STANFORD UNIVERSITY

2000 FINANCIAL INFORMATION

Discussion of Financial Results

During the 1999-2000 fiscal year (fy00), stanford once again benefited from an outstanding investment environment and from generous support from its alumni and friends. These factors enhanced Stanford's position as one of the world's premier universities, as did its location in Silicon Valley, one of the most dynamic areas for innovations in high technology. The University's strong net asset base enables it to face challenges caused by increases in the high cost of living in the Bay Area and to undertake the mission of strengthening undergraduate education outlined by President Hennessy on page 2.

The University made great strides in a number of areas that are at the core of its academic and research missions. Highlights of the year included:

- One of the most successful development programs among universities nationwide. Total cash gifts, as reported by the Office of Development, reached a record-high $580 million, up from $320 million in fy99. Additionally, pledges received during fy00 reached record levels, including a $150 million pledge from former Stanford electrical engineering professor and entrepreneur Jim Clark to establish the James H. Clark Center for Biomedical Engineering and Sciences.

- Unprecedented investment returns of $2.5 billion on Stanford's endowment assets. The favorable investment environment, especially during fall 1999, and Stanford Management Company's successful investment program, including investment in venture capital partnerships, generated endowment returns of approximately 40%. These returns provided increased support for operations and investment for the future.

- Continued strength in undergraduate applications. Stanford continues to be one of the most competitive institutions for the admission of undergraduate students. Stanford offered admission to 2,425 students from among 18,363 applicants for a class of 1,600.

- Initiation of a five-year, $1 billion Campaign for Undergraduate Education. Announced by President Hennessy in his inaugural speech, this campaign is the largest ever devoted exclusively to undergraduate education at any university and will allow Stanford to continue implementing innovations in undergraduate education. The campaign is described further by Board of Trustees Chair Isaac Stein on page 12.

- Realization of the $200 million endowment goal for the Stanford Graduate Fellowships (sgf). The sgf program allows Stanford to attract the best graduate students and provide them the freedom to pursue graduate education independent of financial limitations. The program is now fully enrolled with more than 350 graduate students in 36 fields,ranging from applied physics to statistics.

- Completion of major capital projects. Completed projects include the new Center for Clinical Sciences and Research, the first phase of new graduate student housing, and major renovations to the Science and Engineering Quad McCullough Annex Building and other campus facilities.

- Approval of a new Community Plan and General Use Permit. In December 2000, after a comprehensive two-year effort, the Santa Clara County Board of Supervisors approved a 10-year plan that will allow Stanford to build 4.8 million square feet of academic and residential development, while preserving 2,000 acres of the foothills as open space for 25 years.

Stanford, similar to other universities with academic medical centers, has faced challenges in recent years posed by a volatile health care marketplace and by declining government reimbursement rates. Stanford University and the Regents of the University of California tried to confront these challenges through the 1997 merger of Stanford's patient care services with those of the University of California-San Francisco, which resulted in ucsf Stanford Health Care. Due to the many challenges described in the inset on page 18, Stanford and uc agreed to terminate the merger effective March 31, 2000. With the termination of ucsf Stanford Health Care, Stanford Hospital and Clinics (shc), which includes Lucile Salter Packard Children's Hospital at Stanford (lspch), resumed stand-alone operations effective April 1, 2000. Stanford's share of ucsf Stanford Health Care's results for the seven months ended March 31, 2000, and the results of shc for the remaining five months of fy00 are included in the University's consolidated financial statements.

Following is a review of the fy00 financial activities of the University, excluding the results of the University's investment in ucsf Stanford Health Care and the results of shc, which are discussed separately on page 18.

STATEMENT OF ACTIVITIES The Statement of Activities, which details operating revenues and expenses and other non-operating changes during the year, reports an increase in the University's net assets of $3.3 billion in fy00 compared to $1.7 billion in the 1998-1999 fiscal year (fy99). The increase in net assets is directly attributable to unparalleled investment performance, along with record-level gifts and pledges. Total investment returns of $2.8 billion were recognized in fy00, representing an increase of 61.9% over fy99. See the "Report from the Stanford Management Company" on page 21 for further details of investment performance. Additionally, gifts and pledges recorded in the financial statements were up to $848 million in fy00 from $287 million in fy99.

UNRESTRICTED NET ASSETS

Results of Operations Operating activities include all revenues and expenses that are used to support current-year teaching and research efforts and other University priorities. Compared to fy99, total University revenues increased 11.9% to nearly $2.0 billion and total expenses increased 8.2% to $1.7 billion. Operations resulted in an excess of revenues over expenses of $227 million in fy00, compared to $149 million in fy99, largely due to increased investment returns. A significant portion of the surplus is budgeted to paying debt principal, funding facilities construction and systems-related projects, and providing support for faculty and staff housing programs. Additionally, schools and departments invested approximately 25% of the excess into the endowment to support future programmatic initiatives, including the Stanford Graduate Fellowship program. The remainder is designated or committed through donor preference for specific school or departmental purposes and for support of specific University initiatives.

Highlights of the University's operating activities are summarized below:

- Student income increased 4.4% to $280 million in FY00. Contributing to this increase were the undergraduate tuition rate increase of 4.3% and the room and board rate increase of 1.4%. Student enrollment also increased slightly. Offsetting tuition and room and board revenues is need-based and merit-based aid for undergraduate and graduate students, which increased during fy00 by 8.1% to a total of $89 million.

- In total, sponsored research support increased by $41 million, or 6.4%, to $674 million in FY00. The University's direct cost reimbursement was up $21.6 million due primarily to increased levels of research activity in the School of Medicine. Indirect cost revenues were up 9.5% due to increased research volume and a 1% increase in the facilities and administrative cost rate.

- Endowment income and gains distributed for operations covered 18.2% of total operating expenses for FY00, up from 16.4% for FY99. To protect the value of the endowment, Stanford has a policy governing distribution, which is established by the Board of Trustees through an annual target payout rate. For fy00 and fy99, the target payout rate reflects a base of 4.75% plus 0.5% to support the renewal of campus buildings and infrastructure. During fy00, the payout to operations from the endowment was $315 million, compared to $262 million in fy99. This increase was primarily the result of growth in the endowment base due to exceptional market performance and strong donor support over the past several years.

- Excellent returns were also recognized on other investments, including the expendable funds pool (EFP). Total return on investments in the efp was 22.5% in fy00, or $247 million. In accordance with the University's efp policy, $91 million of the efp return was made available to operations in fy00, $21 million more than in fy99. The remaining $156 million was invested in the endowment. Additionally, performance of other specific investments paralleled the overall market performance, contributing to the increase in other investment income.

- As with most portfolios, the University's investment portfolio has sustained losses in its market value since August 31, 2000. Due to the diversified nature of the portfolio and a conservative strategy in determining the annual amount paid out to support operations, the University does not anticipate any significant budgetary impact from the current equity market decline.

- Special program fees and other income increased $33 million, or 20.6%, to $191 million in FY00. The category includes the revenues of auxiliary enterprises, service centers, special programs including technology licensing, and other program initiatives such as the Executive Education programs. The increase in special program fees and other income is attributable primarily to favorable results in technology licensing.

Related Health Care Entities

The operating activities of UCSF Stanford Health Care were terminated effective March 31, 2000, and on April 1, 2000, Stanford Hospital and Clinics (SHC) assumed control of Stanford University Hospital, Lucile Salter Packard Children's Hospital (LSPCH), and the primary care, specialty and subspecialty clinics and professional practices associated with the University's School of Medicine faculty. Accordingly, the financial results of SHC for the last five months of FY00 and its financial position are consolidated in the University's financial statements under the "Hospitals" column. The University's investment in UCSF Stanford Health Care and its share of the joint venture's results for the seven months ended March 31, 2000 are recorded on the equity method and are also included in the "Hospitals" column.

UCSF STANFORD HEALTH CARE During UCSF Stanford Health Care's last seven months of health care activities, the joint venture recorded losses of $127 million, bringing the total operating losses during the 29 months of the merger to approximately $176 million. The operating losses, split about evenly between SHC and UC, were a result of financial challenges faced by all academic medical centers, as well as structural, operational, and cultural differences between the two institutions. The University's share of the operating losses for the seven months ended March 31, 2000, was approximately $64 million, offset by $12 million in other changes in net assets, including gifts and unrealized investment returns. The total decrease in the University's investment in UCSF Stanford Health Care was $52 million for FY00.

On April 1, 2000, UCSF Stanford Health Care transferred $380 million of net assets back to SHC. After recording winding-down expenses and investment income during the last five months of the fiscal year, the University's investment in the joint venture was $20 million at August 31, 2000. Upon final dissolution, which is expected to occur prior to August 31, 2001, the remaining net assets of the joint venture will be returned to SHC.

STANFORD HOSPITAL AND CLINICS Following the termination of UCSF Stanford Health Care's operating activities, SHC recorded a $48 million operating loss for the five months ended August 31, 2000. The stand-alone financial performance of the two hospitals, SHC and LSPCH, was impacted by significant unusual, one-time expenses associated with the 53-day nursing strike that occurred in June and July, as well as the cost of restoring the post-merger infrastructure and operations.

Like academic medical centers around the nation, the University's hospitals have been negatively impacted by reductions in federal reimbursement. Compounding the federal revenue effect is the low rate of commercial managed care reimbursement in the Bay Area, which is one of the most underfunded health care markets in the country. Upward pressure on labor costs has also contributed to the hospitals' financial performance. Despite these negative factors, hospital occupancy at LSPCH has continued to be strong and SHC occupancy, which declined in the last year of the merger, has begun an upward trend in recent months.

Management has developed and is implementing a two-year plan to return clinical operations to break-even. The plan, which begins with fiscal year 2001, emphasizes appropriate cost reductions, growth in profitable programs, and revenue enhancement through improved contract administration. Despite adverse financial results, the hospitals have continued to provide excellent health care, train the next generation of leading doctors, pursue innovative research, and offer invaluable support to the community.

- Total expenses increased $131 million, or 8.2%, to $1.7 billion in FY00. This increase is, in large part, the result of additional sponsored research activity, particularly in the School of Medicine. In addition, depreciation increased $59 million to $171 million in fy00, primarily as a result of the adoption of a revised set of useful lives, which are generally shorter than those previously employed.

Other Changes in Unrestricted Net Assets In total, unrestricted net assets of the University increased by $2.5 billion, including the excess of revenues over expenses of $227 million resulting from operations. The majority of other changes in unrestricted net assets are reinvested endowment gains of $2.0 billion and other investment income invested in the endowment of $156 million, which represent excess efp returns. Under current accounting rules, the majority of the income and gains on the endowment are reported as unrestricted, even though the University manages these resources in accordance with donors' restrictions, legal requirements, and contractual obligations.

The University's endowment investment strategy and results are summarized in the report of the Stanford Management Company on page 21. Stanford's investment strategy utilizes dividends, interest, rental income, and previously reinvested gains on the endowment to fund the payout to operations. In years of average or better market performance, the University's market gains exceed the amount of the predetermined payout, and the excess is reinvested in the endowment. In fy00 and in fy99, the endowment's total return more than covered the income and gains distributed to operations.

The University's share of ucsf Stanford Health Care results are included in the "Hospitals" column for fy00. See inset on page 18 for further details.

TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets increased by $189 million, or 65.4%, to $478 million in fy00. The University received $327 million of new gifts and pledges, a $241 million increase from fy99. Offsetting this increase was the release from restrictions of $140 million to unrestricted net assets to cover capital expenditures and other activities. Approximately $27 million of temporarily restricted net assets were transferred to permanently restricted net assets upon specific donor designation to endowment.

PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets increased by $622 million, or 32.2%, to $2.6 billion during fy00. The increase was due primarily to the receipt of $391 million in new gifts and pledges for the endowment, reinvestment of endowment returns of $185 million, and the transfer of $27 million of temporarily restricted net assets to endowment upon specific donor designation.

FINANCIAL POSITION The University's Statement of Financial Position reflects strong investment returns, reinvestment of a significant portion of earnings in the endowment, strong donor support, and continued efforts toward the renewal of the University's physical infrastructure. In fy00, total University assets increased to $14 billion, while total University liabilities increased to $2.3 billion.

Total investments, primarily consisting of endowment assets and the efp, increased by $2.7 billion, or 35.1%, to $10.5 billion.

Plant facilities, net of accumulated depreciation, grew 10.2% to $1.9 billion. This increase reflects the significant construction activity associated with the University's renewal of its physical infrastructure.

Notes and bonds payable were $1.1 billion at August 31, 2000, an increase of 1.7% from fy99. The increase is largely due to increases in commercial paper borrowing. The University is borrowing to fund the faculty and staff mortgage programs, demands for which are increasing in response to the high cost of housing in the Bay Area. The University's capital plan and capital structure are governed by an internal debt policy approved by the Board of Trustees, which monitors the amount and type of debt Stanford may incur. It is intended to preserve the University's long-term liquidity and financial flexibility, as well as its access to capital markets at competitive rates.

Net assets of the endowment increased $2.7 billion, or 42.7%, to $8.9 billion. The $2.7 billion increase included new gifts of $242 million;transfers to endowment of $236 million, including the transfer of $156 million of excess efp returns; and reinvested endowment returns of $2.2 billion.

CONCLUSION By any measure, the University's financial position was greatly enhanced during fy00. In turn, this strong financial position supports the University's capacity for innovation and its ability to perform leading-edge research and offer high-quality educational programs in an unmatched physical environment. We will continue to build on the University's solid financial foundation to meet current needs, while protecting and increasing the University's resources and ensuring that they are available to future generations of students.

We appreciate all the efforts of the faculty, staff, students, trustees,alumni, and other friends who have built the University's strong foundation. We look forward to working together to continue to fulfill Stanford's mission.

Mariann Byerwalter
VICE PRESIDENT FOR BUSINESS AFFAIRS
AND CHIEF FINANCIAL OFFICER

M. Suzanne Calandra
CONTROLLER

Report from the Stanford Management Company

The stanford management company (smc) was established in 1991 to manage stanford's financial and real estate investment 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 at least three trustees,several investment and real estate professionals, and University representatives. The Company directs approximately $11.0 billion of endowment and trust assets, working capital, temporarily invested expendable funds, and commercial real estate investments including the Stanford Research Park. These assets are managed by external equity investment managers,internal fixed income and cash managers,and internal and external real estate managers.

ENDOWMENT ASSET ALLOCATION smc oversees the University's $8.9 billion endowment. Given the perpetual nature of the University, the strategic investment horizon is very long-term. smc's objective is to develop and execute an investment strategy that generates optimal total return (income plus price appreciation) relative to the risk taken. The result is that most of Stanford's endowment ($8.6 billion referred to as the Merged Endowment Pool) is invested in multiple asset classes.

The asset classes of the Merged Endowment Pool and their target allocations at August 31, 2000 follow:

Asset Class	Strategic Allocation	Allocation Range
Domestic Stocks	25%	20% to 30%
International Stocks	22%	17% to 27%
Alternative Investments	25%	20% to 30%
Real Estate Equity	18%	13% to 23%
Domestic Fixed Income	10%	5% to 25%
Cash	0%	0% to 10%
	100%	

Alternative Investments include venture capital, buyouts, natural resources, and absolute return strategies; Real Estate Equity includes the Stanford Shopping Center, as well as other diversified real estate investments.

ENDOWMENT PERFORMANCE The u.s. economy continued to grow rapidly through the first half of the 1999–2000 fiscal year; however, signs of decelerating growth began to appear by mid-year. Growth stocks, particularly technology issues, continued their market leadership, though this market sector showed extreme volatility. Inflation-sensitive investments, such as commodities and real estate, advanced as well. This environment supported significant appreciation in the endowment, which had a total return for the year of 39.8%.

Endowment performance is assessed by comparing the total return for the endowment investment portfolio first to inflation to measure real return and then to comparable benchmarks to measure the effectiveness of smc's management.

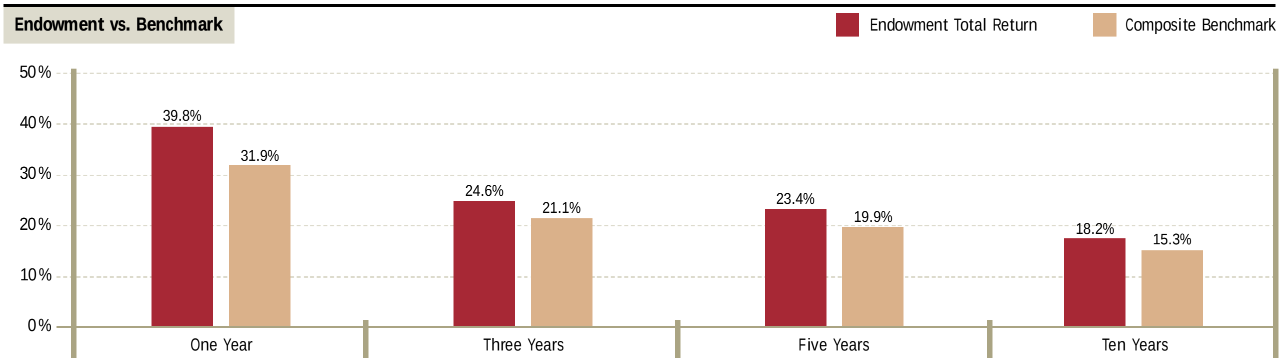
ENDOWMENT PERFORMANCE COMPARED TO INFLATION Viewing the performance of Stanford's multi-asset strategy in a long-term context, the table below illustrates annual returns for various periods ending August 31, 2000. Stanford's real return objective is 6.25% net of management fees. If this real return target is achieved over time, the real value of the endowment will be maintained net of annual payouts to support endowed activities. The real return (net of management fees) has substantially exceeded the 6.25% target in all recent periods:

	One Year	Three Years	Five Years	Ten Years
Nominal Endowment Return	39.8%	24.6%	23.4%	18.2%
GDP Deflator [1]	1.9%	1.6%	1.7%	2.2%
Real Endowment Return	**37.9%**	**23.0%**	**21.7%**	**16.0%**

[1] The Gross Domestic Price (GDP) deflator, a measure of inflation, is through the quarter ending June 30, 2000.

ENDOWMENT PERFORMANCE COMPARED TO BENCHMARKS To evaluate the performance of the investment managers selected by Stanford, benchmarks that are appropriate measures for each individual asset class are chosen. For example, the benchmark for the Domestic Stocks asset class is the Russell 3000 Index. The composite benchmark return is a blending of the benchmark returns for each asset class weighted by the strategic allocations above. Actual performance net of management fees is compared to the composite benchmark for periods ending August 31, 2000:

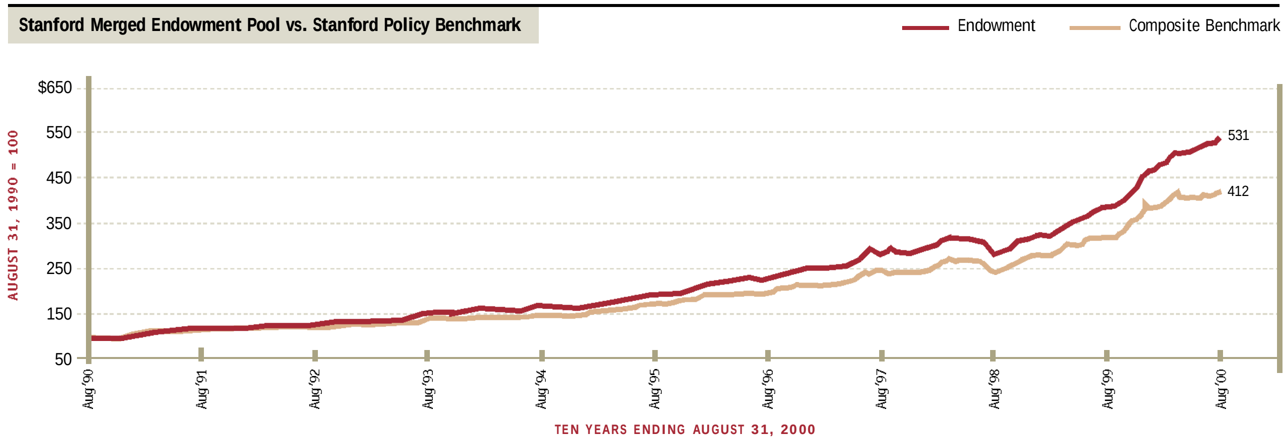
Endowment vs. Benchmark



Stanford's long-term performance advantage demonstrates the University's effectiveness in implementing the multi-asset class approach through superior manager selection.

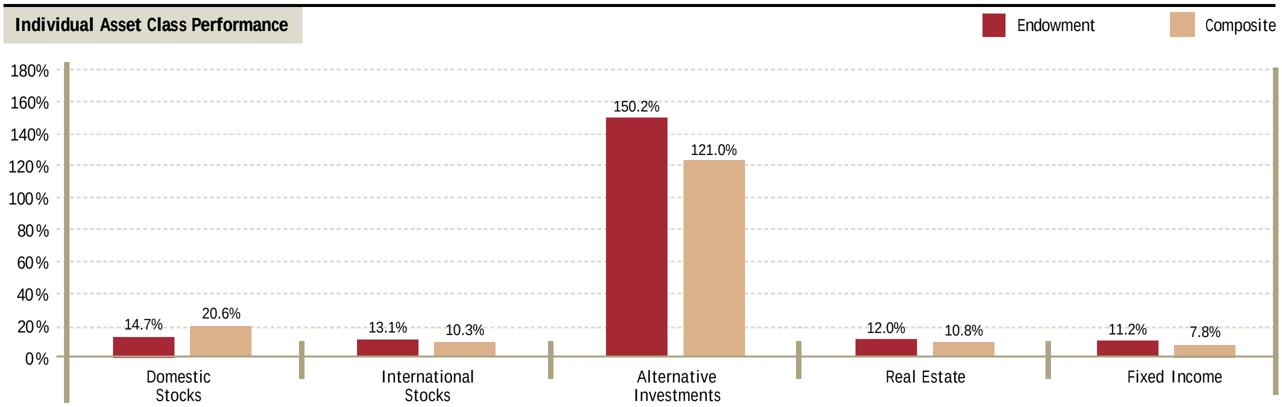
The cumulative return chart below compares the growth of $100 in Stanford's endowment with that of the composite benchmark over the past 10 years:

Stanford Merged Endowment Pool vs. Stanford Policy Benchmark



The performance advantage during this 10-year period relative to benchmark returns has added in excess of $1 billion to the value of the endowment.

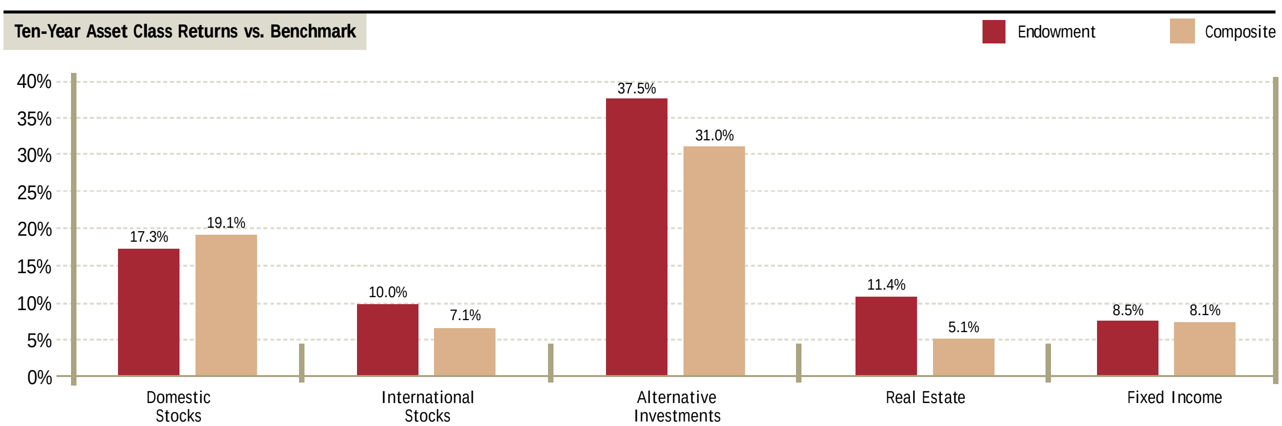
INDIVIDUAL ASSET CLASS PERFORMANCE The solid performance of all asset classes during the year ending August 31, 2000 was overshadowed only by the continued dramatic return of Alternative Investments. The graphs below show individual class returns relative to their benchmarks:



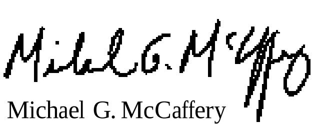
The accelerating rate of technology innovation and the institutionalization of the venture capital industry provided unprecedented opportunities and record amounts of capital invested. Public markets were characterized by strong proactive momentum in 1999 and early 2000, but reached an unsustained peak in March. Technology and other growth stock indices have fallen dramatically since then. Within Alternative Investments, the fiscal year return on Stanford's portfolio of venture funds was 248%, including realized gains of $965 million on distributed securities.

Stanford's domestic stock portfolio is deliberately over-weighted in value stocks to offset the growth stock-oriented characteristics of the public and private equity holdings within venture capital partnerships held in Alternative Investments. This value orientation resulted in a year of underperformance relative to its benchmark.

Over a 10-year period, each asset class exceeded its benchmark, except Domestic Stocks, again due to the over-weighting of value stocks. The total endowment return of 18.2% well outperformed the benchmark's 15.3% return:



I am privileged to have joined smc at the end of a great fiscal year. A strong foundation has been built by outgoing ceo, Laurie Hoagland, our portfolio management team, and the smc Board of Directors. Our goal is to innovate in ways designed to enhance overall endowment return and provide consistent and growing support of the University's programs.



Michael G. McCaffery
CEO, STANFORD MANAGEMENT COMPANY

Decade in Review

YEARS ENDED AUGUST 31

IN THOUSANDS OF DOLLARS	2000	1995	1990
FINANCIAL:			
PRINCIPAL SOURCES OF OPERATING REVENUES:			
Student tuition, room and board	$ 369,013	$ 293,715	$ 206,978
Sponsored research support	674,408	537,902	461,874
Patient care*	361,891	-	-
Expendable gifts in support of operations	113,187	82,634	74,070
Endowment income in support of operations	315,002	154,981	76,225
PRINCIPAL PURPOSES OF EXPENDITURES:			
Instruction and departmental research	595,991	391,459	300,906
Organized research (direct costs)	597,559	402,588	358,295
Health care services *	397,490	-	-
Libraries	93,194	57,893	51,261
Student financial aid	89,117	63,934	52,591
Administration, development and general	176,083	136,212	93,331
FINANCIAL POSITION HIGHLIGHTS:			
Investments at fair value	10,797,136	4,338,480	2,382,120
Plant facilities, net of accumulated depreciation	2,215,027	1,058,354	755,799
Equity investment in related health care entities *	20,063	280,057	213,001
Notes and bonds payable	1,379,919	661,172	455,175
Total net assets	12,124,780	5,035,037	3,352,866

	2000	1995	1990
STUDENTS:			
ENROLLMENT: **			
Undergraduate	6,548	6,577	6,555
Graduate	7,700	7,467	6,886
DEGREES CONFERRED:			
Bachelor's degrees	1,737	1,623	1,690
Advanced degrees	2,904	2,830	2,469
ANNUAL UNDERGRADUATE TUITION RATE	$ 23,058	$ 18,669	$ 13,569
FACULTY:			
Members of the Academic Council	1,368	1,290	1,357

*Beginning April 1, 2000, certain health care activities are reported on the consolidated basis. Prior to this date, they were reported on the equity basis.

** Enrollment for Autumn Quarter immediately following fiscal year end.

Consolidated Statement of Financial Position

AT AUGUST 31, 2000 AND 1999

IN THOUSANDS OF DOLLARS

	2000 University	2000 Hospitals	2000 Consolidated	1999 Consolidated
ASSETS				
Cash and cash equivalents (Note 1)	$ 431,420	$ 102,246	$ 533,666	$ 488,932
Accounts receivable (Note 3)	324,537	219,128	543,665	208,155
Receivables (payables) from SHC, net	40,064	(40,064)	-	-
Inventories, prepaid expenses, and other assets	55,584	26,877	82,461	50,535
Pledges receivable (Note 6)	481,497	-	481,497	177,101
Student loans receivable	74,693	-	74,693	73,851
Other loans receivable (primarily faculty mortgages) (Note 4)	173,147	-	173,147	141,332
Investments at fair value (Note 5)	10,547,341	249,795	10,797,136	7,807,177
Investment in UCSF Stanford Health Care (Note 2)	-	20,063	20,063	451,613
Plant facilities, net of accumulated depreciation (Note 7)	1,892,999	322,028	2,215,027	1,718,430
Collections of works of art (Note 7)	-	-	-	-
Total assets	**$ 14,021,282**	**$ 900,073**	**$ 14,921,355**	**$ 11,117,126**
LIABILITIES AND NET ASSETS				
LIABILITIES:				
Accounts payable and accrued expenses	$ 491,713	$ 259,090	$ 750,803	$ 424,540
Liabilities under security agreements (Note 10)	358,441	-	358,441	343,015
Income beneficiary share of living trust investments (Note 11)	258,100	-	258,100	237,196
Notes and bonds payable (Notes 8 and 9)	1,145,248	234,671	1,379,919	1,126,293
U.S. Government refundable loan funds	49,312	-	49,312	48,418
Total liabilities	**2,302,814**	**493,761**	**2,796,575**	**2,179,462**
NET ASSETS (NOTE 1):				
Unrestricted:				
Designated for operations	1,107,707	217,043	1,324,750	918,666
Investment in plant facilities	1,070,131	87,357	1,157,488	1,023,620
Endowment gains and funds functioning as endowment	6,511,772	-	6,511,772	4,325,936
Investment in UCSF Stanford Health Care (Note 2)	-	20,063	20,063	451,613
Unrestricted	8,689,610	324,463	9,014,073	6,719,835
Temporarily restricted	478,159	25,665	503,824	289,012
Permanently restricted	2,550,699	56,184	2,606,883	1,928,817
Total net assets	**11,718,468**	**406,312**	**12,124,780**	**8,937,664**
Total liabilities and net assets	**$ 14,021,282**	**$ 900,073**	**$ 14,921,355**	**$ 11,117,126**

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

Consolidated Statement of Activities

YEARS ENDED AUGUST 31, 2000 AND 1999

IN THOUSANDS OF DOLLARS

	2000 University	2000 Hospitals	2000 Consolidated	1999 Consolidated
UNRESTRICTED NET ASSETS ACTIVITY				
REVENUES:				
Student income:				
Undergraduate programs	$ 154,153	$ -	$ 154,153	$ 147,429
Graduate programs	149,013	-	149,013	141,904
Room and board	65,847	-	65,847	61,251
Student financial aid	(89,117)	-	(89,117)	(82,406)
Total student income	**279,896**	**-**	**279,896**	**268,178**
Sponsored research support (primarily federal):				
Direct costs — University	379,070	-	379,070	357,482
Direct costs — Stanford Linear Accelerator Center	179,892	-	179,892	170,660
Indirect costs	115,446	-	115,446	105,476
Total sponsored research support	**674,408**	**-**	**674,408**	**633,618**
Health care services:				
Patient care	-	361,891	361,891	-
Physicians' services and support from SHC, net	58,509	(58,509)	-	-
Physicians' services and support from UCSF Stanford Health Care, net	98,193	-	98,193	155,120
Total health care services	**156,702**	**303,382**	**460,084**	**155,120**
Expendable gifts in support of operations	**113,187**	**-**	**113,187**	**97,412**
Investment income:				
Endowment income distributed for operations	215,727	-	215,727	143,835
Endowment gains distributed for operations	99,275	-	99,275	117,770
Other investment income	175,433	24,769	200,202	141,212
Total investment income	**490,435**	**24,769**	**515,204**	**402,817**
Special program fees and other income	**191,190**	**15,237**	**206,427**	**158,467**
Net assets released from restrictions	**51,437**	**6,054**	**57,491**	**32,931**
Total revenues	**1,957,255**	**349,442**	**2,306,697**	**1,748,543**
EXPENSES:				
Salaries and benefits	874,040	193,210	1,067,250	808,661
Depreciation	171,295	22,984	194,279	112,093
Stanford Linear Accelerator Center	179,892	-	179,892	170,660
Institutional support	317,339	151,874	469,213	293,580
Other operating expenses	187,806	29,422	217,228	214,541
Total expenses	**1,730,372**	**397,490**	**2,127,862**	**1,599,535**
Excess (deficit) of revenues over expenses	**$ 226,883**	**$ (48,048)**	**$ 178,835**	**$ 149,008**

Consolidated Statement of Activities (continued)

YEARS ENDED AUGUST 31, 2000 AND 1999 — IN THOUSANDS OF DOLLARS

	2000 University	2000 Hospitals	2000 Consolidated	1999 Consolidated
UNRESTRICTED NET ASSETS ACTIVITY (continued)				
Excess (deficit) of revenues over expenses	**$ 226,883**	**$ (48,048)**	**$ 178,835**	**$ 149,008**
OTHER CHANGES IN UNRESTRICTED NET ASSETS:				
Expendable gifts invested in the endowment	17,742	-	17,742	4,087
Reinvested endowment gains	1,966,599	-	1,966,599	1,128,604
Change in equity of investment in UCSF Stanford Health Care	-	(51,994)	(51,994)	(24,818)
Stanford Alumni Association contribution	-	-	-	23,535
Capital and other gifts released from restrictions	88,307	624	88,931	118,681
Reclassification of SHC net assets (Note 2)	-	(52,838)	(52,838)	-
Other investment income invested in the endowment	155,744	-	155,744	54,742
Other investment income	-	566	566	-
Other	(556)	(8,791)	(9,347)	(12,658)
Net change in unrestricted net assets	**2,454,719**	**(160,481)**	**2,294,238**	**1,441,181**
TEMPORARILY RESTRICTED NET ASSETS ACTIVITY				
Gifts and pledges	326,947	5,704	332,651	86,047
Temporarily restricted return from endowment investments	13,830	-	13,830	3,165
Living trust investment income and actuarial adjustment	13,757	-	13,757	29,132
Other investment income	8,444	2,652	11,096	5,580
Net assets released from restrictions	(51,437)	(6,054)	(57,491)	(32,931)
Capital and other gifts released from restrictions	(88,307)	(624)	(88,931)	(118,681)
Reclassification of SHC net assets (Note 2)	-	16,186	16,186	-
Other	(34,087)	7,801	(26,286)	(2,241)
Net change in temporarily restricted net assets	**189,147**	**25,665**	**214,812**	**(29,929)**
PERMANENTLY RESTRICTED NET ASSETS ACTIVITY				
Gifts and pledges	390,616	16,220	406,836	99,611
Permanently restricted return from endowment investments	185,485	-	185,485	101,569
Living trust investment income and actuarial adjustment	10,845	-	10,845	31,482
Reclassification of SHC net assets (Note 2)	-	36,652	36,652	-
Other investment income	3,069	1,275	4,344	2,599
Other	31,867	2,037	33,904	5,755
Net change in permanently restricted net assets	**621,882**	**56,184**	**678,066**	**241,016**
Net change in total net assets	**3,265,748**	**(78,632)**	**3,187,116**	**1,652,268**
Total net assets, beginning of year	8,452,720	484,944	8,937,664	7,285,396
Total net assets, end of year	**$ 11,718,468**	**$ 406,312**	**$ 12,124,780**	**$ 8,937,664**

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

Consolidated Statement of Cash Flows

YEARS ENDED AUGUST 31, 2000 AND 1999

IN THOUSANDS OF DOLLARS

	2000 University	2000 Hospitals	2000 Consolidated	1999 Consolidated
CASH FLOW FROM OPERATING ACTIVITIES:				
Tuition, fees, sales and services	$ 650,403	$ 341,911	$ 992,314	$ 545,193
Investment income	257,494	24,769	282,263	219,366
Gifts, grants, and contracts	893,612	-	893,612	792,037
Cash paid to suppliers and employees	(1,394,128)	(341,923)	(1,736,051)	(1,412,875)
Interest paid	(50,556)	(9,205)	(59,761)	(50,164)
Net cash provided by operating activities	**356,825**	**15,552**	**372,377**	**93,557**
CASH FLOW FROM INVESTING ACTIVITIES:				
Land, building, and equipment purchases	(362,780)	(15,901)	(378,681)	(344,671)
Student, faculty, and other loans:				
New loans made	(63,184)	-	(63,184)	(62,515)
Principal collected	30,527	-	30,527	33,778
Purchases of investments	(4,940,933)	-	(4,940,933)	(3,508,730)
Sales and maturities of investments	4,575,367	24,600	4,599,967	3,160,554
Advances under security agreements	(35,222)	-	(35,222)	63,721
Cash distributions from UCSF Stanford Health Care	-	60,127	60,127	-
Net cash (used for) provided by investing activities	**(796,225)**	**68,826**	**(727,399)**	**(657,863)**
CASH FLOW FROM FINANCING ACTIVITIES:				
Gifts for endowment, capital projects, and other restricted purposes	356,849	17,025	373,874	167,792
Income reinvested in endowment, capital projects, and student loans	7,787	-	7,787	(383)
Proceeds from borrowing	95,596	-	95,596	298,393
Repayment of debt	(76,641)	(860)	(77,501)	(138,486)
Net cash provided by financing activities	**383,591**	**16,165**	**399,756**	**327,316**
(Decrease) increase in cash and cash equivalents	**(55,809)**	**100,543**	**44,734**	**(236,990)**
Cash and cash equivalents, beginning of year	487,229	1,703	488,932	725,922
Cash and cash equivalents, end of year	**$ 431,420**	**$ 102,246**	**$ 533,666**	**$ 488,932**

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

Notes to the Consolidated Financial Statements

1. SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION The consolidated financial statements include the accounts of Stanford University (the "University"), Stanford Hospital and Clinics ("shc"), which includes Lucile Salter Packard Children's Hospital at Stanford ("lspch"), Stanford Alumni Association ("saa"), and other majority owned entities. All significant inter-entity transactions and balances have been eliminated upon consolidation.

University The University is a private, not-for-profit educational institution, founded in 1885 by Senator and Mrs. Leland Stanford in memory of their son, Leland Stanford, Junior. It is organized into seven schools with approximately 1,600 faculty and more than 14,000 graduate and undergraduate students. The University category presented in the financial statements comprises all the accounts of the University, including saa, the Hoover Institution and other institutes and research centers, and Stanford Linear Accelerator Center ("slac").

The University manages and operates slac for the Department of Energy ("doe") under a management and operating contract;therefore, the revenues and expenditures of slac are included in the statement of activities. As slac is a federally funded research and development center, the assets and liabilities of slac are owned by the doe and,accordingly, are not included in the statement of financial position.

Effective September 1, 1998, the University became the sole member of saa. The University recorded the net assets of saa at September 1, 1998, as a contribution for the year ended August 31, 1999.

Hospitals The Hospitals category presented in the financial statements includes shc and the University's investment in ucsf Stanford Health Care, a nonprofit corporation controlled jointly by the University and the Regents of the University of California ("uc"), which operated the clinical facilities of Stanford Health Services ("shs"),lspch, and the University of California, San Francisco ("ucsf") from November 1, 1997 through March 31, 2000.

The University's investment in ucsf Stanford Health Care is reported in these financial statements using the equity method of accounting. As described in Note 2, effective March 31, 2000, the operating activities of ucsf Stanford Health Care were terminated. On April 1, 2000, ucsf Stanford Health Care transferred the control of its clinical facilities to shc and uc. The health care activities of shc, including its revenue, expenses, assets and liabilities, are consolidated in these financial statements. Accordingly, for fiscal year 2000, seven months of health care activities are presented under the equity method and five months are presented on a consolidated basis. Such amounts are not comparable with full-year results. The organization, financial information, and agreements among the University and the aforementioned health care entities are discussed in Note 2.

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

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. These categories, as described below, are the method by which the Financial Accounting Standards Board has chosen to standardize the financial statements of all private not-for-profit institutions.

Unrestricted Net Assets Unrestricted net assets are expendable resources used to support either the University's core activities of teaching and research or the Hospitals' patient care, teaching, and research missions. These net assets may be designated by the University or the Hospitals for specific purposes under internal operating and administrative arrangements or be subject to contractual agreements with external parties. Donor-restricted contributions, which relate to the University's or the Hospitals' core activities, that are received and expended, or deemed expended due to the nature of their restriction, in accordance with the provisions of Statement of Financial Accounting Standards No. 117, "Financial Statements of Not-for-Profit Organizations," ("sfas No. 117"),are classified as unrestricted. Donor-restricted resources intended for capital projects are released from their temporary restrictions and reclassified as unrestricted support when spent. All expenses are recorded as a reduction of unrestricted net assets.

Unrestricted net assets consist of the following balances at August 31, 2000 and 1999, in thousands of dollars:

	2000 Consolidated	1999 Consolidated
DESIGNATED FOR OPERATIONS:		
UNIVERSITY:		
Programs	$ 406,471	$ 373,931
Other gifts and income	585,592	454,669
Student loans and capital projects	115,644	90,066
	1,107,707	918,666
HOSPITALS:		
SHC programs	217,043	-
	1,324,750	**918,666**
INVESTMENT IN PLANT FACILITIES:		
University's investment in plant facilities	1,070,131	1,023,620
SHC's investment in plant facilities	87,357	-
	1,157,488	**1,023,620**
ENDOWMENT GAINS AND FUNDS FUNCTIONING AS ENDOWMENT:		
Funds functioning as endowment	1,315,375	1,113,378
Gains on pure endowment	2,985,100	1,746,254
Gains on funds functioning as endowment	2,211,297	1,466,304
	6,511,772	**4,325,936**
INVESTMENT IN UCSF STANFORD HEALTH CARE	**20,063**	**451,613**
Unrestricted net assets	**$ 9,014,073**	**$ 6,719,835**

Temporarily Restricted Net Assets Temporarily restricted net assets are subject to donor-imposed restrictions that expire upon the passage of time or upon specific actions being undertaken by the University or the Hospitals at which time they are released and reclassified to unrestricted support.

Temporarily restricted net assets consist of the following balances at August 31, 2000 and 1999, in thousands of dollars:

	2000 Consolidated	1999 Consolidated
Support for capital projects	$ 198,794	$ 86,753
Term endowments	66,259	35,616
Funds subject to living trust agreements	61,643	64,928
Other gifts and income for instruction, research, and University support	151,463	101,715
	478,159	289,012
SHC indigent care, plant, and other funds	25,665	-
Temporarily restricted net assets	**$ 503,824**	**$ 289,012**

Permanently Restricted Net Assets Permanently restricted net assets are subject to donor-imposed restrictions requiring that the principal be invested in perpetuity.

Permanently restricted net assets consist of the following balances at August 31, 2000 and 1999, in thousands of dollars:

	2000 Consolidated	1999 Consolidated
Endowment funds	$ 2,322,268	$ 1,721,798
Funds subject to living trust agreements	174,787	156,556
Student loans	53,644	50,463
	2,550,699	1,928,817
SHC funds limited as to use	56,184	-
Permanently restricted net assets	**$ 2,606,883**	**$ 1,928,817**

The University's and the Hospitals' internal financial management practices differ from the reporting requirements set forth in sfas No. 117, particularly with respect to the recognition of the release of the donor-imposed restrictions on gifts and related investment income and gains. In order to comply with the internal and external restrictions placed on the use of the resources, the University's accounts are maintained in accordance with the principles of fund accounting. Under these principles, resources are managed through various funds in accordance with their specified activities or objectives.

Management considers all revenues and expenses to be related to operations except reinvested endowment gains, changes in equity of ucsf Stanford Health Care, capital gifts,expendable gifts invested in the endowment, and certain other non-operating changes.

CASH AND CASH EQUIVALENTS Cash and cash equivalents include u.s. Treasury bills, bankers'acceptances,commercial paper, certificates of deposit, money market funds, and other short-term investments,carried at cost, which approximates market value. The University and the Hospitals consider all investments with remaining maturities of 90 days or less at the time of purchase to be cash equivalents except cash and cash-equivalent amounts held in connection with endowments, as well as certain cash restricted in its use by the Hospitals, which are classified as investments.

STUDENT LOANS RECEIVABLE Student loans receivable are carried at cost, less an allowance for doubtful accounts. Determination of the fair value of student loans receivable, which include donor-restricted and federally sponsored student loans with mandated interest rates and repayment terms subject to significant restrictions as to their transfer and disposition, could not be made without incurring excessive costs.

INVESTMENTS Investments are generally recorded at fair value based upon quoted market prices, when available, or estimates of fair value. Donated assets are recorded at fair value at the date of donation. Those investments for which fair value is not readily determinable are carried at cost, fair value at date of donation, or at a nominal value. Developed real estate is generally valued based on discounted cash flows of existing leases. Non-developed land is reported at cost. Securities transactions are reported on a trade-date basis.

PLANT FACILITIES Plant facilities (including land) are stated at cost or fair value at date of donation. Interest for construction financing is capitalized as a cost of construction. Art objects and collections are not capitalized, as the University uses the proceeds from any sales of such items to acquire other art or collection pieces. Depreciation is computed using the straight-line method over the estimated useful lives of the plant assets.

As described in Note 7, beginning in fiscal year 2000, the University adopted a revised set of useful lives for its equipment and buildings to reflect current information and to conform with those used for federal cost reimbursement accounting purposes. Depreciation charges in fiscal year 2000 are higher as a result of the adoption of the new useful lives, which are generally shorter than those previously employed.

The useful lives used in calculating depreciation are as follows:

	2000		1999
	University	Hospitals	University
Buildings	20–40 years	10–40 years	40 years
Land and building improvements	10–40 years	5–40 years	15 years
Equipment and books	3–10 years	3–20 years	6 years

The method of computing depreciation on academic buildings was also changed in fiscal year 2000. Academic buildings placed in service before September 1, 1999 are depreciated based upon the estimated useful life of the building. Academic buildings placed in service after August 31, 1999 are depreciated based on individual component lives.

PROVISION FOR EMPLOYEE BENEFITS, COMPENSATED ABSENCES, AND PROFESSIONAL LIABILITIES The University self-insures for unemployment and disability benefits. shc self-insures for unemployment benefits,professional liability risks, and medical malpractice losses. Annual provisions for estimated claims are charged to operating expenses. The provision includes an accrual for compensated absences.

STUDENT FINANCIAL AID Certain students receive financial assistance in the form of scholarship and fellowship grants which cover a portion of tuition, living, and other costs. Student financial aid of $89,117,000 and $82,406,000 for the years ended August 31, 2000 and 1999, respectively, is reported as a reduction in student income.

INDIRECT COST RECOVERY The University records reimbursements of indirect costs (facilities and administrative costs) from grants,contracts, and slac as operating revenues.

HEALTH CARE SERVICES A majority of patient care revenue is derived from contractual agreements with Medicare, Medi-Cal, and certain other contracted rate payors. Payments under these agreements and programs are based on specific amounts per case, costs of rendering service to program beneficiaries, or contracted prices.

UNSPONSORED COMMUNITY BENEFIT EXPENSE shc's commitment to community service is evidenced by services provided to persons who cannot afford to pay and benefits provided to the broader community. Benefits for those who cannot afford to pay include services provided to persons with inadequate resources and/or who are uninsured or underinsured. The amount of charity care services,quantified at customary charges, was $2,172,000 for the five months ended August 31, 2000. This amount of services is not recorded as revenue since shc does not pursue collection of unsponsored community benefits.

TAX STATUS The University, shc, lspch, and saa are exempt from federal income tax to the extent provided by Section 501(c)(3) of the Internal Revenue Code.

SEPARATE SHC FINANCIAL STATEMENTS shc prepares separate stand-alone financial statements in conformity with generally accepted accounting principles. For purposes of presentation of shc's financial position, statement of activities, and statement of cash flows in these consolidated financial statements, conforming reclassifications have been made to shc's revenue and expenses and inter-entity receivables and payables consistent with categories in the consolidated financial statements.

RECLASSIFICATIONS Fiscal year 1999 amounts presented for comparative purposes have been reclassified to conform with the fiscal year 2000 presentation.

2. RELATED HEALTH CARE ENTITIES

ORGANIZATION AND BACKGROUND The University is the sole member of shc, which is the sole member of lspch. Prior to January 2000, shc was known as shs. Effective November 1, 1997, shs transferred substantially all its assets and liabilities and uc transferred certain assets and liabilities of ucsf Medical Center to ucsf Stanford Health Care, a California nonprofit public benefit corporation. ucsf Stanford Health Care was organized by the University and uc to operate the clinical facilities of shs, lspch, and ucsf in support of the schools of medicine of the University and ucsf.

In October 1999, the University and uc agreed to terminate the operating activities of ucsf Stanford Health Care effective March 31, 2000. On April 1, 2000, ucsf Stanford Health Care transferred control of the clinical facilities of the University and ucsf to shc and uc, respectively. Included in the transfer to shc was Stanford University Hospital, lspch, and the primary care, specialty and subspecialty clinics and professional practices associated with the University's School of Medicine faculty. For the five months ended August 31, 2000, shc owned and operated these clinical facilities in support of the University's School of Medicine.

Net assets transferred to shc and uc were transferred at their historical cost basis of $674,991,000. ucsf Stanford Health Care's remaining net assets of $40,200,000 were retained by ucsf Stanford Health Care to satisfy known liabilities, to pay costs of dissolution (currently anticipated to occur prior to August 31, 2001) and as a provision for unexpected expenses. The University is responsible for one half of these expenses, offset by investment income. The University's share of ucsf Stanford Health Care's remaining net assets at August 31, 2000 was $20,063,000. Of the $379,556,000 of ucsf Stanford Health Care's net assets transferred to shc, $16,186,000 were temporarily restricted and $36,652,000 were permanently restricted.

UCSF STANFORD HEALTH CARE SUMMARIZED FINANCIAL INFORMATION Summarized financial information at and for the year ended August 31, 2000 includes health care services operations for the seven months ended March 31, 2000 and winding-down activities for the five months ended August 31, 2000. Therefore, the summarized financial information is not comparable with the year ended August 31, 1999, which reflects 12 months of health care services operations.

The financial information summarized below has been derived from audited financial information provided by ucsf Stanford Health Care for the 12 months ended August 31, 1999 and for the seven months ended March 31, 2000, and from unaudited financial information for the five months ended August 31, 2000, in thousands of dollars:

	2000	1999
Total revenues	**$ 914,767**	**$ 1,704,703**
Deficit resulting from operations	$ (127,233)	$ (78,518)
Distribution of net assets to SHC	(379,556)	-
Distribution of net assets to UC	(295,435)	-
Other changes in net assets	(405)	23,921
Decrease in net assets	**$ (802,629)**	**$ (54,597)**

	2000	1999
Total assets	$ 116,822	$ 1,664,134
Total liabilities	76,696	821,379
Total net assets	**$ 40,126**	**$ 842,755**

UNIVERSITY'S INVESTMENT IN HOSPITALS The following table summarizes the changes in the University's investment in ucsf Stanford Health Care and the net assets of shc during the years ended August 31, 2000 and 1999, in thousands of dollars:

	UCSF Stanford Health Care	SHC
Investment at August 31, 1998	$ 476,431	$ 31,047
FOR THE YEAR ENDED AUGUST 31, 1999:		
Deficit resulting from operations	(39,259)	(37)
Other changes in net assets	14,441	2,321
Investment at August 31, 1999	451,613	33,331
FOR THE SEVEN MONTHS ENDED MARCH 31, 2000:		
Deficit resulting from operations	(63,878)	
Other changes in net assets	11,921	
Investment at March 31, 2000	399,656	
APRIL 1, 2000:		
Transfer of net assets of UCSF Stanford Health Care	(379,556)	379,556
Investment at April 1, 2000	20,100	
FOR THE FIVE MONTHS ENDED AUGUST 31, 2000:		
Deficit resulting from winding-down activities	(37)	
FOR THE YEAR ENDED AUGUST 31, 2000:		
Deficit resulting from operations		(48,048)
Other changes in net assets		21,410
Investment at August 31, 2000	**$ 20,063**	**$ 386,249**

The University's net investment in the Hospitals at August 31, 2000 and 1999 is comprised of the following, in thousands of dollars:

	2000	1999
SHC	$ 386,249	$ 33,331
UCSF Stanford Health Care	20,063	451,613
Hospitals	**$ 406,312**	**$ 484,944**

RELATED-PARTY TRANSACTIONS During the seven months ended March 31, 2000 and for the year ended August 31, 1999, the University had operating agreements with ucsf Stanford Health Care for the professional services of faculty members of the Stanford University School of Medicine, for certain other University employees, and for other facility charges and services. Accordingly, the University has recorded net revenues from ucsf Stanford Health Care of approximately $98,193,000 for the seven months ended March 31, 2000 and $155,120,000 for the year ended August 31, 1999. The University and shc have receivables, net of payables,from ucsf Stanford Health Care of approximately $28,531,000 and $81,295,000 at August 31, 2000 and 1999, respectively. Certain investments of ucsf Stanford Health Care with an approximate fair market value of $159,914,000 at August 31, 1999, were managed by the University.

On April 1, 2000, the University entered into new operating agreements with shc for the professional services of faculty members of the Stanford University School of Medicine, for certain other University employees, and for other facility charges and services.

3. ACCOUNTS RECEIVABLE

Accounts receivable at August 31, 2000 and 1999, in thousands of dollars,are as follows:

	2000 Consolidated	1999 Consolidated
UNIVERSITY:		
U.S. Government	$ 40,030	$ 40,283
Accrued interest on investments	19,855	17,149
Student	3,148	3,317
Due from brokers	221,232	30,406
Due from UCSF Stanford Health Care	-	85,795
Other	42,390	33,369
	326,655	210,319
Less allowances for losses	(2,118)	(2,164)
	324,537	208,155
HOSPITALS:		
SHC's receivables, net of allowances (includes $168,936 of net patient receivables and $33,167 from UCSF Stanford Health Care)	219,128	-
Accounts receivable	**$ 543,665**	**$ 208,155**

4. FACULTY AND STAFF LOANS RECEIVABLE

In a program to attract and retain excellent faculty and senior staff, the University provides home mortgage financing assistance. Notes amounting to $170,897,000 and $134,607,000 at August 31, 2000 and 1999, respectively, from University faculty and staff are collateralized by deeds of trust on properties concentrated in the region surrounding the University. The carrying value of such loans approximates fair value.

5. INVESTMENTS

Investments held by the University and the Hospitals at August 31, 2000 and 1999 are reported principally at fair value, on a consolidated basis, as follows, in thousands of dollars:

	2000			1999
	University	Hospitals	Consolidated	Consolidated
Cash and short-term investments	$ 697,131	$ 70,515	$ 767,646	$ 423,995
Bonds and mutual funds	1,015,421	8,991	1,024,412	821,553
Corporate stocks and mutual funds	4,823,996	10,478	4,834,474	3,938,482
Assets held by other trustees	114,455	-	114,455	118,295
Real estate and improvements:				
Stanford Shopping Center	228,362	-	228,362	211,972
Other	740,281	-	740,281	629,147
Limited partnership investments	3,022,130	-	3,022,130	1,775,833
Other	65,376	-	65,376	47,814
	10,707,152	89,984	10,797,136	7,967,091
Investments managed for UCSF Stanford Health Care	-	-	-	(159,914)
SHC's investment in University's Merged Endowment Pool	(159,811)	159,811	-	-
Investments at fair value	**$ 10,547,341**	**$ 249,795**	**$ 10,797,136**	**$ 7,807,177**

The University reports endowment cash and short-term investments as investments. Assets held by other trustees are reported net of income beneficiary share in the amounts of $40,729,000 and $37,259,000 at August 31, 2000 and 1999, respectively.

Total investment return reflected in the statement of activities for the years ended August 31, 2000 and 1999, in thousands of dollars, is as follows:

	2000 University	2000 Hospitals	2000 Consolidated	1999 Consolidated
Other unrestricted return	$ 2,122,343	$ 566	$ 2,122,909	$ 1,183,346
Temporarily restricted return	36,031	2,652	38,683	37,877
Permanently restricted return	199,399	1,275	200,674	135,650
Total reinvested return	2,357,773	4,493	2,362,266	1,356,873
Investment return used for operations	490,435	24,769	515,204	402,817
Total investment return	**$ 2,848,208**	**$ 29,262**	**$ 2,877,470**	**$ 1,759,690**

As indicated in the following table, as of August 31, 2000 and 1999, in thousands of dollars, the University's investments are invested in the expendable funds pool ("efp"), the merged endowment pools or in specific instruments to comply with donor requirements:

	2000 Consolidated	1999 Consolidated
UNIVERSITY:		
Expendable Funds Pool	$ 919,665	$ 754,062
Merged Endowment Pool	8,575,607	5,952,681
Merged Pool C	165,928	142,166
Living trusts	494,530	458,680
Other investments	1,371,170	1,277,666
Less funds cross-invested in endowment pools (including SHC's investment of $159,811 in the University's Merged Endowment Pool)	(979,559)	(778,078)
	10,547,341	7,807,177
HOSPITALS:		
SHC's investments	249,795	-
Investments at fair value	**$ 10,797,136**	**$ 7,807,177**

The efp is a pool of short-term investments,bonds, and equities which is intended to provide adequate liquidity and prudent growth as well as an opportunity for the University to earn long-term premiums on a portion of the pool. The University's endowment is invested through several pools with varying objectives.

The University Board of Trustees ("the Board") has established a policy for the distribution of the investment returns of the efp. The policy requires that an amount based upon a pre-set interest rate and the performance of the efp be made available to support current operations. The difference between the actual return of this pool and the required distribution amount is deposited or withdrawn from funds functioning as endowment. For the years ended August 31, 2000 and 1999, the results of the efp, in thousands of dollars, were as follows:

	2000 University	1999 University
Total investment return of the EFP	$ 246,514	$ 124,516
Less income made available to current operations	(90,770)	(69,774)
Income invested in the endowment	**$ 155,744**	**$ 54,742**

The Merged Endowment Pool holdings are invested with the expectation of maximizing the total return. Board policy limits that portion of the realized gain that may be expended. Merged Pool C is invested for capital appreciation rather than current yield. The distributions of certain endowments whose gift terms allow only yield to be expended are limited to current yield.

The University's policy governing the amounts paid annually from the endowment pools to support current operations is designed to protect the value of the endowment against the expected impact of inflation and to provide real growth of the endowment, while also funding a relatively constant portion of the University's current operating expenditures. The payout rate, set annually by the Board, is based upon an estimate of total investment returns and the expected impact of inflation on the endowment assets. The sources of the payout are earned income on the endowment assets (interest,dividends, rents, and royalties), previously reinvested income and a portion of realized capital gains.

The Board approved a target payout rate of 5.25% for fiscal years 2000 and 1999. To meet the Board-authorized payout rate, endowment gains and previously reinvested income were distributed for operations, in thousands of dollars, as follows:

	2000 University	1999 University
Merged Endowment Pool	$ 93,411	$ 113,358
Merged Pool C	5,864	4,412
Endowment gains distributed for operations	**$ 99,275**	**$ 117,770**

Individual funds subscribe to or dispose of shares of the endowment pools on the basis of market value per share as of the most recent valuation date. Information on shares and data per share for the merged pools is as follows:

	2000 University	1999 University
MERGED ENDOWMENT POOL:		
Total market value (in $000's)	$ 8,575,607	$ 5,952,681
Number of shares outstanding (in 000's)	62,416	59,999
Market value per share	$ 137.395	$ 99.213
Payout amount per share:		
Endowment income	$ 2.868	$ 1.958
Endowment gains	1.712	2.152
Payout amount per share	**$ 4.580**	**$ 4.110**
MERGED POOL C:		
Total market value (in $000's)	$ 165,928	$ 142,166
Number of shares outstanding (in 000's)	3,441	3,573
Market value per share	$ 48.222	$ 39.789
Payout amount per share:		
Endowment income	$ .239	$ .302
Endowment gains	1.641	1.198
Payout amount per share	**$ 1.880**	**$ 1.500**

The investments of the University include a variety of financial instruments with off-balance sheet risk involving contractual commitments for future settlements, including futures,forwards,options, and swap contracts, which are exchange traded or are executed over-the-counter.

The University enters into foreign currency forward contracts primarily for the purpose of minimizing the risk to the University of adverse changes in the relationship between currencies. A forward currency contract is an obligation to purchase or sell a currency against another currency at a future date and price as agreed upon by the parties. Forward contracts are traded over-the-counter and not on organized commodities or securities exchanges. The University intends to cover the commitments to deliver currency under these contracts by acquiring a sufficient amount of the underlying currency. At August 31, 2000, the University had forward contracts to sell and buy foreign currency of $397,644,000 and $557,138,000, respectively. At August 31, 1999, the University had forward contracts to sell and buy foreign currency of $380,745,000 and $383,648,000, respectively. In connection with these contracts, net unrealized losses of $5,408,000 and $92,000 have been recorded by the University as of August 31, 2000 and 1999, respectively. Forwards necessarily involve counterparty credit exposure. The University seeks to control this risk through counterparty credit evaluations and approvals,counterparty credit limits, and exposure monitoring.

The University generally enters into options and futures contracts for the purpose of reducing the risk level of its investments or serving as a temporary surrogate for investment in stocks and bonds. An option is a contract which grants the right, but not the obligation, to execute a specific purchase or sales transaction at a stated exercise price. A futures contract is a standardized agreement between two parties to buy and sell an asset at a set price on a future date. Upon entering into futures contracts, the University is required to pledge to the broker an amount of cash or securities equal to the minimum initial margin requirements of the exchange on which the contracts are traded. At August 31, 2000 and 1999, the total margin pledged on options and futures contracts was $18,072,000 and $21,367,000, respectively. In connection with these contracts, net unrealized gains of $4,523,000 and net unrealized losses of $433,000 have been recorded by the University as of August 31, 2000 and 1999, respectively. The notional amounts of futures contracts at August 31, 2000 (which are not recorded in the University's financial statements) were approximately $1,171,332,000 (long/buy) and $321,719,000 (short/sell).

The University also sells securities "short" in order to enhance investment returns (see Note 10 regarding securities sold short).

6. UNIVERSITY PLEDGES RECEIVABLE

Unconditional promises are included in the financial statements as pledges receivable and are classified as either temporarily restricted or permanently restricted revenue depending upon donor preference. Pledges are recorded at the present value of the discounted future cash flows, net of allowances. At August 31, 2000 and 1999, pledges were expected to be received in the following periods, in thousands of dollars:

	2000 University	1999 University
One year or less	$ 28,736	$ 21,739
Between one year and five years	498,578	171,998
More than five years	90,126	35,570
	617,440	229,307
Less discount/allowance	(135,943)	(52,206)
Pledges receivable	**$ 481,497**	**$ 177,101**

7. PLANT FACILITIES

Plant facilities at August 31, 2000 and 1999, in thousands of dollars,are as follows:

	2000 University	2000 Hospitals	2000 Consolidated	1999 Consolidated
Land and improvements	$ 134,424	$ 5,684	$ 140,108	$ 112,156
Buildings	1,739,560	407,654	2,147,214	1,525,470
Equipment and books	891,691	250,323	1,142,014	823,643
Construction in progress	286,276	56,224	342,500	266,545
Plant facilities	3,051,951	719,885	3,771,836	2,727,814
Less accumulated depreciation	(1,158,952)	(397,857)	(1,556,809)	(1,009,384)
Plant facilities, net of accumulated depreciation	**$ 1,892,999**	**$ 322,028**	**$ 2,215,027**	**$ 1,718,430**

The University receives federal reimbursement for a portion of the costs of its facilities used in organized sponsored research. Recent revisions of omb Circular a-21, which establishes principles for determining such reimbursable costs, require conformity of the lives and methods used for federal cost reimbursement accounting and financial reporting purposes. In fiscal year 2000, the University adopted a revised set of useful lives to reflect current information and to conform to those used for federal recovery purposes to comply with the new federal regulations (Note 1). The effect of this change in estimate is an increase in the depreciation charge for the year ended August 31, 2000 of $40,186,000.

Fully depreciated assets, mainly equipment and books, that are still in use by the University amounted to $539,000,000 and $394,000,000 at August 31, 2000 and 1999, respectively. During the year ended August 31, 2000, the University retired $28,948,000 in fixed assets and their related accumulated depreciation.

The insurable value of the University's museum and special collection pieces, which are not capitalized, approximated $200,000,000 (unaudited) at August 31, 2000 and 1999.

8. UNIVERSITY NOTES AND BONDS PAYABLE

Notes and bonds payable at August 31, 2000 and 1999, in thousands of dollars, are as follows:

	2000 University	1999 University
California Educational Facilities Authority (CEFA):		
Revenue Bonds, Series B, I, J, K, M, N, O, and P due serially to 2031, with interest from 4.0% to 8.0%	$ 558,235	$ 576,634
Revenue Bonds, Series L with variable interest rates	83,818	65,425
Department of Education Bonds of 1959 to 1984 due serially to 2024, with interest from 3.0% to 3.5%	3,913	4,583
Stanford University Bonds due 2024, with fixed interest of 6.875%	150,000	150,000
Medium Term Notes ($150,000 authorized) due to 2026, with fixed interest from 5.85% to 7.65%	100,000	100,000
Commercial Paper, with variable interest rates	156,116	134,601
Other, with various interest rates	93,166	95,050
University notes and bonds payable	**$ 1,145,248**	**$ 1,126,293**

At August 31, 2000 and 1999, the fair value of these debt instruments approximated the recorded value of the related debt obligations.

The University incurred interest expense of $64,394,000 and $55,791,000 for fiscal years 2000 and 1999, respectively, of which $11,321,000 and $4,530,000, respectively, have been capitalized as a cost of construction.

Scheduled principal payments on notes and bonds, exclusive of commercial paper, for the fiscal years 2001 through 2005, in thousands of dollars, are approximately:

Year	Principal
2001	$ 53,082
2002	$ 17,172
2003	$ 8,449
2004	$ 23,170
2005	$ 15,006

The collateral for the annual debt service on certain cefa Revenue Bonds consists of a pledge of annual tuition revenue of approximately $525,000 and investments of approximately $2,148,000 (at market), which were on deposit with a trustee at August 31, 2000. The cefa Revenue Bonds have certain restrictive covenants, including maintenance of certain financial ratios.

On March 15, 1999, the University issued $50,000,000 in taxable Medium Term Notes with a coupon interest rate of 5.85% and priced to yield 5.87% to the maturity date of March 15, 2009. The net proceeds of these notes will be used for general corporate purposes, including the repayment of outstanding obligations and capital improvement programs. To date, the University has issued $100,000,000 of debt under the $150,000,000 authorized Medium Term Note Program.

On March 15, 1999, the University issued $110,440,000 in cefa Revenue Bonds Series p (“cefa p”) to finance certain costs of faculty and staff housing, the creation,expansion, and improvement of certain campus roadways, and for other capital and financing purposes. cefa p was issued as follows: (i) $51,260,000 with a coupon interest rate of 5.25% and priced to yield 4.55% to the maturity date of December 13, 2013; (ii) $59,180,000 with a coupon interest rate of 5.00% and priced to yield 5.03% to the maturity date of December 1, 2023.

The University issues variable rate demand notes to refinance current cefa principal payments. In October 1998 and October 1999, the University issued $17,815,000 and $18,393,000 in cefa l-6 and l-7 Refunding Revenue bonds at initial interest rates of 3.1% and 3.5%, respectively. In October 2000, the University issued $15,725,000 in cefa l-8 Refunding Revenue bonds at an initial interest rate of 4.0%.

The University has a commercial paper credit facility which provides for borrowings up to $200,000,000. The outstanding balance at August 31, 2000 was $156,116,000. The weighted average days to maturity is 117, and the weighted average effective interest rate is 6.1%.

The University uses interest rate swaps to manage the interest-rate exposure of its commercial paper program. An interest-rate swap is an agreement between counterparties to exchange periodic interest payments based on specific interest rate differentials applied to a specified notional amount. A swap allows one party to effectively change the interest-rate structure of a debt obligation or an investment through the exchange of payments with another party. Swaps enable participants to obtain financing at the least possible cost and simultaneously hedge unwanted risk. The contracts executed by the University are structured with the purpose of minimizing any mismatch between the commercial paper rate paid and the short-term rate received. Swaps necessarily involve counterparty credit exposure. The University seeks to control this risk through counterparty credit evaluations and approvals,counterparty credit limits, and exposure monitoring. Additionally, the terms of swap agreements provide that collateral may be posted or appropriate guarantees obtained between the University and the counterparty in order to minimize credit exposure to or from the counterparty. At August 31, 2000, the University had swap agreements expiring through 2008 to pay fixed interest rates from 5.78% to 8.01% which had notional principal amounts totaling $62,000,000. At August 31, 1999, the University had swap agreements expiring through 2008 to pay fixed interest rates from 5.78% to 8.01% which had notional principal amounts totaling $63,000,000. The fair market value of the interest-rate swaps is not recorded in the University’s financial statements because it is not material.

9. HOSPITALS NOTES AND BONDS PAYABLE

Bonds and certificates at August 31, 2000, in thousands of dollars, are as follows:

	Hospitals
Fixed Rate Revenue Bonds 1998 Series B, payable in annual amounts through 2013, with an average interest rate of 5%	$ 191,475
1993 Variable Rate Certificates of Participation, payable in annual amounts through 2023, fixed interest rate of 6.2%	43,196
Hospitals notes and bonds payable	**$ 234,671**

The bonds and certificates are unsecured obligations of shc and lspch (jointly and severally as "the Obligated Group"). Payments of principal and interest on the bonds and certificates are insured by municipal bond guaranty policies. The Master Trust Indenture of the Obligated Group includes, among other things, limitations on additional indebtedness, liens on property, restrictions on disposition or transfer of assets, and compliance with certain financial ratios. shc may redeem the bonds and certificates, in whole or in part, prior to the stated maturities. Redemption of the bonds requires a premium of up to 2%. Redemption of the certificates is without premium.

Holders of the certificates have the option to tender the certificates as of designated purchase dates. In order to ensure the availability of funds to purchase any certificates tendered that the remarketing agent is unable to remarket, shc has obtained bank credit agreements that expire beginning in September 2001, unless extended by mutual agreement. shc has the option to convert the certificates to a fixed rate.

The bonds were issued at a discount. The discount is being amortized to interest expense over the term of the bonds.

Estimated principal payments on bonds and certificates, for the fiscal years 2001 through 2005, in thousands of dollars, are summarized below:

Year	Principal
2001	$ 3,440
2002	$ 3,570
2003	$ 3,800
2004	$ 4,045
2005	$ 4,190

The fair value of these debt instruments is estimated based on the quoted market prices for the same or similar issues and on the current rates offered to shc for debt of the same remaining maturities. At August 31, 2000, the fair value of the debt instruments approximated the recorded value.

At August 31, 2000, the Obligated Group had swap agreements expiring through 2023 to pay a fixed interest rate of 6.2%, which had notional principal amounts totaling $39,800,000.

The University is not an obligor or guarantor with respect to any obligations of the Obligated Group.

10. LIABILITIES UNDER SECURITY AGREEMENTS

At August 31, 2000 and 1999, the University held $190,432,000 and $165,371,000, respectively, of short-term u.s. Government obligations and cash as collateral deposits for certain securities loaned temporarily to brokers. These amounts are included as assets and liabilities in the University's financial statements. Securities on loan at August 31, 2000 and 1999 had estimated market values of $184,424,000 and $157,963,000, respectively.

The University also sells securities "short" in order to enhance investment returns and manage market exposure. Short sales are transactions in which the University sells a security in anticipation of a decline in the market value of that security. To complete such a transaction, the University must borrow the security to deliver to the buyer upon the short sale; the University is then obligated to replace the security borrowed by purchasing it in the open market at some later date. The University will incur a loss if the market price of the security increases between the date of the short sale and the date on which the borrowed security is replaced, and will realize a gain if the security declines in value between those dates. At August 31, 2000 and 1999, the fair market value of such securities is $168,009,000 and $109,818,000, respectively.

At August 31, 1999, the University sold securities subject to an obligation to repurchase them at a future date in the amount of $67,826,000. The borrowings have been accounted for as financing transactions and bear interest at rates between 3.875% and 4.76%, inclusive, for 1999. At August 31, 2000, there were no securities sold that were subject to a repurchase agreement.

11. UNIVERSITY ENDOWMENT

The University manages a substantial portion of its financial resources within its endowment. These assets include pure endowment,term endowments, funds functioning as endowment, and funds subject to living trust agreements. Depending on the nature of the donor's stipulation, these resources are recorded as either permanently restricted,temporarily restricted, or unrestricted net assets.

Pure endowment funds are subject to the restrictions of the gift instruments requiring that the principal be invested in perpetuity and the income and an appropriate portion of gains only be spent as provided for under the California Uniform Management of Institutional Funds Act ("cumifa"). In the absence of further donor restrictions, the amount of gains that are to be expended in a given year is determined through the endowment payout policy discussed in Note 5. The University classifies the original endowment gift and any donor-imposed restricted gains as permanently restricted assets. The Financial Accounting Standards Board ("fasb") has determined that the legal limitations imposed by cumifa on the amount of realized and unrealized gains on endowments that may be appropriated for current expenditure do not constitute restrictions for financial reporting purposes. Accordingly, the University reports the reinvested realized and unrealized gains as unrestricted net assets. Notwithstanding this fasb-mandated reporting, the University recognizes the limitations on expending such gains that are specified in cumifa.

Expendable endowment assets include term endowments and funds functioning as endowment. Term endowments are similar to other endowment funds except that upon the passage of a stated period of time or the occurrence of a particular event, all or part of the principal may be expended. These resources are classified as temporarily restricted net assets. Funds functioning as endowment are unrestricted University resources designated as endowment by the Board and are invested in the endowment for long-term appreciation and current income. However, these assets remain available and may be spent at the Board's discretion. Funds functioning as endowment are recorded as unrestricted net assets.

Funds subject to living trust agreements represent trusts with living income beneficiaries where the University has a residual interest. The investments of these funds are recorded at their fair-market value. The discounted present value of any income beneficiary interest is reported as a liability on the statement of financial position in accordance with actuarial tables established by the Internal Revenue Service. Gifts subject to such agreements are recorded as revenue net of the income beneficiary share at the date of gift. Actuarial gains or losses are included in living trust investment income and actuarial adjustment. Resources that are expendable upon maturity are classified as temporarily restricted net assets; all others are classified as permanently restricted net assets.

At August 31, 2000 and 1999, the University's endowment, excluding pledges, is included in the following net asset categories, in thousands of dollars:

	2000 University	1999 University
Unrestricted net assets	$ 6,511,772	$ 4,325,936
Temporarily restricted net assets	127,902	100,544
Permanently restricted net assets	2,246,231	1,800,215
Endowment net assets	**$ 8,885,905**	**$ 6,226,695**

Changes in the University's endowment, excluding pledges, for the years ended August 31, 2000 and 1999, in thousands of dollars,are as follows:

	2000 University	1999 University
INVESTMENT RETURNS:		
Earned endowment income (including $3,203 and $676 reinvested in endowment, as required by donor, in 2000 and 1999, respectively)	$ 218,930	$ 144,511
Change in net realized and unrealized appreciation of investments during the year	2,274,184	1,388,248
Total investment returns	2,493,114	1,532,759
Unrestricted income and gains distributed for operations	(315,002)	(261,605)
Endowment returns reinvested	2,178,112	1,271,154
OTHER CHANGES IN ENDOWMENT:		
Gifts (net of $172,684 and $18,136 in pledges in 2000 and 1999, respectively)	242,315	92,230
Investment of funds into endowment, net	236,164	104,471
Actuarial adjustment on living trusts	12,404	22,170
Other changes	(9,785)	(8,218)
Net increase in endowment	**2,659,210**	**1,481,807**
Endowment, beginning of year	6,226,695	4,744,888
Endowment, end of year	**$ 8,885,905**	**$ 6,226,695**

Endowment returns reinvested are classified in the following net asset categories at August 31, 2000 and 1999, in thousands of dollars:

	2000 University	1999 University
Unrestricted	$ 1,966,599	$ 1,128,604
Temporarily restricted	25,048	23,118
Permanently restricted	186,465	119,432
Reinvested endowment returns	**$ 2,178,112**	**$ 1,271,154**

12. UNIVERSITY GIFTS

The University's Office of Development ("ood") reports total gifts based on contributions received in cash or property during the fiscal year. Gifts reported for financial statement purposes are recorded on the accrual basis. The following summarizes gifts and pledges received, for the years ended August 31, 2000 and 1999, per the statement of activities as well as on the cash basis (as reported by ood), in thousands of dollars:

	2000 University	1999 University
Expendable gifts in support of operations	$ 113,187	$ 97,412
Expendable gifts invested in the endowment	17,742	4,087
Temporarily restricted general gifts	148,750	55,812
Buildings and improvements	178,197	30,235
Permanently restricted endowment gifts	390,605	99,573
Permanently restricted student loans	11	38
Total gifts per statement of activities	**848,492**	**287,157**
Adjustment to gift total as reported by OOD:		
Pledges	(532,434)	(102,387)
Non-government grants, recorded as sponsored research support	37,706	34,384
Payments made on pledges	228,038	97,591
Actuarial gains on early maturity of living trusts	265	4,164
Other	(1,593)	(1,254)
Total gifts as reported by OOD	**$ 580,474**	**$ 319,655**

The Office of Development includes in its annual gifts total actuarial gains on living trusts that mature within five years of the date of gift.

13. FUNCTIONAL EXPENSES

Expenses for each of the years ended August 31, 2000 and 1999 were categorized as follows, in thousands of dollars:

	2000 Consolidated	1999 Consolidated
UNIVERSITY:		
Instruction and departmental research	$ 595,991	$ 541,169
Organized research (direct costs)	597,559	538,117
Libraries	93,194	75,904
Student services	48,036	45,492
Administration	104,811	94,850
Development and general	71,272	88,661
SLAC construction	7,332	13,775
Auxiliary activities	212,177	201,567
	1,730,372	1,599,535
HOSPITALS:		
Health care services	397,490	-
Total expenses	**$ 2,127,862**	**$ 1,599,535**

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

14. UNIVERSITY PENSION PLANS AND OTHER POSTRETIREMENT BENEFITS

The University provides retirement benefits,through both contributory and noncontributory pension plans, for substantially all of its employees. In addition to providing pension benefits, the University provides certain health care benefits for retired employees.

PENSION PLANS The University's policy is to fund pension costs in accordance with the Employee Retirement Income Security Act minimum funding requirements. Total net pension expense for the years ended August 31, 2000 and 1999 was approximately $40,613,000 and $45,944,000, respectively.

Retirement benefits for certain nonexempt employees are provided through a noncontributory defined benefit pension plan. The University recognized income related to the defined benefit pension plan of $8,805,000 and $581,000 for the years ended August 31, 2000 and 1999, respectively.

The University offers a defined contribution pension plan to eligible faculty and staff. University and participant contributions are invested in annuities and mutual funds. University contributions under this plan amounted to approximately $49,404,000 and $46,539,000 for the years ended August 31, 2000 and 1999, respectively.

POSTRETIREMENT BENEFIT PLANS Substantially all of the University's employees may become eligible for certain health care benefits if they reach a qualifying retirement age while working for the University. Retiree health plans are paid for in part by employee contributions, which are adjusted annually. Benefits are provided through various insurance companies whose charges are based either on the benefits paid during the year or annual premiums. Health benefits are provided to retirees and their covered dependents.

The University recognizes the cost of postretirement benefits other than pensions over the periods that employees render service. In accordance with Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," the University recognizes the prior service obligation over 20 years.

The change in pension and other postretirement plan assets and the related change in benefit obligation, in thousands of dollars as of August 31, 2000 and 1999, were as follows:

	Pension		Other Postretirement	
	2000	1999	2000	1999
CHANGE IN PLAN ASSETS				
Fair value of plan assets at beginning of year	$ 253,611	$ 219,467	$ 25,266	$ 21,304
Actual return on plan assets	45,543	50,466	3,956	4,641
Employer contributions	-	-	3,298	2,617
Plan participants' contributions	-	-	2,003	1,880
Benefits paid	(14,512)	(16,322)	(6,420)	(5,176)
Fair value of plan assets at end of year	**$ 284,642**	**$ 253,611**	**$ 28,103**	**$ 25,266**
CHANGE IN BENEFIT OBLIGATION				
Benefit obligation at beginning of year	$ 196,226	$ 205,634	$ 75,965	$ 56,530
Service cost	4,286	4,901	2,777	1,807
Interest cost	13,760	14,046	5,352	3,825
Amendments	-	-	2,274	-
Actuarial (gain) loss	(5,201)	(12,033)	21,614	17,589
Benefits paid	(14,512)	(16,322)	(4,416)	(3,786)
Benefit obligation at end of year	**$ 194,559**	**$ 196,226**	**$ 103,566**	**$ 75,965**

Effective January 1, 1999, the University capped its health care benefits plan subsidy for post-65 benefits for non-Medicare+ Choice programs. The University's subsidy for post-65 benefits for non-Medicare+ Choice programs will be increased effective January 1, 2001.

The accrued benefit cost, in thousands of dollars, was determined as follows at August 31, 2000 and 1999:

	Pension		Other Postretirement	
	2000	1999	2000	1999
Plan assets minus benefit obligation	$ 90,083	$ 57,385	$ (75,463)	$ (50,699)
Unrecognized transition (asset) liability	(1,806)	(2,707)	33,391	35,959
Unrecognized prior service cost	1,493	1,680	2,274	-
Unrecognized net actuarial (gain) loss	(96,451)	(71,844)	11,715	(8,464)
Accrued benefits cost recorded in the statement of financial position	**$ (6,681)**	**$ (15,486)**	**$ (28,083)**	**$ (23,204)**

The discount rate, expected rate of return on plan assets and the projected covered payroll growth rates used in determining the above accrued benefit costs were as follows for the years ended August 31, 2000 and 1999:

	Pension		Other Postretirement	
	2000	1999	2000	1999
Discount rate	7.50%	7.25%	7.50%	7.25%
Expected return on plan assets	8.75%	8.75%	8.75%	8.75%
Covered payroll growth rate	5.00%	5.00%	N/A	N/A

The assumed health care trend rate used to measure the accumulated postretirement benefit obligation at August 31, 2000 was 10% for calendar year 2002. The rate was assumed to decrease by 1% for each of the next four calendar years, with a 6% annual rate for calendar year 2006, and to remain at that level thereafter.

The assumed health care rate used to measure the accumulated postretirement benefit obligation at August 31, 1999 was 6% for calendar year 2001. The rate was assumed to decrease to 5.5% for calendar year 2002 and remain at that level thereafter.

Net benefit (income) expense related to the plans for the years ended August 31, 2000 and 1999, in thousands of dollars, included the following components:

	Pension 2000	Pension 1999	Other Postretirement 2000	Other Postretirement 1999
Service cost	$ 4,286	$ 4,901	$ 2,777	$ 1,807
Interest cost	13,760	14,046	5,352	3,825
Expected return on plan assets	(21,628)	(18,231)	(2,211)	(1,811)
Amortization of transition (asset) liability	(901)	(901)	2,568	2,568
Amortization of prior service cost	187	187	-	-
Recognized net actuarial (gain)	(4,509)	(583)	(52)	(1,162)
Net periodic benefit (income) expense	**$ (8,805)**	**$ (581)**	**$ 8,434**	**$ 5,227**

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 postretirement benefit obligation by $13,698,000 and the aggregate service and interest cost by $1,307,000. Decreasing the health care cost trend rate by 1% in each future year would decrease the accumulated postretirement benefit obligation by $9,892,000 and the aggregate service and interest cost by $1,107,000.

15. HOSPITALS PENSION PLANS AND OTHER POSTRETIREMENT BENEFITS

shc and lspch provide retirement benefits through defined benefit and defined contribution retirement plans covering substantially all employees.

DEFINED BENEFIT PLANS Certain employees of shc are covered by one of two noncontributory, defined benefit pension plans. Benefit obligations of the lspch plan at August 31, 2000 were $4,200,000, offset by $4,200,000 of plan assets. Benefits of certain prior employees of lspch 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.

Benefits accumulated through March 31, 2000 are included in the benefit obligation recorded on the books of ucsf Stanford Health Care. Management of shc and the University of California are in discussion with the irs in order to facilitate transfer of those March 31, 2000 obligations to shc and the University of California. Pending transfer of these benefit obligations, eligible employees will be paid benefits for services provided before April 1, 2000 from ucsf Stanford Health Care and for services provided after April 1, 2000 by shc or lspch. Since shc ultimately expects ucsf Stanford Health Care to transfer certain of these obligations to shc, shc has recorded the interest cost on a portion of these obligations in the period ended August 31, 2000.

DEFINED CONTRIBUTION PLAN Employer contributions to the defined contribution retirement plan are discretionary and are based on a percentage of participant annual compensation. Employer contributions to this plan, totaling $6,700,000, are included in the employee benefits expense during 2000.

POSTRETIREMENT MEDICAL BENEFIT PLAN shc currently provides health insurance coverage for employees upon retirement at age 55 with years of service as defined by certain criteria,or, for specific employees, at age 65 with at least five years of service. The health insurance coverage is the same as that provided for active employees. The obligation for these benefits has been recorded in the accompanying balance sheet.

The net periodic pension cost and postretirement medical benefit cost includes the following components, in thousands of dollars for the year ended August 31, 2000 (with costs generally occuring in the last five months of the fiscal year):

	Pension Benefits	Postretirement Medical Benefits
CHANGE IN BENEFIT OBLIGATION		
Benefit obligation at beginning of year	$ -	$ 47,782
Service cost	681	751
Interest cost	2,985	1,528
Actuarial (gain) loss	(4,322)	649
Benefits paid	-	(898)
Benefit obligation at end of year	**$ (656)**	**$ 49,812**
CHANGE IN PLAN ASSETS		
Fair value of plan assets at beginning of year	$ -	$ -
Employer contributions	-	898
Benefits paid	-	(898)
Fair value of plan assets at end of year	**$ -**	**$ -**

The accrued benefit cost, in thousands of dollars, was determined as follows at August 31, 2000:

	Pension Benefits	Postretirement Medical Benefits
Funded status	$ 656	$ (49,812)
Unrecognized prior service cost	-	2,730
Unrecognized (gain)	-	(4,721)
Accrued benefits cost recorded in the statement of financial position	**$ 656**	**$ (51,803)**

Net benefit (income) expense related to the plans for the year ended August 31, 2000, in thousands of dollars, included the following components:

	Pension Benefits	Postretirement Medical Benefits
Service cost	$ 681	$ 751
Interest cost	2,985	1,528
Expected return on plan assets	(3,670)	-
Amortization of prior service cost	-	(436)
Recognized net actuarial (gain)	(652)	(403)
Net periodic benefit (income) expense	**$ (656)**	**$ 1,440**

The discount rate, expected rate of return on plan assets, and the projected covered payroll growth rates used in determining the above accrued benefit costs were as follows for the year ended August 31, 2000:

	Pension Benefits	Postretirement Medical Benefits
Discount rate	7.75%	7.75%
Expected return on plan assets	8.00%	N/A
Rate of compensation increase	3.5–5.5%	N/A

The assumed health care trend rate used to measure the accumulated postretirement benefit obligation at August 31, 2000 was 8.5% for the year ending August 31, 2001. The rate was assumed to decrease by 0.75% for the next five years and to remain at 4.75% thereafter.

Assumed health care cost trend rates have a significant effect on the amounts reported for the medical benefit plan. Increasing the health care cost trend rate by 1% in each future year would increase the accumulated postretirement benefit obligation by $3,067,000 and the aggregate service and interest cost by $128,000. Decreasing the health care cost trend rate by 1% in each future year would decrease the accumulated postretirement benefit obligation by $2,993,000 and the aggregate service and interest cost by $131,000.

16. CASH FLOW RECONCILIATION

The change in consolidated net assets is reconciled to net cash provided by operations for the years ended August 31, 2000 and 1999, as follows, in thousands of dollars:

	2000			1999
	University	Hospitals	Consolidated	Consolidated
Change in net assets	$ 3,265,748	$ (78,632)	$ 3,187,116	$ 1,652,268
(Increase) decrease in accounts receivable	(116,812)	(218,698)	(335,510)	2,318
Add back increase in broker receivables reported in investing activities	190,826	-	190,826	-
(Increase) decrease in net receivables from SHC	(40,064)	40,064	-	(34,498)
Increase in inventories, prepaid expenses, and other assets	(5,049)	(26,877)	(31,926)	(3,682)
Increase in pledges receivable	(304,396)	-	(304,396)	(4,796)
Realized and unrealized gains on investments	(2,578,726)	(22,949)	(2,601,675)	(1,571,372)
Decrease in net equity of UCSF Stanford Health Care	-	51,994	51,994	24,818
Depreciation and loss on disposal of fixed assets	174,399	22,984	197,383	117,444
Increase in accounts payable and accrued expenses	96,835	229,428	326,263	3,419
Increase in income beneficiary share of living trust investments	20,904	-	20,904	20,811
Increase in U.S. Government refundable loan funds	894	-	894	1,199
Gifts, grants and reinvested income of student loan, endowment, and plant net assets	(310,815)	(21,924)	(332,739)	(131,692)
Other	(36,919)	40,162	3,243	17,320
Net cash provided by operating activities	**$ 356,825**	**$ 15,552**	**$ 372,377**	**$ 93,557**

17. COMMITMENTS AND CONTINGENCIES

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

SPONSORED PROJECTS The University conducts substantial research for the federal government pursuant to contracts and grants from federal agencies and departments. The Office of Naval Research ("onr") 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 ("dcaa"), which has the responsibility for auditing direct and indirect charges under those agreements. Direct and indirect costs recovered by the University in support of sponsored research are subject to audit and adjustment.

HOSPITALS 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.

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

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

CONTRACTUAL COMMITMENTS At August 31, 2000, the University had contractual obligations of approximately $78,982,000 in connection with major construction projects. Remaining expenditures on construction in progress are estimated to be $551,243,000, which will be financed with certain unexpended plant funds, gifts, and debt.

At August 31, 2000, the remaining commitment on contracts for the construction and remodeling of the Hospitals' facilities was approximately $17.8 million.

Management Responsibility for Financial Statements

The consolidated financial statements on the preceding pages have been prepared in conformity with generally accepted accounting principles. The management of Stanford University is responsible for the integrity and objectivity of these financial statements.

In accumulating and controlling its financial data, management maintains a highly developed system of internal accounting controls. Management believes that a high level of internal control is maintained by the establishment and communication of accounting and business policies, by the selection and training of qualified personnel, and by a program of internal audits to give it reasonable assurance at reasonable cost that the University's assets are protected and that transactions and events are recorded properly.

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

The Board of Trustees, through its Audit Committee, composed of trustees not employed by the University, is responsible for engaging the independent accountants and meeting with management, internal auditors, and the independent accountants to assure that each is carrying out its responsibilities and to discuss auditing, internal control, and financial reporting matters. Both the internal auditors and the independent accountants have full and free access to the Audit Committee. Both meet with the Audit Committee at least annually, with and without each other, and with and without the presence of management representatives.

Mariann Byerwalter
VICE PRESIDENT FOR BUSINESS AFFAIRS
AND CHIEF FINANCIAL OFFICER

M. Suzanne Calandra
CONTROLLER

Report of Independent Accountants

To The Board of Trustees
Stanford University
Stanford, California

In our opinion, based on our audits and the report of other auditors, the accompanying consolidated statements of financial position and the related consolidated statements of activities and cash flows, which appear on pages 25 through 58, present fairly, in all material respects, the financial position of Stanford University at August 31, 2000 and 1999, 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 did not audit the financial statements of Stanford Hospital and Clinics, an entity controlled by the University, which statements reflect total assets of $924 million as of August 31, 2000 and total unrestricted revenues of $399 million for the year then ended. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for Stanford Hospital and Clinics, is based solely on the report of the other auditors. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which 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 and the report of other auditors provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

San Francisco, California
December 4, 2000

The Stanford University Annual Report is prepared by the Office of the Controller and the Office of University Communications.

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