STANFORD UNIVERSITY ANNUAL REPORT 2011

CONTENTS

BECOMING OF GREATER SERVICE TO THE PUBLIC

BY PRESIDENT JOHN HENNESSY

THIS IS A TIME OF GREAT OPPORTUNITY FOR STANFORD. IT HAS BEEN 120 YEARS SINCE THE UNIVERSITY FIRST OPENED ITS DOORS, AND OUR VISION FOR THE FUTURE HAS NEVER BEEN BRIGHTER.

This year the university successfully concluded The Stanford Challenge, celebrated noteworthy advances in research and education and embarked on several opportunities that will have implications on the academic mission for years to come.

THE STANFORD CHALLENGE

Launched five years ago, The Stanford Challenge was, by any standard, the most successful campaign ever in higher education, raising $6.2 billion. Its goal was to transform the university and better prepare it to lead in this century. Most significantly, the Challenge centered on multidisciplinary research that addresses some of society's most complex problems.

Stanford's alumni, parents and friends clearly shared our belief in its importance. Despite the global economic crisis early in the campaign, more than 166,000 supporters invested in our vision. The campaign exceeded its original $4.3 billion goal more than a year before it finished on Dec. 31, 2011.

As extraordinary as that is, the real significance of the success of The Stanford Challenge is not in the amount raised, it is in how these gifts have enabled the university to do the work of this century.

The Stanford Challenge provided essential support for our extraordinary faculty and students. Over the course of the campaign, more than 130 new faculty positions and more than 360 new graduate fellowships were endowed. In keeping with the university's commitment that a Stanford education be accessible to students regardless of economic situation, the campaign raised more than $250 million for need-based scholarships.

The Stanford Challenge also provided essential facilities to support groundbreaking research and teaching. By the campaign's conclusion, 26 new buildings — including 10 that support multidisciplinary research and teaching — had been constructed. Many replaced buildings that were more than 50 years old and completely unable to support modern research or teaching. This past year alone, we dedicated key facilities in law, business and engineering and broke ground for new buildings in medicine and bioengineering. The Knight Management Center, consisting of eight buildings, is the new home for the Graduate School of Business. The William H. Neukom Building provides important support to the law school's clinics. The Science and Engineering Quad is nearing completion with the opening of two new buildings and the groundbreaking for the Bioengineering and Chemical Engineering Building. At the School of Medicine, work has begun on the Jill and John Freidenrich Center for Translational Research. As important as these facilities are for our teaching and research, they have also dramatically improved

the quality of the architecture in some of the most neglected parts of the campus. The new engineering school quadrangle is now a stop on the visitors' tour, as opposed to a place that was once avoided!

INVESTMENT IN THE ARTS

There were also significant investments in the arts. The Bing Concert Hall is scheduled for completion next year, and we are moving forward on plans for the McMurtry Building, which will house the Department of Art and Art History, as well as a new home for the Anderson Collection at Stanford University. The historic gift of the Anderson Collection was one of the year's highlights. In June, Harry W. and Mary Margaret Anderson and their daughter, Mary Patricia Anderson Pence, donated their magnificent collection of 121 works of postwar-American art to the university. More than 30 Stanford doctoral candidates have interned at the collection over the years, and we are delighted that many more will work with the collection in the future. Together with support for new faculty and for students pursuing Master's of Fine Arts degrees, the arts have been raised to a new level of prominence at Stanford.

NEW OPPORTUNITIES

This year, we also launched two new programs that could benefit the nation's and the world's economies. In November, the Graduate School of Business established the Stanford Institute for Innovation in Developing Economies, thanks to a tremendous gift from Dorothy and Robert King, MBA '60. Referred to as SEED, its focus will be to fight poverty by helping create new ventures and assisting existing ones to scale. Working with entrepreneurs, on-the-ground managers and leaders to address the needs of developing countries, SEED has the potential to multiply the impact of innovations, creating opportunities for people to move out of poverty and advance through their own efforts. We envision that SEED will be the first step in a broader, university-wide effort to focus on the problems of global poverty and development.

The Epicenter at Stanford, launched in September, leverages the university's leadership and proven track record in educating entrepreneurs. Funded by a $10-million grant from the National Science Foundation, the center's goal is ambitious: to change the way engineers are educated and encourage greater innovation throughout the country. In partnership with the National Collegiate Inventors and Innovators Alliance, the Epicenter is focused on improving entrepreneurship education in the United States.

Stanford has always sought new challenges, and last year we began exploring another opportunity — the possibility of establishing a science and technology campus in New York. In December 2010, New York City's Economic Development Corporation announced its intention of attracting an applied sciences campus, with the goal of diversifying the city's economy. It was recognition of the contributions and direct impact a research university can have on economic development.

Stanford submitted its formal proposal to build an applied sciences and engineering campus in NYC in October, after an initial expression of interest in March. Our proposal reflected the founders' original vision

STANFORD UNIVERSITY WAS FOUNDED ON THE IDEA THAT TEACHING AND RESEARCH COULD — AND SHOULD — BENEFIT SOCIETY.

— that the university has a responsibility to utilize its resources to serve the public good. We made clear throughout the process that the final outcome must be good both for Stanford and for New York City. We viewed the project as one with significant risks but also with great opportunity.

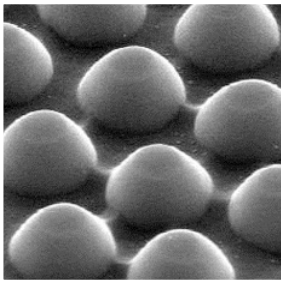
After several weeks of negotiation with the city, it was clear that the university's risks had increased and that continuing to pursue the NYC campus would not be in Stanford's best interests. On Dec. 16, exactly one year after the initial announcement of the project by New York City, Stanford withdrew its application. We learned much from the process, however, and we have no doubt that there will be future opportunities to explore the issues that were at the forefront of this effort — opportunities to expand our ability to deliver Stanford's excellent education to more outstanding students.

Interestingly, during this past fall, Stanford faculty in Computer Science began another experiment: providing online education to the world. More than 150,000 students signed up for three Computer Science courses, which included lectures, quizzes, homework problems and exams. This brief experiment has shown that there is tremendous demand for education, at a scale that far outstrips what any physical campus could accommodate. Although we are early on in our understanding of high quality, online education, it is clear that the technology provides a novel and highly cost-effective way to deliver education. We will be continuing our experiment in winter quarter and examining ways in which Stanford can play a bigger role in the world.

Great universities continue to take risks; they continue to innovate and pioneer new territory. Stanford University was founded on the idea that teaching and research could — and should — benefit society. We will continue to seek opportunities where we can make contributions that will support economic growth and advance discovery.

When Jane Stanford exhorted the university to educate its students so they "will become … of greater service to the public," she could not have foreseen the opportunities before us today. But there is no doubt that her words have shaped this university and guided its leadership. The events of this past year exemplify that. As we go forward, Stanford University will continue to respond, exploring new opportunities to live up to that charge and serve humanity.

RESEARCH HIGHLIGHTS



Above: Silicon nanodomes

Stanford scholars are engaged in ongoing basic and applied research that creates new knowledge and benefits society. Following are examples from 2011.

BIOLOGICAL SCIENCES AND CHEMISTRY

Visualizing deep brain neurons

> WATCH VIDEO

Traditional microscopy techniques do not allow scientists to see deep into the brain, but Stanford researchers in the laboratory of **Mark Schnitzer**, associate professor of biology and of applied physics, developed a micro-optic technique that changes that. Medical researchers now can monitor the brain's neurons for months at a time and, as a result, better understand brain disease and the neuroscience of memory.

In the new technique, tiny glass tubes are placed deep in the brains of anaesthetized mice. The subsequent insertion of a microendoscope inside a glass guide tube allows researchers to keep track of individual cells in the brain over a period of weeks or even months. The researchers published their work in *Nature Medicine*.

Fluorescent carbon nanotubes peer inside mice

A team led by **Hongjie Dai**, the J. G. Jackson and C. J. Wood Professor of Chemistry, developed fluorescent carbon nanotubes that create color images deeper inside mice and with far more clarity than the conventional dyes used by researchers to peer inside the laboratory animals.

Researchers inject the single-walled carbon nanotubes into a mouse and then watch as the tubes are delivered to internal organs by the bloodstream. The nanotubes fluoresce brightly in response to the light of a laser directed at the mouse, while a camera attuned to the nanotubes' near-infrared wavelengths records the images. By attaching the nanotubes to a medication, researchers can see how the drug is progressing through the mouse's body. The research was published in *Proceedings of the National Academy of Sciences*.

Out of southern Africa

A team of biologists and geneticists showed that modern humans probably first appeared in southern Africa, not East Africa, as previously had been thought. In an article in the *Proceedings of the National Academy of Sciences*, they reported on the largest genetic survey to date of hunter-gatherers, in which genetic variations among 25 African populations were tracked.

The size of the sample allowed scientists, led by postdoctoral fellow **Brenna Henn** of the Department of Genetics, and **Marcus Feldman**, the Burnet C. and Mildred Finley Wohlford Professor in the School of Humanities and Sciences, to track the immense genetic diversity among Africans, which previously had been impossible. Bushmen are the population with the greatest genetic diversity and probably are the source population from which all other African populations diverged.

Following sea turtles

> WATCH VIDEO

The population of leatherback ocean turtles has plummeted 90 percent over the past two decades or so, with longline fishing one of the prime culprits in the decline. For five years, Stanford marine biologists tracked the turtles across the South Pacific, thinking that if they could develop models of the turtles' movements, they might be able to save the quickly diminishing animals.

Previously, scientists could not explain why the turtles went where they did, but now they have found that there is method to the turtles' madness, which mostly has to do with food. Temporary closure of certain areas to fishing in order to protect the population is one of the solutions. The research was published in *Marine Ecology Progress Series*.

Researchers see inside protein folding

When vital proteins in our bodies are misfolded, debilitating diseases such as Alzheimer's or Huntington's can result. If researchers could see the folding happen, they might be able to design treatments for some of these diseases or even keep them from occurring.

Researchers led by **Judith Frydman**, professor of biology, have gotten the first-ever peek inside one of these protein-folding chambers as the folding happened, and the folding mechanism they saw surprised them. Their research was published in *Cell*.

BUSINESS AND MANAGEMENT

The fabric of good management

> WATCH VIDEO

Indian textile plants were the site for a study sponsored by Stanford and the World Bank establishing the relationship between good management practices and higher productivity. Huge differences in a single industry in a single country can be explained by different approaches to management. The two-year study looked at 20 plants owned by 17 firms; certain practices were introduced in some of the plants and not in others.

The study's conclusions may make it more likely that executive education programs will be introduced and accepted in developing nations, according to **William Barnett**, the Thomas M. Siebel Professor in Business Leadership, Strategy and Organizations at the Graduate School of Business.

PROFESSOR OF BIOLOGY JUDITH FRYDMAN AND GRADUATE STUDENT NICHOLAI DOUGLAS DESCRIBED THEIR RESEARCH INTO PROTEIN FOLDING IN *CELL*.

A FEMALE LEATHERBACK TURTLE SPORTING A BRAND NEW TAG FOR SATELLITE TRACKING VENTURES TOWARD THE SURF AFTER LAYING HER EGGS IN THE SAND ON THE BEACH AT PLAYA GRANDE, COSTA RICA.

Do CEOs make the best board members?

A survey from the Rock Center for Corporate Governance uncovered surprises about who makes the best board directors: It's not necessarily the CEOs whom most companies seek out.

David Larcker, the James Irvin Miller Professor of Accounting at the Graduate School of Business, said the popular consensus is that CEOs make the best board members because of their strategic and leadership experience. But in the 2011 Corporate Board of Directors Survey, a full 87 percent of respondents said active CEOs are too busy with their own companies to be effective directors. A third of the respondents said active CEOs were "too bossy/used to having their own way."

Analysis bucks conventional wisdom on 2008 oil price turmoil

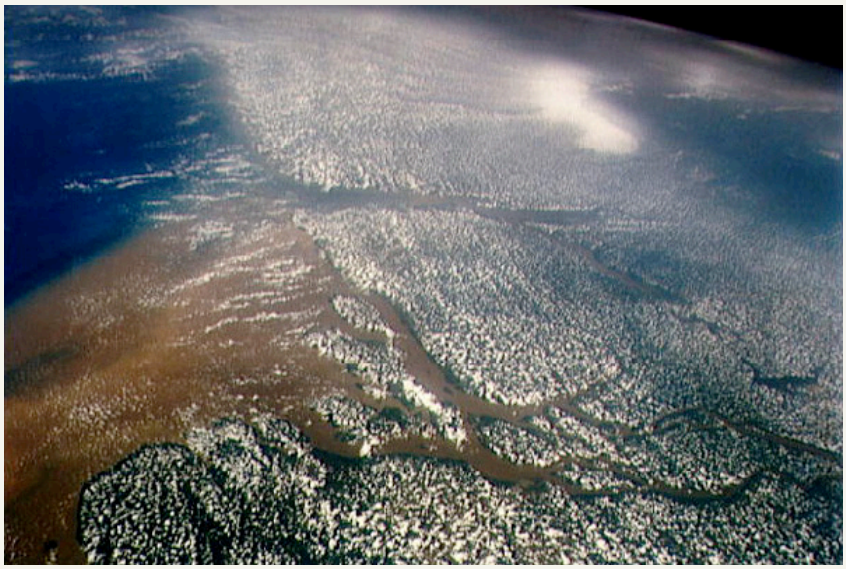
The 2008 turmoil in world oil prices was not caused by an imbalance of supply and demand, as conventional wisdom holds, according to **Kenneth Singleton**, the Adams Distinguished Professor of Management at the Graduate School of Business. Instead, Singleton points to the economically and statistically significant effect of investor flows on futures prices.

In an analysis of the oil shock that stirred controversy, Singleton argued that market participants had imperfect information about many of the key drivers of prices, including supply, demand and inventories; these informational challenges were particularly acute for emerging economies. Singleton presented his finding to a forum held by the Commodity Futures Trading Commission.

Lax bankruptcy laws

Researchers including **Ilya Strebulaev**, associate professor of finance in the Graduate School of Business, and **Kay Gieseke**, assistant professor of management science and engineering in the School of Engineering, have determined that most corporate bond defaults are the result of permissive bankruptcy laws, not bad business practices or economic downturns.

Researchers looked at data from business and financial cycles starting in the 19th century. They found that credit defaults were common before the Great Depression but then essentially ceased until 1978, when bankruptcy laws were rewritten, leading to the phenomenon of junk bonds and a new wave of defaults.



THE MOUTH OF THE AMAZON RIVER, WHERE THE WORLD'S LARGEST DRAINAGE BASIN FLOWS INTO THE ATLANTIC OCEAN. A LOCATION SUCH AS THIS, WHERE FRESH AND SEA WATER MIX, IS A GOOD SPOT FOR GENERATING ELECTRICITY WITH YI CUI'S NEW BATTERY.

EDUCATION

What kids should know about science

Theoretical physicist and SLAC Professor Emerita **Helen Quinn** chaired a National Academy of Sciences panel on K-12 science education that released its findings in July. The panel's report, *A Framework for K-12 Science Education*, stresses how important it is for pupils to learn to argue based on evidence, use models and ask critical questions.

Forty-four states share common standards on math and languages, but there are no common standards for science. The panel established a set of criteria to decide which core ideas of various scientific disciplines are important for pupils to learn, and it met with groups of teachers to help them refine its recommendations. The nonprofit organization associated with the panel will attempt to implement some of the standards in six test states over the coming year.

Student coaching increases likelihood of success

Student coaching significantly increases the likelihood that college students will stay in school and graduate, according to a study by **Eric Bettinger**, associate professor of education, and doctoral student **Rachel Baker.**

The study reviewed the academic records of more than 13,500 students from eight colleges and universities across the 2003-04 and 2007-08 academic years. The researchers compared coached versus non-coached students, and found a 10- to 15-percent increase in retention and graduation rates among those in the coached group. Bettinger and Baker announced their findings through the website of the National Bureau of Economic Research.

How to deal with bullies

Teenagers react very differently to bullying—some fight back, while others get depressed. The reasons for their different reactions and the impact of the experience on their later life is the topic of research by a doctoral candidate at the School of Education, **David Yeager**.

When teenagers are convinced that bullies cannot be stopped, their reactions tend to get more radical, according to Yeager. But if they can be made to believe that both the bullies and they themselves can undergo change, they are better equipped to become more resilient. The study tested students' predilection toward vindictive behavior in relation to instructions they had received about people's ability to change.

ENGINEERING

Getting a charge from seawater

A team led by **Yi Cui**, associate professor of materials science and engineering, has developed a battery that takes advantage of the difference in salinity between freshwater and seawater to produce electricity.

Anywhere freshwater enters the sea, such as a river mouth or estuary, could be a potential site for a power plant using such a battery, pending environmental considerations. Initially, the simple battery, consisting of two electrodes—one positive and one negative—is filled with freshwater, and a small electric current is applied to charge it up. The freshwater is then drained and replaced with seawater. Because seawater is salty, containing 60 to 100 times more ions than freshwater, it increases the electrical potential, or voltage, between the two electrodes.

Computers learn to evaluate breast cancer

Computer scientists and pathologists teamed up to train computers to evaluate microscopic images of breast cancer and found that computers were more accurate than humans. By analyzing the tumors and their development, computers were able to better predict survival, as well as distinguish the more crucial from less crucial tumors.

Computers have the advantage of not being tied down by preconceptions and learned habits, researchers said. The lead authors of the study, published in *Science Translational Medicine*, are **Daphne Koller**, professor of computer science; **Andrew Beck**, doctoral candidate in medical informatics; and **Matt van de Rijn**, professor of pathology.

Stretchable, transparent, skin-like sensor developed

> WATCH VIDEO

Using carbon nanotubes bent to act as springs, researchers led by **Zhenan Bao**, associate professor of chemical engineering, have developed a stretchable, transparent, skin-like sensor. The sensor can be stretched to more than twice its original length and bounce back perfectly to its original shape. It can sense pressure ranging from a firm pinch to thousands of pounds.

The sensor, described in *Nature Nanotechnology*, could have applications in prosthetic limbs, robotics and touch-sensitive computer displays.

No more 'over' to end radio calls

> WATCH VIDEO

A new wireless radio first conceived by a trio of graduate students will permit communications to go both ways, simultaneously. By taking advantage

"THE COMPUTER STRIPS AWAY BIAS AND LOOKS AT THOUSANDS OF FACTORS TO DETERMINE WHICH MATTER MOST IN PREDICTING SURVIVAL," SAID DAPHNE KOLLER, PROFESSOR OF COMPUTER SCIENCE AND SENIOR AUTHOR OF A PAPER PUBLISHED IN *SCIENCE TRANSLATIONAL MEDICINE* ABOUT USING COMPUTERS TO ANALYZE BREAST CANCER.

of the fact that each radio knows exactly what it's transmitting, and hence what its receiver should filter out, the new device enables each caller to hear the other's voice even when both people are talking at once.

The students showed their invention at the 2010 MobiCom, an international mobile networking conference, and they walked away with the prize for best demonstration. This year, working under **Philip Levis**, assistant professor of computer science and of electrical engineering, they took out a provisional patent and developed some of the implications of the invention, notably the fact that the amount of information able to be transmitted will double.

Ubiquitous, teensy solar cells

A multidisciplinary plasmonics team led by **Mike McGehee, Yi Cui** and **Mark Brongersma**, all associate professors of materials science and engineering, developed a revolutionary, thin, inexpensive solar cell that could change the way we use solar energy.

According to findings published in *Advanced Energy Materials*, plasmonics—the study of the interaction between light and metal—would permit the absorption of light in extremely thin films, putting charged particles even closer to electrodes, thus making electricity easier to generate. The solar cells, a bit like tiny nanowaffles, are both durable and cheap.

Super-efficient nanoscale lasers

Electrical engineers designed a nanoscale semiconductor laser that operates with much less energy and at much higher speeds than other commercially used lasers. Associate Professor **Jelena Vuckovic** and her colleagues, who published their findings in *Nature Photonics*, say their research could have an impact on data transmission. The new lasers use 1,000 times less energy than the best laser technologies in existence and are 10 times faster. Researchers are hoping to do even better.

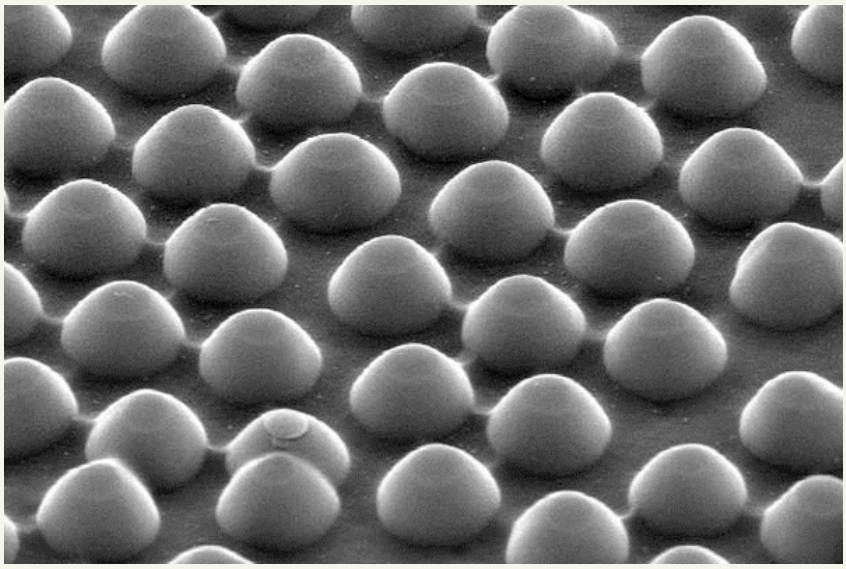
Vuckovic and her team later in the year produced a similar device that functions at far greater temperature ranges, including room temperature, which could represent an important step toward next-generation computer chips.

ENVIRONMENT

Permanently hotter summers begin in 20 years

> WATCH VIDEO

The tropics and much of the Northern Hemisphere are likely to experience an irreversible rise in summer temperatures within the next 20 to 60 years if atmospheric greenhouse gas concentrations continue to increase.



ACTING LIKE A WAFFLE IRON, SILICON NANODOMES, EACH ABOUT 300 NANOMETERS IN DIAMETER AND 200 NANOMETERS TALL, IMPRINT A HONEYCOMB PATTERN OF NANOSCALE DIMPLES INTO A LAYER OF METAL WITHIN A SOLAR CELL.

Photo courtesy of Michael McGehee

MORE THAN 80 PERCENT OF THE WORLD'S FREIGHT MOVES BY SHIP. DESPITE SEAPORTS' CRUCIAL ROLE IN THE GLOBAL ECONOMY, FEW ARE PREPARING FOR THE IMPACTS OF CLIMATE CHANGE, INCLUDING RISING SEA LEVELS AND MORE FREQUENT STORMS.

Those are among the results of a study published in *Climate Change Letters*. In the study, a team led by **Noah Diffenbaugh**, assistant professor of environmental Earth system science, concluded that many tropical regions in Africa, Asia and South America could see "the permanent emergence of unprecedented summer heat" in the next two decades. Middle latitudes of Europe, China and North America—including the United States—are likely to undergo extreme summer temperature shifts within 60 years.

Reforestation in China

Gretchen Daily, the Bing Professor in Environmental Science and founding co-director of the Natural Capital Project, has found that planting trees rather than crops on slopes in China that were damaged after major flooding is a far better way of ensuring that the land does not continue to erode.

The Natural Capital Project has developed a software tool called InVEST that is helping the Chinese government decide where to focus conservation and restoration efforts, based on the potential return-on-investment for society in the form of ecosystem services such as water purification and biodiversity conservation. Daily's findings appear in *Proceedings of the National Academy of Sciences*.

Seaports need to plan for climate change

The majority of seaports around the world are unprepared for the potentially damaging effects of climate change in the coming century, according to a study by **Martin Fischer**, professor of civil and environmental engineering, and graduate student **Austin Becker**. Results were published in *Climate Change*.

A survey posed to port authorities around the world found that most are unsure how best to protect their facilities from rising sea levels and more frequent Katrina-magnitude storms. Fischer, Becker and a group of Stanford engineers are developing computer models to help port authorities and other government agencies make more informed decisions about adapting to climate change as they plan for the next generation of infrastructure.

Rising temperatures could doom corn

An increase of just 1 degree Celsius could cause devastating corn crop losses across sub-Saharan Africa, according to a study by agricultural scientist **David Lobell** and others in *Nature Climate Change*.

Combining data from 20,000 trials with weather data from across the region, Lobell and his colleagues found that corn is not as heat tolerant as thought, or at least not over prolonged time periods. As the planet heats up, corn becomes more vulnerable. That, combined

FISH PENS OFF THE COAST OF GREECE. AQUACULTURE PROJECTS SUCH AS THIS ARE EXPECTED TO PLAY AN INCREASING ROLE IN PRODUCING FISH FOR CONSUMPTION AS WILD FISHERIES DECLINE, BUT DEALING WITH THE EFFLUENT FROM FISH FARMS IS AN INCREASING CONCERN.

© Pavlos Rekas / Dreamstime.com

with declining rainfall, could spell disaster. Lobell is an assistant professor of environmental Earth system science.

Making aquaculture safer

More and more fish are being farmed, which means species are not being depleted, but the downside of coastal aquaculture is the amount of waste material flowing into the ocean. Stanford environmental scientists **Roz Naylor** and **Jeff Koseff** have developed a computational model to predict the movements of the effluent and help facilitate monitoring of the resulting waste plumes that can damage ocean life.

The scientists found that pollution did not simply vanish as it was diluted. Rather, the plume could become a major problem all along the coastline. But given that aquaculture is here to stay, the model will enable them to predict the course of the plume and determine which areas are more appropriate for aquaculture. Koseff is the William Alden Campbell & Martha Campbell Professor in the School of Engineering and the Perry L. McCarty Director of the Woods Institute. Naylor is professor of environmental Earth system science and a Woods Institute senior fellow. Their research was published in *Environmental Fluid Mechanics.*

Preserving marine mammal species

If we could preserve just 4 percent of the ocean, an area comprising 20 conservation sites, it would provide a crucial habitat for the vast majority of marine mammal species, according to research conducted by a group of environmental scientists at Stanford and their colleagues in Mexico.

Co-author **Paul Ehrlich**, the Bing Professor of Population Studies and senior fellow at the Woods Institute, said of marine mammals, "Many of them are top predators and have impacts all the way through the ecosystem. And they're also beautiful and interesting." The research was published in *Proceedings of the National Academy of Sciences.*

HUMANITIES

Origins of Western poetry found in troubadours' songs

The European poem as we know it was invented, and fairly recently. What we in the West think of as poetry is largely the result of 12th-century troubadours and their controversial insistence on singing about the profane.

The troubadours introduced the concept of courtly love and invented poetic forms still in use today; the songbooks in which their lyrics were compiled defined the template for the poetry anthology. In her new book,

Songbook: How Lyrics Became Poetry in Medieval Europe, Marisa Galvez, assistant professor of French, traces the growth of this literary culture through a few surviving songbooks, or *chansonniers*.

History of witchcraft prosecution

A dark but iconic moment in U.S. history, the Salem witch trials of 1692 are taught in American schools to educate students about religious extremism and the judicial process. But the origins of witchcraft prosecution can be traced back to Europe centuries prior, when pre-Reformation courts first induced criminals to admit to heresy and witchcraft to exert social control through displays of harsh and often violent punishment.

Laura Stokes, assistant professor of history, whose work has focused on the origins and prosecution of witchcraft in 15th-century Europe, published a new book, *Demons of Urban Reform: The Rise of Witchcraft Persecution, 1430-1530*. Focusing on case studies from the European cities of Basel, Lucerne and Nuremburg, Stokes' work examines the legal underpinnings of witchcraft persecution, as well as the religious and esoteric influences that fueled it.

Who was King Solomon?

What can we learn from the wisest man who ever lived? Maybe not as much as we think, according to a new book, *Solomon: The Lure of Wisdom,* by **Steven Weitzman**, the Daniel E. Koshland Professor in Jewish Culture and Religion.

According to Jewish tradition, Solomon knew everything, and some legends claim he could turn lead into gold, conjure demons or become invisible. But, curiously, scholars don't know even the rudimentary facts about him. For instance, his reign is believed to be between 960 and 920 B.C., but that's just an educated guess. Weitzman's book is concerned less with the facts and more with the way memory "takes place sociologically with other people" and is reshaped by new circumstances.

LAW

Tracing legal origins of human rights

The international slave trade set up the foundation for human rights law. International courts in the 19th century called "mixed commissions" were crucial in eliminating the transatlantic slave trade. In her book *The Slave Trade and the Origins of International Human Rights Law*, **Jenny Martinez**, the Warren Christopher Professor in the Practice of International Law and Diplomacy, delves into the history of the transatlantic slave trade and examines the international human rights tribunals that were set up in countries including Sierra Leone, Brazil and Cuba in order to hear slavery cases. These courts, she argues, were the

STANFORD RESEARCHERS SAY WHAT WE IN THE WEST THINK OF AS POETRY IS LARGELY THE RESULT OF 12TH-CENTURY TROUBADOURS.

Courtesy of Marisa Galvez

first international courts designed to try "crimes against humanity" and evolved into the modern system of international legal protections that exists today.

Is marriage for white people?
Compared to white women, black women are three times less likely to marry. Successful black women in the United States tend to remain unmarried or marry down rather than marry a person of a different race. **Ralph Richard Banks**, the Jackson Eli Reynolds Professor of Law, uses his book *Is Marriage for White People? How the African American Marriage Decline Affects Everyone*, to examine the decrease of marriage in American society throughout the past 50 years. By including personal stories and experiences, Banks focuses in on the black middle class in the United States and explores the growing tendency of black women to not marry and not engage in interracial marriages. This trend, he argues, extends past racial considerations and has consequences for all American partnerships.

Exploring the use of heuristics
Individuals tend to act based on heuristics, or general rules of thumb, rather than making full use of the information that is available. There is a lack of consensus in the philosophical community over whether this use of heuristics leads to better judgments and positive outcomes. In his book, *The Heuristics Debate*, **Mark Kelman**, the James C. Gaither Professor of Law and Vice Dean of Stanford Law School, explores the connection between human reasoning and political decision making. By analyzing the major schools of thought on heuristics, Kelman demonstrates how individuals process information and how these findings can be applied to increase compliance with law.

Nuanced solutions to social injustice
Well-intentioned laws can undermine the rights they were created to protect. The urge to constantly condemn racism can sometimes have the negative effect of focusing on trivial forms of discrimination and ignoring more deep-seated social ills. **Richard Thompson Ford**, the George E. Osborne Professor of Law, investigates this issue in his book *Rights Gone Wrong: How Law Corrupts the Struggle for Equality*. He argues that civil rights laws have sometimes been taken advantage of and used to demand special privileges. Claiming that civil rights legislation has not been effective in curbing a legacy of racism and less overt forms of discrimination, Ford calls for nuanced solutions to social injustice.

MEDICINE

Deficits associated with autism, schizophrenia induced in mice
Researchers led by **Karl Deisseroth**, associate professor of psychiatry and behavioral sciences and of bioengineering, were able to switch on, and then switch off, social-behavior deficits in mice that resemble those seen in people with autism and schizophrenia, thanks to a technology that precisely manipulates nerve activity in the brain.

In synchrony with this experimentally induced socially aberrant behavior, the mice exhibited a brain-wave pattern called gamma oscillation that has been associated with autism and schizophrenia in humans. The findings, published in *Nature*, lend credence to a hypothesis that has been long floated but hard to test, until now. They mark the first demonstration that elevating the brain's susceptibility to stimulation can produce social deficits resembling those of autism and schizophrenia, and that then restoring the balance eases those symptoms.

Creating heart cells
Using skin cells from patients with a severe genetic heart defect, researchers at the Medical School have created human heart cells that carry the same genetic mutation, allowing them to test drugs on the cells in an effort to better treat patients suffering from what is known as Timothy syndrome, a heart ailment that frequently leads to early childhood death.

The senior author of the study, published in *Nature*, is **Ricardo Dolmetsch**, associate professor of neurobiology, who said the development marks the first time this "disease-in-a-dish" approach has been used to test drug treatments for heart disorders.

Diabetes-autoimmune link detected
Type-2 diabetes is rooted in an autoimmune reaction deep within the body, according to results by researchers from Stanford and the University

A TEAM HEADED BY GEOFFREY GURTNER HAS DEVELOPED A WAY OF JOINING SEVERED BLOOD VESSELS WITHOUT STITCHING THEM TOGETHER WITH SUTURES.

Steve Fisch

of Toronto. The redefinition from metabolic to autoimmune disorder could radically change treatment and research regarding the increasingly prevalent disease, said the scientists, who published their work in *Nature Medicine*. The results also might blur the differences between types of diabetes.

The senior author of the study is **Edgar Engleman**, director of Stanford's Blood Center and a member of the Stanford Cancer Center.

Blood vessels joined without sutures

Reconnecting severed blood vessels is mostly done the same way today—with sutures—as it was 100 years ago, when the French surgeon Alexis Carrel won a Nobel Prize for advancing the technique. Now, researchers led by microsurgeon **Geoffrey Gurtner**, professor of surgery, have developed a sutureless method that appears to be a faster, safer and easier alternative.

In animal studies, Gurtner's team used a poloxamer gel and bioadhesive rather than a needle and thread to join together blood vessels, a procedure called vascular anastomosis. Results of the research were published in *Nature Medicine*.

Cigarettes marketed in predatory pattern

Tobacco companies increased the advertising and lowered the sale price of menthol cigarettes in stores near California high schools with larger populations of African American students, according to a study led by **Lisa Henriksen**, senior research scientist at the Stanford Prevention Research Center.

Although cigarette makers have denied using race or ethnicity to target customers, researchers said the data shows a "predatory" marketing pattern geared to luring young African Americans into becoming smokers. The study appeared in *Nicotine & Tobacco Research.*

Math can change your brain

Just one year of math class can change the way a child's brain approaches problem-solving, according to a study by psychiatrist **Vinod Menon** and his team, who are attempting to identify how children acquire problem-solving skills. The results, published in *Neuroimage*, are based on a study of 90 second- and third-graders.

Functional magnetic resonance imaging scans showed substantial differences between the third- and second-graders and between those children who were quick at math and those who were not. On the whole, third-graders had far greater abilities. The point of the study—preceded by a similar one published in *Developmental Science*—is to address children's problems with math learning.

A STUDY LED BY LISA HENRIKSEN SHOWS THAT TOBACCO COMPANIES INCREASED THE ADVERTISING AND LOWERED THE PRICE OF MENTHOL CIGARETTES AT STORES NEAR HIGH SCHOOLS WITH LARGER POPULATIONS OF AFRICAN AMERICANS.

Steve Fisch

Creating neurons with Parkinson's symptoms

Researchers led by **Renee Reijo Pera**, director of the Stanford Center for Human Embryonic Stem Cell Research and Education, derived neurons from the skin of a woman with a genetic form of Parkinson's disease that were shown to replicate some of the features of the condition in a dish.

The research, published in *Cell Stem Cell*, may help scientists learn more about the disorder and test possible treatments. There are no good animal models for Parkinson's disease.

Brain-computer interface for paralysis

Stanford researchers are enrolling participants in a pioneering study investigating the feasibility of people with paralysis using a technology that interfaces directly with the brain to control cursors, robotic arms and other assistive devices.

The pilot clinical trial, known as BrainGate2, is based on technology developed at Brown University and is led by researchers at Massachusetts General Hospital, Brown and the Providence Veterans Affairs Medical Center. The Stanford team, led by **Jaimie Henderson** and **Krishna Shenoy**, associate professors of, respectively, neurosurgery and electrical engineering, is the only trial site outside of New England.

Patient received treatment in stem-cell trial

Stanford and the Santa Clara Valley Medical Center collaborated on the Geron Corp.-sponsored trial of a human embryonic-stem-cell-derived treatment for severe spinal cord injury. The fifth patient was treated under the auspices of neurosurgeon and principal investigator **Gary Steinberg**, the Bernard and Ronni Lacroute-William Randolph Hearst Professor in Neurosurgery and Neurosciences. The trial was designed to test the safety of the cells in human patients. Although Geron has discontinued the trial, it will continue to monitor the patients for 15 years.

PHYSICAL SCIENCES

120-million-year-old birds

An international team of scientists at the SLAC National Accelerator Laboratory discovered traces of pigment in fossils of 120-million-year-old birds, allowing them to get a better idea of what those early species looked like and how they behaved. Two fossilized birds were examined at SLAC with synchrotron radiation, X-ray light produced by electrons circulating in a storage ring at nearly the speed of light.

Uwe Bergmann, deputy director of SLAC's Linac Coherent Light Source, said: "If we could eventually give colors to long extinct species, that in itself would be fantastic. Synchrotron radiation has revolutionized science in many fields, most notably in molecular biology. It is very exciting to see that it is now starting to have an impact in paleontology in a way that may have important implications in many other disciplines." The research was published in *Science Express*.

Kavli researchers surprised by Crab Nebula

The Crab Nebula, one of our best-known and most stable neighbors in the winter sky, shocked scientists, including **Roger Blandford**, director of the Kavli Institute for Particle Astrophysics and Cosmology, with its propensity for fireworks—gamma-ray flares set off by the most energetic particles ever traced to a specific astronomical object.

The discovery is leading researchers to rethink their ideas of how cosmic particles are accelerated. Blandford was part of a KIPAC team led by scientists **Rolf Buehler** and **Stefan Funk** that used observations from the Large Area Telescope, one of two primary instruments aboard NASA's Fermi Gamma-ray Space Telescope, to confirm one flare and discover another. Their work was reported in *Science Express*.

Einstein was right

Gravity Probe B, a project between Stanford and NASA, has confirmed two predictions of Albert Einstein's general theory of relativity, concluding one of the space agency's longest-running projects. Four gyroscopes housed in a satellite measured both the warping of space and time around a gravitational body and the amount a spinning object pulls space and time with it as it spins.

Einstein had predicted both, and it turns out he was correct. If gravity did not affect space and time, the results would have been different. The findings appeared in *Physical Review Letters*. The principal investigator was **C. W. Francis Everitt**, a professor at the W. W. Hansen Experimental Physics Laboratory who has worked on Gravity Probe B since 1962.

Catch sunspots before they happen

It's not a good idea to look directly at the sun, but Stanford researchers are looking *into* the sun to detect sunspots before they erupt. Sunspots are caused by intense magnetic activity and are highly disruptive for the communications systems that have become essential to daily life. If they could be predicted, their damage could be lessened.

Acoustic waves are the answer, according to physicist **Philip Scherrer**, professor at the Hansen Experimental Physics Laboratory, and his research team. They found

AN INTERNATIONAL TEAM AT THE SLAC NATIONAL ACCELERATOR LABORATORY DISCOVERED TRACES OF PIGMENT IN FOSSILS OF 120-MILLION-YEAR-OLD BIRDS.

Drawing of C. sanctus is by Richard Hartley, University of Manchester. Photo by T. Larson, courtesy of the Black Hills Institute. Image created by Gregory Stewart, SLAC National Accelerator Laboratory.

they could get up to two days' lead time detecting solar storms and measuring solar sounds as deep as 65,000 kilometers inside the sun. Sure enough, one or two days later sunspots would appear on the surface. The research was published in *Science*.

SLAC scientists find evidence of new phase of matter

Scientists, including **Zhi-Xun Shen** of the Stanford Institute for Materials and Energy Science (SIMES), found the strongest evidence yet that a puzzling gap in the electronic structures of some high-temperature superconductors could indicate a new phase of matter. Understanding this "pseudogap" has been a 20-year quest for researchers who are trying to control and improve these breakthrough materials, with the ultimate goal of finding superconductors that operate at room temperature.

In work done at SLAC's Stanford Synchrotron Radiation Lightsource, Lawrence Berkeley National Laboratory's Advanced Light Source and Stanford, Shen's team looked at a sample of a cuprate superconductor from the inside out. They examined electronic behavior at the sample's surface, thermodynamic behavior in the sample's interior and changes to the sample's dynamic properties over time using a trifecta of measurement techniques never before employed together. The findings were published in *Science*. SIMES is a joint institute of SLAC and Stanford.

SOCIAL SCIENCES

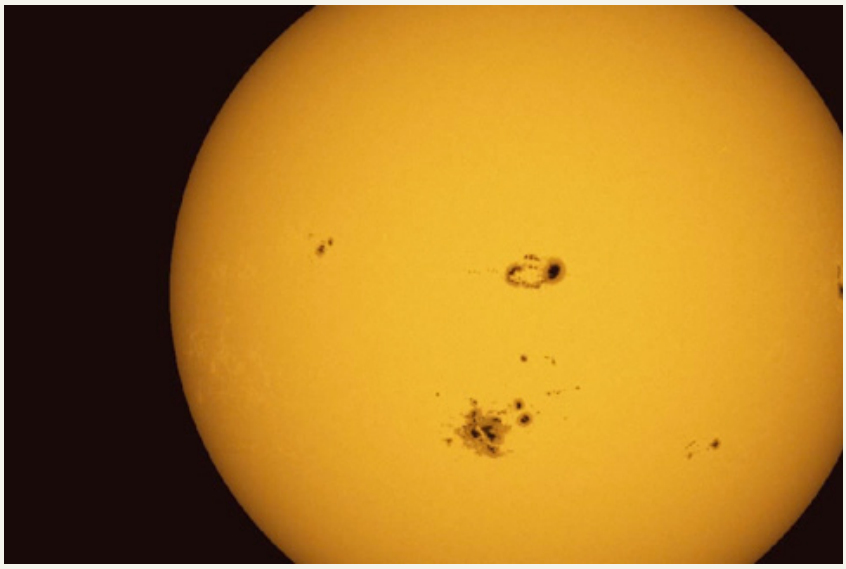
Metaphors matter in describing crime

Imagine your city isn't as safe as it used to be. Robberies are on the rise, home invasions are increasing and murder rates have nearly doubled in the past three years. What should city officials do about it?

Your answer—and the reasoning behind it—can hinge on the metaphor used to describe the problem, according to research by **Lera Boroditsky**, assistant professor of psychology, and doctoral candidate **Paul Thibodeau**. Their research, published in *PLoS ONE*, shows that people will likely support an increase in police forces and jailing of offenders if crime is described as a "beast" preying on a community. But if people are told crime is a "virus" infecting a city, they are more inclined to treat the problem with social reform.

Death and drinking

It was the end of Russia's anti-alcohol campaign, not the onset of democracy and capitalism, that contributed to an enormous spike in deaths of working-age men between 1990 and 1994, according to two professors of medicine. Their argument disputes the theory that all the political changes were to blame for the increased consumption of alcohol, which they agree was the immediate cause of the deaths.



STANFORD RESEARCHERS HAVE FOUND A WAY TO DETECT SUNSPOTS SUCH AS THESE TWO DAYS BEFORE THEY REACH THE SURFACE OF THE SUN.

Thomas Hartlep

GRANT MILLER, ASSISTANT PROFESSOR OF MEDICINE, AND JAY BHATTACHARYA, ASSOCIATE PROFESSOR OF MEDICINE, STUDIED THE RESULTS OF THE SOVIET ANTI-ALCOHOL CAMPAIGN AND THE AFTERMATH WHEN THE PROGRAM WAS NO LONGER IN EFFECT.

L.A. Cicero

Rather, according to **Grant Miller** and **Jay Bhattacharya**, assistant and associate professors of medicine, respectively, the anti-alcohol campaign under Mikhail Gorbachev worked to offer alternatives and treatment to alcoholics. Once it was eliminated in 1998, the numbers shot up again.

Overcoming racial stereotypes in school

> WATCH VIDEO

Do I belong? Will I fit in? **Greg Walton**, assistant professor of psychology, has shown that non-white students' GPAs notably rise if they are made to feel they are not the only outsiders, not the only students having a hard time fitting in during their first year of college. Addressing feelings of belonging are not the only way to overcome the academic race gap, researchers acknowledge, but it is a strategy to use in combating the problem. His research was published in the journal *Science*.

In a similar study, Stanford psychologists, including Walton, confirmed that all non-white students performed more poorly if they feared they would be negatively stereotyped. "Stereotype threat" is all it takes to ensure that performance declines, the study confirmed. Black students who had proven mastery over a particular topic saw their scores collapse when questioned in threatening conditions. The work was published in *Personality and Social Psychology Bulletin*.

Income gap grows, squeezing out the middle class

Sociologist **Sean Reardon**, associate professor of education, and colleagues from other institutions examined census data in the country's 117 largest metropolitan areas and reported that middle-class neighborhoods are rapidly diminishing. Increasingly, they found, the rich live with the rich and the poor with the poor.

The research project, funded by the Russell Sage Foundation and Brown University, found that nearly all American cities show signs of growing income segregation, and that income inequality also tends to affect standardized test scores in schools.

THE YEAR IN REVIEW

Above: Stanford Center at Peking University

Among the significant events that occurred at Stanford during 2011 were the following:

JANUARY

In its first bowl victory in 14 years, **Stanford's football** team wins the Orange Bowl, 40-12, beating Virginia Tech.

Hongjie Dai, the J. G. Jackson and C. J. Wood Professor of Chemistry; **Jon Krosnick**, the Frederic O. Glover Professor in Humanities and Social Sciences; and **David Relman,** the Thomas C. and Joan M. Merigan Professor in the School of Medicine, are named fellows of the American Association for the Advancement of Science.

The California Institute for Regenerative Medicine awards $10.6 million to Stanford medical researchers for their work on **stem cell therapy.**

Donald E. Knuth, the Fletcher Jones Professor of Computer Science, Emeritus, is awarded the BBVA Foundation Frontiers of Knowledge Award in Information and Communication Technologies. The citation, from the foundation associated with the Spanish bank BBVA, recognized Knuth's *The Art of Computer Programming,* the fourth volume of which he recently completed, as "the seminal work on computer science."

FEBRUARY

Nobel laureate **Elinor Ostrom** delivers the annual Tanner Lectures on Human Values. The economist spoke about public policy, natural resources and land management in the American West.

The Glenn Foundation for Medical Research gives Stanford $5 million to establish a **center on the biology of aging**, focusing on the role of stem cells in the aging process.

Three Stanford scientists are named fellows of the American Physical Society: **Mark Brongersma,** associate professor of materials science and engineering; **Igor Moskalenko**, senior research scientist in the Hansen Experimental Physics Laboratory and the Kavli Institute for Particle Astrophysics and Cosmology; and **Juan Santiago**, professor of mechanical engineering and director of the Stanford Microfluidics Laboratory.

Stanford faculty members are elected to the National Academy of Engineering: **James Harris**, the James and Ellenor Chesebrough Professor in the School of Engineering; **Daphne Koller**, the Rajeev Motwani Professor in the School of Engineering; **Nick McKeown**, professor of electrical engineering and of computer science; and **Mark Zoback**, the Benjamin M. Page Professor in the School of Earth Sciences.

The **March of Dimes** gives a $20 million grant for a new School of Medicine research center, a collaborative effort between the two organizations that will be dedicated to understanding and preventing preterm birth.

Neonatologist David Stevenson is the principal investigator for a new center that will research ways to better predict and prevent preterm births.

THE CARDINAL WON THE ORANGE BOWL IN 2011.

MARCH

Arnold Rampersad, the Sara Hart Kimball Professor in the Humanities, Emeritus, is awarded a National Humanities Medal by President Obama during a White House ceremony.
> WATCH VIDEO

Biologist **Marcus Feldman**, the Burnet C. and Mildred Finley Wohlford Professor in the School of Humanities and Sciences, wins the $1 million Dan David Prize for research on human and animal evolution.

Martin Hellman, professor emeritus of electrical engineering, and two of his former students, enter the National Inventors Hall of Fame for developing public-key cryptography, which allows people to share data on the Internet.

Warren Christopher, JD '49, former law review president, chairman of the Board of Trustees and U.S. secretary of state, dies at 85. He was honored in 2008 with the establishment of the Warren Christopher Professorship of the Practice of International Law and Diplomacy.

Stanford announces it will open a new center at Peking University that will provide a base for research, teaching, meetings and conferences. The center also will be a new home for **Bing Overseas Studies in China.**

Terry Castle, the Walter A. Haas Professor in the Humanities, is a finalist for a National Book Critics Circle criticism award for her collection of essays, The Professor and Other Writings.

APRIL

President John Hennessy in his annual address to the Academic Council tells the faculty he envisions creating a "world-class model for the multi-campus university," referring to Stanford's bid to establish a campus in New York City.

President John Hennessy

Four Stanford juniors are among the 60 **Truman Scholars** for 2011 to receive grants for graduate studies aimed at careers in public service.

Thanks to men's gymnastics, Stanford becomes just the second university to capture its **100th NCAA athletic title.**

With an all-day event called "Celebrating the Automobile," Stanford announces creation of the Revs Program, led by **Clifford Nass**, the Thomas More Storke Professor, and dedicated to the study of all things automobile.

Eight Stanford scholars are among the 212 members elected to the American Academy of Arts and Sciences: **Anthony Bryk** (Graduate School of Business), **Penelope Eckert** (Linguistics), **Russell Fernald** (Biology), **Andrei Linde** (Physics), **Todd Martinez** (Chemistry), **Monika Piazzesi** (Economics), **Brian Wandell** (Psychology) and **Shoucheng Zhang** (Physics).

Stanford celebrates the grand opening of the $345 million **Knight Management Center**, the new home of the

KNIGHT MANAGEMENT CENTER

Graduate School of Business. Nike founder Philip H. Knight, MBA '62, made the project possible with his $105 million gift in 2006.

The Faculty Senate approves a proposal to bring **ROTC** back to campus after a 40-year hiatus.

Stanford announces what is believed to be the nation's first doctoral program in **stem cell science**.

A joint **solar research** effort managed by Stanford and the University of California-Berkeley wins $25 million from the U.S. Department of Energy's SunShot Initiative.

MAY

U.S. Attorney General **Eric Holder** dedicates the William H. Neukom Building at Stanford Law School. Neukom, the former general counsel of Microsoft and managing general partner of the San Francisco Giants, gave the $20 million lead gift for the building.

Hewlett-Packard gives $25 million over 10 years to support expansion of the **Lucile Packard Children's Hospital**.

Eight Stanford scholars are elected to the National Academy of Sciences: **Keith Hodgson** (Chemistry), **David Kingsley** (Developmental Biology), **Brian Kobilka** (Molecular and Cellular Physiology), **Robert Malenka** (Psychiatry and Behavioral Sciences), **Ellen Markman** (Psychology), **Susan McConnell** (Biology), **Parviz Moin** (Mechanical Engineering) and **Barry Weingast** (Political Science).

Misha Bruk

The William H. Neukom Building at the Stanford Law School.

The Coulter Foundation pledges $10 million, matched by the university, to enable the **Wallace H. Coulter Translational Research Grant Program** to continue its bioengineering and medical research in perpetuity.

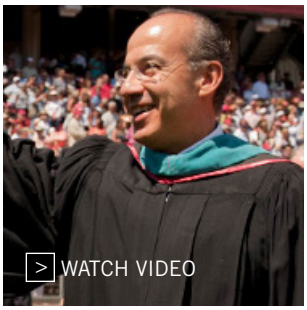
Marcus Feldman, professor of biology, and **William Newsome**, professor of neurobiology, are elected to the American Philosophical Society.

JUNE

The Palo Alto City Council signs off on reports, permits and agreements—including a $175 million community benefits package—with **Stanford Hospital and Clinics, Lucile Packard Children's Hospital and Stanford**, enabling a large-scale renewal project to move forward.

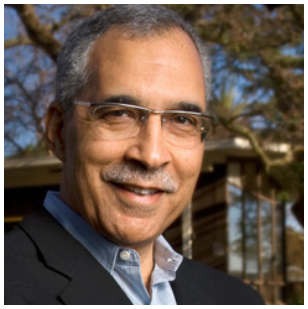
A case argued at the **U.S. Supreme Court** does not go Stanford's way, as the justices vote that drugmaker Roche is a co-owner with Stanford of patents for an HIV testing kit. The university had argued that co-ownership violated the Bayh-Dole Act.

Mexican President Felipe Calderón delivers the Commencement address to the graduating Class of 2011. He was the second sitting president to have that distinction; Peru's President Alejandro Toledo, a Stanford alumnus, gave the speech in 2003.



The multidisciplinary Stanford **Women's Cancer Center**, serving women with breast and gynecologic cancers, opens its doors.

The School of Education announces that the incoming dean will be a familiar presence at Stanford: **Claude Steele**. The social psychologist taught at Stanford for nearly 20 years before becoming provost of Columbia University in 2009.



Claude Steele

JULY

The School of Humanities and Sciences launches the $4 million **Pigott Scholars Program** to support exceptional students pursuing doctorates in the humanities.

Stanford announces it will become home to the core of the **Anderson Collection**, one of the most outstanding private collections of 20th-century American art in the world, which is being donated by Harry W. and Mary Margaret Anderson, and Mary Patricia Anderson Pence. The Bay Area family built the collection over nearly 50 years.

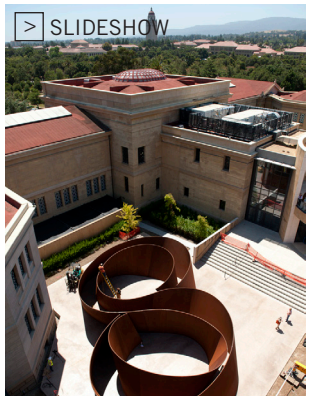
Connie Wolf

The Cantor Arts Center announces that alumna **Connie Wolf** will be the museum's next director, succeeding Tom Seligman.

Harry W. Anderson, left, Mary Patricia Anderson Pence and Mary Margaret Anderson donate one of the most outstanding private collections of 20th-century American art in the world.

Anthony Weeks and **Theo Rigby**, students in the master's program in documentary film production, win awards at the Academy of Motion Picture Arts and Sciences Student Academy Awards.

Groundbreaking takes place for the **Jill and John Freidenrich Center for Translational Research** at the School of Medicine.



Richard Serra's "Sequence"

Richard Serra's "Sequence," one of the sculptor's greatest achievements, is installed at the Cantor Arts Center. On loan from the Doris and Don Fisher Collection, it is a 235-ton contoured steel sculpture that is 67 feet long, 42 feet wide and 13 feet high. It eventually will be displayed at the San Francisco Museum of Modern Art.

The National Science Foundation selects a team from Stanford, UC-Berkeley, Colorado School of Mines and New Mexico State to implement an **Engineering Research Center** to reinvent America's aging and inadequate water infrastructure.

AUGUST

The Board of Trustees welcomes two new members: **Ronald Bruce Johnson**, a senior vice president at Apple, and **Victoria Browne Rogers**, president of the Rose Hills Foundation.

Woman's basketball coach **Tara VanDerveer** is inducted into the Naismith Basketball Hall of Fame.

SEPTEMBER

The archives of **Riverwalk Jazz**, a live radio program now in its 22nd season on Public Radio International, are acquired by the Stanford University Libraries. Audio, video and the website from the radio show, which features the Jim Cullum Jazz Band and favors old-fashioned hot jazz, will become part of **Stanford's Archive of Recorded Sound**.

President Obama names Stanford Professor **Michael McFaul** to be the next U.S. ambassador to Russia. McFaul is a senior fellow at the Hoover Institution and a professor of political science.

Michael McFaul with President Obama

Five Stanford researchers in biology, bioengineering and medicine receive prestigious National Institutes of Health awards for innovation for 2011: **David Schneider**, associate professor of microbiology and immunology, receives an

NIH Director's Pioneer Award; **C. Jason Wang**, acting associate professor of pediatrics, and **Hunter Fraser**, assistant professor of biology, receive New Innovator Awards; and **Jody Puglisi**, professor and chair of the Department of Structural Biology, and **Kwabena Boahen**, associate professor of bioengineering, receive Transformative Research Project Awards.

Stanford Management Company announces that the university's primary investment pool achieved returns of 22.4 percent for the 12 months that ended June 30, 2011. The pool includes most of the **university's endowment**, expendable funds and capital reserves from the hospitals.

Benjamin Lev

The highest honor bestowed by the U.S. government on early-career scientists and engineers goes to **Benjamin Lev**, an assistant professor of applied physics, who studies the behavior of quantum matter.

Construction work gets under way for **Building 4**, the last and final component of the Science and Engineering Quad. The new building will house the Bioengineering and Chemical Engineering departments.

The Stanford Technology Ventures Program launches the National Center for Engineering Pathways to Innovation, better known as the **Epicenter**, funded with a $10 million grant from the National Science Foundation.

Amos Nur, the Wayne Loel Professor of Earth Sciences, Emeritus, wins the Maurice Ewing Medal, the highest award given by the Society of Exploration Geophysicists.

OCTOBER

Thomas Sargent, senior fellow at the Hoover Institution, a professor at New York University and a leader in the field of macroeconomics and rational expectations, is one of two men awarded the Nobel Memorial Prize in Economic Sciences. Sargent taught in Stanford's Department of Economics from 1998 to 2002 and has been a fellow at the Hoover since 1987.

Stanford submits a response to Mayor Michael Bloomberg's request for proposals to build and establish an **engineering and applied sciences campus** in New York City. As part of the proposal, Stanford teams up with the City College of New York. Although the university later withdraws its application, its partnership with City College continues.

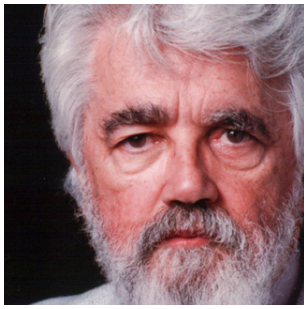
Reunion Homecoming brings some 9,000 alumni and guests back to the Farm for four days of festivities, thought-provoking events and catching up. The Roundtable, one of 425 events over the long weekend, was called "Education Nation 2.0" and featured alumnus and Newark Mayor Cory Booker and host Charlie Rose.

THE STANFORD ROUNDTABLE

Russian literary superstar **Vladimir Sorokin** is in residence at Stanford. The postmodern novelist and dramatist has won awards and reprobation in equal quantities for his edgy, dystopian work, and he has been translated into many languages.

Three members of the School of Medicine faculty are elected to membership in the Institute of Medicine: **Margaret Fuller**, the Reed-Hodgson Professor in Human Biology; **David Relman**, the Thomas C. and Joan M. Merigan Professor, a professor of medicine, microbiology and immunology; and **Abraham Verghese**, professor of medicine.

John McCarthy, one of the seminal figures in artificial intelligence—indeed, he invented the expression—dies at the age of 84. At the time of his death he was a professor emeritus of computer science.



John McCarthy

Gretchen Daily, the Bing Professor in Environmental Science and senior fellow at the Woods Institute for the Environment, receives the Biodiversity Award given by the Prince Albert II of Monaco Foundation.

Gretchen Daily

Ronald Davis, professor of biochemistry and of genetics, wins the $500,000 Genetics Prize from the Peter and Patricia Gruber Foundation.

NOVEMBER

Persis Drell

Persis Drell, director of the SLAC National Accelerator Laboratory, announces she is stepping down from the post to return to teaching and research.

A Stanford medical team at **Lucile Packard Children's Hospital** successfully separates two 2-year-old girls conjoined at the chest and abdomen. The children went home two weeks later.

The Stanford Graduate School of Business establishes the **Stanford Institute for Innovation in Developing Economies** with a $150 million gift from Dorothy and Robert King, MBA '60. The institute, informally known as SEED, will stimulate, develop and disseminate research and innovations that enable entrepreneurs, managers and leaders to alleviate poverty in developing economies.

> WATCH VIDEO

The **Stanford Medical Youth Science Program** receives a 2011 Presidential Award for Excellence in Science, Mathematics and Engineering Mentoring. The award, the highest honor bestowed by the U.S. government for mentoring in these fields, carries a $25,000 prize from the National Science Foundation.

It was a record year for fellowships: Five scholars from Stanford—two seniors and three recent graduates—win **Rhodes scholarships**, two are named as **Mitchell Scholars** and two are named **Marshall Scholars**.

A LUCILE PACKARD CHILDREN'S HOSPITAL TEAM SUCCESSFULLY SEPARATES CONJOINED TWINS.

DECEMBER

President John Hennessy wins the IEEE Medal of Honor, the technical society's highest award, for pioneering the RISC (reduced instruction set computer) processor and for leadership in computer engineering and higher education.

The Stanford Challenge, Stanford's five-year fundraising campaign, ends on Dec. 31, having far exceeded its goal by raising $6.2 billion.

MESSAGE FROM THE CHAIR OF THE BOARD OF TRUSTEES

BY LESLIE HUME

"THE SPIRIT OF STANFORD ... WAS TO MAKE A NEW ERA IN THE TRAINING OF MEN AND WOMEN. IT WAS TO BRING THE EDUCATION OF TOMORROW STRAIGHT TO THE YOUTH OF TODAY."

Prescient words from David Starr Jordan, Stanford's first president — and more than a century later each time I read them, they are a powerful reminder of the importance of the work of the university.

As President Hennessy notes in his essay, 2011 was a remarkable year for Stanford, one that advanced its mission in ways that Jordan so powerfully articulated.

This year, the trustees were particularly attuned to the state of higher education in the United States, how that is reflected in Stanford and how the university can best utilize its unique strengths.

Stanford has been a liberal arts institution since its founding, and in today's more interconnected and interdependent world, we believe a strong foundation in the arts and humanities will prove more essential than ever.

We are fortunate to have alumni and friends who share our convictions. This year marked the 10th anniversary of the William and Flora Hewlett Foundation gift of $400 million, $300 million of which was allocated for the School of Humanities and Sciences. Over the past decade, the Hewlett gift has had a profound impact, inspiring others to join in strengthening the core of our great university. It supported new professorships, endowed undergraduate scholarships and graduate fellowships and strengthened interdisciplinary majors. It made a fundamental difference in the life of the university in its second century — both in this new era of students and faculty and in its promise to future generations.

Stanford is also known for innovation, and this year we have seen notable research advances. Our faculty are spearheading important policy initiatives and imagining new applications in technology that promise to be of broad benefit. From micro-optics that monitor brain cells, to new battery technologies, to a technique that reconnects severed blood vessels without sutures, to working with the Chinese government on reforestation and conservation projects, to leading efforts to develop criteria for common standards in K-12 science education, Stanford scholars and researchers campus-wide are tackling some of the thorniest problems and issues of our day.

Such advances, discoveries and new policies — the result of path-breaking education and research — can have a direct impact on the quality of people's lives, and this year's successful conclusion of The Stanford Challenge ensured that the university has the resources it needs to continue to innovate. As a result of the campaign, today's students and faculty engage in more multidisciplinary research than ever before, collaborating on a host of ventures that will benefit society.

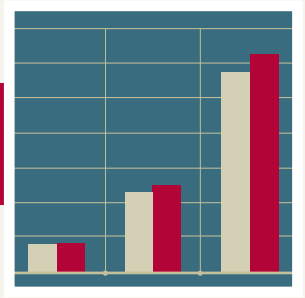
None of these efforts could have been envisioned 120 years ago, when 500 students gathered in the Inner Quad for the opening ceremony of Stanford University. As expected, both Senator Stanford and President David Starr Jordan addressed the students, but they did not hear from Jane Stanford. She had composed an address but at the last minute could not bring herself to give it.

Fortunately for us, her words live on the page, and her fervor and ambition for Stanford's students are palpable:

"Our hearts have been more deeply interested in this work than you can conceive. … I desire to impress upon the minds of each one … that you will resolve to go forth from these classrooms determined in the future to be leaders with high aims and pure standards; and live such lives that it will be said of you that you are true to the best you know."

Today, the university remains true to the aims and ambitions of its founders and first president: A Stanford education in the 21st century will enable our students to lead and serve and live their lives "true to the best" they know — to provide a better tomorrow for future generations.

2011 FINANCIAL REVIEW



DISCUSSION OF FINANCIAL RESULTS

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

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

University

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

FY11 FINANCIAL HIGHLIGHTS

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

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

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

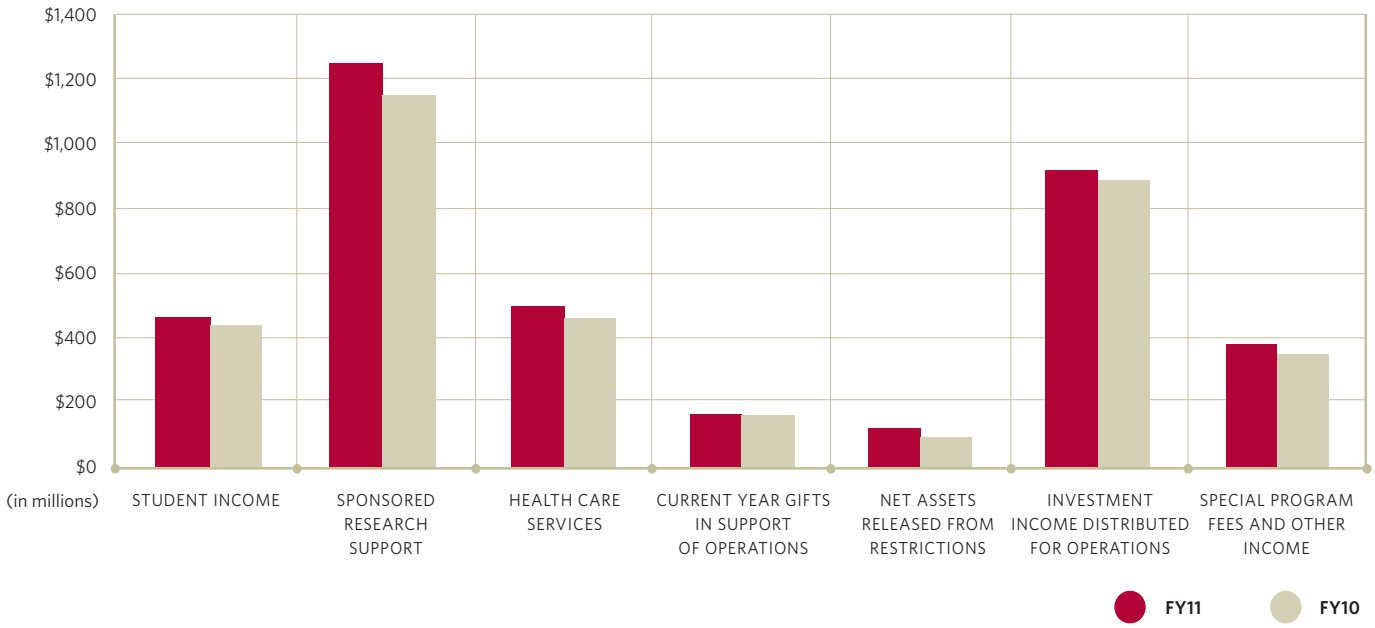
OPERATING RESULTS

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

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

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

FIGURE 1
OPERATING REVENUES



OPERATING REVENUES

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

Student Income

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

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

Sponsored Research Support

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

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

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

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

THE UNIVERSITY'S ENDOWMENT

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

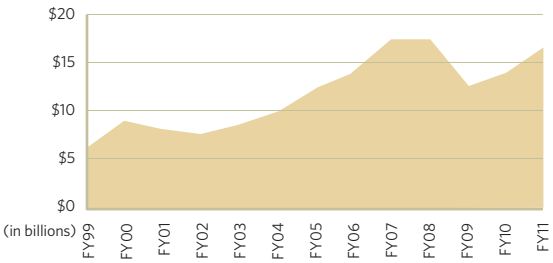
Gifts and pledge payments, investment returns, and other invested funds increased the endowment by $2.7 billion in FY11.

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

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

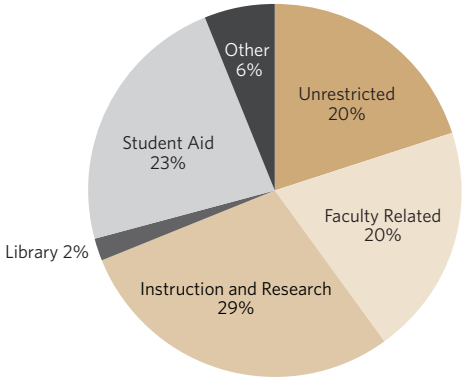
Approximately 29% funds instruction and research activities, 23% goes to student aid, 20% covers faculty salaries and support, 20% is unrestricted and the remainder is split between library support and other purposes.

UNIVERSITY ENDOWMENT BY YEAR



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

FIGURE 2
ENDOWMENT PAYOUT BY PURPOSE



Health Care Services

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

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

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

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

Total Investment Income Distributed for Operations

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

- Endowment income distributed for operations decreased to $785 million in FY11, from $855 million in FY10. The decrease was primarily the result of a 25% reduction in the payout from existing funds implemented following the economic downturn (10% in FY10, and an additional 15% in FY11). The endowment payout in FY11 was equal to 5.7% of the endowment value at the beginning of the fiscal year.

- Expendable funds pools and other investment income distributed for operations was $128 million in FY11, compared to $28 million in FY10. This category primarily includes the payout to operations from the Expendable Funds Pool (EFP) and the Endowment Income Funds Pool (EIFP), the principal investment vehicles for the University's expendable funds.

    - The EFP policy provides a variable payout to certain funds that support operations based on the prior year's investment returns. FY09 losses in the EFP significantly reduced amounts paid out to support operations in FY10. With the positive FY10 returns, payout to these funds resumed in FY11. See Note 6 to the FY11 Consolidated Financial Statements.

    - The EIFP holds endowment payout previously distributed but unexpended. These amounts are invested in highly liquid instruments in order to preserve the principal balance. Earnings on these investments are distributed to the fund holders. See Note 6 to the FY11 Consolidated Financial Statements.

OPERATING EXPENSES

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

- Salaries and benefits increased 5% in FY11 to $2.2 billion. Stanford implemented a modest salary program in FY11 after a salary freeze in FY10 and the elimination of approximately 500 positions during the previous two years. Despite these cost cutting actions, FY11 headcount increased slightly to support increased sponsored research including projects funded by ARRA.

- Depreciation expense increased by 11% to $259 million in FY11 from $234 million in FY10. The increase in this category resulted from buildings recently placed in service, including the Knight Management Center and the William H. Neukom Building. See the **Capital Projects** section below.

- Other operating expenses increased 8% to $1.1 billion in FY11 from $999 million in FY10. These increases, in large part, are due to additional expenses incurred in support of higher levels of sponsored research, as described above in **Sponsored Research Support** section.

FINANCIAL POSITION

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

Cash and Cash Equivalents

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

Investments

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

Capital Projects

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

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

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

Debt

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

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

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

Unrestricted Net Assets

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

Temporarily Restricted Net Assets

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

Permanently Restricted Net Assets

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

Hospitals

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

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

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

STANFORD HOSPITAL AND CLINICS

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

Operating Results

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

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

Statement of Financial Position (Balance Sheet)

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

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

Other SHC highlights

SHC recently launched the Corporate Partners Program ("CPP"). CPP is a partnership between SHC and top Silicon Valley firms which management anticipates will provide substantial philanthropic support for the construction of new hospital facilities. SHC also engages in numerous community benefit programs and services. These services include health research, education and training and other community benefits for the larger community. Charity care and uncompensated costs including services to patients under Medi-Cal and Medicare that reimburse at amounts less than the cost of services provided to the recipients, were $205 million in FY11.

LUCILE PACKARD CHILDREN'S HOSPITAL AT STANFORD

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

Operating Results

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

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

Operating expenses grew by 11% in FY11. Higher labor costs (44% of total expense), services purchased from the University, and fees paid as part of the QAF drove this increase. Labor costs increased 8% in FY11 due to higher

salaries commanded in the competitive market for health care professionals, an increase in benefit costs, and an increase in needed temporary labor.

Statement of Financial Position (Balance Sheet)

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

Other LPCH Highlights

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

HEALTH CARE REFORM

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

Looking Forward

With the FY11 financial results, including the growth in the endowment and net assets, Stanford enters FY12 in a solid financial position. Additionally, the existing physical infrastructure, along with plans currently underway for new buildings, the rebuilding and expansion of the Hospitals, and other projects, position us well to advance our mission of teaching, research and patient care. Our financial resources provide a strong foundation that will enable us to explore and fund strategic academic and research opportunities and to address important administrative and infrastructure needs.

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

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

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

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

Daniel J. Morissette
Chief Financial Officer
Stanford Hospital and Clinics

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

SELECTED FINANCIAL AND OTHER DATA

Fiscal Years Ended August 31

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

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

(B) As reported by the Office of Development (See Note 14). Beginning in 2009, reported amounts include SHC gifts.

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

MANAGEMENT RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

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

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

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

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

Randall S. Livingston
Vice President for Business Affairs
and Chief Financial Officer
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Senior Associate Vice President for Finance
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REPORT OF INDEPENDENT AUDITORS

To the Board of Trustees
Stanford University

In our opinion, the accompanying consolidated statements of financial position and the related consolidated statements of activities and cash flows present fairly, in all material respects, the financial position of Stanford University (the "University") at August 31, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

December 14, 2011

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

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

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

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

CONSOLIDATED STATEMENTS OF ACTIVITIES

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

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

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

CONSOLIDATED STATEMENTS OF ACTIVITIES

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

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

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation and Significant Accounting Policies

BASIS OF PRESENTATION

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

University

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

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

Hospitals

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

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

TAX STATUS

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

BASIS OF ACCOUNTING

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

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

Unrestricted Net Assets

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

Management considers all revenues and expenses to be related to operations. Increases or decreases in reinvested gains, swap interest and unrealized gains or losses, donor advised funds, capital and other gifts released from restrictions, equity and fund transfers from the Hospitals, amounts transferred to other net asset categories, pension and other post employment benefit related changes other than net periodic benefit expense and certain other non-operating changes are reported in the *Statements of Activities* as "other changes in unrestricted net assets".

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

Temporarily Restricted Net Assets

Temporarily restricted net assets include gifts and pledges that are subject to donor-imposed restrictions that expire with the passage of time, payment of pledges or specific actions to be undertaken by the University or the Hospitals, which are then released and reclassified to unrestricted net assets. In addition, appreciation and income on certain donor-restricted endowment funds are classified as temporarily restricted net assets until authorized for spending (see *Notes 12 and 13*). Donor-restricted resources intended for capital projects are initially recorded as temporarily restricted and released from their temporary restrictions and reclassified as unrestricted net assets when the asset is placed in service. Also included in this category is the University's net equity in split interest agreements that are expendable at maturity.

Permanently Restricted Net Assets

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

CASH AND CASH EQUIVALENTS

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

ACCOUNTS AND LOANS RECEIVABLE

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

PLEDGES RECEIVABLE

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

INVESTMENTS

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

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

PLANT FACILITIES

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

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

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

WORKS OF ART AND SPECIAL COLLECTIONS

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

DONATED ASSETS

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

DONOR ADVISED FUNDS

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

SPLIT INTEREST AGREEMENTS

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

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

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

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

SELF-INSURANCE

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

INTEREST RATE EXCHANGE AGREEMENTS

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

STUDENT INCOME

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

PATIENT CARE AND OTHER SERVICES

Health Care Services

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

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

Charity Care

The Hospitals provide care to patients who meet certain criteria under their charity care policies without charge or at amounts less than their established rates. The Hospitals do not record revenue for amounts determined to qualify as charity care. The amount of charity care services, quantified at established rates, was $88.7 million and $76.5 million for the years ended August 31, 2011 and 2010, respectively. The Hospitals also provide services to other patients under Medi-Cal and other publicly sponsored programs, which reimburse at amounts less than the cost of the services provided to the recipients. Estimated costs in excess of reimbursements for Medi-Cal and county services for the years ended August 31, 2011 and 2010 were $251.4 million and $219.4 million, respectively.

Provider Fee

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

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

RECENT ACCOUNTING PRONOUNCEMENTS

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

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

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

2. Accounts Receivable

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

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

3. Pledges Receivable

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

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

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

4. Loans Receivable

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

STUDENT LOANS RECEIVABLE

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

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

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

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

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

FACULTY AND STAFF MORTGAGES

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

5. Investments

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

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

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

VALUATION METHODOLOGY

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

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

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

INVESTMENT CATEGORIES

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

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

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

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

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

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

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

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

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

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

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

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

FAIR VALUE HIERARCHY

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

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

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

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

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

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

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

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

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

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

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

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

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

SUMMARY OF LEVEL 3 INVESTMENT ACTIVITIES AND TRANSFERS

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

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

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

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

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

INVESTMENT-RELATED COMMITMENTS

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

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

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

INVESTMENT RETURNS

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

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

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

FUTURE MINIMUM RENTAL INCOME

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

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

6. Investment Pools

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

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

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

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

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

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

7. Derivatives

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

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

INVESTMENT-RELATED DERIVATIVES

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

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

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

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

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

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

Credit Default Swaps

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

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

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

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

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

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

DEBT-RELATED DERIVATIVES

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

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

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

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

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

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

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

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

8. Plant Facilities

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

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

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

9. Liabilities Under Security Lending Agreements

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

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

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

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

10. University Notes and Bonds Payable

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

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

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

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

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

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

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

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

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

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

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

The University had $265.0 million of VRDBs outstanding in addition to commercial paper at August 31, 2011. CEFA Series L bonds bear interest at a weekly rate and CEFA Series S bonds bear interest at a commercial paper municipal rate and are outstanding for various interest periods of 270 days or less. In the event the University receives notice of any optional tender of its VRDBs, or if the bonds become subject to mandatory tender, the purchase price of the bonds will be paid from the remarketing of such bonds. However, if the remarketing proceeds are insufficient, the University will have a current obligation to purchase the bonds tendered. The University has identified several sources of funding including cash, money market funds, U.S. treasury securities and agencies' discount notes to provide for the full and timely purchase price of any bonds tendered in the event of a failed remarketing.

The University incurred interest expense of approximately $71.3 million and $60.2 million for the years ended August 31, 2011 and 2010, respectively, net of (1) $782 thousand and $790 thousand, respectively, of interest income on invested unspent proceeds, (2) $1.6 million and $3.9 million, respectively, in interest capitalized as a cost of construction and (3) $29.9 million and $33.7 million (net of interest income of $667 thousand and $683 thousand), respectively, of interest expense associated with the Series 2009A bonds which were recorded as an investment expense. Interest expense includes administrative expenses, amortized bond issuance costs, and amortized bond premium or discount.

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

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

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

11. Hospitals Notes and Bonds Payable

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

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

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

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

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

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

SHC

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

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

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

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

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

LPCH

LPCH has $93.5 million of VRDBs outstanding, consisting of the CHFFA 2008 Series A, B and C bonds, which may bear interest at a daily, weekly, commercial paper, long term or auction rate, as defined by the LPCH Master Indenture. The bonds of each series currently bear interest at a weekly rate, which resets every 7 days. Bondholders have the option to tender their bonds on a weekly basis. In order to ensure the availability of funds to purchase any bonds tendered that the remarketing agent is unable to remarket, LPCH has entered into a liquidity agreement with the University. The agreement, which expires November 9, 2013, allows access on a same-day basis of up to $100.0 million of cash against LPCH's investments in the University's MP.

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

INTEREST

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

PRINCIPAL PAYMENTS

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

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

12. University Endowment

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

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

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

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

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

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

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

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

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

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

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

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

13. Hospitals Endowments

The endowments of SHC and LPCH are intended to generate investment income that can be used to support their current operating and strategic initiatives. The Hospitals invest the majority of their endowments in the University's MP. As such, the Hospitals endowments are subject to the same investment and spending strategies as described in *Note 12.* These policies provide for annual amounts (payout) to be distributed for current use. "Amounts distributed for operations" in the table below represents the Hospitals' current year endowment payout spent for designated purposes during fiscal years 2011 and 2010.

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

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

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

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

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

14. University Gifts and Pledges

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

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

15. Functional Expenses

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

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

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

16. University Retirement Plans

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

DEFINED CONTRIBUTION PLAN

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

DEFINED BENEFIT PLANS

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

Staff Retirement Annuity Plan

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

Faculty Retirement Incentive Program

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

Postretirement Benefit Plan

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

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

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

** Net of Medicare subsidy*

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

** Net of Medicare subsidy*

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

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

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

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

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

ACTUARIAL ASSUMPTIONS

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

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

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

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

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

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

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

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

EXPECTED CONTRIBUTIONS

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

EXPECTED BENEFIT PAYMENTS

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

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

INVESTMENT STRATEGY

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

CONCENTRATION OF RISK

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

PLAN ASSET ALLOCATIONS

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

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

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

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

FAIR VALUE OF PLAN ASSETS

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

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

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

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

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

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

17. Hospitals Retirement Plans

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

DEFINED CONTRIBUTION PLAN

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

DEFINED BENEFIT PLANS

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

POST RETIREMENT MEDICAL BENEFIT PLAN

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

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

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

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

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

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

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

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

ACTUARIAL ASSUMPTIONS

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

	STANFORD PENSION PLAN		POST RETIREMENT MEDICAL BENEFIT PLAN (PRMB)	
	2011	2010	2011	2010
Discount rate	4.83% - 5.03%	4.79% - 4.99%	4.79%	4.70%
Covered payroll growth rate	5.50%	5.50%	N/A	N/A

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

	STANFORD PENSION PLAN		POST RETIREMENT MEDICAL BENEFIT PLAN (PRMB)	
	2011	2010	2011	2010
Discount rate	4.79% - 4.99%	5.93% - 6.10%	4.70%	5.83%
Expected return on plan assets	6.25% - 8.00%	6.25% - 8.00%	N/A	N/A
Covered payroll growth rate	5.50%	5.50%	N/A	N/A

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

To determine the accumulated PRMB obligation at August 31, 2011, an 8.5% annual rate of increase in the pre-65 per capita costs, an 8.5% annual rate of increase in the post-65 prescription drug per capita costs, and a 7.0% rate of increase in the post-65 per capita cost of all other medical benefits was assumed for 2011, all declining gradually to 4.75% by 2024 and remaining at this rate thereafter.

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

EXPECTED CONTRIBUTIONS

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

EXPECTED BENEFIT PAYMENTS

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

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

INVESTMENT STRATEGY

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

CONCENTRATION OF RISK

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

PLAN ASSETS

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

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

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

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

FAIR VALUE OF PLAN ASSETS

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

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

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

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

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

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

18. Operating Leases

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

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

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

19. Related Party Transactions

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

20. Commitments and Contingencies

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

SPONSORED PROJECTS

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

HEALTH CARE

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

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

MEDICAL CENTER RENEWAL PROJECT

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

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

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

LABOR AGREEMENTS

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

LITIGATION

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

CONTRACTUAL COMMITMENTS

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

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

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

GUARANTEES AND INDEMNIFICATIONS

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

21. Subsequent Events

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

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

REPORT FROM THE STANFORD MANAGEMENT COMPANY

The Stanford Management Company (SMC) was established in 1991 to manage Stanford's financial assets. SMC is a division of the University with oversight by a Board of Directors appointed by the University Board of Trustees. The SMC Board consists of investment professionals, the University president, the University chief financial officer, the chairman of the Board of Trustees and the CEO of SMC. The Board approves SMC asset allocation targets, oversees the hiring of external asset managers, evaluates the performance of SMC investments and professionals, and manages significant portions of endowment, trust assets and expendable funds for the University and the Hospitals.

The majority of the University's endowment assets are invested through the Merged Pool (MP), which is a diversified portfolio of actively managed financial and real estate assets valued at approximately $19.5 billion as of June 30, 2011. To facilitate the comparison of returns with results of other endowments and foundations, MP performance measurements are calculated on the 12 months ending June 30, 2011. The following discussion of endowment performance relates solely to investments in the MP. The MP realized a 22.4% investment gain for the 12 months ending June 30, 2011. Over the past 10 years, the MP achieved an annualized rate of return of 9.3%, growing from $7.9 billion to $19.5 billion.

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 portfolio that is less subject to drawdown than the more concentrated portfolio of the late 1990's. 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, 2011 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%

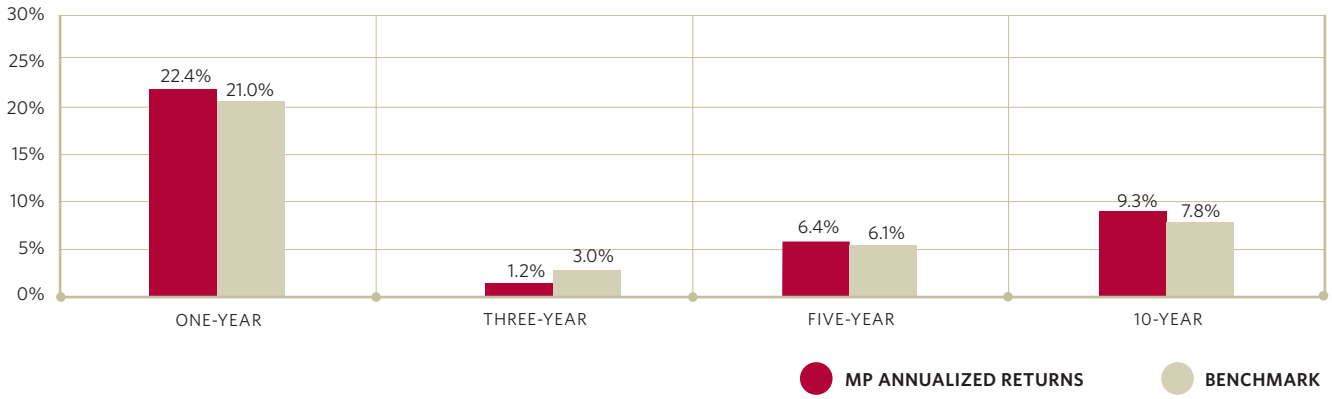
STANFORD MP PERFORMANCE COMPARED TO INFLATION The table below outlines annualized returns for various periods ending June 30, 2011.

MP PERFORMANCE COMPARED TO INFLATION

	ONE-YEAR	THREE-YEAR	FIVE-YEAR	TEN-YEAR
Nominal Endowment Return	22.4%	1.2%	6.4%	9.3%
GDP Deflator	2.4%	1.5%	1.9%	2.2%
Real Endowment Return	20.0%	-0.2%	4.5%	7.0%

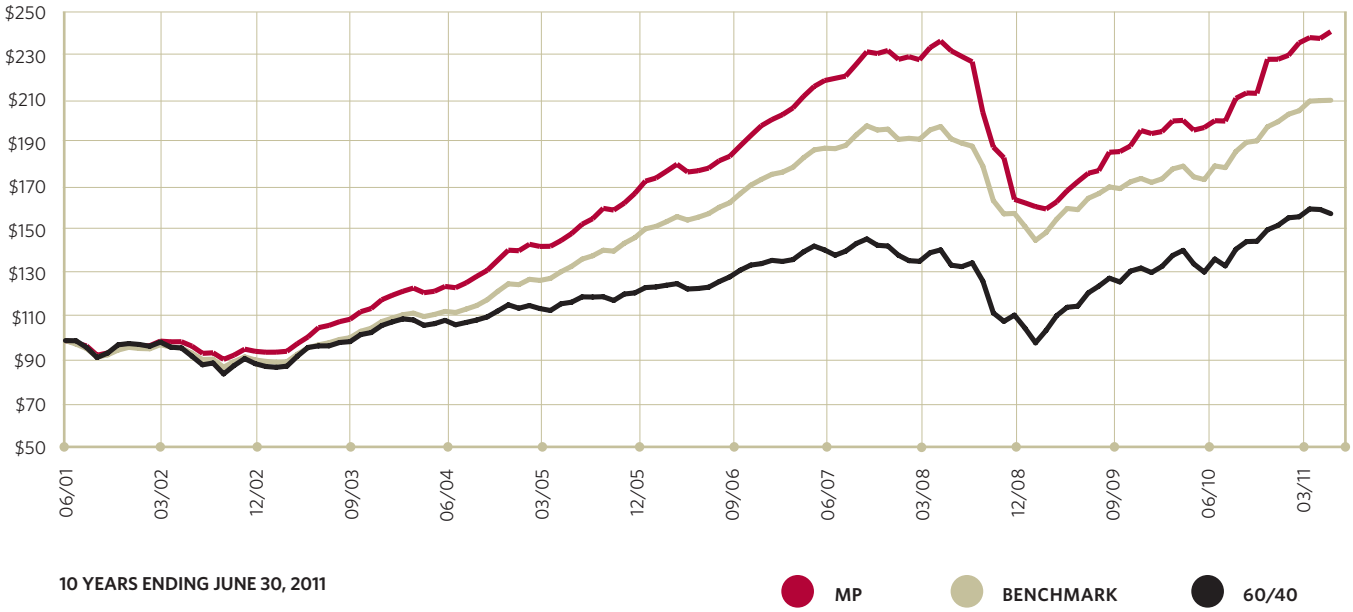
STANFORD MP PERFORMANCE COMPARED TO BENCHMARKS SMC evaluates the performance of investment managers by comparing their returns to benchmarks that are appropriate for each individual asset class. The SMC Board reviews asset class benchmarks on an annual basis to ensure comparability. SMC reviews overall MP performance against 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, 2011.

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 $2.5 billion to the value of the MP over this 10-year period. The cumulative return chart below 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:

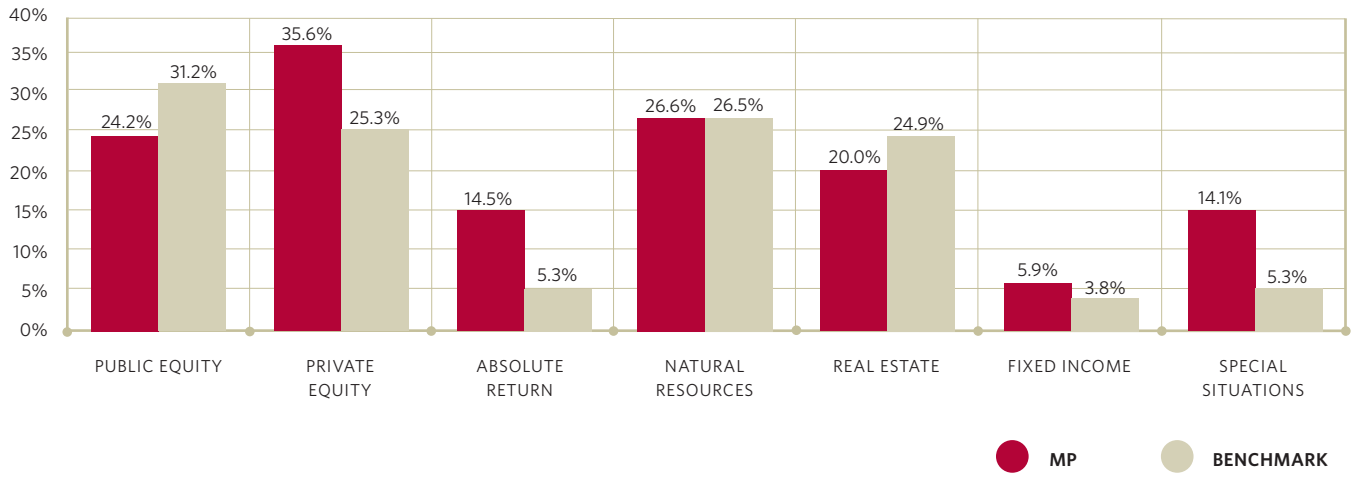
STANFORD MP VS. STANFORD COMPOSITE BENCHMARK VS. PASSIVE 60% EQUITY/40% BOND COMPOSITE



The relative one-year performance of the MP versus the benchmark was 1.4%.

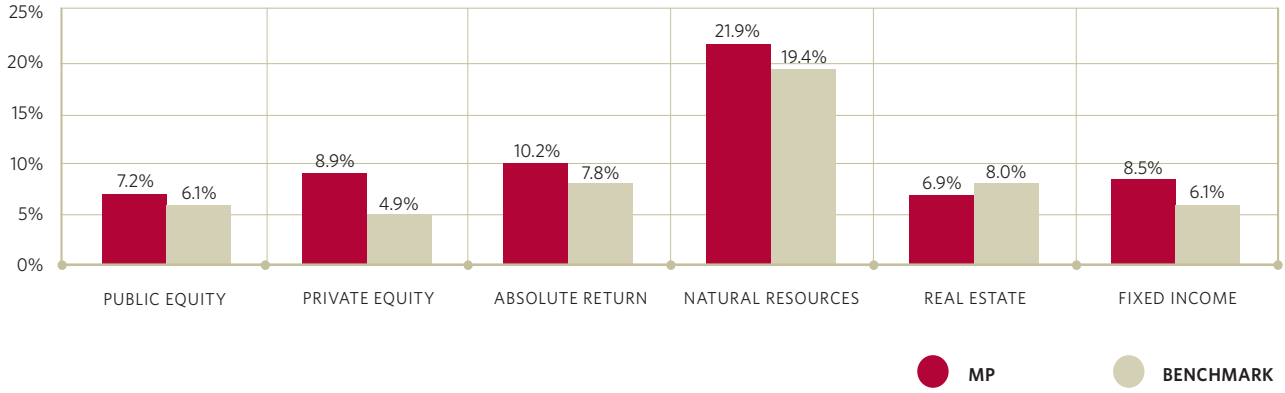
INDIVIDUAL ASSET CLASS PERFORMANCE The performance of individual asset classes for the 12 months ended June 30, 2011, relative to each asset class benchmark, is illustrated in the graph below:

STANFORD MP ONE-YEAR ASSET CLASS RETURNS VS. BENCHMARK

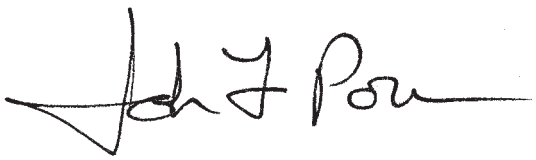


As outlined below, the results of 10-year asset class returns, relative to benchmark, illustrate the value of SMC's ability to shift investment styles/strategies and identify outstanding managers in each asset class:

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



In the 12 months through June 30, 2011, the Merged Pool returns were 22.4%. During the same period, the S&P 500 Total Return Index returned 30.9%, the Barclays Aggregate returned 3.9%, and a 60/40 equity/fixed income mix would have returned 20.0%. Markets were strong almost across the board, with our private equity exposure contributing the most to the year. Almost immediately as the fiscal year ended, macroeconomic worries came to the fore and market volatility spiked. In this challenging climate the draw down in the MP has been moderate, and the portfolio has a more defensive positioning than in the drawdown of late 2008. At the same time, periods of volatility can create substantial buying opportunities, even in the face of significant uncertainty. Thus, we expect compelling investments in equity and credit markets as the multi-year global deleveraging process continues.



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President and Chief Executive Officer
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