expiring June 30, 2012.
(2) Term commencing April 1, 2012.
(3) Term expiring March 31, 2012.
(4) Board Chair effective July 1, 2012.
(5) On sabbatical, February through mid-June 2012.
(6) Term expiring March 31, 2012.

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

The following table sets forth in summary form certain members of the principal administration of the University as of March 1, 2012:

University Officers

John L. Hennessy[(1)]
President

John W. Etchemendy
Provost and Acting President[(2)]

David F. Demarest
Vice President for Public Affairs

David A. Jones
Vice President for Human Resources

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

William J. Madia
Vice President for SLAC National Accelerator Laboratory

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

Martin W. Shell
Vice President for Development

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

Debra L. Zumwalt
Vice President and General Counsel

Stanford Management Company

John F. Powers
President and Chief Executive Officer

University Cabinet

Ann M. Arvin
Vice Provost and Dean of Research

Harry J. Elam Jr.
Vice Provost for Undergraduate Education

Persis S. Drell[(3)]
Director, SLAC National Accelerator Laboratory

Patricia J. Gumport
Vice Provost for Graduate Education

Larry Kramer[(4)]
Dean, School of Law

Pamela A. Matson
Dean, School of Earth Sciences

Philip A. Pizzo, M.D.[(5)]
Dean, School of Medicine

James D. Plummer
Dean, School of Engineering

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

Richard P. Saller
Dean, School of Humanities and Sciences

Garth Saloner
Dean, Graduate School of Business

Claude M. Steele
Dean, School of Education

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(1) On sabbatical February through mid-June 2012.
(2) Serving as Acting President through May 2012.
(3) Has announced her intent to step down upon appointment of a successor.
(4) Has announced his intent to step down on August 31, 2012.
(5) Has announced his intent to step down upon appointment of a successor.

Faculty and Staff

For the 2011 fall quarter, the Stanford professoriate had 1,934 members. Of those, 55% hold tenure, and more than 99% hold the highest degree in their respective fields. The Academic Council comprises the main body of the faculty. Of its 1,492 members, 1,346 are tenure-line faculty, and 146 are non-tenure line faculty such as Senior Fellows and those holding teaching, research, clinical or performance titles. The student-Academic Council ratio (excluding graduate students who are completing their dissertations but are not attending classes) is 10.5 to 1.

As of August 31, 2011, the University, including the SLAC National Accelerator Laboratory, employed 11,583 non-academic staff members. Of these employees, 1,258 were represented by the Service Employees International Union, and 24 were police officers represented by the Stanford Deputy Sheriffs' Association. Contracts between the University and those unions expire on August 31, 2014 and July 31, 2015, respectively.

Students

For the 2011 fall quarter, the University enrolled 6,927 undergraduate and 8,796 graduate students. During academic year 2010-2011, 1,670 bachelor degrees and 3,199 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.

	Undergraduate(1)(2)			Graduate(2)		
Academic Year	Applications	Admissions	Enrollment	Applications	Admissions	Enrollment
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
2010-11	33,275	2,365	1,694	37,983	4,580	2,608
2011-12	35,761	2,495	1,754	38,750	4,570	2,628

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

Tuition, Fees and Financial Aid

Stanford is committed to a policy of "need-blind" admission for eligible U.S. citizens and permanent resident undergraduate students. For academic year 2010-2011, approximately 49% of undergraduates were awarded need-based scholarships and grants from Stanford. In general, eligible Stanford undergraduates receive other financial assistance in the form of other scholarships and grants, student employment and low-interest student loans. The following table provides a summary of Stanford's undergraduate tuition, average room and board expenses and average financial aid for the last five academic years:

Academic Year	Tuition and Fees	Room and Board	Total	Average Financial Aid[1]
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
2010-11	38,700	11,876	50,576	17,100
2011-12	40,050	12,291	52,341	17,500[2]

(1) Includes only Stanford-funded scholarship aid awarded on the basis of financial need averaged over the total number of undergraduate students.
(2) Average Financial Aid amount for 2011-12 is an estimate.

Graduate student financial aid is awarded based on academic merit and the availability of aid and consists of fellowships, stipends, and trainee/assistantships. Stanford participates in the Federal Perkins student loan program, available to undergraduate, graduate and professional students. Stanford also provides a gift funded institutional loan program. Student loan receivables, net of allowances for doubtful accounts, were $75.7 million and $75.0 million as of August 31, 2011 and 2010, respectively.

The Stanford Campus and Other Real Property

Stanford's campus consists of approximately 8,200 acres of land owned by the University near Palo Alto, California, much of which was given to the University under the Founding Grant on the condition that the lands subject to the grant may not be sold. The campus is in six different cities and counties. A portion of Stanford lands are leaseholds related to commercial, residential, agriculture and other developments that provide rental income for the University. Income-generating properties include the Stanford Research Park, the Stanford Shopping Center, the Welch Road professional office buildings, the Vi 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. The University also owns facilities for use in study programs in Pacific Grove, California, in the District of Columbia and in Berlin, Germany. 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 Budget and three-year Capital Plan are based on a projection of major capital projects the University will pursue in support of the academic mission. The fiscal year 2012 Capital Budget approved by the Board of Trustees is $455.5 million and represents the anticipated capital expenditures in the first year of the rolling three-year Capital Plan. The fiscal year 2012-2014 Capital Plan includes projects with estimated total costs of $1.9 billion. Estimated funding sources for projects under the current Capital Plan consist of $452.4 million of gifts, $332.8 million of reserves and other funds, $255.5 million of resources expected to be identified in the course of annual capital planning, and $836.5 million of debt. Additional debt will be required to bridge timing differences between project expenditures and the receipt of gifts. The Capital Budget and the Capital Plan are both subject to change based on funding availability, budget affordability and university priorities.

In 2000, the Santa Clara County Board of Supervisors approved a General Use Permit (the "2000 GUP") and the Stanford University Community Plan (the "Community Plan"), updating and extending the general use permit and plan previously in force since 1989. These documents govern the use and development of University lands within the County. Any change to either document is subject to the approval of the Santa Clara County Board of Supervisors. The 2000 GUP permits Stanford to develop approximately 2,000,000 square feet of new academic facilities and approximately 3,000 new housing units for students, faculty and staff. The 2000 GUP contains a number of significant restrictions and conditions upon which such developments are contingent. Through August 31, 2011, projects using approximately 1,000,000 square feet of the GUP allotment have been completed or under construction and approximately 1,440 housing units have been added.

Hospitals

The University is the sole member of Stanford Hospital and Clinics and Lucile Salter Packard Children's Hospital at Stanford (collectively, the "Hospitals"). Stanford Hospital and Clinics and Lucile Salter Packard Children's Hospital at Stanford are each separate not-for-profit public benefit corporations operating the adult and pediatric hospitals and clinics, respectively, which together with the University's School of Medicine, comprise the Stanford University Medical Center. Each Hospital corporation has its own management with responsibility for its own financial reporting (see Stanford University's FY2011 Annual Financial Report included as Part II of this Appendix A under the caption "Management Responsibility for Financial Statements"). Management of each Hospital reports to the chief executive officer of that Hospital, and the chief executive officer reports to the board of directors appointed for that Hospital. Management of the Hospitals does not report to management of the University. Each Hospital has its own separate liabilities, including bond debt obligations. The University and the Hospitals are not obligated to pay the debt of each other, and the University and the Hospitals receive separate ratings from the rating agencies.

The Hospitals obtained approval from local authorities to construct new facilities to address seismic requirements and to meet the health care needs of the community. The facilities have projected capital requirements of approximately $3.2 billion. The Hospitals have informed the University that the sources of funding for such capital requirements include operating surpluses, gifts, government grants and bond proceeds. For this purpose, Lucile Salter Packard Children's Hospital at Stanford has undertaken a tax-exempt financing this fiscal year and may undertake additional tax-exempt financing within the next two fiscal years, and Stanford Hospital and Clinics has informed the University that it intends to undertake a tax-exempt financing this fiscal year. (See also "Certain Investment Considerations" in the forepart of this Official Statement.)

Regulatory Matters and Litigation

The University is subject to various suits, audits, investigations and other legal proceedings in the course of its operations. 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, 2011, the University held investments with a fair value of approximately $21.2 billion. The following table summarizes the fair value of the University's investments for each of the past five fiscal years. The table below should be read in conjunction with the University's FY2011 Audited Financial Statements and prior years' financial statements.

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

	2011	2010	2009	2008	2007
Total Investments	$21,189,487	$17,803,361	$16,500,670	$21,757,716	$21,167,073
Less: Permanently Restricted Investments	5,143,249	4,836,938	4,658,949	4,865,486	4,480,745
Unrestricted and Temporarily Restricted Investments	$16,046,238	$12,966,423	$11,841,721	$16,892,230	$16,686,328

Liquidity

As of February 29, 2012, the University had approximately $1.9 billion invested in assets that, in the opinion of management, qualify as sources of same-day liquidity, and an additional $1.8 billion invested in assets that qualify as sources of less than seven-day liquidity. Of the amounts included in sources of liquidity, approximately $424 million of the proceeds of the University's $1 billion Taxable Bonds Series 2009A are invested at present in marketable securities to provide additional liquidity for the University's general purposes.

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

Recent Changes in University Indebtedness

In November and December 2011 and February 2012, the University redeemed $50 million in aggregate principal amount of CEFA Series R tax-exempt bonds, $89.6 million of CEFA Series O tax-exempt bonds and $101.9 million of CEFA Series Q tax-exempt bonds.

In December 2011, the Board of Trustees of the University increased the authorized maximum amount of the University's taxable and tax-exempt commercial paper programs from $650 million to $800 million in the aggregate. The University's taxable commercial paper authorization provides for borrowings up to $500 million outstanding at any time and the tax-exempt commercial paper authorization provides for borrowings up to $300 million outstanding at any time.

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PART II

PORTIONS OF THE UNIVERSITY'S FY2011 ANNUAL FINANCIAL REPORT

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DISCUSSION OF FINANCIAL RESULTS

Stanford experienced strong financial results in fiscal year 2011 (FY11), a sign of a healthy recovery from the 2008-09 financial downturn. Consolidated net assets increased $3.7 billion to end the year at $25.1 billion, the highest level in Stanford's history. Consolidated operating revenues exceeded expenses by $515 million, compared to $362 million in FY10. Stanford's FY11 financial results benefited from excellent investment returns, increases in other revenue sources, and cost-saving measures implemented in response to the recent economic downturn.

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

University

During FY11, the University's financial position continued to recover from the 2008-09 financial downturn. FY11 net assets increased over $3.1 billion to $22.6 billion compared to $19.4 billion in the prior year. The University's endowment rose in value by 19% over the prior year to $16.5 billion at August 31, 2011. Donor support and investment returns were the major factors contributing to these results. Despite these positive results, the University's endowment remains 4% lower than at year-end 2008.

FY11 FINANCIAL HIGHLIGHTS

Generous support from donors. The University continues to benefit from the generous and loyal support of its donors. FY11 gifts as reported by the University Office of Development totaled $709 million in cash or property, 18% above the prior year. These results, along with a record number of donors, are evidence of the breadth and depth of our donor support. (Gifts and pledges of $516 million are reported in the financial statements on an accrual basis.)

As in recent years, the majority of gifts and pledges supported The Stanford Challenge, which commenced five years ago and concludes on December 31, 2011. The Stanford Challenge funds are aimed at seeking solutions to intractable global problems and educating a new generation of leaders for the complexities of today's world. Most recent fundraising efforts have been concentrated in facilities, faculty and program support, new graduate fellowships and undergraduate financial aid. With the Campaign drawing to a close, it has exceeded the original goal of $4.3 billion.

Positive investment performance. University investment returns in FY11 were $3.4 billion, compared to $1.9 billion in FY10. These positive returns were achieved during another volatile year in the U.S. and international financial markets.

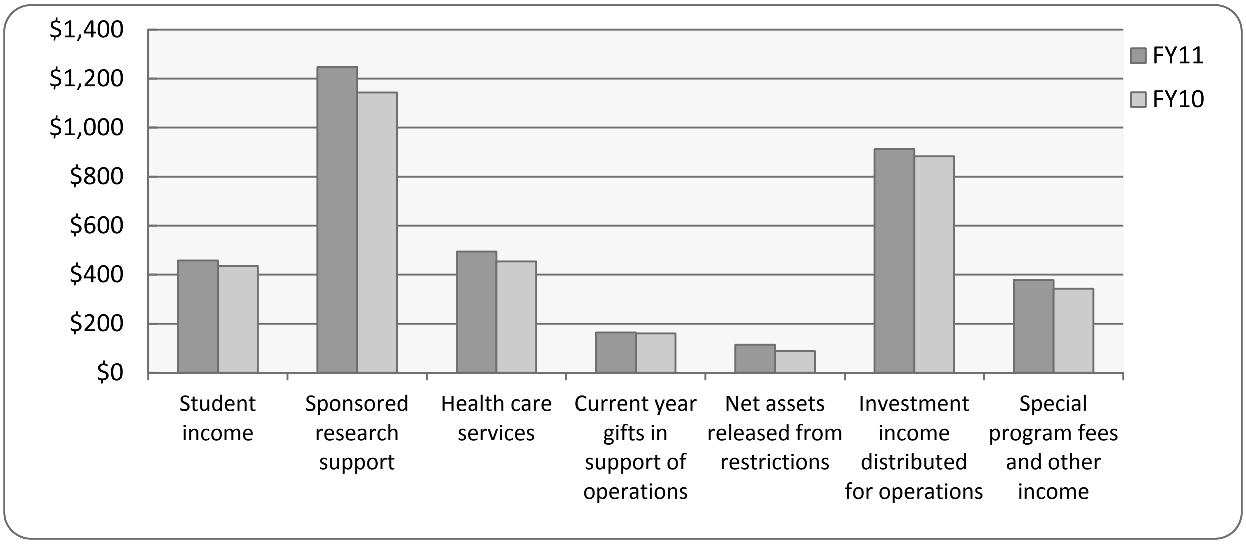
OPERATING RESULTS

The *Statements of Activities* include both results from operations and non-operating changes in the net assets of the University. Operating activities include all revenues and expenses that support current year teaching and research efforts and other University priorities.

The University ended the year with a surplus from operations of $257 million in FY11 compared to $210 million in FY10. FY11 operating revenues increased 7% compared to an increase in expenses of 6% during the same period.

The University's non-operating changes in net assets totaling $2.9 billion are discussed in the *Financial Position* section of this analysis.

FIGURE 1
OPERATING REVENUES
(in millions)



OPERATING REVENUES
FY11 operating revenues were $3.8 billion, reflecting a 7% increase over FY10. The components of the University's operating revenues are shown above.

Student Income
Total student income, which represents 12% of University operating revenues, increased 5% to $458 million in FY11. Total student income includes tuition and fees from undergraduate and graduate programs and room and board; this amount is offset by financial aid. Revenues from student tuition and fees increased 5% in FY11 primarily as a result of a 3.5% undergraduate and general graduate tuition increase and a slight increase in graduate student enrollment.

Financial aid increased $9.1 million or 4% in FY11 to $230 million, reflecting Stanford's continued commitment to providing an affordable education for all students. Approximately 57% of undergraduate students and 81% of graduate students were awarded financial aid from Stanford, including scholarships/grants, loans and jobs in FY11.

Sponsored Research Support
Sponsored research support for the University was $1.2 billion in FY11, increasing 9% over FY10. This category represents approximately one third of the University's operating revenues.

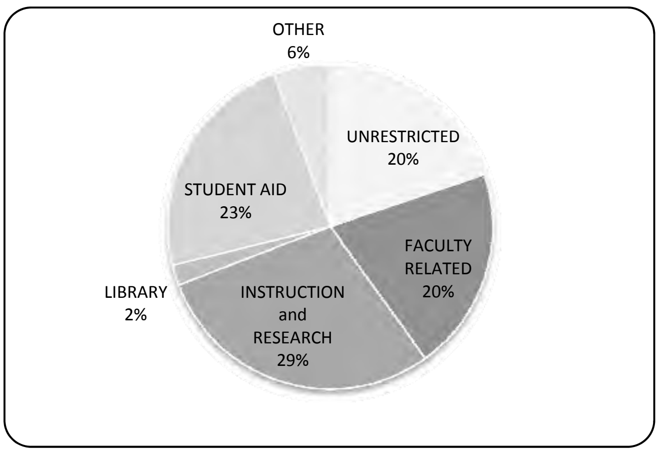
Approximately 84% of the University's sponsored research support, including SLAC National Accelerator Laboratory (SLAC), is received directly or indirectly from the federal government. The largest federal sponsor, the Department of Health and Human Services, provided revenue of $449 million during FY11 compared to $401 million in the prior year. Most of these funds support research within the University's School of Medicine.

The federal economic stimulus bill, the American Recovery and Reinvestment Act (ARRA), has been a major driver of the increase in research activity for FY11 and FY10. As of August 31, 2011, Stanford has been awarded $308 million of ARRA funding; approximately $131 million of this amount was spent by the University and SLAC in FY11 bringing the total amount spent to date to $224 million.

Direct costs for SLAC increased $34 million or 10% over FY10. This increase was largely due to increased funding for ARRA projects including infrastructure modernization and the LCLS Ultrafast Science Instrumentation (LUSI) project which will provide experimental instruments to be used with the LCLS. In addition, FY11 was the first full year of operations of the LCLS (Linac Coherent Light Source), the world's most powerful x-ray laser.

In addition to payment for the direct costs of performing research, the University receives an amount from sponsors for facilities and administrative costs, known as indirect costs. For FY11, the federal and non-federal indirect cost recovery increased $17 million to $220 million as a result of higher research volume. This increase occurred despite a reduction in the indirect cost rate for new federally sponsored research from 60% in FY10 to 57% in FY11.

FIGURE 2
ENDOWMENT PAYOUT BY PURPOSE



Health Care Services

FY11 health care services revenue for the University increased $40 million or 9% from FY10 to $494 million and represented 13% of operating revenues.

School of Medicine faculty serve as physicians for the Hospitals. Clinical revenue is collected by the Hospitals, and a portion is remitted to the University for these physician services. In addition, the Hospitals pay the University for other essential services such as medical direction. Health care services revenues of $472 million represent the net value of services provided by the School of Medicine to the Hospitals; these amounts are eliminated in consolidation.

THE UNIVERSITY'S ENDOWMENT

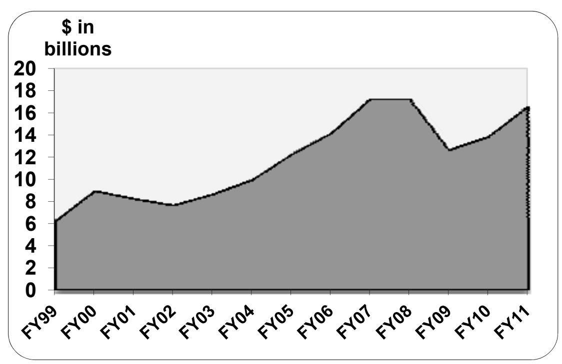
The University's endowment is a collection of gift funds and reserves which are set aside and invested to support the University's teaching and research missions. At August 31, 2011, the endowment totaled $16.5 billion and represented approximately 73% of the University's net assets. The endowment includes pure endowment funds (which include endowed lands), term endowment funds and funds functioning as endowment.

Gifts and pledge payments, investment returns, and other invested funds increased the endowment by $2.7 billion in FY11.

Payout to operations from the endowment continues to be a substantial source of operating revenue for the University, covering approximately 22% of expenses in FY11, down from 26% in FY10.

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

Approximately 29% funds instruction and research activities, 23% goes to student aid, 20% covers faculty salaries and support, 20% is unrestricted and the remainder is split between library support and other purposes.



UNIVERSITY ENDOWMENT BY YEAR

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

Current year gifts in support of operations increased 2% to $164 million in FY11. Net assets released from restrictions increased 29% to $114 million, due to a 34% increase in payments received on pledges and a 19% increase in prior year gifts released from restrictions for use in operations.

Total Investment Income Distributed for Operations

Total investment income distributed for operations represented 24% of University revenue, the second highest source of operating revenue for the University.

- Endowment income distributed for operations decreased to $785 million in FY11, from $855 million in FY10. The decrease was primarily the result of a 25% reduction in the payout from existing funds implemented following the economic downturn (10% in FY10, and an additional 15% in FY11). The endowment payout in FY11 was equal to 5.7% of the endowment value at the beginning of the fiscal year.
- Expendable funds pools and other investment income distributed for operations was $128 million in FY11, compared to $28 million in FY10. This category primarily includes the payout to operations from the Expendable Funds Pool (EFP) and the Endowment Income Funds Pool (EIFP), the principal investment vehicles for the University's expendable funds.
    - The EFP policy provides a variable payout to certain funds that support operations based on the prior year's investment returns. FY09 losses in the EFP significantly reduced amounts paid out to support operations in FY10. With the positive FY10 returns, payout to these funds resumed in FY11. See Note 6 to the FY11 Consolidated Financial Statements.
    - The EIFP holds endowment payout previously distributed but unexpended. These amounts are invested in highly liquid instruments in order to preserve the principal balance. Earnings on these investments are distributed to the fund holders. See Note 6 to the FY11 Consolidated Financial Statements.

OPERATING EXPENSES

Total expenses increased $213 million, or 6%, to $3.5 billion in FY11. Salaries and benefits comprised 62% of the University's total expenses, depreciation expense was 7% and other operating expenses represented 31%.

- Salaries and benefits increased 5% in FY11 to $2.2 billion. Stanford implemented a modest salary program in FY11 after a salary freeze in FY 10 and the elimination of approximately 500 positions during the previous two years. Despite these cost cutting actions, FY11 headcount increased slightly to support increased sponsored research including projects funded by ARRA.
- Depreciation expense increased by 11% to $259 million in FY11 from $234 million in FY10. The increase in this category resulted from buildings recently placed in service, including the Knight Management Center and the William H. Neukom Building. See the **Capital Projects** section below.
- Other operating expenses increased 8% to $1.1 billion in FY11 from $999 million in FY10. These increases, in large part, are due to additional expenses incurred in support of higher levels of sponsored research, as described above in **Sponsored Research Support** section.

FINANCIAL POSITION

The University's *Statements of Financial Position* reflect solid investment returns and strong operating results. Total University assets increased $3.1 billion in FY11 to end the year at $27.7 billion. Total University liabilities were relatively unchanged at $5.1 billion.

Cash and Cash Equivalents

The University closely monitors liquidity required to meet operating and contractual commitments. In April 2009, the University issued $1 billion of taxable bonds, of which $800 million in cash was set aside to ensure adequate liquidity to support University investments, capital projects and operations during the financial crisis. As economic conditions have improved, a portion of the funds has been used for other purposes, including additional capital projects and repayment of other debt. At August 31, 2011, the University's cash position included approximately $490 million of the April 2009 taxable bond proceeds.

Investments

Investments increased by $3.4 billion, up 19% from FY10 due to strong investment returns and donor contributions. Alternative investments, including various types of limited partnerships, private equity funds, venture capital funds, natural resources investments, real estate and hedge funds, represent approximately 73% of total investments at August 31, 2011. The aggregate amount of unfunded commitments for alternative investments was $3.9 billion at year-end, down significantly from approximately $6 billion at August 31, 2008. See the Report from the Stanford Management Company for analysis of University investment strategies and performance.

Capital Projects

The University continues to invest heavily in its physical facilities to support key academic initiatives, housing and infrastructure. During FY11, the University invested $362 million in capital projects, bringing gross plant facilities before accumulated depreciation to $6.6 billion. Plant facilities, net of accumulated depreciation, increased $90 million to $3.7 billion.

Buildings completed and opened in FY11 include the Knight Management Center (the new Graduate School of Business campus) and the William H. Neukom Building in the law school. Construction began on the Bioengineering/Chemical Engineering Building, the fourth and final building in the Science and Engineering Quad 2 ("SEQ2"). Other major construction projects underway include the Bing Concert Hall and the Jill and John Freidenrich Center for Translational Research.

The University is committed to advancing sustainability in the design, construction and operation of campus facilities. University buildings use energy, water, and other natural resources efficiently and provide a safe, productive, and educational environment. Under the University's sustainability standards, new buildings include using 30% less energy and 25% less water than building codes require. The University is exploring options for a major capital utility project to reduce overall energy consumption and use cleaner energy sources.

Debt

Total debt decreased $89 million to $2.7 billion as of August 31, 2011, primarily due to the maturity of $50 million of Medium Term Notes. During FY11, Standard and Poor's, Moody's and Fitch affirmed the University's debt ratings in the highest rating categories for short and long-term debt.

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

In November 2011, the University paid down $62 million and redeemed $50 million of tax-exempt debt with proceeds from the 2009 taxable bonds. In December 2011, the University redeemed an additional $90 million in tax-exempt debt. See the **Cash and Cash Equivalents** section above.

Unrestricted Net Assets

In total, unrestricted net assets of the University increased $2.1 billion to $11.2 billion, with $257 million resulting from operating activities. The most significant component of other changes in unrestricted net assets in FY11 was the $1.6 billion increase in realized and unrealized investment gains. Also included in non-operating activities was $244 million in capital and other gifts released from restrictions for assets placed in service and for operating activities.

Temporarily Restricted Net Assets

Temporarily restricted net assets increased $716 million to $6.2 billion in FY11. The University received $197 million of new temporarily restricted gifts and pledges in FY11, and benefited from an $889 million increase in realized and unrealized investment gains. Partially offsetting these increases were the $244 million in capital and other gifts released to unrestricted net assets as described above.

Permanently Restricted Net Assets
Permanently restricted net assets increased $300 million to $5.1 billion during FY11. The increase was driven by $151 million in new gifts and pledges and $81 million of transfers from unrestricted and temporarily restricted net assets primarily due to donor redesignations and matching funds added to donor gift funds. The principal value of these assets must be invested in perpetuity to generate endowment income to be used only for the purposes designated by donors.

Hospitals

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

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

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

Stanford Hospital and Clinics
SHC continued to show solid operating results in FY11 generating income from operations of $173 million compared to $100 million for FY10. An increase in operating margin is mainly due to overall strong volume growth and partly due to expense containment measures implemented during FY11. Net assets grew by $427 million, or 48%, to $1.3 billion mainly due to strong operating performance, financial market performance and philanthropy.

Operating Results
Operating revenues increased by 11% to $2.2 billion primarily due to a 12% increase in patient revenues to $2.1 billion. Both inpatient and outpatient revenues grew significantly due to overall strong volume growth and increased commercial payer mix. Net revenues over expenses of $8 million from the Hospital Quality Assurance Fee (QAF) Program and Hospital Fee Program—programs which provide supplemental payments to certain hospitals for Medi-Cal patients—contributed to this result as well.

Operating expenses increased 8% to $2.0 billion in FY11. Salaries and benefits grew by 6% to $890 million primarily in response to growth in patient volumes and to maintain SHC's position in the competitive market for health care professionals. Physicians' services and support increased by 8% to $338 million largely due to increased outpatient activities in FY11. Depreciation and other operating expenses were up by 10% to $790 million primarily as a result of costs related to the increase in patient activity, QAF expenses, enhanced IT infrastructure and other SHC initiatives.

Statement of Financial Position (Balance Sheet)
SHC's *Statement of Financial Position* reflects continued investments in the facilities and systems required to remain at the forefront of medicine and to be the provider of choice for complex care in the communities it serves. Gross property and equipment increased $80 million to $1.7 billion during FY11. As of August 31, 2011, SHC had recorded $149 million in construction in progress related to rebuilding its principal facilities.

In FY11, SHC completed a restructuring and reoffering of bonds in the amount of $272 million as part of SHC's strategy to reduce risk in its debt portfolio in preparation for financing a portion of the costs of its major facilities replacement project.

Other SHC highlights
SHC recently launched the Corporate Partners Program ("CPP"). CPP is a partnership between SHC and top Silicon Valley firms which

management anticipates will provide substantial philanthropic support for the construction of new hospital facilities. SHC also engages in numerous community benefit programs and services. These services include health research, education and training and other community benefits for the larger community. Charity care and uncompensated costs including services to patients under Medi-Cal and Medicare that reimburse at amounts less than the cost of services provided to the recipients, were $205 million in FY11.

Lucile Packard Children's Hospital at Stanford
Despite the challenges of the economy, which have resulted in lower births, and state budget issues, LPCH had a strong FY11, resulting in an excess of revenue over expenses of $170 million, an increase of $63 million or 59% over FY10. Net assets at August 31, 2011 were $1.2 billion, reflecting an increase of $155 million over FY10. Strong operating results, investment income and gains from the University's Merged Pool, and donor contributions contributed to this result.

Operating Results
Income from operations was $92 million in FY11, an increase of $40 million or 77% from FY10. Net revenues over expenses of $33 million from the Hospital Quality Assurance Fee (QAF) Program and Hospital Fee Program—programs which provide supplemental payments to certain hospitals for Medi-Cal patients—contributed to this result.

Total operating revenues in FY11 were $924 million, a 15% increase over FY10. Net patient revenues also grew 15% to $871 million in FY11 reflecting an increase in acuity of the patients, higher commercial contract rates, significant stop-loss reimbursement and funding from the QAF Program.

Operating expenses grew by 11% in FY11. Higher labor costs (44% of total expense), services purchased from the University, and fees paid as part of the QAF drove this increase. Labor costs increased 8% in FY11 due to higher salaries commanded in the competitive market for health care professionals, an increase in benefit costs, and an increase in needed temporary labor.

Statement of Financial Position (Balance Sheet)
LPCH's *Statement of Financial Position* reflects investment growth resulting from investment income and gains and donor contributions as well as continued investments in its facilities to expand capacity and to provide modern, technologically-advanced hospital services. Property and equipment, net of depreciation, increased $37 million to $460 million during FY11. As of August 31, 2011, LPCH had recorded $98 million in construction in progress related to expanding its principal facilities.

Other LPCH Highlights
LPCH's community benefits, including services to patients under Medi-Cal and other publicly sponsored programs that reimburse at amounts less than the cost of services provided to the recipients, were $164 million in FY11 compared with $135 million in FY10. The increase was due to increases in Medi-Cal utilization, costs exceeding the related contract increases, and uncompensated care. In addition, LPCH also invests in improving the health of the children of San Mateo and Santa Clara counties through a range of community-based programs.

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

LOOKING FORWARD
With the FY11 financial results, including the growth in the endowment and net assets, Stanford enters FY12 in a solid financial position. Additionally, the existing physical infrastructure, along with plans currently underway for new buildings, the rebuilding and expansion of the Hospitals, and other projects, position us well to

advance our mission of teaching, research and patient care. Our financial resources provide a strong foundation that will enable us to explore and fund strategic academic and research opportunities and to address important administrative and infrastructure needs.

Despite the very positive FY11 results, Stanford has not lost sight of the impending risks ahead: the outlook for federal research funding remains uncertain, investment markets remain volatile due to continued global economic malaise, and health care reform is upon us. The need for financial aid is also expected to continue increasing as many of our students and their families experience additional financial pressures. We remain mindful of the recent economic events and challenges ahead. We plan to approach FY12 and beyond cautiously yet opportunistically.

The continued commitment and support of the Stanford community, including the students, alumni and friends, faculty and staff, provides the strength and resources to guide us through future challenges. For this we are grateful.

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

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

Daniel J. Morissette
Chief Financial Officer
Stanford Hospital and Clinic

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

SELECTED FINANCIAL AND OTHER DATA

Fiscal Years Ended August 31

	2011	2010	2009	2008	2007
	(dollars in millions)				
CONSOLIDATED STATEMENT OF ACTIVITIES HIGHLIGHTS:					
Total Revenues	$ 6,381	$ 5,785	$ 5,602	$ 5,403	$ 4,877
Student income (A)	458	436	401	405	394
Sponsored research support	1,247	1,143	1,031	1,076	1,058
Health care services	2,994	2,620	2,424	2,193	1,996
Total Expenses	5,866	5,423	5,093	4,957	4,467
Excess of revenues over expenses	515	362	509	446	410
Other changes in net assets	3,194	1,131	(5,450)	471	3,647
Net change in total net assets	$ 3,709	$ 1,493	$ (4,941)	$ 917	$ 4,057
CONSOLIDATED STATEMENT OF FINANCIAL POSITION HIGHLIGHTS:					
University					
Investments at fair value	$ 21,189	$ 17,804	$ 16,501	$ 21,758	$ 21,167
Plant facilities, net of accumulated depreciation	3,674	3,584	3,270	2,887	2,706
Notes and bonds payable	2,727	2,816	2,517	1,532	1,494
Total assets	27,698	24,553	22,672	26,704	25,888
Total liabilities	5,143	5,118	4,633	4,013	3,930
Total net assets	22,555	19,435	18,039	22,691	21,958
Hospitals					
Investments at fair value	1,796	1,359	1,257	1,712	1,952
Plant facilities, net of accumulated depreciation	1,333	1,283	1,260	1,080	766
Notes and bonds payable	983	992	999	1,007	1,015
Total assets	4,283	3,658	3,472	3,670	3,402
Total liabilities	1,722	1,686	1,597	1,506	1,422
Total net assets	2,561	1,972	1,875	2,164	1,980
OTHER UNIVERSITY FINANCIAL DATA AND METRICS:					
Total endowment at year end	$ 16,503	$ 13,851	$ 12,619	$ 17,214	$ 17,165
Endowment payout in support of operations	785	855	957	882	609
As a % of beginning of year endowment	5.7%	6.8%	5.6%	5.1%	4.3%
As a % of total expenses	22.4%	25.9%	30.6%	27.8%	21.0%
Total gifts (B)	709	599	640	785	832
STUDENTS:					
ENROLLMENT: (C)					
Undergraduate	6,927	6,887	6,878	6,812	6,759
Graduate	8,796	8,779	8,441	8,328	8,186
DEGREES CONFERRED:					
Bachelor degrees	1,670	1,671	1,680	1,646	1,709
Advanced degrees	3,199	3,046	2,932	2,928	3,100
FACULTY:					
Total Professoriate	1,903	1,910	1,876	1,829	1,807
ANNUAL UNDERGRADUATE TUITION RATE (IN DOLLARS)	$ 38,700	$ 37,380	$ 36,030	$ 34,800	$ 32,994

(A) Financial aid is reported as a reduction of student income in the Statement of Activities.
(B) As reported by the Office of Development (See Note 14). Beginning in 2009, reported amounts include SHC gifts.
(C) Enrollment for fall quarter immediately following fiscal year end.

MANAGEMENT RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

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

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 in the United States, the consolidated financial position and changes in net assets and cash flows. The independent auditors' opinion is based on audit procedures described in their report, which include obtaining an understanding of systems, procedures and internal accounting controls, and performing tests and other audit procedures to provide reasonable assurance that the financial statements are neither materially misleading nor contain material errors. While the independent auditors test procedures and controls, it is neither practical nor necessary for them to scrutinize a large portion of transactions.

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

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

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

Daniel J. Morissette
Chief Financial Officer
Stanford Hospital and Clinics

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

pwc

Report of Independent Auditors

To the Board of Trustees
Stanford University

In our opinion, the accompanying consolidated statements of financial position and the related consolidated statements of activities and cash flows present fairly, in all material respects, the financial position of Stanford University (the "University") at August 31, 2011 and 2010, 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.

PricewaterhouseCoopers LLP

December 14, 2011

PricewaterhouseCoopers LLP, Three Embarcadero Center, San Francisco, CA 94111
T: (415) 498 5000, F: (415) 498 7100, www.p

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

At August 31, 2011 and 2010 (in thousands of dollars)

	2011			2010
	UNIVERSITY	HOSPITALS	CONSOLIDATED	CONSOLIDATED
ASSETS				
Cash and cash equivalents	$ 1,186,257	$ 507,958	$ 1,694,215	$ 2,020,803
Accounts receivable, net	253,321	449,688	703,009	626,974
Receivables (payables) from SHC and LPCH, net	60,566	(60,566)	-	-
Prepaid expenses and other assets	63,194	92,569	155,763	147,513
Pledges receivable, net	729,253	165,441	894,694	869,169
Student loans receivable, net	75,722	-	75,722	74,997
Faculty and staff mortgages and other loans receivable, net	465,344	-	465,344	442,764
Investments at fair value, including securities pledged or on loan of $125,033 and $118,053 for 2011 and 2010, respectively	21,189,487	1,795,710	22,985,197	19,162,619
Plant facilities, net of accumulated depreciation	3,674,383	1,332,724	5,007,107	4,866,662
Works of art and special collections	-	-	-	-
TOTAL ASSETS	**$ 27,697,527**	**$ 4,283,524**	**$ 31,981,051**	**$ 28,211,501**
LIABILITIES AND NET ASSETS				
LIABILITIES:				
Accounts payable and accrued expenses	$ 512,841	$ 597,804	$ 1,110,645	$ 1,063,010
Accrued pension and post retirement benefit cost	521,507	141,439	662,946	721,695
Pending trades of securities	209,683	-	209,683	135,345
Liabilities under security lending agreements	182,027	-	182,027	160,024
Deferred rental and other income	548,363	-	548,363	526,237
Income beneficiary share of split interest agreements	387,947	-	387,947	335,975
Notes and bonds payable	2,726,607	983,178	3,709,785	3,808,347
U.S. government refundable loan funds	53,760	-	53,760	53,485
TOTAL LIABILITIES	**5,142,735**	**1,722,421**	**6,865,156**	**6,804,118**
NET ASSETS:				
Unrestricted	11,235,457	2,000,964	13,236,421	10,677,519
Temporarily restricted	6,243,177	354,789	6,597,966	5,722,099
Permanently restricted	5,076,158	205,350	5,281,508	5,007,765
TOTAL NET ASSETS	**22,554,792**	**2,561,103**	**25,115,895**	**21,407,383**
TOTAL LIABILITIES AND NET ASSETS	**$ 27,697,527**	**$ 4,283,524**	**$ 31,981,051**	**$ 28,211,501**

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

CONSOLIDATED STATEMENTS OF ACTIVITIES

For the years ended August 31, 2011 and 2010 (in thousands of dollars)

	2011			2010
	UNIVERSITY	HOSPITALS	CONSOLIDATED	CONSOLIDATED
UNRESTRICTED NET ASSETS				
REVENUES:				
Student income:				
Undergraduate programs	$ 285,582	$ -	$ 285,582	$ 274,943
Graduate programs	274,784	-	274,784	260,302
Room and board	127,785	-	127,785	122,469
Student financial aid	(230,307)	-	(230,307)	(221,236)
TOTAL STUDENT INCOME	**457,844**	**-**	**457,844**	**436,478**
Sponsored research support:				
Direct costs - University	660,684	-	660,684	606,921
Direct costs - SLAC National Accelerator Laboratory	366,435	-	366,435	332,767
Indirect costs	220,248	-	220,248	202,974
TOTAL SPONSORED RESEARCH SUPPORT	**1,247,367**	**-**	**1,247,367**	**1,142,662**
Health care services:				
Patient care, net	-	2,972,208	2,972,208	2,603,046
Physicians' services and support - SHC and LPCH, net	471,779	(471,779)	-	-
Physicians' services and support - other facilities, net	22,033	-	22,033	17,245
TOTAL HEALTH CARE SERVICES	**493,812**	**2,500,429**	**2,994,241**	**2,620,291**
CURRENT YEAR GIFTS IN SUPPORT OF OPERATIONS	**163,692**	**6,959**	**170,651**	**165,417**
Net assets released from restrictions:				
Payments received on pledges	83,487	1,640	85,127	62,678
Prior year gifts released from donor restrictions	30,190	865	31,055	29,462
TOTAL NET ASSETS RELEASED FROM RESTRICTIONS	**113,677**	**2,505**	**116,182**	**92,140**
Investment income distributed for operations:				
Endowment	785,081	13,977	799,058	871,431
Expendable funds pools and other investment income	127,626	830	128,456	28,342
TOTAL INVESTMENT INCOME DISTRIBUTED FOR OPERATIONS	**912,707**	**14,807**	**927,514**	**899,773**
SPECIAL PROGRAM FEES AND OTHER INCOME	**377,738**	**90,029**	**467,767**	**428,178**
TOTAL REVENUES	**3,766,837**	**2,614,729**	**6,381,566**	**5,784,939**
EXPENSES:				
Salaries and benefits	2,173,649	1,274,962	3,448,611	3,241,407
Depreciation	258,889	135,516	394,405	368,019
Other operating expenses	1,077,541	945,749	2,023,290	1,813,662
TOTAL EXPENSES	**3,510,079**	**2,356,227**	**5,866,306**	**5,423,088**
EXCESS OF REVENUES OVER EXPENSES	**$ 256,758**	**$ 258,502**	**$ 515,260**	**$ 361,851**

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

CONSOLIDATED STATEMENTS OF ACTIVITIES

For the years ended August 31, 2011 and 2010 (in thousands of dollars)

	2011			2010
	UNIVERSITY	HOSPITALS	CONSOLIDATED	CONSOLIDATED
UNRESTRICTED NET ASSETS (continued)				
EXCESS OF REVENUES OVER EXPENSES	**$ 256,758**	**$ 258,502**	**$ 515,260**	**$ 361,851**
Other changes in unrestricted net assets:				
Increase in reinvested gains	1,559,542	202,816	1,762,358	741,106
Donor advised funds, net	1,057	-	1,057	35,444
Current year gifts not included in operations	4,237	-	4,237	1,238
Equity and fund transfers from Hospitals, net	31,053	(31,053)	-	-
Capital and other gifts released from restrictions	243,798	5,123	248,921	156,164
Pension and other post employment benefit related changes				
other than net periodic benefit expense	82,555	14,826	97,381	(131,235)
Transfer to permanently restricted net assets, net	(56,247)	-	(56,247)	(18,620)
Transfer to temporarily restricted net assets, net	(16,121)	-	(16,121)	(13,165)
Swap interest and unrealized gains (losses)	(1,947)	672	(1,275)	(102,544)
Loss on extinguishment of debt	-	-	-	(12,994)
Other	(1,072)	4,403	3,331	784
NET CHANGE IN UNRESTRICTED NET ASSETS	**2,103,613**	**455,289**	**2,558,902**	**1,018,029**
TEMPORARILY RESTRICTED NET ASSETS				
Gifts and pledges, net	196,615	147,144	343,759	227,313
Increase in reinvested gains	889,161	43,182	932,343	469,723
Change in value of split interest agreements, net	132	(372)	(240)	11,907
Net assets released to operations	(113,677)	(24,271)	(137,948)	(114,642)
Capital and other gifts released to unrestricted net assets	(243,798)	(5,123)	(248,921)	(156,164)
Gift transfers to Hospitals, net	(1,233)	1,233	-	-
Transfer from unrestricted net assets, net	16,121	-	16,121	13,165
Transfer from (to) permanently restricted net assets, net	(24,810)	510	(24,300)	(11,503)
Other	(2,169)	(2,778)	(4,947)	(24,865)
NET CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	**716,342**	**159,525**	**875,867**	**414,934**
PERMANENTLY RESTRICTED NET ASSETS				
Gifts and pledges, net	150,813	34	150,847	107,497
Increase (decrease) in reinvested gains	15,150	-	15,150	(101,249)
Change in value of split interest agreements, net	25,862	929	26,791	23,944
Fund transfers from Hospitals, net	27,293	(27,293)	-	-
Transfer from unrestricted net assets, net	56,247	-	56,247	18,620
Transfer from (to) temporarily restricted net assets, net	24,810	(510)	24,300	11,503
Other	(259)	667	408	-
NET CHANGE IN PERMANENTLY RESTRICTED NET ASSETS	**299,916**	**(26,173)**	**273,743**	**60,315**
NET CHANGE IN TOTAL NET ASSETS	**3,119,871**	**588,641**	**3,708,512**	**1,493,278**
Total net assets, beginning of year	19,434,921	1,972,462	21,407,383	19,914,105
TOTAL NET ASSETS, END OF YEAR	**$ 22,554,792**	**$ 2,561,103**	**$ 25,115,895**	**$ 21,407,383**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended August 31, 2011 and 2010 (in thousands of dollars)

	2011			2010
	UNIVERSITY	HOSPITALS	CONSOLIDATED	CONSOLIDATED
CASH FLOW FROM OPERATING ACTIVITIES				
Change in net assets	$ 3,119,871	$ 588,641	$ 3,708,512	$ 1,493,278
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:				
Depreciation	258,889	135,516	394,405	368,019
Amortization, loss on disposal of fixed assets and other adjustments	19,347	(321)	19,026	17,338
Net gains on investments and security agreements	(3,230,140)	(190,255)	(3,420,395)	(1,779,897)
Net (gains) losses on derivatives	(3,645)	-	(3,645)	96,819
Changes in split interest agreements	46,312	(557)	45,755	(82,581)
Investment income for restricted purposes	(10,625)	(27,173)	(37,798)	(12,573)
Gifts restricted for long-term investments	(160,700)	(131,445)	(292,145)	(184,112)
Equity and fund transfers from Hospitals	(57,113)	57,113	-	-
Gifts of securities and properties	(51,904)	-	(51,904)	(106,257)
Loss on extinguishment of debt	-	-	-	12,994
Premiums received from bond issuance	-	1,534	1,534	50,492
Changes in operating assets and liabilities:				
Accounts receivable, pledges receivable and receivables from SHC and LPCH, net	(26,759)	(77,245)	(104,004)	3,955
Prepaid expenses and other assets	18,833	(23,685)	(4,852)	(46,094)
Accounts payable and accrued expenses	14,097	60,438	74,535	29,531
Accrued pension and post retirement benefit costs	(32,861)	(25,888)	(58,749)	160,643
Deferred rental and other income	22,126	-	22,126	(7,923)
Other	-	(10,649)	(10,649)	4,306
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	**(74,272)**	**356,024**	**281,752**	**17,938**
CASH FLOW FROM INVESTING ACTIVITIES				
Land, building and equipment purchases	(396,370)	(170,931)	(567,301)	(702,562)
Student, faculty and other loans:				
New loans made	(76,749)	-	(76,749)	(66,751)
Principal collected	48,996	-	48,996	38,635
Purchases of investments	(17,816,631)	(241,206)	(18,057,837)	(8,927,979)
Sales and maturities of investments	17,891,599	22,174	17,913,773	9,645,968
NET CASH USED FOR INVESTING ACTIVITIES	**(349,155)**	**(389,963)**	**(739,118)**	**(12,689)**
CASH FLOW FROM FINANCING ACTIVITIES				
Gifts and reinvested income for restricted purposes	152,527	50,988	203,515	157,707
Equity and fund transfers from Hospitals	22,861	(22,861)	-	-
Proceeds from borrowing	250	272,365	272,615	604,165
Bond issuance costs and interest rate swaps	(11)	(1,802)	(1,813)	(5,414)
Repayment of notes and bonds payable	(82,452)	(283,410)	(365,862)	(430,130)
Increase (decrease) in liabilities under security lending agreements	22,003	-	22,003	(88,024)
Other	275	45	320	(4,024)
NET CASH PROVIDED BY FINANCING ACTIVITIES	**115,453**	**15,325**	**130,778**	**234,280**
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(307,974)**	**(18,614)**	**(326,588)**	**239,529**
Cash and cash equivalents, beginning of year	1,494,231	526,572	2,020,803	1,781,274
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 1,186,257**	**$ 507,958**	**$ 1,694,215**	**$ 2,020,803**
SUPPLEMENTAL DATA:				
Interest paid during the year	$ 108,767	$ 49,243	$ 158,010	$ 145,315
Cash collateral received under security lending agreements	$ 142,963	$ -	$ 142,963	$ 122,566
Increase in payables for plant facilities	$ 34,643	$ 14,732	$ 49,375	$ (10,122)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation and Significant Accounting Policies

BASIS OF PRESENTATION

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

University

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

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

Hospitals

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

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

Unrestricted Net Assets

Unrestricted net assets are expendable resources used to support the University's core activities of teaching and research or the Hospitals' patient care, teaching and research missions. Unrestricted net assets include funds designated for operations, net investment in plant facilities, certain investment and endowment gains and funds functioning as endowment. These net assets may be designated by the University or the Hospitals for specific purposes under internal operating and administrative arrangements or be subject to contractual agreements with external parties. Donor-restricted contributions that relate to the University's or the Hospitals' core activities and are received and expended or deemed expended based on the nature of donors' restrictions are classified as unrestricted. All expenses are recorded as a reduction of unrestricted net assets.

Management considers all revenues and expenses to be related to operations. Increases or decreases in reinvested gains, swap interest and unrealized gains or losses, donor advised funds, capital and other gifts released from restrictions, equity and fund transfers from the Hospitals, amounts transferred to other net asset categories, pension and other post employment benefit related changes other than net periodic benefit expense and certain other non-operating changes are reported in the *Statements of Activities* as "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 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 net assets. In addition, appreciation and income on certain donor-restricted endowment funds are classified as temporarily restricted net assets until authorized for spending (see *Notes 12 and 13*). Donor-restricted resources intended for capital projects are initially recorded as temporarily restricted and released from their temporary restrictions and reclassified as unrestricted net assets when the asset is placed in service. Also included in this category is the University's net equity in split interest agreements that are expendable at maturity.

Permanently Restricted Net Assets

Permanently restricted net assets consist primarily of endowment, annuity and life income funds which are subject to donor-imposed restrictions requiring that the principal be invested in perpetuity.

Permanently restricted net assets may also include funds reclassified from other classes of net assets as a result of donor-imposed stipulations, the University's net equity in split interest agreements that are not expendable at maturity and net assets which by donor stipulation must be made available in perpetuity for specific purposes.

CASH AND CASH EQUIVALENTS

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

ACCOUNTS AND LOANS RECEIVABLE

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

PLEDGES RECEIVABLE

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

INVESTMENTS

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

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

PLANT FACILITIES

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

The useful lives used in calculating depreciation for the years ended August 31, 2011 and 2010 are as follows:

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

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

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

DONOR ADVISED FUNDS
The University receives gifts from donors under donor advised fund (DAF) agreements. These funds are owned and controlled by the University and are separately identified by donor. A substantial portion of the gift must be designated to the University. The balance may be used to support other approved charities. The donors have advisory privileges with respect to the distribution of certain amounts in the funds. Current year gifts under the DAF agreements are included in the *Statements of Activities* as "other changes in unrestricted net assets" at the full amount of the gift. Transfers of funds to other charitable organizations are included in the *Statements of Activities* as a reduction to "other changes in unrestricted net assets" at the time the transfer is made. At August 31, 2011 and 2010, approximately $207.3 million and $178.5 million, respectively, of DAFs are not designated to the University.

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

The assets held under split interest agreements where the University is the trustee were $628.7 million and $571.2 million, respectively, at August 31, 2011 and 2010 and were recorded in various categories in "investments" and the discounted present value of any income beneficiary interest is reported as "income beneficiary share of split interest agreements" in the *Statements of Financial Position.* The discount rates used, which range from 3% to 6%, are established in the year the gift was received and are based on tables established by the Internal Revenue Service.

During fiscal years 2011 and 2010, the discounted present value of new gifts subject to split interest agreements where the University is the trustee, net of the income beneficiary share, were $18.1 million and $8.7 million, respectively, and were included in "gifts and pledges, net" in the *Statements of Activities*. Actuarial gains or losses are included in "change in value of split interest agreements, net" in the *Statements of Activities*.

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

SELF-INSURANCE

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

INTEREST RATE EXCHANGE AGREEMENTS

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

STUDENT INCOME

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

PATIENT CARE AND OTHER SERVICES

Health Care Services

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

The University has entered into various operating agreements with the Hospitals for the professional services of faculty members from the 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 $88.7 million and $76.5 million for the years ended August 31, 2011 and 2010, 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, 2011 and 2010 were $251.4 million and $219.4 million, respectively.

Provider Fee

The State of California enacted legislation in 2009 which established a Hospital Quality Assurance Fee (QAF) Program and a Hospital Fee Program. These programs imposed a provider fee on certain California general acute care hospitals that, combined with federal matching funds, would be used to provide supplemental payments to certain hospitals and support the State's effort to maintain health care coverage for children. For the year ended August 31, 2011, the Hospitals recognized $88.6 million in "patient care, net" revenue under these programs and paid $47.8 million in QAF to the California Department of Health Care Services.

The effective period of the Hospital Fee Program was April 1, 2009 through December 31, 2010. The State received final approval from the Centers for Medicare & Medicaid Services (CMS) in December of 2010 on the rates. Subsequent legislation extended the QAF and Hospital Fee programs, pending approval by CMS.

RECENT ACCOUNTING PRONOUNCEMENTS

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

In July 2010, the FASB issued an update to the ASC which expanded disclosures about the credit quality of its financing receivables and allowances for credit losses. The disclosures are intended to provide additional information to assist financial statement users in assessing an entity's credit risk exposures and evaluating the adequacy of its allowance for credit losses. The University adopted this guidance for the year ended August 31, 2011.

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

2. Accounts Receivable

Accounts receivable, net of bad debt allowances, at August 31, 2011 and 2010, in thousands of dollars, are as follows:

	2011			2010
	UNIVERSITY	HOSPITALS	CONSOLIDATED	CONSOLIDATED
U.S. government	$ 66,173	$ -	$ 66,173	$ 61,825
Non-government sponsors	28,614	-	28,614	26,818
Pending trades of securities	109,793	-	109,793	102,469
Accrued interest on investments	7,645	-	7,645	4,542
Student	9,582	-	9,582	11,220
Patient and third-party payers	-	520,295	520,295	457,094
Other	33,695	20,950	54,645	52,541
	255,502	541,245	796,747	716,509
Less bad debt allowances	(2,181)	(91,557)	(93,738)	(89,535)
ACCOUNTS RECEIVABLE, NET	**$ 253,321**	**$ 449,688**	**$ 703,009**	**$ 626,974**

3. Pledges Receivable

Pledges are recorded at applicable risk-adjusted discount rates, ranging from 2.4% to 6.0% for the University and from 0.1% to 5.8% for the Hospitals, commensurate with the duration of the donor's payment plan. At August 31, 2011 and 2010, pledges receivable, net of discounts and allowances, in thousands of dollars, are as follows:

	2011			2010
	UNIVERSITY	HOSPITALS	CONSOLIDATED	CONSOLIDATED
One year or less	$ 131,990	$ 34,596	$ 166,586	$ 130,705
Between one year and five years	684,759	73,352	758,111	689,254
More than five years	133,963	65,884	199,847	294,427
	950,712	173,832	1,124,544	1,114,386
Less discounts and allowances	(221,459)	(8,391)	(229,850)	(245,217)
PLEDGES RECEIVABLE, NET	**$ 729,253**	**$ 165,441**	**$ 894,694**	**$ 869,169**

Conditional pledges for the University, which depend on the occurrence of a specified future and uncertain event, were $12.9 million and $16.8 million at August 31, 2011 and 2010, respectively. The Hospitals had conditional pledges of $126.7 million and $100.0 million at August 31, 2011 and 2010, respectively. Lucile Packard Foundation for Children's Health is the primary community fundraising agent for LPCH and the pediatric faculty and programs at the University's School of Medicine.

4. Loans Receivable

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

STUDENT LOANS RECEIVABLE

Student loans receivable consist of institutional and federally-sponsored loans due from both current and former students. Student loans and allowance for student loan losses at August 31, 2011 and 2010, in thousands of dollars, are as follows:

	2011	2010
Institutional loans	$ 18,082	$ 16,208
Federally-sponsored loans	58,580	59,635
	76,662	75,843
Less allowance for student loan losses	(940)	(846)
STUDENT LOANS RECEIVABLE, NET	**$ 75,722**	**$ 74,997**

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

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

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

FACULTY AND STAFF MORTGAGES

In a program to attract and retain excellent faculty and senior staff, the University provides home mortgage financing assistance, primarily in the form of secondary loans. Notes receivable amounting to $462.5 million and $439.9 million at August 31, 2011 and 2010, respectively, from University faculty and staff are included in "faculty and staff mortgages and other loans receivable, net" in the *Statements of Financial Position*. These loans and mortgages are collateralized by deeds of trust on properties concentrated in the region surrounding the University.

5. Investments

Investments held by the University and the Hospitals are measured and recorded at fair value. The valuation methodology, investment categories, fair value hierarchy, certain investment activities and related commitments for fiscal years 2011 and 2010 are discussed below.

Investments held by the University and the Hospitals at August 31, 2011 and 2010, in thousands of dollars, are as follows:

	2011			2010
	UNIVERSITY	HOSPITALS	CONSOLIDATED	CONSOLIDATED
Cash and cash equivalents	$ 349,234	$ 76,017	$ 425,251	$ 664,974
Collateral held for securities loaned	142,963	-	142,963	122,566
Public equities	4,446,401	111,561	4,557,962	3,835,083
Derivatives	(13,834)	-	(13,834)	(85)
Fixed income	756,822	-	756,822	415,651
Real estate	4,500,588	-	4,500,588	3,402,206
Natural resources	1,683,569	-	1,683,569	1,532,135
Private equities	5,319,813	-	5,319,813	3,867,427
Absolute return	5,253,470	-	5,253,470	5,005,170
Assets held by other trustees	163,044	13,972	177,016	166,372
Other	181,577	-	181,577	151,120
	22,783,647	201,550	22,985,197	19,162,619
Hospital funds invested in the University’s Merged Pool	(1,594,160)	1,594,160	-	-
INVESTMENTS AT FAIR VALUE	**$21,189,487**	**$ 1,795,710**	**$ 22,985,197**	**$19,162,619**

VALUATION METHODOLOGY

To the extent available, the University’s investments are recorded at fair value based on quoted prices in active markets. The University’s investments that are listed on any U.S. or non-U.S. recognized exchanges are valued based on readily available market quotations. When such inputs do not exist, fair value measurements are based on the best available information and usually require a degree of judgment. For alternative investments, which are principally limited partnership investments in private equity, real estate, natural resources and hedge funds, the value is primarily based on the Net Asset Value (NAV) of the underlying investments. The NAV is reported by the external investment managers, including general partners, in accordance with their policies as described in their respective financial statements and offering memoranda. The most recent NAV reported is adjusted for capital calls, distributions and significant known valuation changes, if any, of its related portfolio through August 31, 2011 and 2010, respectively. These investments are generally less liquid than other investments, and the value reported may differ from the values that would have been reported had a ready market for these investments existed.

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

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

INVESTMENT CATEGORIES

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

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

Included in "cash and cash equivalents" for the Hospitals are assets limited as to use of $1.0 million at both August 31, 2011 and 2010. Assets limited as to use include hospital accounts held by a trustee in accordance with indenture requirements. The indenture terms require that the trustee control the expenditure of bond proceeds for hospital capital projects. The assets are recorded at fair value.

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

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

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

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

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

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

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

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

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

FAIR VALUE HIERARCHY

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

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

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

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

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

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

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

The following table summarizes the University's investments and other assets within the fair value hierarchy and asset categories at August 31, 2011 and 2010, in thousands of dollars:

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

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

	AS OF AUGUST 31, 2010	LEVEL 1	LEVEL 2	LEVEL 3
UNIVERSITY*				
Cash and cash equivalents	$ 625,207	$ 587,689	$ 37,518	$ -
Collateral held for securities loaned	122,566	86,128	36,438	-
Public equities	3,788,900	1,772,259	655,839	1,360,802
Derivatives	(85)	(27)	(58)	-
Fixed income	415,651	154,633	261,018	-
Real estate	3,402,206	-	-	3,402,206
Natural resources	1,532,135	249,040	-	1,283,095
Private equities	3,867,427	7,383	-	3,860,044
Absolute return	5,005,170	-	1,607,159	3,398,011
Assets held by other trustees	152,744	-	-	152,744
Other	151,120	132	653	150,335
TOTAL	**19,063,041**	**2,857,237**	**2,598,567**	**13,607,237**
HOSPITALS				
Cash and cash equivalents	39,767	35,663	4,104	-
Public equities	46,183	-	46,183	-
Assets held by other trustees	13,628	-	-	13,628
TOTAL	**99,578**	**35,663**	**50,287**	**13,628**
CONSOLIDATED TOTAL	**$ 19,162,619**	**$ 2,892,900**	**$ 2,648,854**	**$ 13,620,865**

* *Amounts include the Hospitals' cross investment in the University's investment pools of $1.3 billion.*

The University manages the majority of the Hospitals' investments, including the Hospitals' investment in the Merged Pool (MP), with a combined fair value of $1.6 billion and $1.3 billion at August 31, 2011 and 2010, respectively.

SUMMARY OF LEVEL 3 INVESTMENT ACTIVITIES AND TRANSFERS

The following tables present the activities for Level 3 investments for the years ended August 31, 2011 and 2010, in thousands of dollars:

FAIR VALUE MEASUREMENTS USING SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)	BEGINNING BALANCE AS OF SEPTEMBER 1, 2010	NET PURCHASES (SALES AND MATURITIES)	REALIZED GAINS (LOSSES)	CHANGE IN UNREALIZED GAINS (LOSSES)	NET TRANSFERS IN (OUT)	ENDING BALANCE AS OF AUGUST 31, 2011
UNIVERSITY						
Public equities	$ 1,360,802	$ 275,336	$ 88,822	$ 91,606	$ 2,271	$ 1,818,837
Real estate	3,402,206	232,310	(6,542)	862,792	9,822	4,500,588
Natural resources	1,283,095	(19,660)	52,052	155,238	(5,136)	1,465,589
Private equities	3,860,044	200,561	106,912	1,136,925	-	5,304,442
Absolute return	3,398,011	(290,354)	213,746	157,086	(88,216)	3,390,273
Assets held by other trustees	152,744	(4,931)	15,231	-	-	163,044
Other	150,335	17,435	9,747	18,528	(15,270)	180,775
TOTAL	**13,607,237**	**410,697**	**479,968**	**2,422,175**	**(96,529)**	**16,823,548**
HOSPITALS						
Assets held by other trustees	13,628	-	(213)	557	-	13,972
TOTAL	**13,628**	**-**	**(213)**	**557**	**-**	**13,972**
CONSOLIDATED TOTAL	**$ 13,620,865**	**$ 410,697**	**$ 479,755**	**$ 2,422,732**	**$ (96,529)**	**$ 16,837,520**

FAIR VALUE MEASUREMENTS USING SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)	BEGINNING BALANCE AS OF SEPTEMBER 1, 2009	NET PURCHASES (SALES AND MATURITIES)	REALIZED GAINS (LOSSES)	CHANGE IN UNREALIZED GAINS (LOSSES)	NET TRANSFERS IN (OUT)	ENDING BALANCE AS OF AUGUST 31, 2010
UNIVERSITY						
Public equities	$ 1,439,891	$ (159,608)	$ (31,130)	$ 313,186	$ (201,537)	$ 1,360,802
Fixed Income	25,994	(26,088)	2,084	(1,990)	-	-
Real estate	3,269,081	263,108	9,780	(139,763)	-	3,402,206
Natural resources	1,636,677	(141,882)	52,006	(64,377)	(199,329)	1,283,095
Private equities	3,197,431	155,157	(14,291)	521,747	-	3,860,044
Absolute return	3,492,396	(142,431)	(88,181)	694,387	(558,160)	3,398,011
Assets held by other trustees	139,474	(1,777)	15,047	-	-	152,744
Other	158,538	10,588	1,555	(20,346)	-	150,335
TOTAL	**13,359,482**	**(42,933)**	**(53,130)**	**1,302,844**	**(959,026)**	**13,607,237**
HOSPITALS						
Assets held by other trustees	13,997	-	(131)	(238)	-	13,628
TOTAL	**13,997**	**-**	**(131)**	**(238)**	**-**	**13,628**
CONSOLIDATED TOTAL	**$ 13,373,479**	**$ (42,933)**	**$ (53,261)**	**$ 1,302,606**	**$ (959,026)**	**$ 13,620,865**

Realized gains (losses) and the change in unrealized gains (losses) in the tables above are included in the *Statements of Activities* primarily as "increase (decrease) in reinvested gains" by level of restriction. For the years ended August 31, 2011 and 2010, the change in unrealized gains (losses) for Level 3 investments still held at August 31, 2011 and 2010 was $2.5 billion and $1.3 billion, respectively.

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

INVESTMENT-RELATED COMMITMENTS

The University is obligated under some alternative investment agreements to advance additional funding up to specified levels over a period of several years. The following table presents significant terms of such agreements solely related to the alternative investments measured at fair value based on NAV at August 31, 2011, in thousands of dollars:

ASSET CLASS	FAIR VALUE	UNFUNDED COMMITMENT	REMAINING LIFE (YEARS)	REDEMPTION TERMS AND RESTRICTIONS
Public equities	$ 2,398,152	$ 12,754	0 to 5	Generally, lock-up provisions ranging from 0 to 6 years. After initial lock up expires, redemptions are available on a rolling basis and require 3 to 180 days prior notification.
Real estate	1,713,824	992,385	0 to 13	Not eligible for redemption
Natural resources	991,416	459,196	0 to 15	Not eligible for redemption
Private equities	5,304,169	2,024,440	0 to 16	Not eligible for redemption
Absolute return	5,200,304	251,716	0 to 7	Generally, lock-up provisions ranging from 0 to 6 years. After initial lock up expires, redemptions are available on a rolling basis and require 2 to 180 days prior notification.
TOTAL	**$ 15,607,865**	**$ 3,740,491**		

At August 31, 2011, the aggregate amount of unfunded commitments was $3.9 billion. This amount includes both the unfunded commitments in the table above and other alternative investments where the fair values were not based on NAV.

INVESTMENT RETURNS

Total investment returns for the years ended August 31, 2011 and 2010, in thousands of dollars, are as follows:

	2011			2010
	UNIVERSITY	HOSPITALS	CONSOLIDATED	CONSOLIDATED
Investment income	$ 218,727	$ 11,222	$ 229,949	$ 166,084
Net realized and unrealized gains	3,218,576	235,335	3,453,911	1,896,526
TOTAL INVESTMENT RETURN	**$ 3,437,303**	**$ 246,557**	**$ 3,683,860**	**$ 2,062,610**

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

FUTURE MINIMUM RENTAL INCOME

As part of its investment portfolio, the University holds certain investment properties that it leases to third parties. Future minimum rental income due from the Stanford Shopping Center, the Stanford Research Park and other properties under non-cancelable leases in effect with tenants at August 31, 2011, in thousands of dollars, is as follows:

YEAR ENDING AUGUST 31	FUTURE MINIMUM RENTAL INCOME
2012	$ 84,012
2013	87,918
2014	87,313
2015	81,679
2016	77,108
Thereafter	1,679,730
TOTAL	**$ 2,097,760**

6. Investment Pools

The University's investments are held in various investment pools or in specific investments to comply with donor requirements as indicated in the following table, at August 31, 2011 and 2010, in thousands of dollars:

	2011	2010
UNIVERSITY		
Merged Pool	$ 19,547,086	$ 16,616,406
Expendable Funds Pool	2,648,621	2,369,236
Endowment Income Funds Pool	355,917	354,844
Other Investment Pools	392,285	369,572
Specific Investments	2,843,907	2,075,245
	25,787,816	21,785,303
Less:		
Amounts included in "cash and cash equivalents" in the *Statements of Financial Position*	(639,020)	(640,563)
Funds cross-invested in investment pools	(2,361,238)	(2,077,595)
Hospital funds invested in the University's investment pools	(1,598,071)	(1,263,784)
TOTAL	**21,189,487**	**17,803,361**
HOSPITALS		
Investments	1,795,710	1,359,258
TOTAL	**1,795,710**	**1,359,258**
INVESTMENTS AT FAIR VALUE	**$ 22,985,197**	**$19,162,619**

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

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

The Board has established a policy for the distribution of the investment returns of the EFP. The difference between the actual return of this investment pool and the approved payout is deposited in, or withdrawn from, funds functioning as endowment (FFE) *(*see *Note 12)*. For the years ended August 31, 2011 and 2010, the results of the EFP, in thousands of dollars, are as follows:

	2011	2010
Total investment return of the EFP	$ 399,210	$ 251,501
Less distributions to fund holders and operations	(83,199)	(478)
AMOUNTS ADDED TO FFE	**$ 316,011**	**$ 251,023**

7. Derivatives

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

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

INVESTMENT-RELATED DERIVATIVES

The following table presents amounts for investment-related derivatives, including the notional amount, the fair values at August 31, 2011 and 2010, and gains and losses for the years ended August 31, 2011 and 2010, in thousands of dollars:

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

	AS OF AUGUST 31, 2010			YEAR ENDED AUGUST 31, 2010
	NOTIONAL AMOUNT[1]	GROSS DERIVATIVE ASSETS[2]	GROSS DERIVATIVE LIABILITIES[2]	REALIZED AND UNREALIZED GAINS (LOSSES)[3]
Interest-rate contracts	$ 103,381	$ 232	$ 770	$ 621
Foreign exchange contracts	62,570	1,104	419	125
Credit contracts	53,072	244	476	(515)
TOTAL	**$ 219,023**	**$ 1,580**	**$ 1,665**	**$ 231**

[1] *The notional amount is representative of the volume and activity of the respective derivative type during the years ended August 31, 2011 and 2010.*

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

[3] *Gains (losses) on derivatives are included in the Statements of Activities as "increase in reinvested gains" in "other changes in unrestricted net assets".*

Credit Default Swaps

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

The tables below summarize certain information regarding protection sold through CDS at August 31, 2011 and 2010, in thousands of dollars:

	MAXIMUM POTENTIAL PAYOUT (NOTIONAL AMOUNT[1]) / YEARS TO MATURITY			FAIR VALUE ASSET/ (LIABILITY)
CREDIT RATINGS OF THE REFERENCE OBLIGATION[2]	LESS THAN 3	OVER 3	TOTAL	
2011				
Single name credit default swaps:				
A- to AA+	$ 12,783	$ 16,400	$ 29,183	$ 67
BBB- to BBB+	3,636	2,300	5,936	(444)
Total single name credit default swaps	16,419	18,700	35,119	(377)
TOTAL CREDIT DEFAULT SWAPS SOLD	**$ 16,419**	**$ 18,700**	**$ 35,119**	**$ (377)**
2010				
Single name credit default swaps:				
A- to AA+	$ 7,600	$ 200	$ 7,800	$ 29
BBB- to BBB+	4,000	800	4,800	(106)
Total single name credit default swaps	11,600	1,000	12,600	(77)
Index credit default swaps[3]	-	800	800	(37)
TOTAL CREDIT DEFAULT SWAPS SOLD	**$ 11,600**	**$ 1,800**	**$ 13,400**	**$ (114)**

[1] The notional amount is representative of the volume and activity of the respective derivative type during the years ended August 31, 2011 and 2010.

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

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

DEBT-RELATED DERIVATIVES

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

At August 31, 2011, the University had interest rate exchange agreements related to $130.0 million of the outstanding balance of the CEFA Series S VRDBs (see *Note 10*). The agreements, which have an interest rate of 3.94%, expire November 1, 2039. The notional amount and the fair value of the exchange agreements are included in the table below. Collateral posted with various counterparties was $25.0 million and $35.6 million at August 31, 2011 and 2010, respectively, and is included in the *Statements of Financial Position*. In addition, the University posted an irrevocable standby letter of credit of $15.0 million to support collateral requirements at August 31, 2011 (see *Note 10*).

At August 31, 2011, SHC had interest rate exchange agreements expiring through November 2045 (see *Note 11*). Certain of the agreements pay fixed interest rates to counterparties varying from 3.37% to 4.08% and a portion involves the exchange of fixed rate payments for variable rate payments based on a percentage of the One Month London Interbank Offered Rate (LIBOR). The notional amount and the fair value of the exchange agreements are included in the table below. The amount of collateral required to be posted with counterparties was $7.1 million and $72.6 million at August 31, 2011 and 2010, respectively, and was met by the posting of standby letters of credit in the aggregate amount of $20.0 million and $75.0 million at August 31, 2011 and 2010, respectively, which may only be drawn upon in the event of a default by SHC.

The following table presents amounts for debt-related derivatives including the notional amount, the fair values at August 31, 2011 and 2010, and gains and losses for the years ended August 31, 2011 and 2010, in thousands of dollars:

	AS OF AUGUST 31, 2011		YEAR ENDED AUGUST 31, 2011	AS OF AUGUST 31, 2010		YEAR ENDED AUGUST 31, 2010
	NOTIONAL AMOUNT[1]	GROSS DERIVATIVE LIABILITIES[2]	REALIZED AND UNREALIZED GAINS[3]	NOTIONAL AMOUNT[1]	GROSS DERIVATIVE LIABILITIES[2]	REALIZED AND UNREALIZED (LOSSES)[3]
Debt-related interest-rate contracts:						
University	$ 130,000	$ 38,968	$ 3,645	$ 150,000	$ 42,613	$ (17,765)
Hospitals	749,400	165,693	672	749,400	166,365	(79,054)
TOTAL	**$879,400**	**$ 204,661**	**$ 4,317**	**$ 899,400**	**$ 208,978**	**$ (96,819)**

[1] *The notional amount is representative of the volume and activity of the respective derivative type during the years ended August 31, 2011 and 2010.*

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

[3] *Gains (losses) on derivatives are included in the Statements of Activities as "increase in reinvested gains" in "other changes in unrestricted net assets".*

8. Plant Facilities

Plant facilities, net of accumulated depreciation, at August 31, 2011 and 2010, in thousands of dollars, are as follows:

	2011			2010
	UNIVERSITY	HOSPITALS	CONSOLIDATED	CONSOLIDATED
Land and improvements	$ 461,486	$ 93,667	$ 555,153	$ 547,687
Buildings and building improvements	4,280,731	1,165,826	5,446,557	4,950,274
Furniture, fixtures and equipment	1,708,469	815,455	2,523,924	2,410,892
Construction in progress	170,657	312,069	482,726	658,238
	6,621,343	2,387,017	9,008,360	8,567,091
Less accumulated depreciation	(2,946,960)	(1,054,293)	(4,001,253)	(3,700,429)
PLANT FACILITIES, NET OF ACCUMULATED DEPRECIATION	**$ 3,674,383**	**$ 1,332,724**	**$ 5,007,107**	**$ 4,866,662**

At August 31, 2011, $1.2 billion and $613.0 million of fully depreciated plant facilities were still in use by the University and the Hospitals, respectively.

9. Liabilities Under Security Lending Agreements

The University receives short-term U.S. government obligations and cash as collateral deposits for certain securities loaned temporarily to brokers. It is the University's policy to require receipt of collateral on securities lending contracts and repurchase agreements equal to a minimum of 102% of the fair market value of the security loaned. In addition, the University is party to certain forward sale and purchase agreements. At August 31, 2011 and 2010, these amounts, in thousands of dollars, are as follows:

	2011	2010
Collateral deposits for certain securities loaned temporarily to brokers[1, 2]	$ 142,963	$ 122,566
Forward sale and purchase agreements[1]	39,064	37,458
LIABILITIES UNDER SECURITY LENDING AGREEMENTS	**$ 182,027**	**$ 160,024**

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

[2] The estimated fair value of securities loaned to brokers at August 31, 2011 and 2010 was $125.0 million and $118.1 million, respectively.

10. University Notes and Bonds Payable

Notes and bonds payable for the University at August 31, 2011 and 2010, in thousands of dollars, are as follows:

	YEAR OF MATURITY	EFFECTIVE INTEREST RATE 2011/2010	OUTSTANDING PRINCIPAL 2011	2010
Tax-exempt:				
CEFA Fixed Rate Revenue Bonds:				
Series O	2031	5.13%	$ 89,555	$ 89,555
Series P	2013	5.25%	51,260	51,260
Series Q	2032	5.25%	101,860	101,860
Series R	2011-2021	4.00% - 5.00%	111,585	111,585
Series T	2014-2039	4.00% - 5.00%	361,310	361,310
Series U	2040	5.25%	215,375	215,375
CEFA VRDBs:				
Series L	2014-2022	0.12%/0.20%	83,818	83,818
Series S	2039-2050	0.22%-0.36%/0.30%-0.46%*	181,200	181,200
Commercial Paper	2011	0.10%/0.28%	92,682	113,532
Taxable:				
Fixed Rate Notes and Bonds:				
Stanford University Bonds	2024	6.88%	150,000	150,000
Medium Term Notes	2011-2026	6.16% - 7.65%	50,000	100,000
Stanford University Series 2009A	2014-2019	3.63% - 4.75%	1,000,000	1,000,000
Other	2015-2016	Various	67,799	70,225
Variable Rate Notes:				
Commercial Paper	2011	0.17%/0.34%*	108,976	119,676
University notes and bonds payable			2,665,420	2,749,396
Unamortized original issue premiums/discounts, net			61,187	66,537
TOTAL			**$ 2,726,607**	**$ 2,815,933**

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

At August 31, 2011 and 2010, the fair value of these debt instruments was approximately $3.0 billion on both dates.

The University borrows at tax-exempt rates through the California Educational Facilities Authority (CEFA). The CEFA debt is a general unsecured obligation of the University. Although CEFA is the issuer, the University is responsible for the repayment of the tax-exempt debt. The University's long-term ratings of AAA/Aaa/AAA were affirmed in fiscal year 2011 by Standard and Poor's, Moody's Investors Service and Fitch Ratings, respectively.

In April 2011, the 6.16% taxable Medium Term Notes Series A-3 in the amount of $50.0 million matured.

In December 2010, the University entered into a $50.0 million line of credit agreement to issue irrevocable standby letters of credit to support various collateral posting obligations. At August 31, 2011, irrevocable standby letters of credit of $30.0 million were outstanding in the following amounts and for the following respective purposes: (i) $15.0 million to support collateral requirements under certain interest rate exchange agreements discussed in *Note 7* and (ii) $15.0 million to serve as security for workers' compensation deductible insurance arrangements. No amounts have been drawn on these letters of credit at August 31, 2011.

In May 2010, CEFA Series U-1 revenue bonds (the "Bonds") in the amount of $215.4 million plus an original issue premium of $36.3 million were issued. The Bonds bear interest at a rate of 5.25% and mature on April 1, 2040. Proceeds were used to refund commercial paper and to fund facilities and infrastructure.

Stanford holds controlling interests in several investment entities which were consolidated in the financial statements in fiscal year 2011 and 2010. At August 31, 2011 and 2010, taxable debt included $66.5 million and $68.5 million, respectively, of debt where Stanford is ultimately liable for principal should the investees default.

The University's taxable and tax-exempt commercial paper facilities and related information at August 31, 2011 and 2010, in thousands of dollars, were as follows:

COMMERCIAL PAPER	POTENTIAL BORROWINGS	OUTSTANDING BALANCE AT AUGUST 31	WEIGHTED AVERAGE DAYS TO MATURITY	WEIGHTED AVERAGE EFFECTIVE INTEREST
2011				
Taxable	$ 350,000	$ 108,976	26.3	0.17%
Tax-exempt	$ 300,000	$ 92,682	32.3	0.10%
2010				
Taxable	$ 350,000	$ 119,676	45.6	0.34%
Tax-exempt	$ 300,000	$ 113,532	42.5	0.28%

The University had $265.0 million of VRDBs outstanding in addition to commercial paper at August 31, 2011. CEFA Series L bonds bear interest at a weekly rate and CEFA Series S bonds bear interest at a commercial paper municipal rate and are outstanding for various interest periods of 270 days or less. In the event the University receives notice of any optional tender of 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 incurred interest expense of approximately $71.3 million and $60.2 million for the years ended August 31, 2011 and 2010, respectively, net of (1) $782 thousand and $790 thousand, respectively, of interest income on invested unspent proceeds, (2) $1.6 million and $3.9 million, respectively, in interest capitalized as a cost of construction and (3) $29.9 million and $33.7 million (net of interest income of $667 thousand and $683 thousand), respectively, of interest expense associated with the Series 2009A bonds which were recorded as an investment expense. Interest expense includes administrative expenses, amortized bond issuance costs, and amortized bond premium or discount.

The University uses interest rate exchange agreements to manage the interest rate exposure of its debt portfolio (see *Note 7*). Net payments on interest rate exchange agreements, which are included in "swap interest and unrealized gains (losses)" in the *Statements of Activities*, totaled $5.6 million and $5.7 million for the years ended August 31, 2011 and 2010, respectively.

At August 31, 2011, scheduled principal payments on notes and bonds, in thousands of dollars, are as follows:

YEAR ENDING AUGUST 31		PRINCIPAL PAYMENTS
2012 Commercial paper	$	201,658
2012 Variable debt subject to remarketing		265,018
2012 Other		63,916
2013		64,883
2014		573,720
2015		55
2016		250,000
Thereafter		1,246,170
TOTAL	**$**	**2,665,420**

11. Hospitals Notes and Bonds Payable

Notes, bonds and capital lease obligations for the Hospitals at August 31, 2011 and 2010, in thousands of dollars, are as follows:

	YEAR OF MATURITY	EFFECTIVE INTEREST RATE* 2011/2010	OUTSTANDING PRINCIPAL 2011	2010
SHC:				
CHFFA Fixed Rate Revenue Bonds:				
2003 Series A	2023	2.00%-5.00%	78,595	83,400
2008 Series A-1	2040	2.25%-5.15%	70,360	70,360
2008 Series A-2	2040	1.00%-5.25%/0.26%	104,100	104,100
2008 Series A-3	2040	1.00%-5.50%/3.45%	84,165	85,700
2010 Series A	2031	4.00%-5.75%	149,345	149,345
2010 Series B	2036	4.50%-5.75%	146,710	146,710
Promissory Note	2014	7.03%	539	704
CHFFA Variable Rate Revenue Bonds:				
2008 Series B	2045	0.17%/0.24%	168,200	168,200
LPCH:				
CHFFA Fixed Rate Revenue Bonds:				
2003 Series C	2013-2027	3.25%	55,000	55,000
CHFFA Variable Rate Revenue Bonds:				
2008 Series A	2027-2033	0.13%/0.25%	30,340	30,340
2008 Series B	2027-2033	0.16%/0.23%	30,340	30,340
2008 Series C	2015-2023	0.16%/0.23%	32,770	32,770
Capital lease obligations			13,643	15,572
Hospitals notes and bonds payable			964,107	972,541
Unamortized original issue premiums/discounts, net			19,071	19,873
TOTAL			**$ 983,178**	**$ 992,414**

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

At August 31, 2011 and 2010, the fair value of these debt instruments was approximately $1.0 billion on both dates.

The Hospitals borrow at tax-exempt rates 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 hospitals. Although CHFFA is the issuer, the Hospitals are responsible for the repayment of the tax-exempt debt. The University is not an obligor or guarantor with respect to any obligations of SHC or LPCH, nor are SHC or LPCH obligors or guarantors with respect to obligations of the University.

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

SHC

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

In June 2010, CHFFA, on behalf of SHC, issued fixed rate revenue bonds in the aggregate principal amount of $296.1 million to refund certain previously issued bonds. The CHFFA 2010 Series A and B bonds mature in 2031 and 2036, respectively. As a result of the bond refinancing, the unamortized bond issuance costs and original issue discount related to the refunded bonds were included in loss on extinguishment of debt of $13.0 million for the year ended August 31, 2010.

In June 2010, SHC converted the CHFFA 2008 Series A-1 bonds from an annual put mode to a long-term fixed interest rate mode and the bonds mature in 2040. The remarketing of the CHFFA 2008 Series A-1 bonds generated an original issue premium of approximately $140 thousand; that, pursuant to the requirements of the underlying documents, was used to reduce the principal amount of the bonds from $70.5 million to $70.4 million.

SHC has $168.2 million of VRDBs outstanding, comprised of the CHFFA 2008 Series B-1 bonds which bear interest at a weekly rate which resets every 7 days, and the CHFFA 2008 Series B-2 bonds which bear interest at a commercial paper rate and are outstanding for various interest periods of 270 days or less. Bondholders investing in weekly VRDBs have the option to tender their bonds on a weekly basis. Bondholders in commercial paper mode have the option to tender their bonds only at the end of the commercial paper rate period. The CHFFA 2008 Series B bonds are supported by SHC's self-liquidity.

SHC has irrevocable standby letters of credit in the aggregate amount of $43.4 million posted with certain beneficiaries in the following amounts and for the following respective purposes: (i) $20.0 million to support collateral requirements under certain interest rate exchange agreements discussed in *Note 7*, (ii) $13.4 million to serve as security for the workers' compensation self-insurance arrangement and (iii) $10.0 million to serve as a security deposit for certain construction projects being undertaken by SHC. No amounts have been drawn on these letters of credit at August 31, 2011 and 2010.

LPCH

LPCH has $93.5 million of VRDBs outstanding, consisting of the CHFFA 2008 Series A, B and C bonds, which may bear interest at a daily, weekly, commercial paper, long term or auction rate, as defined by the LPCH Master Indenture. The bonds of each series currently bear interest at a weekly rate, which resets every 7 days. Bondholders have the option to tender their bonds on a weekly basis. 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, which expires November 9, 2013, allows access on a same-day basis of up to $100.0 million of cash against LPCH's investments in the University's MP.

LPCH has irrevocable standby letters of credit in the aggregate amount of $12.0 million posted with certain beneficiaries in the following amounts and for the following respective purposes: (i) $5.4 million to serve as security for the workers' compensation self-insurance arrangement and (ii) $6.6 million to serve as a security deposit for certain construction projects being undertaken by LPCH. No amounts have been drawn on these letters of credit at August 31, 2011 and 2010.

INTEREST

The Hospitals incurred interest expense of approximately $50.3 million and $42.4 million for the years ended August 31, 2011 and 2010, respectively, which is net of $0 and $19 thousand, respectively, of interest income and approximately $1.7 million and $1.3 million, respectively, in interest capitalized as a cost of construction. Interest expense includes net payments on interest rate exchange agreements of $19.9 million and $19.6 million for the years ended August 31, 2011 and 2010, respectively.

PRINCIPAL PAYMENTS

Estimated principal payments on bonds, promissory notes and capital lease obligations, in thousands of dollars, are as follows:

YEAR ENDING AUGUST 31	PRINCIPAL PAYMENTS
2012 Variable debt subject to remarketing	$ 261,650
2012 Other	25,039
2013	13,230
2014	14,893
2015	14,120
2016	15,890
Thereafter	619,285
TOTAL	**$ 964,107**

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

The University classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment and (b) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are authorized for expenditure. In the absence of donor stipulations or law to the contrary, net unrealized losses on permanently restricted endowment funds first reduce related appreciation on temporarily restricted net assets and then on unrestricted net assets, as needed, until such time as the fair value of the fund equals or exceeds historic value. The aggregate amount by which fair value was below historic value was $34.9 million and $130.1 million at August 31, 2011 and 2010, respectively.

Endowment funds by net asset classification at August 31, 2011 and 2010, in thousands of dollars, are as follows:

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
2011				
Donor-restricted endowment funds	$ (34,907)	$ 5,215,842	$ 4,645,015	$ 9,825,950
Funds functioning as endowment	6,676,656	-	-	6,676,656
TOTAL ENDOWMENT FUNDS	**$ 6,641,749**	**$ 5,215,842**	**$ 4,645,015**	**$ 16,502,606**
2010				
Donor-restricted endowment funds	$ (130,134)	$ 4,340,344	$ 4,349,295	$ 8,559,505
Funds functioning as endowment	5,291,610	-	-	5,291,610
TOTAL ENDOWMENT FUNDS	**$ 5,161,476**	**$ 4,340,344**	**$ 4,349,295**	**$ 13,851,115**

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

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

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

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

Changes in the University's endowment, excluding pledges, for the years ended August 31, 2011 and 2010, in thousands of dollars, are as follows:

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
2011				
Endowment, beginning of year	$ 5,161,476	$ 4,340,344	$ 4,349,295	$ 13,851,115
Investment returns:				
Earned income	153,196	-	-	153,196
Unrealized and realized gains	1,253,259	1,337,066	19,611	2,609,936
Total investment returns	1,406,455	1,337,066	19,611	2,763,132
Amounts distributed for operations	(312,540)	(472,541)	-	(785,081)
Gifts, transfers and other changes in endowment:				
Current year gifts and pledge payments	4,234	14,062	144,497	162,793
Transfers of prior year gifts	3,439	(1,752)	76,079	77,766
Funds invested in endowment, net	63,880	2,120	55,358	121,358
EFP funds invested in the endowment	316,011	-	-	316,011
Other	(1,206)	(3,457)	175	(4,488)
Total gifts, transfers and other changes in endowment	386,358	10,973	276,109	673,440
Total net increase in endowment	1,480,273	875,498	295,720	2,651,491
ENDOWMENT, END OF YEAR	**$ 6,641,749**	**$ 5,215,842**	**$ 4,645,015**	**$ 16,502,606**
2010				
Endowment, beginning of year	$ 4,520,298	$ 3,917,921	$ 4,180,875	$ 12,619,094
Investment returns:				
Earned income	107,300	-	-	107,300
Unrealized and realized gains	538,524	909,306	14,458	1,462,288
Total investment returns	645,824	909,306	14,458	1,569,588
Amounts distributed for operations	(293,998)	(560,647)	-	(854,645)
Gifts, transfers and other changes in endowment:				
Current year gifts and pledge payments	1,247	1,473	108,763	111,483
Transfers of prior year gifts	3,910	-	49,816	53,726
Funds invested in endowment, net[1]	9,241	630	83,343	93,214
EFP funds invested in the endowment	251,023	-	-	251,023
Transfers due to donor redesignations and other reclassifications[2]	34,700	81,828	(116,528)	-
Other	(10,769)	(10,167)	28,568	7,632
Total gifts, transfers and other changes in endowment	289,352	73,764	153,962	517,078
Total net increase in endowment	641,178	422,423	168,420	1,232,021
ENDOWMENT, END OF YEAR	**$ 5,161,476**	**$ 4,340,344**	**$ 4,349,295**	**$ 13,851,115**

[1] *$58.2 million of endowment funds used to support pediatric research programs were transferred from the Hospitals to the University in 2010.*

[2] *During the year ended August 31, 2010, the payout requirements of certain endowment funds were changed pursuant to donor requests or court decrees. Similar to many other endowment funds, income and a reasonable portion of gains as determined by the Board may be expended for donor intended purposes. Under U.S. GAAP, any accumulated appreciation related to these funds must be reclassified from permanently restricted net assets to unrestricted or temporarily restricted net assets.*

13. 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 12*. These policies provide for annual amounts (payout) to be distributed for current use. "Amounts distributed for operations" in the table below represents the Hospitals' current year endowment payout spent for designated purposes during fiscal years 2011 and 2010.

The Hospitals classify as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment and (b) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are authorized for expenditure. In the absence of donor stipulations or law to the contrary, net unrealized losses on permanently restricted endowment funds first reduce related appreciation on temporarily restricted net assets and then on unrestricted net assets, as needed, until such time as the fair value of the fund equals or exceeds historic value. The aggregate amount by which fair value was below historic value was approximately $277 thousand and $2.3 million at August 31, 2011 and 2010, respectively.

Changes in Hospitals endowments, for the years ended August 31, 2011 and 2010, in thousands of dollars, are as follows:

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
2011				
Endowments, beginning of year	$ (2,285)	$ 53,161	$ 231,523	$ 282,399
Investment returns:				
Earned income	-	13,275	-	13,275
Unrealized and realized gains	2,008	27,235	929	30,172
Total investment returns	2,008	40,510	929	43,447
Amounts distributed for operations	-	(13,977)	-	(13,977)
Gifts, transfers and other changes in endowments:				
Gifts and pledge payments	-	-	34	34
Transfer of funds to the University and other	-	(886)	(27,136)	(28,022)
Total gifts, transfers and other changes in endowments	-	(886)	(27,102)	(27,988)
Total net increase (decrease) in endowments	2,008	25,647	(26,173)	1,482
ENDOWMENTS, END OF YEAR	**$ (277)**	**$ 78,808**	**$ 205,350**	**$ 283,881**
2010				
Endowments, beginning of year	$ (10,918)	$ 46,037	$ 289,081	$ 324,200
Investment returns:				
Earned income	-	14,535	-	14,535
Unrealized and realized gains	8,633	10,511	510	19,654
Total investment returns	8,633	25,046	510	34,189
Amounts distributed for operations	-	(15,362)	-	(15,362)
Gifts, transfers and other changes in endowments:				
Gifts and pledge payments	-	368	213	581
Transfer of funds to the University and other	-	(2,928)	(58,281)	(61,209)
Total gifts, transfers and other changes in endowments	-	(2,560)	(58,068)	(60,628)
Total net increase (decrease) in endowments	8,633	7,124	(57,558)	(41,801)
ENDOWMENTS, END OF YEAR	**$ (2,285)**	**$ 53,161**	**$ 231,523**	**$ 282,399**

[1] *$58.2 million of endowment funds used to support pediatric research programs were transferred from the Hospitals to the University in 2010.*

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

14. University Gifts and Pledges

The University's Office of Development (OOD) reports total gifts based on contributions received in cash or property during the fiscal year. Gifts and pledges reported for financial statement purposes are recorded on the accrual basis. The following summarizes gifts and pledges reported for the years ended August 31, 2011 and 2010, per the *Statements of Activities* reconciled to the cash basis reported by OOD, in thousands of dollars:

	2011	2010
Current year gifts in support of operations	$ 163,692	$ 159,701
Donor advised funds, net	1,057	35,444
Current year gifts not included in operations	4,237	1,238
Temporarily restricted gifts and pledges, net	196,615	189,941
Permanently restricted gifts and pledges, net	150,813	107,352
TOTAL PER *STATEMENT OF ACTIVITIES*	**516,414**	**493,676**
Adjustments to arrive at gift total as reported by OOD:		
New pledges	(227,331)	(174,831)
Payments made on pledges	272,227	198,630
Pledge discounts and other adjustments	18,676	(5,097)
Donor advised funds not designated for Stanford	3,484	(22,851)
Non-cash gifts	4,791	3,248
Non-government grants, recorded as sponsored research support when earned	84,745	87,151
SHC gifts	35,152	15,630
Other	1,265	3,334
TOTAL AS REPORTED BY OOD	**$ 709,423**	**$ 598,890**

15. Functional Expenses

Expenses for each of the years ended August 31, 2011 and 2010 are categorized on a functional basis as follows, in thousands of dollars:

	2011			2010
	UNIVERSITY	HOSPITALS	CONSOLIDATED	CONSOLIDATED
Instruction and departmental research	$ 1,160,021	$ -	$ 1,160,021	$ 1,104,447
Organized research - direct costs	1,019,584	-	1,019,584	927,700
Patient services	-	2,187,914	2,187,914	1,960,074
Auxiliary activities	676,687	-	676,687	642,121
Administration and general	247,485	155,852	403,337	374,295
Libraries	159,112	-	159,112	148,430
Student services	126,644	-	126,644	130,587
Development	76,470	12,461	88,931	86,911
SLAC construction	44,076	-	44,076	48,523
TOTAL EXPENSES	**$ 3,510,079**	**$ 2,356,227**	**$ 5,866,306**	**$ 5,423,088**

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

16. University Retirement Plans

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

DEFINED CONTRIBUTION PLAN

The University offers a defined contribution plan to eligible faculty and staff. University and participant contributions are primarily invested in annuities and mutual funds. University contributions under this plan, which are vested immediately to participants, were approximately $104.4 million and $99.4 million for the years ended August 31, 2011 and 2010, respectively.

DEFINED BENEFIT PLANS

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

Staff Retirement Annuity Plan

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

Faculty Retirement Incentive Program

The University also provides a retirement incentive bonus for eligible faculty through the University *Faculty Retirement Incentive Program* (FRIP). The University's faculty may become eligible for the FRIP program if they commit to retire within a designated window of time. At August 31, 2011 and 2010, there were no program assets. The University funds benefit payouts as they are incurred.

Postretirement Benefit Plan

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

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

	STAFF RETIREMENT ANNUITY PLAN (SRAP)	FACULTY RETIREMENT INCENTIVE PROGRAM (FRIP)	POST RETIREMENT BENEFIT PLAN (PRBP)	TOTAL
2011				
Change in plan assets:				
Fair value of plan assets, beginning of year	$ 242,859	$ -	$ 106,851	$ 349,710
Actual return on plan assets	33,585	-	13,282	46,867
Employer contributions	-	1,256	22,147	23,403
Plan participants' contributions	-	-	6,839	6,839
Benefits and plan expenses paid	(17,548)	(1,256)	(20,128) *	(38,932)
FAIR VALUE OF PLAN ASSETS, END OF YEAR	**258,896**	**-**	**128,991**	**387,887**
Change in projected benefit obligation:				
Benefit obligation, beginning of year	302,698	140,299	461,081	904,078
Service cost	3,782	9,100	14,432	27,314
Interest cost	13,349	6,432	23,814	43,595
Plan participants' contributions	-	-	6,839	6,839
Actuarial (gain) loss	(8,548)	(9,032)	6,242	(11,338)
Benefits and plan expenses paid	(17,548)	(1,256)	(20,128) *	(38,932)
Plan amendments	(336)	-	(21,826)	(22,162)
BENEFIT OBLIGATION, END OF YEAR	**293,397**	**145,543**	**470,454**	**909,394**
NET LIABILITY RECOGNIZED IN THE *STATEMENTS OF FINANCIAL POSITION*	**$ (34,501)**	**$ (145,543)**	**$ (341,463)**	**$(521,507)**
Prior service cost	$ 1,879	$ -	$ 11,132	$ 13,011
Net actuarial loss	22,308	107,352	167,753	297,413
ACCUMULATED PLAN BENEFIT COSTS NOT YET RECOGNIZED IN THE *STATEMENTS OF ACTIVITIES*	**$ 24,187**	**$ 107,352**	**$ 178,885**	**$ 310,424**

** Net of Medicare subsidy*

	STAFF RETIREMENT ANNUITY PLAN (SRAP)	FACULTY RETIREMENT INCENTIVE PROGRAM (FRIP)	POST RETIREMENT BENEFIT PLAN (PRBP)	TOTAL
2010				
Change in plan assets:				
Fair value of plan assets, beginning of year	$ 241,296	$ -	$ 100,085	$ 341,381
Actual return on plan assets	18,620	-	5,659	24,279
Employer contributions	-	32,871	13,980	46,851
Plan participants' contributions	-	-	6,796	6,796
Benefits and plan expenses paid	(17,057)	(7,570)	(19,669) *	(44,296)
Settlements on Special Retirement Incentive programs (SRI)	-	(25,301)	-	(25,301)
FAIR VALUE OF PLAN ASSETS, END OF YEAR	**242,859**	**-**	**106,851**	**349,710**
Change in projected benefit obligation:				
Benefit obligation, beginning of year	270,979	165,937	320,212	757,128
Service cost	3,642	8,481	9,964	22,087
Interest cost	14,863	8,015	20,532	43,410
Plan participants' contributions	-	-	6,796	6,796
Actuarial loss (gain)	30,271	(9,263)	123,246	144,254
Benefits and plan expenses paid	(17,057)	(7,570)	(19,669) *	(44,296)
Settlements on SRI	-	(25,301)	-	(25,301)
BENEFIT OBLIGATION, END OF YEAR	**302,698**	**140,299**	**461,081**	**904,078**
NET LIABILITY RECOGNIZED IN THE *STATEMENTS OF FINANCIAL POSITION*	**$ (59,839)**	**$ (140,299)**	**$ (354,230)**	**$(554,368)**
Prior service cost	$ 2,889	$ -	$ 40,564	$ 43,453
Net actuarial loss	50,874	123,806	174,846	349,526
ACCUMULATED PLAN BENEFIT COSTS NOT YET RECOGNIZED IN THE *STATEMENTS OF ACTIVITIES*	**$ 53,763**	**$ 123,806**	**$ 215,410**	**$ 392,979**

** Net of Medicare subsidy*

The accumulated benefit obligation for the SRAP was $289.8 million and $298.2 million at August 31, 2011 and 2010, respectively.

Net periodic benefit expense and other changes in net assets related to the Plans for the years ended August 31, 2011 and 2010, in thousands of dollars, includes the following components:

	STAFF RETIREMENT ANNUITY PLAN (SRAP)	FACULTY RETIREMENT INCENTIVE PROGRAM (FRIP)	POST RETIREMENT BENEFIT PLAN (PRBP)	TOTAL
2011				
Service cost	$ 3,782	$ 9,100	$ 14,432	$ 27,314
Interest cost	13,349	6,432	23,814	43,595
Expected return on plan assets	(16,065)	-	(8,643)	(24,708)
Amortization of:				
Prior service cost	674	-	7,605	8,279
Actuarial loss	2,498	7,422	8,696	18,616
NET PERIODIC BENEFIT EXPENSE	**4,238**	**22,954**	**45,904**	**73,096**
Net actuarial gain during period	(26,068)	(9,032)	-	(35,100)
Amortization of:				
Prior service cost	(674)	-	(7,605)	(8,279)
Actuarial loss	(2,498)	(7,422)	(7,094)	(17,014)
Plan amendments	(336)	-	(21,826)	(22,162)
TOTAL AMOUNTS RECOGNIZED IN CHANGES IN UNRESTRICTED NET ASSETS	**(29,576)**	**(16,454)**	**(36,525)**	**(82,555)**
TOTAL AMOUNT RECOGNIZED IN NET PERIODIC BENEFIT EXPENSE AND CHANGES IN UNRESTRICTED NET ASSETS	**$ (25,338)**	**$ 6,500**	**$ 9,379**	**$ (9,459)**
2010				
Service cost	$ 3,642	$ 8,481	$ 9,964	$ 22,087
Interest cost	14,863	8,015	20,532	43,410
Expected return on plan assets	(16,002)	-	(8,007)	(24,009)
Amortization of:				
Prior service cost	1,501	-	7,605	9,106
Actuarial loss	-	8,549	2,481	11,030
SRI settlement loss recognized	-	24,319	-	24,319
NET PERIODIC BENEFIT EXPENSE	**4,004**	**49,364**	**32,575**	**85,943**
Net actuarial loss (gain) during period	27,653	(9,263)	125,594	143,984
Amortization of:				
Prior service cost	(1,501)	-	(7,605)	(9,106)
Actuarial loss	-	(8,549)	(2,481)	(11,030)
SRI settlement loss recognized	-	(24,319)	-	(24,319)
TOTAL AMOUNTS RECOGNIZED IN CHANGES IN UNRESTRICTED NET ASSETS	**26,152**	**(42,131)**	**115,508**	**99,529**
TOTAL AMOUNT RECOGNIZED IN NET PERIODIC BENEFIT EXPENSE AND CHANGES IN UNRESTRICTED NET ASSETS	**$ 30,156**	**$ 7,233**	**$ 148,083**	**$ 185,472**

The prior service costs and net actuarial loss expected to be amortized from change in net assets to net periodic benefit expense in fiscal year 2012, in thousands of dollars, are as follows:

	STAFF RETIREMENT ANNUITY PLAN (SRAP)	FACULTY RETIREMENT INCENTIVE PROGRAM (FRIP)	POST RETIREMENT BENEFIT PLAN (PRBP)
Prior service cost	$ 534	$ -	$ 2,569
Net actuarial loss	$ -	$ 6,485	$ 8,214

ACTUARIAL ASSUMPTIONS

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

	STAFF RETIREMENT ANNUITY PLAN (SRAP)		FACULTY RETIREMENT INCENTIVE PROGRAM (FRIP)		POST RETIREMENT BENEFIT PLAN (PRBP)	
	2011	2010	2011	2010	2011	2010
Discount rate	4.67%	4.61%	4.74%	4.67%	5.14%	5.10%
Covered payroll growth rate	4.41%	4.76%	4.43%	4.14%	3.50%	3.50%

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

	STAFF RETIREMENT ANNUITY PLAN (SRAP)		FACULTY RETIREMENT INCENTIVE PROGRAM (FRIP)		POST RETIREMENT BENEFIT PLAN (PRBP)	
	2011	2010	2011	2010	2011	2010
Discount rate	4.61%	5.75%	4.67%	5.75%	5.10%	6.00%
Expected returns on plan assets	7.00%	7.00%	N/A	N/A	8.00%	8.00%
Covered payroll growth rate	4.76%	4.21%	4.14%	3.50%	3.50%	3.50%

To develop the 7% and the 8% expected long-term rate of return on asset assumptions for the SRAP and PRBP plans, respectively, the University's Retirement Program Investment Committee (RPIC) considered historical returns and future expectations for returns in each asset class, as well as the target asset allocation of the portfolios.

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

To determine the accumulated PRBP obligation at August 31, 2011, an 8% annual rate of increase in the per capita costs of covered health care was assumed for the year ending August 31, 2012, declining gradually to 4.75% by 2024 and remaining at this rate thereafter. For covered dental plans, a constant 5% annual rate of increase was assumed.

Health care cost trend rate assumptions have a significant effect on the amounts reported for the health care plans. Increasing the health care cost trend rate by 1% in each future year would increase the accumulated PRBP obligation by $70.5 million and the aggregate annual service and interest cost by $7.2 million. Decreasing the health care cost trend rate by 1% in each future year would decrease the accumulated PRBP obligation by $57.5 million and the aggregate annual service and interest cost by $5.7 million.

EXPECTED CONTRIBUTIONS

The University expects to contribute $10.2 million and $26.7 million to its SRAP and PRBP, respectively, during the year ending August 31, 2012.

EXPECTED BENEFIT PAYMENTS

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

			POST RETIREMENT BENEFIT PLAN (PRBP)	
YEAR ENDING AUGUST 31	STAFF RETIREMENT ANNUITY PLAN (SRAP)	FACULTY RETIREMENT INCENTIVE PROGRAM (FRIP)	EXCLUDING MEDICARE SUBSIDY	MEDICARE PART D SUBSIDY
2012	$ 25,342	$ 3,668	$ 18,625	$ 2,358
2013	23,543	6,890	19,960	2,632
2014	22,676	8,755	21,271	2,911
2015	23,310	11,426	22,633	3,219
2016	23,454	12,307	23,980	3,569
2017 - 2021	110,048	73,994	144,207	24,193

INVESTMENT STRATEGY

The RPIC, acting in a fiduciary capacity, has established formal investment policies for the assets associated with the University's funded plans (SRAP and PRBP). The investment strategy of the plans is to preserve and enhance the value of the plans' assets within acceptable levels of risk. Investments in the plans are diversified among asset classes, striving to achieve an optimal balance between risk and return, and income and capital appreciation. Because the liabilities of each of the plans are long-term, the investment horizon is primarily long-term, with adequate liquidity to meet short-term benefit payment obligations.

CONCENTRATION OF RISK

The University manages a variety of risks, including market, credit, and liquidity risks, across its plan assets. Concentration of risk is defined as an undiversified exposure to one of the above-mentioned risks that increases the exposure of the loss of plan assets unnecessarily. Risk is minimized by predominately investing in broadly diversified index funds for public equities and fixed income. As of August 31, 2011, the University did not have concentrations of risk in any single entity, counterparty, sector, industry or country.

PLAN ASSET ALLOCATIONS

Actual allocations by asset category at August 31, 2011 and 2010 are as follows:

	STAFF RETIREMENT ANNUITY PLAN (SRAP)		POST RETIREMENT BENEFIT PLAN (PRBP)	
ASSET CATEGORY	2011	2010	2011	2010
Cash and cash equivalents	1%	1%	0%	0%
Public equities	40%	44%	74%	75%
Fixed income	59%	55%	26%	25%
Private equities	<1%	<1%	0%	0%
TOTAL PORTFOLIO	**100%**	**100%**	**100%**	**100%**

For fiscal years 2011 and 2010, the weighted-average target allocations by asset category are as follows:

	STAFF RETIREMENT ANNUITY PLAN (SRAP)		POST RETIREMENT BENEFIT PLAN (PRBP)	
ASSET CATEGORY	2011	2010	2011	2010
Public equities	45%	45%	75%	75%
Fixed income	55%	55%	25%	25%
TARGET PORTFOLIO	**100%**	**100%**	**100%**	**100%**

FAIR VALUE OF PLAN ASSETS

Current U.S GAAP defines a hierarchy of valuation inputs for the determination of the fair value of plan assets as described in *Note 5*. The plan assets measured at fair value at August 31, 2011 and 2010, in thousands of dollars, are as follows:

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

	AS OF AUGUST 31, 2010	LEVEL 1	LEVEL 2	LEVEL 3
SRAP:				
Cash and cash equivalents	$ 1,093	$ 1,093	$ -	$ -
Public equities	105,939	105,939	-	-
Fixed income	135,142	130,350	4,792	-
Private equities	685	-	-	685
TOTAL	**$ 242,859**	**$ 237,382**	**$ 4,792**	**$ 685**
PRBP:				
Public equities	$ 80,147	$ 80,147	$ -	$ -
Fixed income	26,704	26,704	-	-
TOTAL	**$ 106,851**	**$ 106,851**	**$ -**	**$ -**
TOTAL FAIR VALUE OF PLAN ASSETS	**$ 349,710**	**$ 344,233**	**$ 4,792**	**$ 685**

The following table presents a reconciliation of beginning and ending balances for Level 3 investments in the SRAP for the years ended August 31, 2011 and 2010, in thousands of dollars:

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

FAIR VALUE MEASUREMENTS USING SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)	BEGINNING BALANCE AS OF SEPTEMBER 1, 2009	NET PURCHASES (SALES AND MATURITIES)	REALIZED GAINS (LOSSES)	CHANGE IN UNREALIZED GAINS (LOSSES)	NET TRANSFERS IN (OUT)	ENDING BALANCE AS OF AUGUST 31, 2010
Private equities	$ 700	$ -	$ -	$ (15)	$ -	$ 685
TOTAL	**$ 700**	**$ -**	**$ -**	**$ (15)**	**$ -**	**$ 685**

17. Hospitals Retirement Plans

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

DEFINED CONTRIBUTION PLAN

Employer contributions to the defined contribution retirement plan are based on a percentage of participant annual compensation. Employer contributions to this plan amounted to approximately $65.4 million and $61.3 million for the years ended August 31, 2011 and 2010, respectively.

DEFINED BENEFIT PLANS

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

POST RETIREMENT MEDICAL BENEFIT PLAN

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

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

	STANFORD PENSION PLAN	POST RETIREMENT MEDICAL BENEFIT PLAN (PRMB)	TOTAL
2011			
Change in plan assets:			
Fair value of plan assets, beginning of year	$ 135,133	$ -	$ 135,133
Actual return on plan assets	14,271	-	14,271
Employer contributions	19,200	3,733	22,933
Plan participants' contributions	-	992	992
Benefits and plan expenses paid	(9,021)	(4,725)	(13,746)
FAIR VALUE OF PLAN ASSETS, END OF YEAR	**159,583**	**-**	**159,583**
Change in projected benefit obligation:			
Benefit obligation, beginning of year	211,610	90,850	302,460
Service cost	2,516	2,775	5,291
Interest cost	10,311	4,157	14,468
Plan participants' contributions	-	992	992
Actuarial gain	(2,600)	(5,843)	(8,443)
Benefits and plan expenses paid	(9,021)	(4,725)	(13,746)
BENEFIT OBLIGATION, END OF YEAR	**212,816**	**88,206**	**301,022**
NET LIABILITY RECOGNIZED IN THE *STATEMENTS OF FINANCIAL POSITION*	**$ (53,233)**	**$ (88,206)**	**$ (141,439)**
Prior service cost	$ -	$ 3,168	$ 3,168
Net actuarial loss	81,163	3,356	84,519
ACCUMULATED PLAN BENEFIT COSTS NOT YET RECOGNIZED IN THE *STATEMENTS OF ACTIVITIES*	**$ 81,163**	**$ 6,524**	**$ 87,687**
2010			
Change in plan assets:			
Fair value of plan assets, beginning of year	$ 116,779	$ -	$ 116,779
Actual return on plan assets	14,383	-	14,383
Employer contributions	13,830	3,298	17,128
Plan participants' contributions	-	782	782
Benefits and plan expenses paid	(7,511)	(4,080)	(11,591)
Settlements	(2,348)	-	(2,348)
FAIR VALUE OF PLAN ASSETS, END OF YEAR	**135,133**	**-**	**135,133**
Change in projected benefit obligation:			
Benefit obligation, beginning of year	183,256	78,828	262,084
Service cost	1,723	2,357	4,080
Interest cost	10,895	4,458	15,353
Plan participants' contributions	-	782	782
Actuarial loss	25,119	8,505	33,624
Benefits and plan expenses paid	(7,511)	(4,080)	(11,591)
Settlements	(1,872)	-	(1,872)
BENEFIT OBLIGATION, END OF YEAR	**211,610**	**90,850**	**302,460**
NET LIABILITY RECOGNIZED IN THE *STATEMENTS OF FINANCIAL POSITION*	**$ (76,477)**	**$ (90,850)**	**$ (167,327)**
Prior service cost	$ -	$ 2,594	$ 2,594
Net actuarial loss	90,024	9,895	99,919
ACCUMULATED PLAN BENEFIT COSTS NOT YET RECOGNIZED IN THE *STATEMENTS OF ACTIVITIES*	**$ 90,024**	**$ 12,489**	**$ 102,513**

The accumulated benefit obligation for the Pension Plan was $209.2 million and $207.2 million at August 31, 2011 and 2010, respectively.

Net periodic benefit expense and other changes in net assets related to the plans for the years ended August 31, 2011 and 2010, in thousands of dollars, includes the following components:

	STANFORD PENSION PLAN	POST RETIREMENT MEDICAL BENEFIT PLAN (PRMB)	TOTAL
2011			
Service cost	$ 2,516	$ 2,775	$ 5,291
Interest cost	10,311	4,157	14,468
Expected return on plan assets	(13,187)	-	(13,187)
Amortization of:			
Prior service credit	-	(574)	(574)
Actuarial loss	5,177	696	5,873
NET PERIODIC BENEFIT EXPENSE	**4,817**	**7,054**	**11,871**
Net actuarial gain during period	(3,684)	(5,843)	(9,527)
Amortization of:			
Prior service credit	-	574	574
Actuarial loss	(5,177)	(696)	(5,873)
TOTAL AMOUNTS RECOGNIZED IN CHANGES IN UNRESTRICTED NET ASSETS	**(8,861)**	**(5,965)**	**(14,826)**
TOTAL AMOUNT RECOGNIZED IN NET PERIODIC BENEFIT EXPENSE AND CHANGES IN UNRESTRICTED NET ASSETS	**$ (4,044)**	**$ 1,089**	**$ (2,955)**
2010			
Service cost	$ 1,723	$ 2,357	$ 4,080
Interest cost	10,895	4,458	15,353
Expected return on plan assets	(12,866)	-	(12,866)
Amortization of:			
Prior service credit	-	(574)	(574)
Actuarial loss	1,346	105	1,451
NET PERIODIC BENEFIT EXPENSE	**1,098**	**6,346**	**7,444**
Net actuarial loss during period	24,078	8,505	32,583
Amortization of:			
Prior service credit	-	574	574
Actuarial loss	(1,346)	(105)	(1,451)
TOTAL AMOUNTS RECOGNIZED IN CHANGES IN UNRESTRICTED NET ASSETS	**22,732**	**8,974**	**31,706**
TOTAL AMOUNT RECOGNIZED IN NET PERIODIC BENEFIT EXPENSE AND CHANGES IN UNRESTRICTED NET ASSETS	**$ 23,830**	**$ 15,320**	**$ 39,150**

The prior service cost and net actuarial loss expected to be amortized from change in net assets to net periodic benefit expense in fiscal year 2012, in thousands of dollars, are as follows:

	STANFORD PENSION PLAN	POST RETIREMENT MEDICAL BENEFIT PLAN (PRMB)	TOTAL
Prior service cost	$ -	$ 264	$ 264
Net actuarial loss	$ 5,607	$ 245	$ 5,852

ACTUARIAL ASSUMPTIONS

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

	STANFORD PENSION PLAN		POST RETIREMENT MEDICAL BENEFIT PLAN (PRMB)	
	2011	2010	2011	2010
Discount rate	4.83% - 5.03%	4.79% - 4.99%	4.79%	4.70%
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 Plan and PRMB are shown below:

	STANFORD PENSION PLAN		POST RETIREMENT MEDICAL BENEFIT PLAN (PRMB)	
	2011	2010	2011	2010
Discount rate	4.79% - 4.99%	5.93% - 6.10%	4.70%	5.83%
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 PRMB obligation at August 31, 2011, an 8.5% annual rate of increase in the pre-65 per capita costs, an 8.5% annual rate of increase in the post-65 prescription drug per capita costs, and a 7.0% rate of increase in the post-65 per capita cost of all other medical benefits was assumed for 2011, all declining gradually to 4.75% by 2024 and remaining at this rate thereafter.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. Increasing the health care cost trend rate by 1% in each future year would increase the accumulated PRMB obligation by $2.9 million and the aggregate annual service and interest cost by $262 thousand. Decreasing the health care cost trend rate by 1% in each future year would decrease the accumulated PRMB obligation by $2.6 million and the aggregate annual service and interest cost by $236 thousand.

EXPECTED CONTRIBUTIONS

The Hospitals expect to contribute $9.4 million to their Pension Plan and $4.9 million to their PRMB during the fiscal year ending August 31, 2012.

EXPECTED BENEFIT PAYMENTS

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

YEAR ENDING AUGUST 31	STANFORD PENSION PLAN	POST RETIREMENT MEDICAL BENEFIT PLAN (PRMB) EXCLUDING MEDICARE SUBSIDY	POST RETIREMENT MEDICAL BENEFIT PLAN (PRMB) EXPECTED MEDICARE PART D SUBSIDY
2012	$ 10,151	$ 5,427	$ 515
2013	10,790	6,040	572
2014	11,486	6,579	632
2015	12,233	7,027	696
2016	12,914	7,376	762
2017 - 2021	72,127	38,338	4,729

INVESTMENT STRATEGY

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

CONCENTRATION OF RISK

The Hospitals manage a variety of risks, including market, credit, and liquidity risks, across its plan assets. Concentration of risk is defined as an undiversified exposure to one of the above-mentioned risks that increases the exposure of the loss of plan assets unnecessarily. Risk is minimized by diversifying the Hospitals' exposure to such risks across a variety of instruments, markets, and counterparties. As of August 31, 2011, the Hospitals did not have concentrations of risk in any single entity, counterparty, sector, industry or country.

PLAN ASSETS

Actual allocations by asset category at August 31, 2011 and 2010 are as follows:

ASSET CATEGORY	STANFORD PENSION PLAN 2011	STANFORD PENSION PLAN 2010
Cash equivalents	0%	0%
Public equities	44%	43%
Fixed income	56%	51%
Real estate	0%	6%
TOTAL PORTFOLIO	**100%**	**100%**

The Hospitals' investment policy is to invest in assets that result in a favorable long-term rate of return from a diversified portfolio. For fiscal years 2011 and 2010, the weighted-average target allocations by asset category are as follows:

	STANFORD PENSION PLAN	
ASSET CATEGORY	2011	2010
Cash equivalents	<1%	<1%
Public equities	46%	46%
Fixed income	44%	44%
Real estate	10%	10%
TARGET PORTFOLIO	**100%**	**100%**

FAIR VALUE OF PLAN ASSETS

Current U.S. GAAP defines a hierarchy of valuation inputs for the determination of the fair value of plan assets as described in *Note 5*. The Pension Plan assets measured at fair value at August 31, 2011 and 2010, in thousands of dollars, are as follows:

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

	AS OF AUGUST 31, 2010	LEVEL 1	LEVEL 2	LEVEL 3
Cash and cash equivalents	$ 670	$ 670	$ -	$ -
Public equities	58,384	58,384	-	-
Fixed income	68,609	68,609	-	-
Real estate	7,458	-	-	7,458
Other	12	12	-	-
TOTAL FAIR VALUE OF PENSION PLAN ASSETS	**$ 135,133**	**$ 127,675**	**$ -**	**$ 7,458**

The following table presents a reconciliation of beginning and ending balances for Level 3 investments in the Pension Plan for the years ended August 31, 2011 and 2010, in thousands of dollars:

FAIR VALUE MEASUREMENTS USING SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)	BEGINNING BALANCE AS OF SEPTEMBER 1, 2010	NET PURCHASES (SALES AND MATURITIES)	REALIZED GAINS (LOSSES)	CHANGE IN UNREALIZED GAINS (LOSSES)	NET TRANSFERS IN (OUT)	ENDING BALANCE AS OF AUGUST 31, 2011
Real estate	$ 7,458	$ (8,256)	$ (2,457)	$ 3,255	$ -	$ -
TOTAL	**$ 7,458**	**$ (8,256)**	**$ (2,457)**	**$ 3,255**	**$ -**	**$ -**

FAIR VALUE MEASUREMENTS USING SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)	BEGINNING BALANCE AS OF SEPTEMBER 1, 2009	NET PURCHASES (SALES AND MATURITIES)	REALIZED GAINS (LOSSES)	CHANGE IN UNREALIZED GAINS (LOSSES)	NET TRANSFERS IN (OUT)	ENDING BALANCE AS OF AUGUST 31, 2010
Real estate	$ 8,301	$ (146)	$ 473	$ (1,170)	$ -	$ 7,458
TOTAL	**$ 8,301**	**$ (146)**	**$ 473**	**$ (1,170)**	**$ -**	**$ 7,458**

18. Operating Leases

The University and the Hospitals lease certain equipment and facilities under operating leases expiring at various dates. Total rental expense under these leases for the years ended August 31, 2011 and 2010 was $32.8 million and $28.9 million, respectively, for the University and $50.0 million and $51.6 million, respectively, for the Hospitals.

Net minimum future operating lease payments and related present value, assuming a 3.95% discount rate for periods subsequent to August 31, 2011, in thousands of dollars, are as follows:

	MINIMUM LEASE PAYMENTS		PRESENT VALUE OF MINIMUM LEASE PAYMENTS	
YEAR ENDING AUGUST 31	UNIVERSITY	HOSPITALS	UNIVERSITY	HOSPITALS
2012	$ 23,443	$ 41,630	$ 22,552	$ 40,048
2013	19,756	41,114	18,283	38,049
2014	16,035	31,799	14,276	28,310
2015	13,113	25,659	11,230	21,976
2016	12,920	23,490	10,645	19,354
Thereafter	63,376	114,659	42,553	84,103
TOTAL	**$ 148,643**	**$ 278,351**	**$ 119,539**	**$ 231,840**

19. Related Party Transactions

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

20. Commitments and Contingencies

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

SPONSORED PROJECTS

The University conducts substantial research for the federal government pursuant to contracts and grants from federal agencies and departments. The University records reimbursements of direct and indirect costs (facilities and administrative costs) from grants and contracts as operating revenues. The Office of Naval Research is the University's cognizant federal agency for determining indirect cost rates charged to federally sponsored agreements. It is supported by the Defense Contract Audit Agency, which has the responsibility for auditing direct and indirect charges under those agreements. Costs recovered by the University in support of sponsored research are subject to audit and adjustment. Fringe benefit costs for the fiscal years ended August 31, 2007 to 2011 are still subject to audit. The University does not anticipate that any adjustments will be material to the consolidated financial statements.

HEALTH CARE

Cost reports filed under the Medicare program for services based upon cost reimbursement are subject to audit. The estimated amounts due to or from the program are reviewed and adjusted annually based upon the status of such audits and subsequent appeals. Differences between final settlements and amounts accrued in previous years are reported as adjustments to "patient care, net" revenue in the year the examination is substantially completed. Medicare cost reports have been audited by the Medicare fiscal intermediary through August 31, 2004 for SHC and August 31, 2009 for LPCH.

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

MEDICAL CENTER RENEWAL PROJECT

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

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

SHC's and LPCH's share of the estimated total cost of the Renewal Project is $2 billion and $1.2 billion, respectively. Through August 2011, the Hospitals have recorded $247 million in construction in progress related to this project. Based on current estimated schedules, management currently projects that the Renewal Project construction will be complete in 2017.

LABOR AGREEMENTS

Approximately 11% of the University's, 36% of SHC's and 47% of LPCH's employees are covered under union contract arrangements and are, therefore, subject to labor stoppages when contracts expire. There are currently no expired contracts under these union contract arrangements.

LITIGATION

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

CONTRACTUAL COMMITMENTS

At August 31, 2011, the University had contractual obligations of approximately $169.5 million in connection with major construction projects. Remaining expenditures on construction in progress are estimated to be $486.1 million, which will be financed with certain unexpended plant funds, gifts and debt.

Commitments on contracts for the construction and remodeling of Hospital facilities were approximately $152.2 million at August 31, 2011.

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

GUARANTEES AND INDEMNIFICATIONS

The University and the Hospitals enter into mutual indemnification agreements with third parties in the normal course of business. The impact of these agreements is not expected to be material. As a result, no liabilities related to guarantees and indemnifications have been recorded at August 31, 2011.

21. Subsequent Events

The University and the Hospitals have evaluated subsequent events for the period from August 31, 2011 through December 14, 2011, the date the consolidated financial statements were available to be issued.

In November 2011, the University paid down $61.6 million and redeemed $50.0 million of CEFA Series R tax-exempt bonds with proceeds from the Series 2009A taxable bonds. In December 2011, the University redeemed $89.6 million of CEFA Series O tax-exempt bonds.

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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-2 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-2 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 Senior Associate Vice President for Finance, its Treasurer, 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 Senior Associate Vice President for Finance, or its Treasurer 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.

"First Supplemental Indenture" means the First Supplemental Indenture, dated as of April 1, 2012, between the Authority and the Trustee.

"First Supplemental Loan Agreement" means the First Supplemental Loan Agreement, dated as of April 1, 2012, between the Authority and the Borrower.

"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 and providing for the issuance of an additional Series of Bonds, including but not limited to the First Supplemental Indenture, providing for the issuance of the Series U-2 Bonds.

"Interest Payment Date" means, with respect to the Series U-2 Bonds, April 1 and October 1 in each year, commencing October 1, 2012, 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 supplemented by the First Supplemental Loan Agreement, and as it may from time to time be further 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-2 Bonds*" means the California Educational Facilities Authority Revenue Bonds (Stanford University) Series U-2, authorized by, and at any time Outstanding pursuant to the Indenture, as supplemented by the First Supplemental 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-2 Bonds

The Series U-2 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 Bonds of a Series, interest is in default on Outstanding Bonds of such Series, such Bond shall bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment on the Outstanding Bonds of such Series. Interest on the Series U-2 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, if any, 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, if any, of the Series U Project.

Stanford University TECP Repayment Fund. The moneys, if any, 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, if any, 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-2 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-2 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-2 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-2 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 Series U-2 Bonds are described in the front part of this Official Statement under the heading "THE SERIES U-2 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

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-2 Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Series U-2 Bonds, or (c) notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Series U-2 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-2 Bonds. The Series U-2 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-2 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 a Standard & Poor's rating of AA+. 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; nothing contained in such website is incorporated into this Official Statement.

Purchases of the Series U-2 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series U-2 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series U-2 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-2 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-2 Bonds, except in the event that use of the book-entry system for the Series U-2 Bonds is discontinued.

To facilitate subsequent transfers, all Series U-2 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-2 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-2 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series U-2 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-2 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series U-2 Bonds, such as defaults and proposed amendments to the Series U-2 Bond documents. For example, Beneficial Owners of the Series U-2 Bonds may wish to ascertain that the nominee holding the Series U-2 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-2 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-2 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-2 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-2 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-2 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-2 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-2 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-2 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

This Continuing Disclosure Agreement (the "Agreement") dated as of April 1, 2012, 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, as supplemented by a First Supplemental Indenture dated as of April 1, 2012 (as supplemented, the "Indenture") between the California Educational Facilities Authority (the "Authority") and the Trustee, the Trustee executing this Agreement both in its capacity as Trustee and in its capacity as Dissemination Agent hereunder, is executed and delivered in connection with the issuance of the Authority's California Educational Facilities Authority Revenue Bonds (Stanford University) Series U-2 (the "Series U-2 Bonds"). The proceeds of the Series U-2 Bonds are to be loaned by the Authority to the University pursuant to a Loan Agreement dated as of May 1, 2010, as supplemented by a First Supplemental Loan Agreement dated as of April 1, 2012, between the Authority and the University (as supplemented, the "Loan Agreement"). Capitalized terms used in this Agreement which are not otherwise defined in the Indenture shall have the respective meanings specified in Article IV hereof. The parties agree as follows:

ARTICLE I

The Undertaking

Section 1.1. Purpose; No Authority Responsibility or Liability. This Agreement shall constitute a written undertaking for the benefit of the holders of the Series U-2 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-2 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, 2012 by no later than one hundred and eighty (180) days after the end of the respective fiscal year. The Dissemination Agent shall provide such Annual Financial Information to the Repository and the Authority, in each case within two Business Days after receipt by the Dissemination Agent, or as soon as reasonably practicable thereafter.

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

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

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

(b) Any such notice of a defeasance of the Series U-2 Bonds shall state whether the Series U-2 Bonds have been escrowed to maturity and the timing of such maturity.

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

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

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

Section 1.7. No Previous Non-Compliance. The University represents that since April 1, 2007, it has not failed to comply in any material respect with any previous undertaking in a written contract or agreement specified in paragraph (b)(5)(i) of the Rule.

ARTICLE II

Operating Rules

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

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

Section 2.3. Listed Event Notices. Each notice of a Listed Event hereunder shall be captioned "Notice of Listed Event" and shall prominently state the title, date and CUSIP numbers of the Series U-2 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-2 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-2 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-2 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-2 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-2 Bonds or (ii) the holders of the Series U-2 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-2 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-2 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-2 Bonds, except that Beneficial Owners of the Series U-2 Bonds shall be third-party beneficiaries of this Agreement and shall be deemed to be holders of the Series U-2 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-2 Bonds or by the Trustee on behalf of the holders of the outstanding Series U-2 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-2 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-2 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, 2012 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-2 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, 2012, if any, of the University, audited by such auditor as shall then be required or permitted by State law or the Indenture. Audited Financial Statements shall be prepared in accordance with GAAP.

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

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

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

(6) "Listed Events" means any of the following events with respect to the Series U-2 Bonds, whether relating to the University or otherwise:

(i) Principal and interest payment delinquencies;

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

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

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

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

(vi) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Series U-2 Bonds, or other material events affecting the tax status of the Series U-2 Bonds;

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

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

(ix) Defeasances;

(x) Release, substitution, or sale of property securing repayment of the Series U-2 Bonds, if material;

(xi) Rating changes;

(xii) Tender offers;

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

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

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

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

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

(9) "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 Goldman, Sachs & Co., Morgan Stanley & Co. LLC, Citigroup Global Markets Inc., J.P. Morgan Securities LLC and Prager & 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-2 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-2 Bonds. The Dissemination Agent shall have the same rights, protections and immunities hereunder as provided to the Trustee under the Indenture.

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

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

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

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

THE BOARD OF TRUSTEES OF THE LELAND STANFORD JUNIOR UNIVERSITY

By: ________________________________

Odile Disch-Bhadkamkar
Treasurer

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

By: ________________________________

Authorized Representative

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-2
(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 $77,760,000 aggregate principal amount of California Educational Facilities Authority Revenue Bonds (Stanford University) Series U-2 (the "Bonds"), issued pursuant to an indenture, dated as of May 1, 2010, as supplemented by the First Supplemental Indenture, dated as of April 1, 2012 (as supplemented, 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 stated 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, as supplemented by a First Supplemental Loan Agreement, dated as of April 1, 2012 (as supplemented, the "Loan Agreement"), between the Authority and the Borrower. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Indenture.

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

We have relied on the opinion of the Office of the General Counsel for Stanford University, counsel to the Borrower, regarding, among other matters, the current qualification of the Borrower as an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986 (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 letter speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used 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, 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, arbitration, judicial reference, 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. Our services did not include financial or other non-legal advice. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

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

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

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

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

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

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

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

per

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