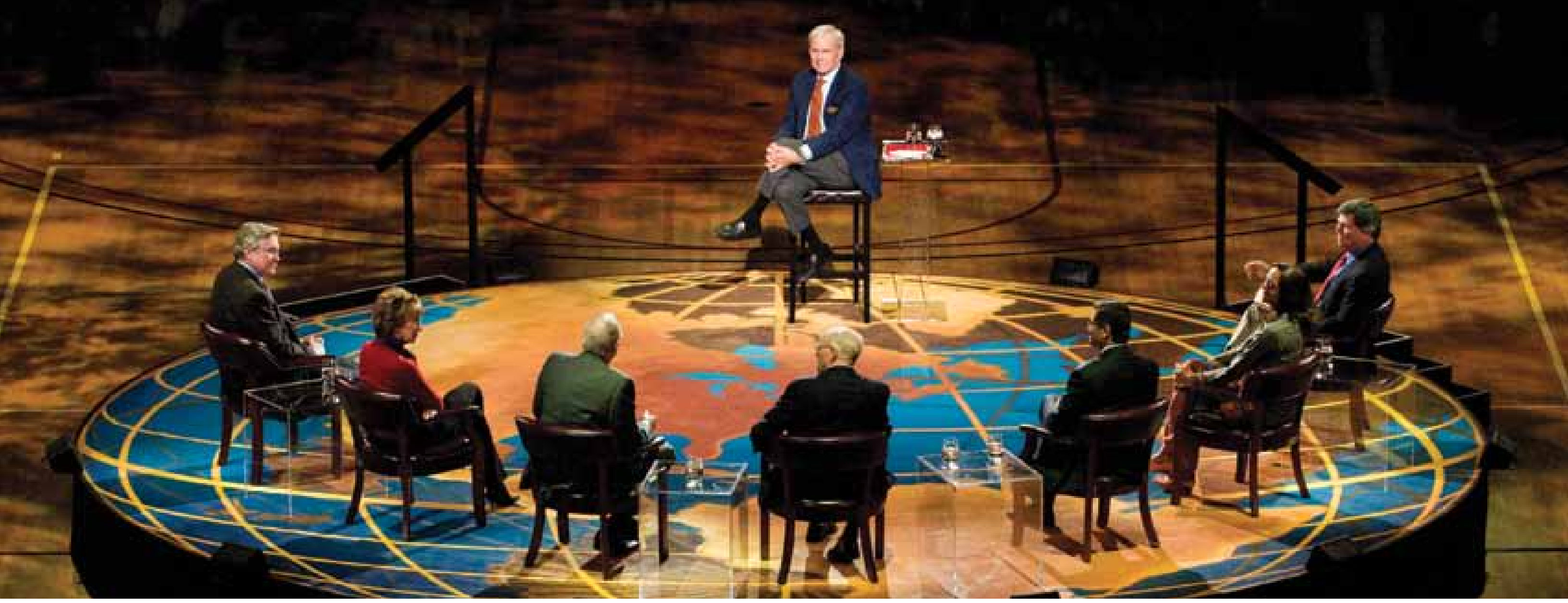
Leading in Times of Challenge

STANFORD UNIVERSITY ANNUAL REPORT 2008

STANFORD

LEADING IN TIMES OF CHALLENGE

Tom Brokaw (top right) moderated the third annual Roundtable at Stanford, "Wanted: Courage, Compassion and Character—Leadership for the 21st Century," in Maples Pavilion. The panelists were, from left, Jeff Raikes, CEO of the Gates Foundation; Carly Fiorina, former CEO of Hewlett-Packard; U.S. Supreme Court Associate Justice Anthony Kennedy; John Hennessy; Congressman Xavier Becerra; Kavita Ramdas, CEO of the Global Fund for Women; and Stanford historian David Kennedy.



DURING REUNION HOMECOMING LAST FALL, journalist and Stanford parent Tom Brokaw moderated our Roundtable, “Leadership for the 21st Century.” He started the discussion by asking me what I had learned about leadership as president of Stanford.

Time and again I have been guided by the thought of David Starr Jordan, our University’s first president, and of all the presidents who succeeded him. Every decision must be made with an eye toward the future. How will what we do today affect future generations? And how can today’s competing interests serve tomorrow’s needs?

Ours is a time of great change and, more recently, a time of tough economic challenge. Throughout Stanford’s history, however, we have recognized challenge as an opportunity to do things differently, to create possibilities where none existed. Reunion Homecoming 2008, for example, coincided with the worldwide financial crisis, so we assembled a group of distinguished economists from among our faculty and alumni to discuss the situation and provide economic guidance. Although the old joke about how you get 100 different answers to an economic question — the answer: ask 100 economists — might apply to the present time, our panel delivered clear and insightful opinions about how we arrived at this spot and how we should proceed. It is just one example of the way Stanford provides leadership in addressing global issues.

The impact of the financial crisis has been felt globally, and our endowment has not been immune. Our challenge is to lead the University in making necessary budget reductions, while ensuring that we are steadfast in our long-term goal to contribute to solving the global problems of society. With the support of our alumni and friends, we have marshaled resources to advance our University-wide initiatives on human health, the environment and sustainability and international affairs. In the pages that follow, you will see that these tremendously complex challenges have become catalysts for cross-school, multidisciplinary research of extraordinary promise. We remain committed to this vision.

We also have re-examined what it means to prepare students for leadership in this century. Recent technological advances bring other parts of the world into our homes every day, and students arrive on campus with a more global worldview. Today’s campus is a microcosm of the world, with all of its demographic, ethnic, racial, cultural and economic diversity. We are determined to offer our students the best possible education for the 21st century and to ensure that even in this financial crisis our commitment to financial aid is unwavering.

During my years at Stanford as well as in Silicon Valley, I have learned that great leadership is as important in the challenging times as in the celebratory and successful times. And it is a lot harder when times are tough. As a university, we have been blessed with great leadership and steadfast support from alumni and friends that saw us through the 1906 earthquake, through the Depression and through the tumultuous times of the late 1960s and early 1970s. Our commitment must be to Stanford’s long-term core values and to the people who make up the University. With that strong sense of purpose and determination, we will emerge a stronger university in the years ahead.

John Hennessy, President, Stanford University

INITIATIVE ON HUMAN HEALTH

Stem cell research, neurosciences promise breakthrough discoveries

STANFORD IS BUILDING WHAT IS EXPECTED TO BE the nation's largest center for stem cell research to foster basic research and expedite the discovery of new stem cell therapies.

In 2008, alumnus Lorry Lokey doubled his previous gift for the new stem cell research building for a total of $75 million. Now called the Lorry I. Lokey Stem Cell Research Building, it also has been supported by the California Institute for Regenerative Medicine and by alumnus John Scully and his wife, Regina. Support from the Scullys also will create space within the proposed new Stanford Hospital to treat patients using future stem cell therapies.

Researchers focused on stem cell biology and cancer stem cell research will be housed in the Lokey building, as will a novel microfluidics facility that draws on bioengineering research. The building will include 60 research benches to promote interdisciplinary collaboration among basic scientists and clinical researchers.

A consortium created with a $9 million gift from the Thomas and Stacey Siebel Foundation will bring physician-scientists, biologists, chemists, engineers and computer scientists together in the Lokey building to target the causes of diseases and translate discoveries into therapies. The Siebel Foundation gift created the Siebel Stem Cell Institute, an initiative joining the University of California Berkeley Stem Cell Center and Stanford's Stem Cell Biology and Regenerative Medicine Institute.

Also launched in 2008 is the new NeuroVentures program, under the aegis of Bio-X. NeuroVentures promotes technologies likely to enhance understanding of the fundamental functioning of the human brain.
A promising technique is optogenetics, invented at Stanford by Karl Deisseroth, assistant professor of bioengineering, psychiatry and behavioral sciences. Optogenetics combines use of light and genetics to turn specific cells on or off. This approach has the potential to identify and map the neural networks underlying cognition and intelligence and to repair the effects of neurological and psychiatric diseases.

Stem cell biology and the neurosciences are two areas addressed by Stanford's Human Health Initiative, which helps facilitate the translation of discoveries from the laboratory to the patient's bedside. The initiative also concentrates on the biosciences, bioengineering and cancer.

STANFORD TOPS STEM CELL RESEARCH FUNDING

Stanford researchers are the most successful statewide in receiving funding from the California Institute for Regenerative Medicine (CIRM), created by voters to support stem cell research.

In May, the School of Medicine received $43.6 million toward the new Lokey building that will house stem cell research on campus—the largest building grant given by CIRM.

In July, four researchers received a total of $5.6 million in awards designed to support the creation of new pluripotent human stem cell lines: Renee Reijo Pera, director of the Human Embryonic Stem Cell Research and Education Center; Michael Longaker, deputy director of the stem cell institute and director of the Program in Regenerative Medicine; Michele Calos, professor of genetics; and Julie Baker, assistant professor of genetics.

In August, Ching-Pin Chang, assistant professor of cardiovascular medicine, received a grant designed to foster the next generation of stem cell researchers. The award complements grants given in 2007 to four Stanford researchers.

In December, Helen Blau, the Donald E. and Delia B. Baxter Professor of Pharmacology, received a $950,000 grant to develop new stem cell research tools and techniques.

Through the end of 2008, Stanford had received nearly $95 million in grants from CIRM.

BELOW: Optogenetics, invented by Karl Deisseroth, assistant professor of bioengineering, psychiatry and behavioral sciences, has the potential to identify and map the neural networks underlying cognition and intelligence.

RIGHT: A rendering of the Lorry I. Lokey Stem Cell Research Building, which is projected to be the largest stem cell research building in the nation.

ENVIRONMENT AND SUSTAINABILITY

Partnerships and research promote sustainable development

SCHOLARS IN BIOLOGY, AQUACULTURE, ENVIRONMENTAL LAW and other fields will work together to protect the world's oceans, thanks to a $25 million grant from the Packard Foundation. The 2008 grant created the Center for Ocean Solutions, a partnership among the Ward W. and Priscilla B. Woods Institute for the Environment, the Hopkins Marine Station, the Monterey Bay Aquarium and the Monterey Bay Aquarium Research Institute.

The new center is among Stanford's efforts to help societies meet resource demands without undermining the planet's ability to provide for future generations. The University's Initiative on the Environment and Sustainability focuses on freshwater, climate and energy, land use and conservation, oceans and estuaries, and the sustainable built environment.

At the core of Stanford's efforts is the Woods Institute, an interdisciplinary hub for research and teaching. The Woods Institute shares the new Jerry Yang and Akiko Yamazaki Environment and Energy Building with the departments of Civil and Environmental Engineering and Environmental Earth System Science, the Precourt Institute, the Global Climate and Energy Project (GCEP), the Interdisciplinary Graduate Program in Environment and Resources and other programs.

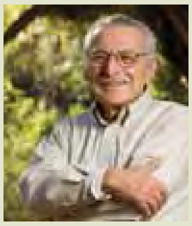
In 2008, the Woods Institute awarded Environmental Venture Projects grants to faculty teams solving sustainability challenges ranging from salmon farming in Chile to farmland irrigation in California to coral reef ecosystems in the Pacific.

Through GCEP and other programs, the University seeks to further expand its activities in the area of renewable energy and its deployment. For instance, grants were made in 2008 for research that promises to create models for reducing energy use and improving efficiency. Faculty are developing biodegradable foam materials for structural insulated panels, assessing how weather and demand from plug-in hybrids will affect California's ability to deliver electricity from renewable sources, and studying methods for quantifying the environmental impact of diesel and ethanol fuels.

Researchers led by Martin Fischer, professor of civil and environmental engineering, also are performing a $1 million energy retrofit—paid for by Stanford—for Santa Clara County's Main Jail North to develop computer simulations and a model that can be widely shared.

STANFORD LEADS IN CONSERVING BIOLOGICAL DIVERSITY AND TRANSFORMING GLOBAL ECOLOGY

Two Stanford faculty members whose research focuses on the environment were recognized during 2008.



Gretchen Daily, the Bing Professor of Environmental Studies and senior fellow at the Woods Institute for the Environment, was awarded the 2008 Sophie Prize by Norway's Sophie Foundation. The foundation recognized Daily as a leader in "the debate on sustainable development and conservation of biological diversity." She co-founded the Natural Capital Project, a partnership with The Nature Conservancy and the World Wildlife Fund to develop techniques to quantify the economic value of ecosystems and the services they provide.

Harold Mooney, the Paul S. and Billie Achilles Professor of Environmental Biology, shared the 2008 Tyler Prize for Environmental Achievement for helping to transform ecology into a global discipline. The selection committee said Mooney "provided key evidence for the theory of convergent evolution, which holds that different species in widely separated ecosystems, but with similar climates, all tend to evolve toward similar endpoints."

ABOVE: Biology doctoral student Bill Anderegg is among the scholars conducting research on the Earth's natural systems at Stanford's Jasper Ridge Biological Reserve. Anderegg's research found significant declines in avian diversity at the preserve.

LEFT: Hikers on their way to the Dish in the Stanford Foothills pass by photovoltaic panels that are part of ongoing sustainability efforts. The array comprises more than 200 photovoltaic modules, capable of producing 51,000 kWh each year and eliminating an estimated 61,000 pounds of carbon dioxide.

INTERNATIONAL INITIATIVE

Stanford's international reach highlighted with visits to China

PROJECTS TO ENHANCE HEALTH SECURITY and child survival in Africa with improvements in water and sanitation, examine why poor business-management practices persist in India, study the relationship of legal courts to politics and human rights and understand why the Middle East has lagged in economic progress were 2008 recipients of grants from the Presidential Fund for Innovation in International Studies.

The fund is among the programs Stanford has created through its International Initiative to seek solutions to worldwide challenges involving international security, governance at every level and human well-being.

For instance, "Enhancing Health Security Through Infrastructure and Behavioral Intervention: Water, Sanitation and Child Survival in Africa" seeks to improve the health of the 1.2 billion people—particularly children—in low-income countries who lack access to clean water and the 2.6 billion who lack access to sanitation services. The multidisciplinary project involves Alexandria Boehm, the Clare Boothe Luce Assistant Professor of Civil and Environmental Engineering; Jenna Davis, assistant professor of civil and environmental engineering and Woods Institute for the Environment fellow; Abby King, professor of health research and policy; and Gary Schoolnik, professor of medicine.

Also under the aegis of the International Initiative, President John Hennessy visited Peking University with the deans of three schools and other faculty members to expand and deepen Stanford's existing relationships, especially in research and faculty collaboration. Peking University, one of China's leading universities, is home to Stanford-in-Beijing, a Bing Overseas Studies program. The president's trip was followed by a visit to China, sponsored by the Arts Initiative, of the Stanford Symphony Orchestra and other Department of Music groups.

Another key to the International Initiative is the Program on Food Security and the Environment (FSE)—a collaboration between the Woods Institute and the Freeman Spogli Institute for International Studies. It received support in 2008 from the Cargill Foundation to fund visiting fellows, from the Rockefeller Foundation to study the effects of climate change on food security in Africa and from Stanford's Global Climate and Energy Project to study biofuels and climate.

A pilot program funded by the International Initiative resulted in a teacher-training agreement between Stanford and the Pontificia Universidad Católica de Chile. The agreement allows faculty from the two universities to collaborate and Chilean students to come to Stanford for teacher training.

HOW DO WE FEED A WORLD OF 8 TO 9 BILLION PEOPLE?

Rosamond Naylor, director of the Program on Food Security and the Environment (FSE), became the first William Wrigley Senior Fellow in 2008. The fellowship links the Freeman Spogli Institute for International Studies and the Woods Institute for the Environment and is a gift from alumnae Julie Wrigley and Alison Wrigley Rusack, and from Alison's husband, Geoffrey Rusack.

FSE is designed to generate solutions to global hunger and environmental damage from agricultural practices worldwide.

"The world food crisis right now highlights everything that we do," says Naylor. "How do we feed a world of 8 to 9 billion people this century without destroying the environment? How do we reduce chronic hunger among the roughly 1 billion people that live day in and day out in hunger? How do we redefine national and international security to get at the heart of human security issues of nutrition, health and safety?"

ad

ABOVE: *María Helga Guðmundsdóttir, the Stanford Symphony Orchestra, Stanford Taiko and combined choral ensembles from the Department of Music traveled to China in 2008 with the Arts Initiative to promote cultural exchange, strengthen understanding between Chinese and American youth and celebrate the Olympic spirit.*

RIGHT: Alexandria Boehm, the Clare Boothe Luce Assistant Professor of Civil and Environmental Engineering, is among the researchers trying to improve water access, sanitation and child survival in Africa.

IMPROVING K–12 EDUCATION

Focus is on teacher development, leadership and policy research

THREE CENTERS ARE LEADING UNIVERSITY EFFORTS to improve K-12 education by enhancing policy analysis, educational leadership and teacher professional development.

The Center for Education Policy Analysis is under the direction of Susanna Loeb, professor of education, and Eric Hanushek, the Paul and Jean Hanna Senior Fellow at the Hoover Institution. They recently participated in a series of studies that revealed California's school finance and governance system needs to be overhauled if students are to achieve high academic standards.

The Center for Leadership in Education initiated the Principals Fellows Program, a collaboration among the School of Education (SUSE), the Graduate School of Business and the Hasso Plattner Institute of Design to promote leadership in early career principals. The center also is continuing work to support educational reform.

Teachers will be helped to enrich their understanding of the subjects they teach and offered strategies to engage learners under the new Center to Support Excellence in Teaching.

In 2008, the Woodrow Wilson National Fellowship Foundation chose SUSE to participate in its National Teaching Fellowship Program for undergraduates who earn a master's degree and commit to working in underserved schools.

The John W. Gardner Center for Youth and Their Communities, also key to Stanford's K-12 initiative, received a $4 million gift from the Walton Family Foundation. Resources provided by the University helped establish an $8 million endowment for the center, which encourages youths to engage with their communities.

The K-12 initiative has also funded multidisciplinary faculty teams working on such projects as creating a website to support the teaching of human genetics to high school students, establishing an outreach program at Stanford's Hopkins Marine Station and developing a program to help elementary school teachers integrate the arts into their teaching.

LEFT: Susanna Loeb, professor of education, co-directs the Center for Education Policy Analysis, one of three new centers leading University efforts to improve K-12 education.

RIGHT: A rendering of the new Knight Management Center, which will facilitate a new Graduate School of Business curriculum and set high standards for sustainable design.

REINVENTING GRADUATE EDUCATION

New programs, buildings promote interdisciplinary learning

THE FIRST 12 STANFORD INTERDISCIPLINARY GRADUATE FELLOWSHIPS were awarded in 2008 by Patricia Gumport, vice provost for graduate education, ensuring that Stanford remains at the forefront of graduate education worldwide.

The innovative three-year awards provide multidisciplinary graduate research support, which is difficult to obtain, yet essential for the ability of tomorrow's academic leaders to offer solutions to global challenges.

The graduate fellowships are one of several new programs key to the initiative to enhance graduate education by fostering innovation. Also new is the Diversifying Academia, Recruiting Excellence (DARE) Doctoral Fellowship Program, which awards grants to doctoral students who will strengthen the diversity of the academic pipeline.

Provost John Etchemendy told the first 12 DARE recipients in 2008, "Stanford is making a bold and forceful statement that we understand that diversity in the professoriate must be aggressively pursued. The methods of the past just aren't good enough."

Progress continues on buildings designed to facilitate new approaches to graduate education by promoting multidisciplinary research and teaching.

In 2008, ground was broken for the Li Ka Shing Center for Learning and Knowledge, whose design is based on a new model of medical education that combines cross-disciplinary teaching and innovative approaches to clinical training and scientific investigation.

Ground also was broken on the Knight Management Center, a new eight-building campus for the Graduate School of Business. The design stresses small, flexible classrooms and team meeting spaces to facilitate a new curriculum and to encourage collaboration with other schools. The new campus also sets high standards for sustainable design and construction by seeking LEED certification.

The Munger Graduate Residences, which will house 600 graduate students in facilities designed to enhance interdisciplinary interaction, will be ready in early 2009.

ENGAGING THE ARTS AND CREATIVITY

Interest in the arts and creativity booming at Stanford

THE ART AND ART HISTORY DEPARTMENT will be consolidated and its offerings enhanced by allowing evolving art forms like film and electronic media to be studied and created alongside traditional work, thanks to a new building announced in 2008.

The building is one example of a campus-wide increase in interest in the arts and in integrating creativity into every field of study.

Alumnus and former Board of Trustees Chair Burt McMurtry and his wife, Deedee, gave $30 million for construction of a new facility adjacent to the Cantor Arts Center that will consolidate the widely dispersed art department. Student interest in studio art courses has outpaced space, and the new building will provide much-needed new studios and classrooms. It also will spur multidisciplinary research and teaching, as well as collaboration with the Cantor Arts Center.

"Great sparks happen when people come together in one place. As the arts flourish at Stanford, I think they will ignite all kinds of exciting collaborations and conversations," says Kristine Samuelson, chair of the Department of Art and Art History.

The new art building constitutes part of an envisioned arts corridor that also includes a concert hall made possible by Peter and Helen Bing. The 900-seat concert hall will be constructed near Frost Amphitheater and is being designed to the latest technical and acoustical standards.

Enhanced facilities are key to the Arts Initiative, which helps foster a culture of creativity on campus. Also key is the Stanford Institute for Creativity and the Arts (SICA), which develops undergraduate art programs, hosts artists in residence and encourages multidisciplinary research and teaching.

SICA was also supported in 2008 by alumni and parents George Hume and Board of Trustees Chair Leslie Parker Hume. They created five graduate fellowships in the arts and humanities and supported new arts courses, visiting artists and opportunities for undergraduates to attend off-campus performances and exhibits.

Among the most visible signs of increased interest in the arts on campus is the Off The Farm grants program, which exposes students to Bay Area culture and inspires a deeper appreciation for the arts. During the academic year, nearly 1,500 students attended such offerings as "Appomattox" at the San Francisco Opera, the Oregon Shakespeare Festival in Ashland, Ore., and the LINES Ballet at the Yerba Buena Center for the Arts in San Francisco.

FINDING INNOVATIVE WAYS OF INTEGRATING ARTS INTO TEACHING

The Stanford Institute for Creativity and the Arts (SICA) awarded 13 grants in 2008 under its Curricular Innovation in the Arts program, which encourages course innovation by supporting faculty efforts to integrate the arts into teaching. SICA is key to the Arts Initiative.

Among the projects receiving SICA grants is the Stanford Multimedia Literacy Project. The project supports collaboration among the Film Lab, the Cross-Cultural Rhetoric Initiative and the Program in Writing and Rhetoric to bring together students to focus on analysis of art objects and discussion of art with artists and filmmakers, culminating in a multimedia literacy conference.

Funding for another project, Identity, Diversity and Aesthetics: Launching the Institute for Diversity in the Arts Thematic Major in Comparative Studies in Race and Ethnicity, was awarded to Harry Elam, the Olive H. Palmer Professor in Humanities, and Gina Hernandez-Clarke, executive director of the Institute for Diversity in the Arts. The award supports four courses: "Indigenous Identity in Diaspora—People of Color Art Practice in North America," "Building Community—Art, Culture and Social Change," "Dual Processing Choreography" and "Black Cinema."

SICA also supported teaching projects proposed by faculty in a surprisingly wide range of departments, including music, orthopedic surgery, Italian literature, anthropology and English.

LEFT: *A page from a 14th-century manuscript from the library of William Mahrt, associate professor of music, whose work probes the origins of Gregorian chant.*

BELOW: *Among the outstanding student performance groups at Stanford is Cardinal Ballet, which performed at the annual An Art Affair.*

RIGHT: *"Great sparks happen when people come together in one place. As the arts flourish at Stanford, I think they will ignite all kinds of exciting collaborations and conversations," says Kristine Samuelson, chair of the Department of Art and Art History.*

RESEARCH AND SCHOLARSHIP IN 2008

Biological Sciences

Researchers led by Steven Block, the Stanford W. Ascherman, M.D., Professor and professor of applied physics and biology, report in *Science* that they have determined for the first time how a three-dimensional molecular structure folds, step by step.

The highest-resolution map of human genetic diversity, which provides insight into how groups of people are related and traces human origins to Africa, is described by Marcus Feldman, professor of biology, and his collaborators in *Science*.

The areas of protein engineering and production may be advanced thanks to Judith Frydman, associate professor of biology, who is a senior author of a paper in *Nature Structural & Molecular Biology* that deduces the inner workings of the chaperonin molecules.

Specific genetic instructions drive aging in worms, according to Stuart Kim, professor of developmental biology and genetics and senior author of a study in *Cell* that counters prevailing theories and, thus, implies science might be able to reverse the aging process.

Mark Schnitzer, assistant professor of biology and applied physics, leads a group reporting in *Nature* that they can view tiny fibers of working muscles with minimum discomfort to patients through a microendoscopy technique that has advantages over muscle biopsies.

For the first time, mathematics has been used to model cell movement in work done by researchers headed by Julie Theriot, associate professor of biochemistry and microbiology and immunology, reported in *Nature*.

Business

The price tag of a bottle of wine can affect the way people experience the wine (a $5 wine tastes better with a $45 price tag), according to researchers led by Baba Shiv, professor of marketing, writing in *Proceedings of the National Academy of Sciences*.

People tend to grossly underestimate how likely others are to agree to requests for help, according to Frank Flynn, associate professor of organizational behavior, writing in the *Journal of Personality and Social Psychology*.

Education

Students who learn the basic concepts of photosynthesis in everyday English before learning the scientific terms fare better on tests than students taught in the traditional way, according to a study in the *Journal of Research in Science Teaching* by Bryan Brown, assistant professor of education, and his student.

Pieter Abbeel, Andrew Ng, Adam Coates

cover

A study by Education Professor Sam Wineburg of 2,000 high school students nationwide reveals that their top heroes—excluding presidents and their wives—are Martin Luther King, Rosa Parks and Harriet Tubman.

Engineering

A laptop that now runs on battery for two hours could operate for 20 hours, thanks to a new technology developed through research led by Yi Cui, assistant professor in materials science and engineering, that produces 10 times the electricity of existing lithium-ion batteries.

Genomics software developed by a team led by Serafim Batzoglou, assistant professor of computer science, and described in *Genome Research,* can go back 20 generations to identify the continent of origin of an individual's ancestors.

Researchers led by Abbas El Gamal (below), professor of electrical engineering, have developed a camera with thousands of lenses designed to produce a precise depth map of every point in a photo.

Mark Jacobson, professor of civil and environmental engineering, writes in *Geophysical Research Letters* that he has linked levels of carbon dioxide in the atmosphere and increases in human mortality using a computer model of the atmosphere that incorporates physical and chemical environmental processes.

Researchers led by Andrew Ng, assistant professor of computer science (photo on page 12), develop an artificial intelligence system that enables robotic helicopters to teach themselves to fly stunts by watching other helicopters perform the same maneuvers.

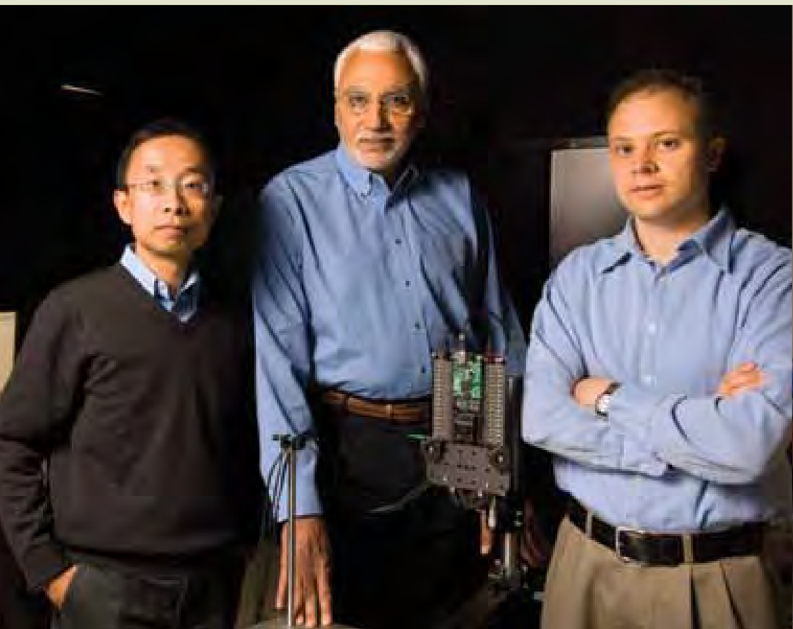
Humanities and Social Sciences

Americans subconsciously associate blacks with apes, according to a study in the *Journal of Personality and Social Psychology* co-authored by Jennifer Eberhardt, associate professor of psychology.

Population researchers Paul and Anne Ehrlich write "The Dominant Animal," a book explaining where human beings came from and where we are headed.

Shelley Fisher Fishkin, professor of English (below), found in the Bancroft Library at the University of California, Berkeley—and then helped produce on Broadway—the long-forgotten Mark Twain play, "Is He Dead?"

H.-S. Philip Wong, Abbas El Gamal, Keith Fife



Shelley Fisher Fishkin

Robert Pogue Harrison

A book co-edited by historian Gordon Chang, "Asian American Art: A History, 1850-1970," is the first comprehensive study of artists of Asian ancestry active in the United States before 1970.

The first brain imaging study that contrasts two techniques for emotion regulation is described in *Biological Psychiatry* by senior author James Gross, associate professor of psychology.

With his book, "Gardens: An Essay on the Human Condition," Robert Pogue Harrison, the Rosina Pierotti Professor in Italian Literature (above), examines how gardens evoke the human condition.

Emotional stimuli can influence financial risk-taking, according to a study in *NeuroReport* by lead author Brian Knutson, assistant professor of psychology.

Jon Krosnick, the Frederic O. Glover Professor in Humanities and Social Sciences, heads a Woods Institute/ABC News/Planet Green poll of Americans that shows that 71 percent are trying to reduce their carbon footprint and that most think global warming can be reduced if people change, while 64 percent believe it is more important to find new energy sources.

The Stanford Center for the Study of Poverty and Inequality, headed by sociologist David Grusky, begins developing an alternative to the official poverty index that measures how much poverty there is in the United States.

John Shoven, the Charles Schwab Professor of Economics and Wallace R. Hawley Director of the Stanford Institute for Economic Policy Research, and George Shultz, the Thomas W. and Susan B. Ford Distinguished Fellow at Hoover, collaborate on the book "Putting Our House In Order—A Guide to Social Security and Health Care Reform," which looks at non-partisan measures to solve this national crisis.

"Inside Rebellion: The Politics of Insurgent Violence," by Jeremy Weinstein, assistant professor of political science (photo on page 15), wins the 2008 William Riker Award for the best book on political economy.

Law

Lawrence Lessig, the C. Wendell and Edith M. Carlsmith Professor of Law, writes the book "Remix: Making Art and Commerce Thrive in the Hybrid Economy," about the conflict between restrictive copyright laws and creativity in the Internet age.

"The Race Card: How Bluffing About Bias Makes Race Relations Worse," a book by Richard Thompson Ford, the George E. Osborne Professor of Law, examines the claims of bias that pervade modern American discourse.

Robert Daines, the Pritzker Professor of Law and Business and co-director of the Arthur and Toni Rembe Rock Center for Corporate Governance, co-authors "Rating the Ratings: How Good Are Commercial Governance Ratings?"—an article that analyzes the merits of corporate governance ratings.

Medicine

A method that could keep malaria parasites sequestered in blood cells of infected people long enough that the parasites die before they can create havoc is described by a team led by Matthew Bogyo, assistant professor of pathology, in *Nature Chemical Biology*.

Researchers led by Howard Chang, assistant professor of dermatology, write in *Cell Stem Cell* that they have turned normal skin cells into cancer stem cells, making these rare cells easier to study.

Michael Cleary, the Linhard Family Professor in Pediatric Cancer Biology, and postdoctoral scholar Francesca Ficara write in *Cell Stem Cell* that a protein crucial to healthy cell growth appears to maintain stockpiles of bone marrow stem cells by preventing the cells from dividing too often and exhausting themselves.

Regular running slows the effects of aging, according to James Fries, professor of medicine emeritus and senior author of a study in *Archives of Internal Medicine*.

Sanjiv Sam Gambhir, professor of radiology, is senior author of a study published in *Proceedings of the National Academy of Sciences* that describes a new type of imaging system that can illuminate tumors in living subjects, getting pictures with a precision of nearly one-trillionth of a meter.

Medical and engineering researchers led by Jeffrey Glenn, associate professor of gastroenterology and hepatology, report in *Nature Biotechnology* about a vulnerability in hepatitis-C reproduction that, in a lab, could be targeted.

Orthopedic surgeon Stuart Goodman, the Robert L. and Mary Ellenburg Professor of Surgery, describes in *Journal of Arthroplasty* a new surgical technique—cellular grafting—involving transplanting cellular material from the pelvic area to the knee to help people suffering from knee disorders.

Ronald Levy, the Robert K. and Helen K. Summy Professor of Medicine, leads a team reporting in *Proceedings of the National Academy of Sciences o*n results of the first human tests of an injectable vaccine grown in genetically engineered tobacco plants.

Marcia Stefanick, professor of medicine and a leader of the Women's Health Initiative, is senior author of an article in the *Journal of the American Medical Association* that shows postmenopausal women who took the combination of estrogen and progestin for more than five years as part of the initiative continued to face an increased risk for breast cancer nearly three years after they stopped.

Neural cells derived from human embryonic stem cells help repair stroke-related damage in the brains of rats and lead to improvements in physical abilities after a stroke, according to a study by Gary Steinberg, the Bernard and Ronni Lacroute-William Randolph Hearst Professor of Neurosurgery and Neurosciences, in *Public Library of Science-ONE*.

Researchers in the lab of Amato Giaccia, professor and director of radiation oncology and radiation biology, locate a molecule that kills kidney cancer cells, raising the possibility of new treatments for the deadly disease, according to an article in *Cancer Cell*.

A new test developed by a team led by Stephen Quake, professor of bioengineering, reduces the risks in testing for chromosomal disorders such as Down syndrome, according to a study in *Proceedings of the National Academy of Sciences*.

Physical Sciences

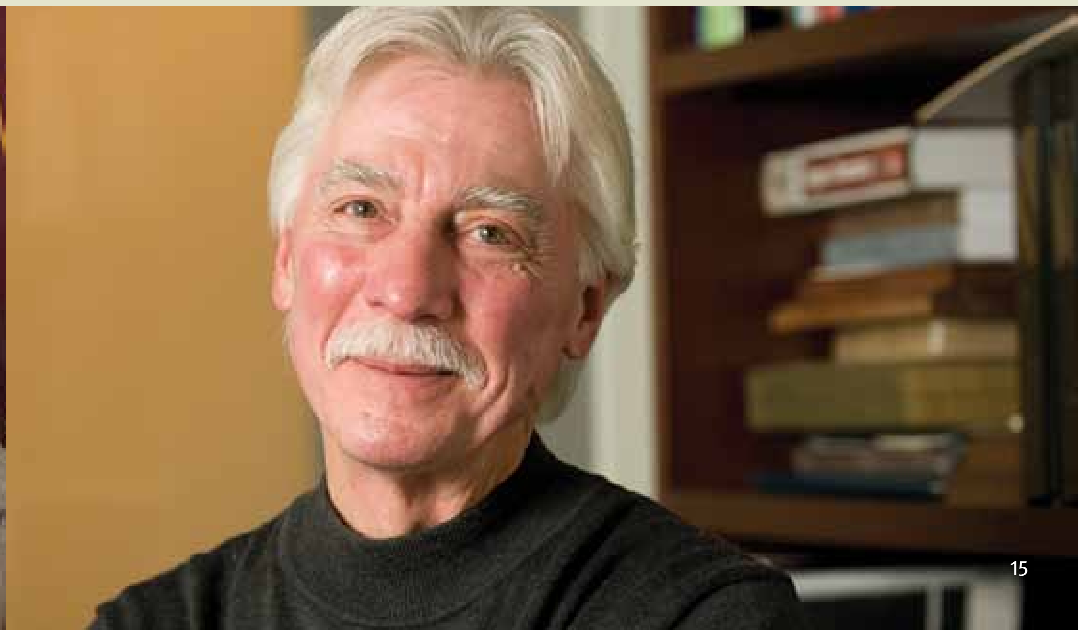
Chemists led by Hongjie Dai, the J.G. Jackson and C.J. Wood Professor of Chemistry, develop a new way to make transistors out of carbon nanoribbons, described in an article in *Physical Review Letters*.

Researchers at SLAC National Accelerator Laboratory, led by astrophysicist Peter Michelson, principal investigator for the Large Area Telescope carried aboard NASA's orbiting observatory, are the first to see data from such celestial wonders as a pulsar that "blinks" in gamma rays.

New agents can be tailored to flush HIV into the open where the immune system and antiretroviral therapies can destroy it, according to a paper in *Science* by Paul Wender, the Francis W. Bergstrom Professor of Chemistry (below).

Jeremy Weinstein

Paul Wender



STANFORD 2008

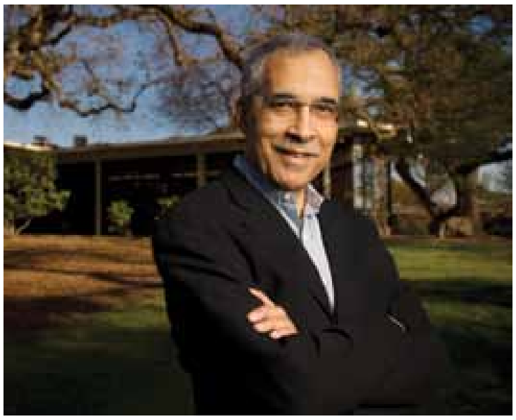
The Year in Review

Jan

The Zohar—a compendium of enigmas that forms the basis of the Kabbalah—gets a renewal thanks to Stanford University Press' new translation, which earns a Koret Jewish Book Award.

Graduate student Jennifer Martinez is named the 2008 Daniel Pearl Memorial Journalism Intern and will work in the London bureau of the *Wall Street Journal*.

The Center for Advanced Study in the Behavioral Sciences, headed by Claude Steele, the Lucie Stern Professor in the Social Sciences (below), becomes part of Stanford.



Feb

The Hansen Experimental Physics Laboratory, home to the world's first full-scale linear accelerator, is torn down to make way for new buildings in the Science and Engineering Quadrangle.

Ron Fedkiw, associate professor of computer science, wins an Academy Award with two collaborators at Industrial Light and Magic for computer-generated action used in such films as "Pirates of the Caribbean."

The bicycle race Tour of California brings thousands of spectators to campus to watch the end of the time trials on the Oval.

Bill Gates, chairman and co-founder of Microsoft Corp., launches his college tour before a Memorial Auditorium crowd and discusses the role software-driven technology plays in the developing world.

Provost John Etchemendy announces that parents with incomes less than $100,000 will no longer pay tuition as a result of trustee approval of the largest financial aid increase in Stanford's history.

U.S. National Security Adviser Stephen Hadley discusses the challenges of the United States and its allies with faculty and students affiliated with the Freeman Spogli Institute's Center for International Security and Cooperation.

March

Stanford archeologist Laura Jones and her students (above) excavate the site of the men's gymnasium, which was destroyed in the 1906 earthquake, in preparation for construction of a new concert hall near Frost Amphitheater.

Stanford joins a team of universities collaborating with the new King Abdullah University of Science and Technology, which will be a major international and graduate-level research university in Saudi Arabia.

U.S. Treasury Secretary Henry Paulson delivers the keynote address at the 2008 Stanford Institute for Economic Policy Research Economic Summit.

David Luenberger, professor of management science and engineering, and J. Michael Harrison, the Adams Distinguished Professor of Management, are elected to the National Academy of Engineering.

Yahoo! cofounder Jerry Yang and his wife, Akiko Yamazaki (below), both alumni, and San Francisco Mayor Gavin Newsom are on hand for the dedication of the new environment and energy building.

The Cardinal, led by Candice Wiggins (left), competes in the NCAA women's basketball finals, only to fall to Tennessee.

The American Academy of Arts and Sciences chooses seven faculty for membership: Mark Granovetter (Sociology), Philip Hanawalt (Biology), Mark Horowitz (Engineering), Mark Gregory Kelman (Law), Herbert Lindenberger (English), Jim Plummer (Engineering) and Scott Sagan (Political Science).

The Federal Communications Commission holds a public hearing at Stanford to discuss net neutrality—the notion that everyone has a right to equal access to the Internet.

Alumna and Stanford parent Leslie Hume (above) is elected president of the Board of Trustees, the first woman to hold the post since Jane Stanford.

The artifacts and archives of the late Harvard paleontologist and evolutionary biologist Stephen Jay Gould are acquired by the Stanford Libraries.

Some 350 students, staff, faculty and alumni volunteer off-campus at local nonprofit organizations as part of the University's biennial Community Partnership Program.

Apr

Stanford announces a one-year pilot program to offer gender-neutral housing to students who request it.

Alumna Sandra Day O'Connor, former U.S. Supreme Court associate justice, returns to the Farm as the first lecturer for "Harry's Last Lecture," given in honor of her late professor, Harry Rathbun.

The National Academy of Sciences elects five faculty to membership: Steven Boxer (Chemistry), Margaret Fuller (Human Biology), Ronald Levy (Medicine), Andrei Linde (Physics) and David Miller (Electrical Engineering).

The School of Medicine breaks ground on the Li Ka Shing Center for Learning and Knowledge during centennial celebrations marking the school's founding in San Francisco.

Beth Levin (below), the William H. Bonsall Professor in the Humanities, is named a 2008 fellow by the John Simon Guggenheim Memorial Foundation.

May

The Howard Hughes Medical Institute names four new investigators: Mark Schnitzer (Biology, Applied Physics), Kang Shen (Biology), Seung Kim (Developmental Biology) and Julie Theriot (Biochemistry, Microbiology and Immunology).

The Department of Aeronautics and Astronautics celebrates its 50^{th} anniversary with a reunion for about 500 alumni, students, faculty and staff.

Former U.S. Secretary of State Madeleine Albright discusses international affairs before a packed Kresge Auditorium with Scott Sagan, professor of political science.

The American Philosophical Society selects six for membership: Gretchen Daily (Biology), John Hennessy (Electrical Engineering, Computer Science), Roger Kornberg (Biology), James McClelland (Psychology), Claude Steele (Social Sciences) and Irving Weissman (Developmental Biology).

Lars Osterberg, clinical assistant professor of medicine, wins the Haas Center's Roland Prize for integrating academic scholarship with volunteer service.

The Law School faculty votes to adopt a new grading system that replaces letter grades with a system of honors, pass, restricted credit and no credit.

School of Education faculty members unanimously decide to make their scholarly articles available for free to the public, becoming the first education school in the nation to do so.

June

Oprah Winfrey (above with Provost John Etchemendy) gives the address at Commencement, where 4,666 degrees are granted, telling students that she regrets not being able to give them new cars, but offers—instead—free books.

The papers of Saddam Hussein find a temporary home at the Hoover Institution, which will hold them for five years and then arrange for their return to Iraq.

The Center for Buddhist Studies receives a $5 million gift from the Robert H.N. Ho Family Foundation to fund graduate fellowships and create an endowment.

Aron Rodrigue (below), the Eva Chernov Lokey Professor in Jewish Studies, is named director of the Stanford Humanities Center.

July

The Stanford Symphony Orchestra, Stanford Taiko and choral ensembles from the Department of Music perform in China under the auspices of the Arts Initiative to promote cultural exchange and increase understanding between Chinese and American youth.

The National War Powers Commission, co-chaired by law alumnus Warren Christopher and for which the Law School and Freeman Spogli Institute were partner institutions, releases recommendations regarding the war powers of the president and Congress.

Forty-eight current and former Stanford athletes—the most of any university—compete in the Beijing Olympic Games, winning 25 medals, including eight gold, 13 silver and four bronze.

Aug

The Biochemistry Department celebrates its 50th anniversary with an event honoring the original founding faculty, including Nobel Prize winner Paul Berg, the Robert W. and Vivian K. Cahill Professor of Cancer Research, Emeritus.

Alumnus Jen-Hsun Huang, founder and chief executive officer of NVIDIA, pledges $30 million to help build the new 130,000-square-foot Jen-Hsun Huang School of Engineering Center.

The School of Medicine announces it will no longer accept support from pharmaceutical or device companies for continuing medical education out of concern that doing so might compromise the integrity of physician programs.

Sept

The National Academy of Sciences selects Roger Blandford, the Pehong and Adele Chen Director of the Kavli Institute for Particle Astrophysics and Cosmology, to chair the next “decadal survey” in astronomy, which will produce a list of projects astronomers want to pursue.

Stanley Falkow, the Robert W. and Vivian K. Cahill Professor of Cancer Research, wins the 2008 Lasker-Koshland Award for Special Achievement in Medical Science for research into how bacteria cause human disease.

Hoover House, the home of the Stanford president, goes solar with the addition of panels that send photovoltaic energy to the house and the Pacific Gas and Electric grid.

Stanford welcomes 1,704 new freshmen (below) and 22 transfer students, selected from among about 25,000 applicants.

The National Institutes of Health announces that James Chen (Chemical and Systems Biology) and Ricardo Dolmetsch (Neurobiology) have won Director's Pioneer Awards, and Zev Bryant (Bioengineering), Shelli Kesler (Psychiatry) and Joseph Wu (Medicine) New Innovator Awards.

An economic impact study shows that Stanford, the largest employer in Silicon Valley in 2006, made $3.8 billion in direct expenditures that year and spent more than half that sum in neighboring Santa Clara and San Mateo counties.

Reunion Homecoming draws 8,729 people for activities including a roundtable on leadership, hosted by journalist and Stanford parent Tom Brokaw, and a panel on the economic crisis, organized by the Stanford Institute for Economic Policy Research.

Oct

William Moerner, the Harry S. Mosher Professor of Chemistry, is awarded the 2009 Irving Langmuir Prize in Chemical Physics by the American Physical Society, after having earlier shared the 2008 Wolf Prize in Chemistry.

The papers of alumnus William Rehnquist, the late U.S. Supreme Court chief justice, are donated to the Hoover Institution Archives.

Nov

Alumna Sarah Kleinman is awarded a 2009 Rhodes Scholarship, and seniors Max Kleiman-Weiner and Douglas Stanford are awarded Marshall Scholarships.

Stanford and SRI International celebrate the 40th anniversary of Douglas Engelbart's revolutionary 1968 introduction of the computer mouse and hypertext linking.

Dec

The Registrar's Office begins to make some core web-based systems and services available to students as applications on Apple's iPhone.

Stanford ranks among the top 15 colleges or universities in sustainable practices, according to the Sustainable Endowments Institute, which conducts an annual national survey.

The Center for Ethics in Society is renamed the Bowen H. McCoy Family Center for Ethics in Society to honor a $5 million gift from alumnus Buzz McCoy and his wife, Barbara.

Alumnus Cory Booker (above), mayor of Newark, returns to the Farm to speak as part of the Haas Center's Voices for Public Service Leadership series.

Christopher Field, professor of biology, senior fellow at the Woods Institute and director of the Carnegie Institution's Department of Global Ecology, is elected co-chair of Working Group 2 of the Nobel Prize-winning U.N. Intergovernmental Panel on Climate Change.

The name of alumnus and U. S. Marine Donald Ryan McGlothlin, who died in the war in Iraq, is added to Memorial Hall.

The official name of the Stanford Linear Accelerator Center is changed to the SLAC National Accelerator Laboratory.

Stanford Hospital and Clinics and the Lucile Packard Children's Hospital unveil architectural plans (below) for new construction and renovation.

Kwabena Boahen, assistant professor of bioengineering, is among the researchers receiving a $4.9 million federal grant to create an artificial brain so small and independently functional it could fit in a backpack.

Stanford faculty involved in President-Elect Barack Obama's transition are Linda Darling-Hammond (Education), Mariano-Florentino Cuellar (Law), Greg Rosston (Stanford Institute for Economic Policy Research), Peter Henry (Economics), Elizabeth Sherwood-Randall (Freeman Spogli Institute) and Michael McFaul (Freeman Spogli Institute).

Nobel Prize winner Steven Chu, professor of physics and applied physics and head of the Lawrence Berkeley National Laboratory, is nominated to head the Department of Energy by President-Elect Barack Obama.

THE WISDOM OF THE LONG HORIZON

From the Chair of the Board of Trustees

AS THIS REPORT GOES TO PRINT, the global financial markets are undergoing a dramatic revaluation, and the U.S. economy is officially in the midst of a recession. Although the markets have buffeted Stanford financially, we are well positioned to weather these turbulent times because of the long-term investment horizon that guides the management of Stanford's endowment.

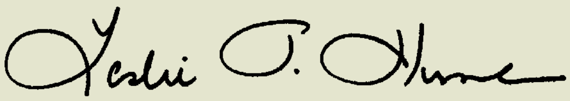
The University entered this troubled economic period in relatively strong financial condition. This is due in no small part to the investment acumen of the Stanford Management Company and the prudent payout policy that governs spending from the endowment, strengths that ensure that the Stanford endowment remains a source of stability for the University for generations to come.

A long-term focus explains why Stanford, like most universities, targets its endowment payout rate on the basis of long-term average returns after inflation. Furthermore, we stick to this payout policy even—perhaps especially—in years of above-average investment returns. The payout is calculated also taking into account recent past performance so as to "smooth" the impact of market fluctuations. This smoothing policy does not obviate the need for trimming budgets and finding ways to work more efficiently in a major downturn, but it does mitigate much of the impact of shorter-term market volatility on vital Stanford programs. Our long-term goal is to ensure that the purchasing power of the endowment does not diminish after accounting both for the payout and the inflation experienced by higher education institutions.

So how has Stanford's endowment performed? After several years of double-digit returns, we saw a modest 6.2 percent gain on Stanford's Merged Pool (MP) in the 12 months ending June 30, 2008, returns that were well above the 13.1 percent drop in the S&P 500 over the same period. As the economic climate changed, those gains virtually disappeared by the end of our fiscal year in August, and the autumn took us into negative territory. However, the MP outperformed our benchmarks and the market as a whole over this period. More important, in a period that saw severe economic dislocations and essentially flat U.S. equity markets, our compounded 10-year MP return at the end of June stood at 14.2 percent, among the highest of any university.

In times like these, the wisdom of Stanford's payout policy becomes clear. Despite capricious markets, we must be able to sustain our research enterprise and support our faculty and students—Stanford's most valuable assets—in both good times and bad. Like a household exercising fiscal discipline when times are flush, Stanford adhered to a payout from the endowment that was below market returns for the past several years. This provides some shelter in riding out this latest storm. Nonetheless, the downturn in the economy and the impact that has had on our endowment will require us to make strategic adjustments. Our goal in doing so will be to preserve the excellence and momentum of the academic endeavor.

Universities are long-term institutions that look beyond political and economic cycles. We cannot predict the future, but we are determined to shape it. Our deepest thanks go to the more than 72,000 alumni, parents and friends who, sharing our vision, contributed to Stanford's success last year and made an investment in the future of this remarkable university. Your gifts are more essential than ever in ensuring Stanford's commitment to providing the best in education, today and tomorrow.



Leslie P. Hume
Chair, Stanford University Board of Trustees

2008 FINANCIAL REVIEW

DISCUSSION OF FINANCIAL RESULTS

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

University

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

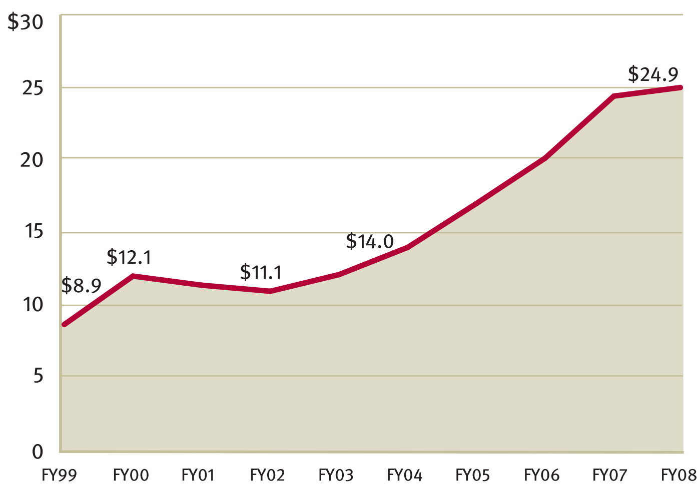
FY08 FINANCIAL HIGHLIGHTS

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

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

FIGURE 1

CONSOLIDATED NET ASSETS (IN BILLIONS)



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

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

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

STATEMENT OF ACTIVITIES

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

Unrestricted Net Assets – Results of Operations

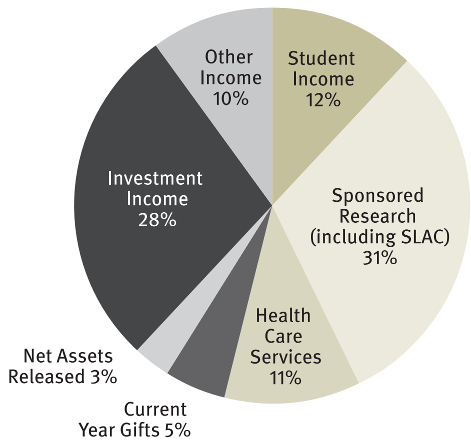
Operating activities include all revenues and expenses that support current-year teaching and research efforts and other University priorities.

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

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

FIGURE 2

FY08 UNIVERSITY OPERATING REVENUES ($3.5 BILLION)



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

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

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

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

› Current year gifts were down $16 million to $182 million in FY08, from the record high of $198 million in FY07. As noted earlier, the University received over 111,000 gifts in FY08, most of which were immediately expendable for purposes prescribed by the donor.

› Net assets released from restrictions, which consisted of payments on prior year pledges and prior year gifts released from donor restrictions, totaled $92 million, down slightly from the $96 million in FY07.

› Total investment income included in operations represented 28% of University revenues.

- Endowment income distributed for operations increased to $882 million in FY08, up from $609 million in FY07. The largest component of endowment income is the payout from endowment funds invested in the University's Merged Pool (MP). MP payout in FY08 was $832 million, up from $541 million in FY07. Over the last 10 years, the payout amount has grown appreciably due primarily to growth of endowment principal from continued strong investment returns, substantial new gifts and transfers of expendable funds into the endowment. In addition to growth of the endowment, in FY08 the Board approved a half point increase in the target payout rate to 5.5%. (See page 25 for a discussion of the increase in the endowment payout amount.)

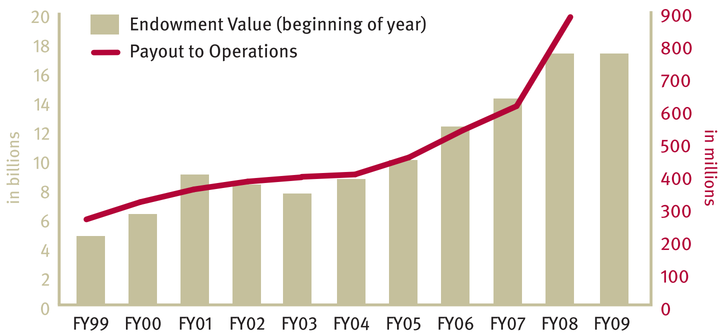
  Also included in endowment income is rental income from ground leases of the University's endowed lands, including the Stanford Research Park, payout from other endowment investment pools and other specifically invested assets.

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

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

FIGURE 3

ENDOWMENT VALUE vs. PAYOUT TO OPERATIONS



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

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

THE UNIVERSITY'S ENDOWMENT

The University's endowment is a collection of gift funds and reserves which are set aside and invested to support the University's teaching and research missions. At August 31, 2008, the Endowment totaled $17.2 billion and represented approximately 76% of the University's net assets. The Endowment includes pure endowment funds, endowed lands, term endowment funds and funds functioning as endowment.

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

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

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

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

FIGURE 4

ENDOWMENT PAYOUT BY PURPOSE

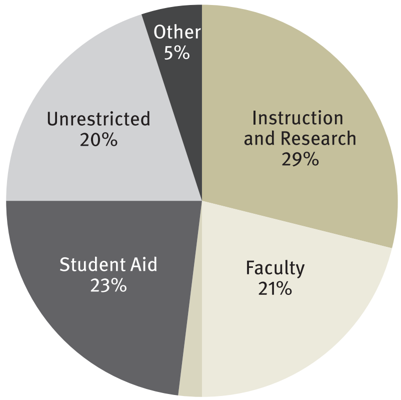
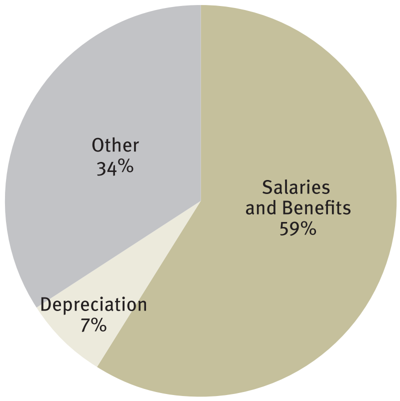


FIGURE 5

FY08 UNIVERSITY OPERATING EXPENSES ($3.2 BILLION)



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

› Salaries and benefits increased 10% in FY08 to $1.9 billion. Increases in salaries were a result of annual salary increases and increases in faculty and staff headcount of over 4%. Salary-related benefits expenses increased in concert with the faculty and staff headcount. In addition, increases in health care costs and expenses associated with the University's retirement plans drove benefit costs higher.

› Depreciation expense increased 10% to $223 million in FY08 from $202 million in FY07. The significant increase in depreciation was due to the new buildings that were placed in service in FY08. In addition, the University wrote off the remaining value of buildings that were demolished to make way for new construction. The undepreciated value that remained on these buildings ($8 million) is included in depreciation expense.

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

Other Changes in Unrestricted Net Assets

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

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

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

Temporarily Restricted Net Assets

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

Permanently Restricted Net Assets

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

FINANCIAL POSITION

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

Highlights of the Statement of Financial Position are as follows:

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

- Net pledges receivable were $769 million at August 31, 2008, an increase of $102 million over FY07 evidencing the continued strong support by donors. Valuation allowances have been recorded for pledges that may not be collectible or where the pledge term may be extended.

- The University provides home mortgage financing assistance as a means of attracting and retaining outstanding faculty and senior staff. Most of the properties are located on University land near the main campus. Total notes outstanding under this program increased $42 million to $376 million in FY08.

- Total investments increased by $591 million, up 3% from FY07. See Figure 6 (below) for investment asset allocation at August 31. Alternative investments, including various types of limited partnerships, private equity funds, venture capital funds, natural resources, real estate and hedge funds, represent approximately 67% of total investments at August 31, 2008. Having such a large percentage of its investments in relatively illiquid vehicles requires the University to closely monitor liquidity required to meet operating and other contractual commitments.

FIGURE 6

INVESTMENT ASSET ALLOCATION

($21.8 BILLION)

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

- Plant facilities, net of accumulated depreciation, increased $181 million to $2.9 billion in FY08. Net additions to plant facilities in FY08 totaled $367 million, bringing gross plant facilities before accumulated depreciation to $5.3 billion. Additions to the University's plant facilities in FY08 included the Jerry Yang and Akiko Yamazaki Environment and Energy building, an energy-efficient "green" building that is projected to use roughly half the energy and 90% less potable water for fixtures than a typical building of its size; a new four-level underground parking structure that provides parking for over 1,200 vehicles to the nearby Munger Graduate Residences, scheduled to open in FY09; and the significant renovation of the Durand Building, part of a larger plan to renovate a number of buildings to provide 21st-century teaching and research facilities for all departments within the School of Engineering.

- Deferred rental income, consisting of prepaid rents on properties leased by the University, was $388 million at August 31, 2008. These amounts are recognized as revenue ratably over the terms of the associated leases. The majority of the balance, $299 million, relates to the Stanford Shopping Center 51-year ground lease which the University entered into in 2003.

- Notes and bonds payable were $1.5 billion at August 31, 2008, up $38 million from FY07, due primarily to increased commercial paper borrowing. Proceeds from the University's debt are used primarily to fund capital projects. Several major building and infrastructure projects currently under way will require debt to fund them. The University has commercial paper facilities totaling $650 million, of which approximately $440 million was available to fund future capital expenditures at August 31, 2008.

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

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

Hospitals

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

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

STANFORD HOSPITAL AND CLINICS

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

STATEMENT OF ACTIVITIES

Revenues increased by 8% to $1.7 billion.

› Patient revenues increased by 8%, to $1.6 billion.

- Inpatient revenues, which make up 55% of the total, grew by 11% on continuing increases in patient volume and favorable negotiations of payor contracts. Despite significant capacity limitations, total patient days were up by 2%.
- Outpatient revenues increased by 4%, accounting for 45% of the total.

› Other income, which includes the results of the various related entities, was up 5% to $51 million.

› Net assets released from restrictions grew 10% from FY07 to $5 million.

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

› Salaries and benefits grew by 12% to $715 million. Excluding the costs related to the implementation of CIS, salaries and benefits increased 10%. The number of employees was up 5% in response to growth in patient volumes, while salaries were increased to maintain SHC's position in the competitive market for health care professionals.

› Physicians' services and support increased by 5% from $247 million to $260 million. This category includes all payments to the University for services, the majority of which are payments to the School of Medicine for physician services.

› Depreciation increased by 49% to $66 million, primarily as a result of the implementation of CIS and other projects for the hospital and clinics facilities.

› Other operating expenses, including such categories as supplies, purchased and professional services and bad debt expense, were up by 10% to $509 million as a result of both increases in patient volumes and increases in prices.

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

› Unrestricted net assets increased by $65 million to $909 million. Most of this growth came from SHC's operating surplus of $105 million and from an increase of $32 million in investment income and gains, netted with a loss of $18 million on extinguishment of debt and a loss of $43 million on swap valuations.

› Temporarily restricted net assets increased by $5 million to $56 million, and permanently restricted net assets remained constant at $6 million in FY08.

FINANCIAL POSITION

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

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

- Assets held by an outside trustee decreased by $170 million to $164 million. The decrease represents the expended proceeds of the 2006 bond issue, which was spent on the new outpatient facility, the clinical information system, and other facilities and systems projects.

- Property and equipment, net of depreciation, increased $195 million to $707 million during FY08. The largest elements of the increase were the expenditures for a new electronic clinical information system; continued investment in the Stanford Medicine Outpatient Center in Redwood City which will open in FY09 and will expand the availability of outpatient care; and equipment to support clinical operations.

- During the year, SHC restructured its debt and enhanced liquidity by refunding and converting $579 million in auction rate bonds to fixed rate term bonds and variable rate demand bonds. Various agreements were made for liquidity support related to the restructuring.

LUCILE PACKARD CHILDREN'S HOSPITAL

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

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

STATEMENT OF ACTIVITIES

- Volume remained flat between FY07 and FY08. Planned expansion of oncology beds and operating room capacity scheduled to be completed by summer of 2008 were delayed until December 2008. Despite the delay in acquiring the capacity to access additional volume, net patient revenues grew 12% to $630 million. The increase in net patient revenue was driven by a slight shift away from Medi-Cal utilization to commercial and other government payers, increased commercial contract rate increases and improved charge capture.

- Operating expenses grew by 10% due in large part to increases in labor costs, which were up 14% in FY08. Over the course of the fiscal year, full-time equivalent staff increased 6% owing to a temporary increase in staff during the installation of an electronic medical record system, as well as new staff hired for the planned opening of additional oncology beds and operating room capacity, which were subsequently delayed. Salaries were also increased to maintain LPCH's position in the competitive market for health care professionals. Additionally, benefits increased 16% due to increased health care, workers compensation and pension costs. Services purchased from SHC and the University, which include such items as operating room and cardiac catheterization lab access, laboratory testing and certain information systems, remained flat between FY07 and FY08.

Other financial highlights:

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

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

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

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

Challenges facing the University and Hospitals

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

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

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

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

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

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

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

M. Suzanne Calandra
Controller
Stanford University

Daniel J. Morissette
Chief Financial Officer
Stanford Hospital and Clinics

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

SELECTED FINANCIAL DATA

Fiscal Years Ended August 31

	2008	2007	2006	2005	2004	2003
			(in millions of dollars)			
STATEMENT OF ACTIVITIES DATA:						
Student income (A)	$ 405	$ 394	$ 376	$ 356	$ 332	$ 318
Sponsored research support	1,076	1,058	994	973	924	860
Health care services	2,193	1,997	1,851	1,699	1,501	1,277
Current year gifts in support of operations	189	198	168	144	105	113
Net assets released from restrictions	104	122	117	104	64	72
Investment income distributed for operations	1,007	710	609	514	460	495
Special program fees and other income	429	398	396	351	329	320
Total Revenues	5,403	4,877	4,511	4,141	3,715	3,455
Total Expenses	4,957	4,467	4,212	3,842	3,572	3,319
Excess of revenues over expenses	446	410	299	299	143	136
Other changes in net assets	471	3,647	2,709	2,598	1,596	1,028
Net change to total net assets	917	4,057	3,008	2,897	1,739	1,164
FINANCIAL POSITION HIGHLIGHTS:						
Cash and cash equivalents	$ 859	$ 647	$ 579	$ 629	$ 638	$ 602
Pledges receivable, net	883	758	619	507	454	475
Investments at fair value	23,470	23,119	19,263	16,351	13,318	11,806
Plant facilities, net of accumulated depreciation	3,967	3,472	3,164	2,800	2,743	2,723
Notes and bonds payable:						
University	1,532	1,494	1,309	1,266	1,288	1,275
Hospitals	1,007	1,015	1,006	582	587	591
Total net assets, end of year	24,855	23,938	19,881	16,873	13,976	12,237
University endowment	17,214	17,165	14,085	12,205	9,922	8,614

	2008	2007	2006	2005	2004	2003
STUDENTS:						
ENROLLMENT: (B)						
Undergraduate	6,812	6,759	6,689	6,705	6,753	6,654
Graduate	8,328	8,186	8,201	8,176	8,093	7,800
DEGREES CONFERRED:						
Bachelor's degrees	1,646	1,709	1,756	1,790	1,713	1,788
Advanced degrees	2,928	3,100	3,093	2,945	2,931	2,855
FACULTY:						
Members of the Academic Council	1,459	1,428	1,418	1,400	1,410	1,396
ANNUAL UNDERGRADUATE TUITION RATE (in dollars)	$ 34,800	$ 32,994	$ 31,200	$ 29,847	$ 28,563	$ 27,204

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

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

REPORT OF INDEPENDENT AUDITORS

To the Board of Trustees
Stanford University

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

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

PricewaterhouseCoopers LLP

San Francisco, California
December 11, 2008

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

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

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

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

CONSOLIDATED STATEMENTS OF ACTIVITIES

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

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

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

CONSOLIDATED STATEMENTS OF ACTIVITIES

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

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

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation and Significant Accounting Policies

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

University

The University is a private, not-for-profit educational institution, founded in 1885 by Senator Leland and Mrs. Jane Stanford in memory of their son, Leland Stanford Jr. A Board of Trustees (the Board) governs the University, which is organized into seven schools with 1,878 faculty and 15,140 graduate and undergraduate students. The "University" category presented in the financial statements comprises all of the accounts of the University, including the Stanford Alumni Association (SAA), the Hoover Institution and other institutes and research centers, the Stanford Management Company and the SLAC National Accelerator Laboratory (SLAC).

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

Hospitals

The health care activities of SHC and LPCH (the Hospitals), including revenues, expenses, assets and liabilities, are consolidated into these financial statements. Each of the Hospitals is a California not-for-profit public benefit corporation. The University is the sole member of each of the Hospitals. The Hospitals support the mission of medical education and clinical research of the University's School of Medicine. They operate two licensed acute care and specialty hospitals on the Stanford campus and numerous physician clinics on the campus, in community settings and in association with regional hospitals in the San Francisco Bay Area. The Hospitals jointly control a captive insurance company.

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

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

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

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

Unrestricted Net Assets

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

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

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

Temporarily Restricted Net Assets
Temporarily restricted net assets include gifts and pledges that are subject to donor-imposed restrictions that expire with the passage of time, payment of pledges or specific actions to be undertaken by the University or the Hospitals, at which time they are released and reclassified to unrestricted support. Donor-restricted resources intended for capital projects are initially recorded as temporarily restricted and released from their temporary restrictions and reclassified as unrestricted support when the asset is placed in service. Of the amounts included in temporarily restricted net assets, approximately 54% are for capital projects and 46% are for other institutional support. Transfers from temporarily restricted net assets to permanently restricted net assets are the result of donor redesignations of original gifts.

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

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

PLEDGES RECEIVABLE Unconditional promises to give are included in the financial statements as pledges receivable and are classified as temporarily restricted or permanently restricted, depending upon donor requirements. Pledges are recorded at the present value of the discounted cash flows, net of an allowance for doubtful accounts. Conditional promises, which depend on the occurrence of a specified future and uncertain event, such as matching gifts from other donors, are recognized when the conditions are substantially met.

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

INVESTMENTS Investments are recorded at fair value.

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

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

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

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

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

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

The useful lives used in calculating depreciation for the years ended August 31, 2008 and 2007 are as follows:

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

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

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

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

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

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

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

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

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

FISCAL YEAR 2008 TRANSACTIONS

Merger with the Center for Advanced Study in the Behavioral Sciences

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

Discontinued Operations

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

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

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

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

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

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

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

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

2. Accounts Receivable

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

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

3. Pledges Receivable

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

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

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

4. Faculty and Staff Mortgages

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

5. Investments

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

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

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

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

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

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

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

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

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

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

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

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

The Expendable Funds Pool (EFP) and Endowment Income Funds Pool (EIFP) are the principal investment vehicles for the University's expendable funds. A substantial portion of the EFP is cross-invested in the MP. The EIFP holds income previously distributed to holders of permanently restricted endowment funds that has not yet been expended. The EIFP is invested in highly liquid instruments and is included in the statement of financial position as cash and cash equivalents. The total return on investments in the EIFP is distributed to fund holders. For the years ended August 31, 2008 and 2007, the distributions were $3,354,000 and $8,393,000, respectively.

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

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

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

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

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

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

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

6. Plant Facilities

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

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

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

7. Liabilities Under Security Agreements

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

8. University Notes and Bonds Payable

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

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

*Exclusive of interest rate swaps.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

9. Hospitals' Notes and Bonds Payable

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

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

*Exclusive of interest rate swaps.

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

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

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

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

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

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

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

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

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

The University is not an obligor or guarantor with respect to any obligations of SHC or LPCH, nor are SHC or LPCH obligors or guarantors with respect to obligations of the University.

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

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

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

10. University Endowment

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

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

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

Pure endowment funds and endowed lands are subject to the restrictions of the gift instruments requiring that the principal be held in perpetuity and the income and an appropriate portion of gains only be spent as provided for under the California Uniform Management of Institutional Funds Act (CUMIFA). In the absence of further donor restrictions, the amount of gains that are to be expended in a given year is determined through the endowment payout policy. The University classifies all original endowment gifts as permanently restricted net assets and all reinvested gains as unrestricted net assets, except when a donor requires the gains to be reinvested as permanently restricted net assets. The University recognizes the limitations on expending such gains that are specified in CUMIFA.

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

Funds functioning as endowment are University resources designated by the Board as endowment and are invested for long-term appreciation and current income. These assets, however, remain available and may be spent at the Board's discretion. Funds functioning as endowment are recorded as unrestricted net assets.

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

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

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

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

11. University Gifts and Pledges

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

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

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

12. Functional Expenses

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

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

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

13. University Retirement Plans

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

14. Hospitals' Retirement Plans

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

15. Operating Leases

The University and the Hospitals lease certain equipment and facilities under operating leases expiring at various dates. Total rental expense under these leases for the years ended August 31, 2008 and 2007 was $29,612,000 and $26,715,000, respectively, for the University and $47,264,000 and $42,118,000, respectively, for the Hospitals.

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

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

16. Related Party Transactions

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

17. Commitments and Contingencies

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

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

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

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

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

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

CONTRACTUAL COMMITMENTS At August 31, 2008, the University had contractual obligations of approximately $350,609,000 in connection with major construction projects. Remaining expenditures on construction in progress are estimated to be $720,753,000, which will be financed with certain unexpended plant funds, gifts and debt.

Commitments on contracts for the construction and remodeling of Hospital facilities were approximately $174,204,000 at August 31, 2008.

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

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

18. Subsequent Event

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

MANAGEMENT RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

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

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

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

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

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

M. Suzanne Calandra
Controller
Stanford University

Daniel J. Morissette
Chief Financial Officer
Stanford Hospital and Clinics

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

REPORT FROM THE STANFORD MANAGEMENT COMPANY

The Stanford Management Company (SMC), a division of the University, manages Stanford's financial assets. SMC is overseen by a Board of Directors (the Board) appointed by the University Board of Trustees. The SMC Board consists of investment and real estate professionals, the University president, the University chief financial officer and the CEO of SMC. The Board approves SMC asset allocation targets, oversees the hiring of external asset managers and evaluates the performance of SMC investments and professionals. SMC oversees approximately $22 billion of endowment and trust assets and temporarily invested expendable funds.

The majority of the University's endowment assets are invested in the Merged Pool (MP), which is a diversified portfolio of actively managed financial and real estate assets valued at approximately $20.6 billion as of June 30, 2008. To facilitate the comparison of returns with results of other endowments and foundations, MP performance measurements are calculated on the 12 months ended June 30, 2008. The following discussion of endowment performance relates solely to investments in the MP. The MP generated a 6.2% investment return for the 12 months ended June 30, 2008. Over the past 10 years, the MP achieved an annualized rate of return of 14.2%, growing from $4.8 billion to $20.6 billion. This investment performance places Stanford in the top 5% of all reporting university and college endowments during this period, according to the consulting firm Cambridge Associates.

The MP portfolio is constructed on a foundation of modern portfolio theory and strategic asset allocation. The portfolio is designed to optimize long-term returns, create consistent annual payouts to the University's operating budget and preserve purchasing power for future generations of Stanford faculty and students.

SMC, with assistance from its Board of Directors, actively manages the MP, selecting third-party managers to deploy the MP's capital. Stanford University's brand and SMC's reputation as a stable long-term source of capital enable SMC to gain access to the best third-party managers in the world. Within each asset class, we endeavor to place capital with a diversified set of managers across geographies and investment strategies. We seek to benefit from drivers of economic growth through a broadly diversified and hedged portfolio that is less subject to drawdown than the more concentrated portfolio of the late 1990s. SMC also seeks to add value through effective risk management, tactical portfolio rebalancing and opportunistic investment tilts.

STANFORD MP ASSET ALLOCATION Given the perpetual nature of the University, SMC's investment horizon is long-term. Our objective is to generate optimal total return relative to an appropriate level of risk for Stanford. Each June, SMC and the Board reevaluate portfolio asset allocation targets, as well as expected risk, return and correlation among asset classes. This annual review takes into account current market conditions and historical characteristics of each asset class. The strategic asset allocation targets for the MP as of June 30, 2008 are listed below:

LONG-TERM POLICY TARGETS

ASSET CLASS	STRATEGIC ALLOCATION
Public Equity	37%
Real Estate	16%
Private Equity	12%
Natural Resources	7%
Absolute Return	18%
Fixed Income	10%

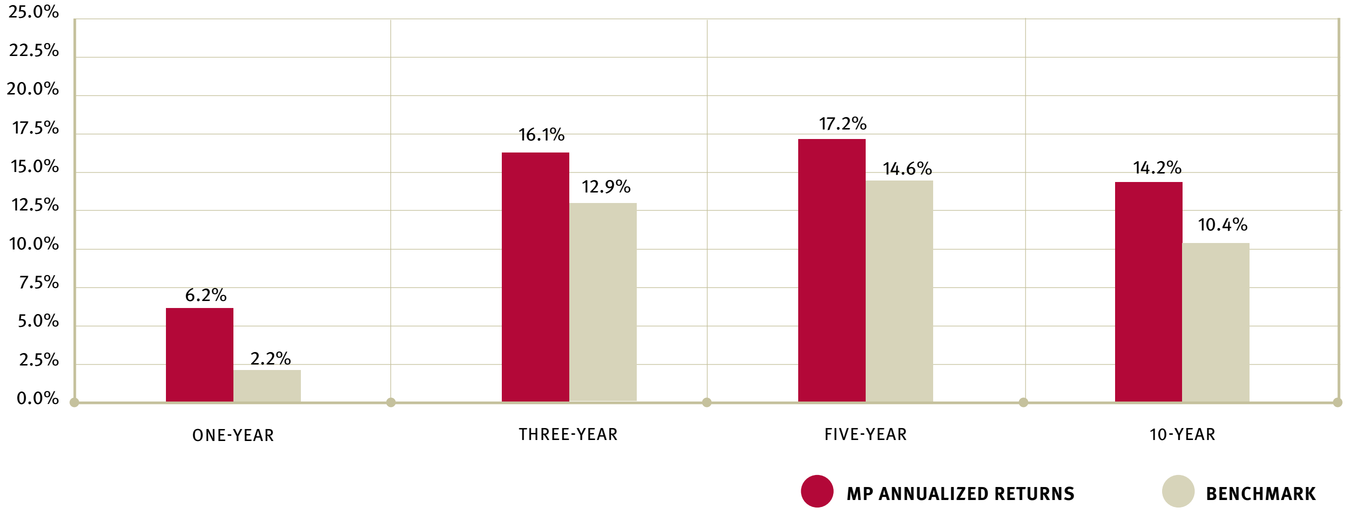
STANFORD MP PERFORMANCE COMPARED TO INFLATION The table below outlines annualized returns for various periods ending June 30, 2008.

MP PERFORMANCE COMPARED TO INFLATION

	ONE-YEAR	THREE-YEAR	FIVE-YEAR	10-YEAR
Nominal MP Return	6.2%	16.1%	17.2%	14.2%
GDP Deflator	2.0%	2.8%	2.8%	2.4%
Real MP Return	4.2%	13.3%	14.4%	11.8%

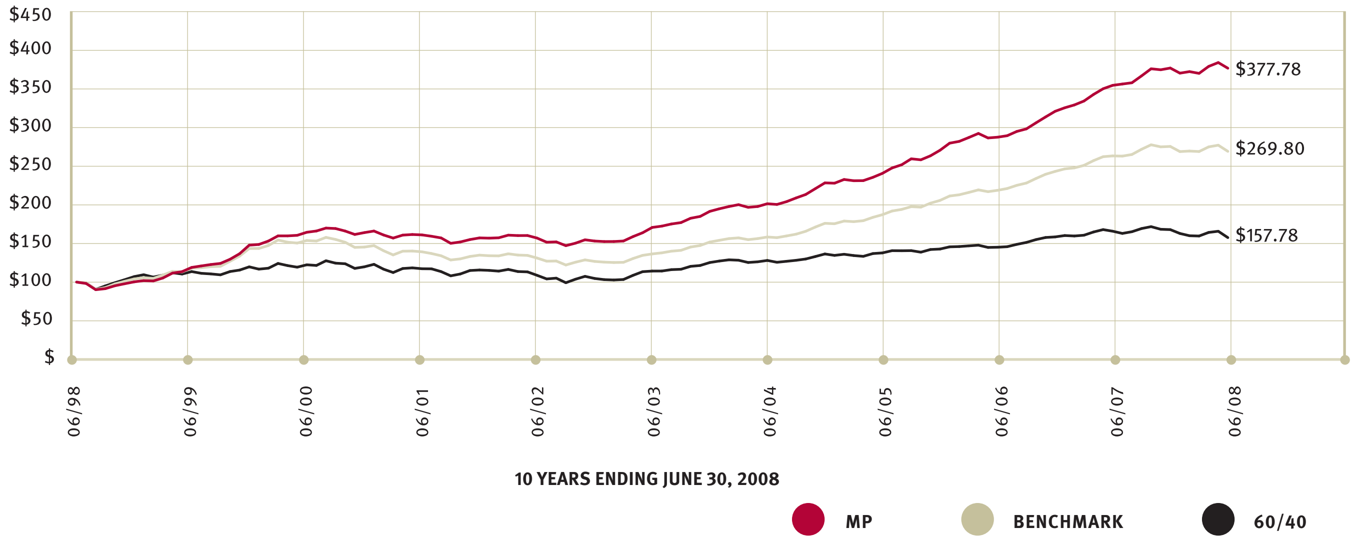
STANFORD MP PERFORMANCE COMPARED TO BENCHMARKS SMC evaluates the performance of investment managers by comparing their returns to benchmarks that are appropriate for each individual asset class. The SMC Board reviews asset class benchmarks on an annual basis to ensure comparability. SMC compares overall MP performance to the composite benchmark return, which represents a blend of the benchmark returns for each asset class weighted by the strategic allocations above. In the table below, actual performance, net of management fees, is compared to the composite benchmark for periods ended June 30, 2008.

STANFORD MP VS. STANFORD COMPOSITE BENCHMARK



SMC's effectiveness in implementing its investment strategies through top-level manager selection has resulted in consistent and long-term outperformance over the composite benchmark. This has added an excess of $5.2 billion to the value of the MP over this 10-year period. The following cumulative return chart compares the growth of $100 in Stanford's MP, a composite benchmark portfolio, and a 60% stock / 40% bond portfolio over the past 10 years.

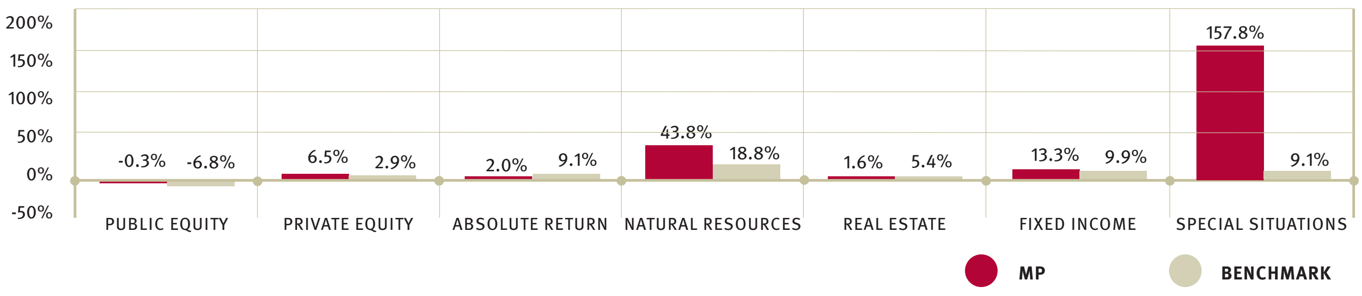
STANFORD MP VS. STANFORD COMPOSITE BENCHMARK VS. PASSIVE 60% EQUITY/40% BOND COMPOSITE



While absolute performance of the MP fell short of the strong gains of recent years, the relative one-year performance of the MP versus the benchmark was strong. Overall, the portfolio generated an excess return of 4.0% over the benchmark. This excess return was driven by outperformance in a number of asset classes, especially Natural Resources, Fixed Income and Special Situations.

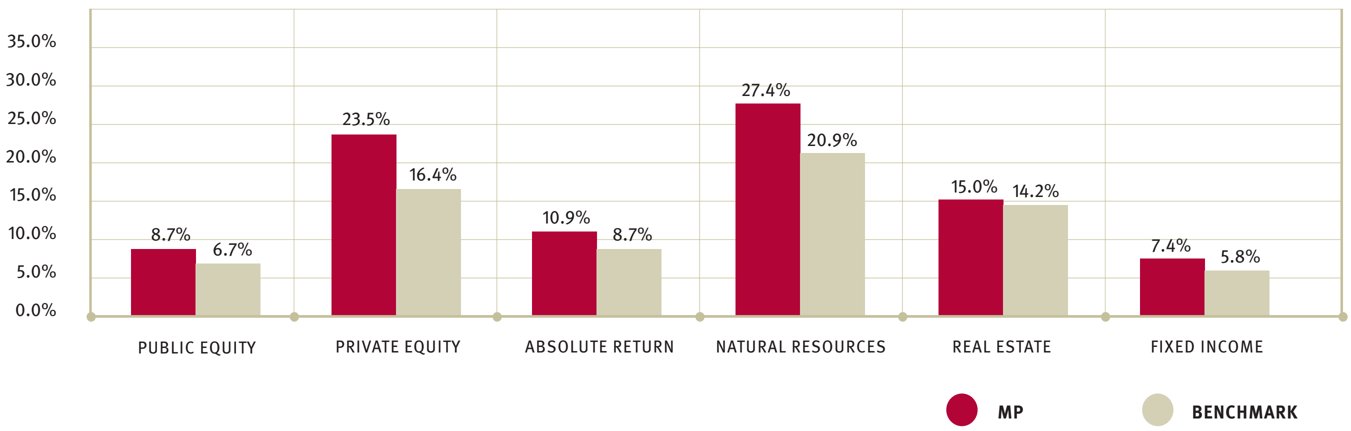
INDIVIDUAL ASSET CLASS PERFORMANCE The performance of individual asset classes for the 12 months ended June 30, 2008, relative to each asset class benchmark, is illustrated in the graph below.

STANFORD MP ONE-YEAR ASSET CLASS RETURNS VS. BENCHMARK



As outlined below, the results of 10-year asset class returns, relative to benchmark, illustrate the value of SMC's ability to shift investment styles/strategies and identify outstanding managers in each asset class.

STANFORD MP 10-YEAR ANNUALIZED ASSET CLASS RETURNS VS. BENCHMARK



Fiscal year 2008 was challenging for the MP, as the benign credit climate that fostered economic growth and investment returns over the prior four years turned. The storm that began in the sub-prime mortgage space in early 2007 has intensified and spread to other parts of the economy. Credit markets have seized, the global financial system has entered an ongoing spiral of deleveraging and consolidation, the government has assumed an unprecedented activist role in bailing out struggling financial institutions and global growth has begun to decline. Talk of markets decoupling has ended, and inflation fears have been replaced by worry of deflationary prospects.

Through June 30, 2008, the Merged Pool fared comparatively well in a tough climate. During the same period, the S&P 500 declined 13.1%, the Lehman Aggregate returned 7.1% and a 60/40 equity/fixed income mix would have returned -5.3%. We note that the environment remains extremely challenging and uncertain.

In the six months since the end of June 2008, the global economic environment has deteriorated dramatically. The pace of the unfolding events and the magnitude of market turbulence have been truly astounding. Virtually all asset classes have been unable to avoid losses. We recognize that the financial crisis may extend well into 2009 and potentially beyond. In this environment we continue to approach our portfolio with a long-term mindset. We remain focused on understanding and limiting our risks, on maintaining liquidity for risk management and to meet University obligations, and on positioning the MP to take advantage of opportunities as the current turmoil abates.

JOHN F. POWERS
President and Chief Executive Officer
Stanford Management Company

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STANFORD UNIVERSITY
OFFICE OF THE CONTROLLER
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On the cover: The four murals in the Yang and Yamazaki Environment and Energy Building—including this one from the Red Atrium—together represent a constellation of people, ideas and projects. They consist of three concentric rings of points. Each point in the outermost ring represents a person working on a project in the building. Each point in the center ring represents a specific academic discipline. Each point in the innermost ring represents a project of interdisciplinary study and research. By following the lines, visitors can see a dynamic network of people and the trajectories of their thoughts, all devoted to the discovery of new and bigger ideas.

Photo by Tim Griffith, courtesy BOORA Architects