

**STANFORD UNIVERSITY**  
**Taxable Bonds Series 2012**

**\$143,235,000 4.013% Bonds due May 1, 2042 Issue price: 100.00%**

The Stanford University Taxable Bonds Series 2012 (the "Bonds") will be issued pursuant to the terms of an Indenture of Trust, dated as of April 1, 2012 (the "Indenture"), by and between The Board of Trustees of the Leland Stanford Junior University (the "University") and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"). The proceeds of the Bonds will be used by the University to refinance commercial paper and other debt of the University that refinanced capital projects of the University, and to pay costs of issuance of the Bonds.

The Bonds will be issued in fully registered form in denominations of \$1,000 and any integral multiple thereof and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds. Individual purchases will be made in book-entry form only, and purchasers of the Bonds will not receive physical certificates (except under certain circumstances described in the Indenture) representing their ownership interests in the Bonds purchased.

Interest on the Bonds will be payable on May 1 and November 1 of each year, commencing on November 1, 2012. So long as the Bonds are held by DTC, the principal or Make-Whole Redemption Price (as defined herein) of and interest on the Bonds will be payable by wire transfer to DTC, which in turn is required to remit such principal or Make-Whole Redemption Price and interest to the DTC Participants for subsequent disbursement to the Beneficial Owners of the Bonds, as more fully described in "BOOK-ENTRY ONLY SYSTEM" herein.

**The Bonds are subject to optional redemption prior to their stated maturity as described herein. See "THE BONDS – Redemption" herein.**

**Interest on and profit, if any, on the sale of the Bonds are not excludable from gross income for federal, state or local income tax purposes. See "CERTAIN UNITED STATES FEDERAL TAX CONSIDERATIONS" herein.**

**The Bonds constitute unsecured general obligations of the University. The University has other unsecured general obligations outstanding. See "INTRODUCTION – Outstanding Indebtedness" and APPENDIX A – "STANFORD UNIVERSITY (INCLUDING FINANCIAL STATEMENTS AND DISCUSSION OF FINANCIAL RESULTS)" attached hereto. Moreover, the University is not restricted by the Indenture or otherwise from incurring additional indebtedness. Such additional indebtedness, if issued, may be either secured or unsecured and may be entitled to payment prior to payment on the Bonds. See "SECURITY FOR THE BONDS" herein.**

*This cover page contains certain information for quick reference only. It is not intended to be a summary of this issue. Investors must read the entire Offering Memorandum to obtain information essential to the making of an informed investment decision.*

The Bonds are offered by the Underwriters, when, as and if issued by the University and accepted by the Underwriters, subject to the approval of legality by Ropes & Gray LLP, counsel to the University. In addition, certain other legal matters will be passed upon for the University by Debra Zumwalt, General Counsel to the University, and for the Underwriters by their counsel, Hawkins Delafield & Wood LLP. It is expected that the Bonds will be available for delivery to DTC in New York, New York on or about April 11, 2012.

**Goldman, Sachs & Co.**

**Morgan Stanley**

**Citigroup**

**J.P. Morgan**

**Prager & Co., LLC**

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## GENERAL INFORMATION

This Offering Memorandum does not constitute an offer to sell the Bonds in any jurisdiction in which or to any person to whom it is unlawful to make such an offer. No dealer, salesperson or other person has been authorized by Goldman, Sachs & Co., Morgan Stanley & Co. LLC, Citigroup Global Markets Inc., J.P. Morgan Securities LLC, or Prager & Co., LLC (collectively, the "Underwriters") or the University to give any information or to make any representations, other than those contained herein, in connection with the offering of the Bonds and, if given or made, such information or representations must not be relied upon.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the Bonds, or determined that this Offering Memorandum is accurate or complete. Any representation to the contrary is a criminal offense. The Bonds have not been and will not be registered under the Securities Act of 1933, as amended (the "Securities Act"), and are being issued in reliance on an exemption under Section 3(a)(4) of the Securities Act. The Bonds are not exempt in every jurisdiction in the United States; the securities laws of some jurisdictions (the "blue sky laws") may require a filing and a fee or other actions to secure the exemption of the Bonds from registration.

The distribution of this Offering Memorandum and the offer or sale of Bonds may be restricted by law in certain jurisdictions. Neither the University nor the Underwriters represent that this Offering Memorandum may be lawfully distributed, or that any Bonds may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the University or the Underwriters which would permit a public offering of any of the Bonds or distribution of this Offering Memorandum in any jurisdiction where action for that purpose is required. To be clear, action may be required to secure exemptions from the blue sky registration requirements either for the primary distributions or any secondary sales that may occur. Accordingly, none of the Bonds may be offered or sold, directly or indirectly, and neither this Offering Memorandum nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations.

All information set forth herein has been obtained from the University and other sources. Estimates and opinions are included and should not be interpreted as statements of fact. Summaries of documents do not purport to be complete statements of their provisions. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Offering Memorandum nor any sale made hereunder will, under any circumstances, create any implication that there has been no change in the affairs of the University since the date hereof.

## FORWARD-LOOKING STATEMENTS

Certain statements included or incorporated by reference in this Offering Memorandum constitute "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act. Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "budget," "intend," "projection" or other similar words. Such forward-looking statements include, but are not limited to, certain statements contained in the information in APPENDIX A - "STANFORD UNIVERSITY (INCLUDING FINANCIAL STATEMENTS AND DISCUSSION OF FINANCIAL RESULTS)." A number of important factors, including factors affecting the University's financial condition and factors which are otherwise unrelated thereto, could cause actual results to differ materially from those stated in such forward-looking statements. THE UNIVERSITY

DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THOSE FORWARD-LOOKING STATEMENTS IF OR WHEN ITS EXPECTATIONS CHANGE, OR EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH SUCH STATEMENTS ARE BASED OCCUR.

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

**IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.**

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## SUMMARY OF THE OFFERING

<b>Issuer</b>	The Board of Trustees of the Leland Stanford Junior University
<b>Securities Offered</b>	\$143,235,000 4.013% Taxable Bonds Series 2012 due May 1, 2042
<b>Interest Payment Dates</b>	May 1 and November 1 of each year, commencing on November 1, 2012
<b>Redemption</b>	The Bonds are subject to optional redemption by the University prior to maturity, on any Business Day, in such order of maturity as directed by the University, at the Make-Whole Redemption Price, as further described herein. See "THE BONDS – Redemption" herein.
<b>Settlement Date</b>	April 11, 2012
<b>Authorized Denominations</b>	\$1,000 and any integral multiple thereof
<b>Form and Depository</b>	The Bonds will be delivered solely in book-entry form through the facilities of DTC.
<b>Use of Proceeds</b>	The University will use the proceeds of this offering to refinance commercial paper and other debt of the University that refinanced capital projects of the University, and to pay costs of issuance of the Bonds. See "ESTIMATED SOURCES AND USES OF PROCEEDS" and "PLAN OF FINANCE" herein.
<b>Ratings</b>	Moody's: Aaa S&P: AAA Fitch: AAA

# **OFFERING MEMORANDUM**

**Relating to**

**\$143,235,000**

**STANFORD UNIVERSITY**

**TAXABLE BONDS SERIES 2012**

## **INTRODUCTION**

The purpose of this Offering Memorandum, which includes the cover page, the table of contents and appendices, is to provide certain information concerning the sale and delivery by The Board of Trustees of the Leland Stanford Junior University (the "University") of its \$143,235,000 aggregate principal amount of Stanford University Taxable Bonds Series 2012 (the "Bonds"). This Introduction contains only a brief summary of certain of the terms of the Bonds being offered and a brief description of the Offering Memorandum. All statements contained in this Introduction are qualified in their entirety by reference to the entire Offering Memorandum.

### **Purpose of the Bonds and the Plan of Finance**

The proceeds of the Bonds will be used by the University to refinance commercial paper and other debt of the University that refinanced capital projects of the University, and to pay costs of issuance of the Bonds. See "ESTIMATED SOURCES AND USES OF PROCEEDS" and "PLAN OF FINANCE" herein.

### **The University**

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

For the fiscal year ended August 31, 2011 the University had total revenues of \$3.8 billion. At August 31, 2011, total University net assets were \$22.6 billion.

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

### **The Bonds**

The Bonds are being issued pursuant to an Indenture of Trust, dated as of April 1, 2012 (the "Indenture"), by and between the University and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"). Pursuant to the Indenture, on each Payment Date, until the principal of and interest on the Bonds shall have been paid or provision for such payment shall have been made as provided in the Indenture, the University will pay the Trustee a sum equal to the amount payable on such Payment Date as principal of or interest on the Bonds. See "THE BONDS" herein.

## **Security for the Bonds**

**The Bonds constitute unsecured general obligations of the University. The University has other unsecured general obligations outstanding. See "Outstanding Indebtedness" below. Moreover, the University is not restricted by the Indenture or otherwise from incurring additional indebtedness. Such additional indebtedness, if issued, may be either secured or unsecured and may be entitled to payment prior to payment on the Bonds. See "SECURITY FOR THE BONDS" herein.**

## **Outstanding Indebtedness**

As of February 29, 2012, the outstanding indebtedness of the University, including long-term debt and commercial paper debt, totaled approximately \$2.6 billion. For additional information regarding the outstanding indebtedness of the University, see APPENDIX A – "STANFORD UNIVERSITY (INCLUDING FINANCIAL STATEMENTS AND DISCUSSION OF FINANCIAL RESULTS)" attached hereto.

## **Redemption**

The Bonds are subject to optional redemption by the University prior to maturity, on any Business Day, in such order of maturity as directed by the University, at the Make-Whole Redemption Price, as further described herein. See "THE BONDS – Redemption" herein.

## **Book-Entry Only System**

When delivered, the Bonds will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"). DTC will act as the securities depository for the Bonds. Purchases of the Bonds may be made in book-entry form only, through brokers and dealers who are, or who act through, DTC Participants. Beneficial Owners of the Bonds will not receive physical delivery of certificated securities (except under certain circumstances described in the Indenture). Payment of the principal or Make-Whole Redemption Price of and interest on the Bonds are payable by the Trustee to DTC, which will in turn remit such payments to the DTC Participants, which will in turn remit such payments to the Beneficial Owners of the Bonds. In addition, so long as Cede & Co. is the registered owner of the Bonds, the right of any Beneficial Owner to receive payment for any Bond will be based only upon and subject to the procedures and limitations of the DTC book-entry system. See "BOOK-ENTRY ONLY SYSTEM" herein.

## **Certain Information Related to this Offering Memorandum**

The descriptions herein of the Indenture and other documents relating to the Bonds do not purport to be complete and are qualified in their entirety by reference to such documents, and the description herein of the Bonds is qualified in its entirety by the form thereof and the information with respect thereto included in such documents. See APPENDIX B – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE" attached hereto for a brief summary of the Indenture, including descriptions of certain duties of the Trustee, rights and remedies of the Trustee and the Bondholders upon an Event of Default, and provisions relating to amendments of the Indenture and procedures for defeasance of the Bonds.

All capitalized terms used in this Offering Memorandum and not otherwise defined herein have the same meanings as in the Indenture. See APPENDIX B – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE" attached hereto for definitions of certain words and terms used but not otherwise defined herein.



The information and expressions of opinion herein speak only as of their date and are subject to change without notice. Neither delivery of this Offering Memorandum nor any sale made hereunder nor any future use of this Offering Memorandum will, under any circumstances, create any implication that there has been no change in the affairs of the University.

**ESTIMATED SOURCES AND USES OF PROCEEDS**

The proceeds of the Bonds will be used for the purposes described under "PLAN OF FINANCE" herein. The estimated sources and uses of the proceeds of the Bonds are shown below.

**SOURCES:**

Principal Amount of Bonds .....	<u>\$143,235,000</u>
Total Sources of Funds .....	<u>\$143,235,000</u>

**USES:**

Refinance University's Commercial Paper and Other Debt ..	\$142,411,542
Underwriters' Discount .....	551,227
Costs of Issuance .....	<u>272,231</u>
Total Uses of Funds .....	<u>\$143,235,000</u>

**PLAN OF FINANCE**

The University will use the proceeds of the Bonds to refinance commercial paper and other debt of the University that refinanced capital projects of the University, and to pay costs of issuance of the Bonds. See "ESTIMATED SOURCES AND USES OF PROCEEDS" herein.

On or about April 17, 2012, the University expects the California Educational Facilities Authority to issue its Revenue Bonds (Stanford University) Series U-2 for the benefit of the University (the "Series U-2 Bonds") in the aggregate principal amount of \$77,760,000. The University plans to use the proceeds of the Series U-2 Bonds to refinance certain outstanding obligations of the University that refinanced capital projects of the University, and to pay certain costs of issuance related to the Series U-2 Bonds. If issued, the Series U-2 Bonds will be unsecured general obligations of the University.

**THE BONDS**

**Description of the Bonds**

The Bonds will be dated, will bear interest at the rates and will mature on the dates (subject to prior redemption) as set forth on the cover page to this Offering Memorandum. Interest on the Bonds will be calculated on the basis of a 360-day year consisting of twelve 30-day months.

The Bonds will be delivered in the form of fully registered Bonds in denominations of \$1,000 and any integral multiple thereof. The Bonds will be registered initially in the name of "Cede & Co.," as nominee of the Securities Depository and will be evidenced by one Bond for each maturity in the principal amount of the Bonds of such maturity. Registered ownership of the Bonds, or any portions thereof, may not thereafter be transferred except as set forth in the Indenture. See APPENDIX B – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE" attached hereto.

The principal or Make-Whole Redemption Price of the Bonds will be payable by check or by wire transfer of immediately available funds in lawful money of the United States of America at the Designated Office of the Trustee.

An "Interest Payment Date" for the Bonds will occur on May 1 and November 1 of each year commencing on November 1, 2012. Interest on the Bonds will be payable from the later of (i) the date of original issuance of the Bonds and (ii) the most recent Interest Payment Date to which interest has been paid or duly provided for. Payment of the interest on each Interest Payment Date will be made to the Person whose name appears on the bond registration books of the Trustee as the Holder thereof as of the close of business on the Record Date for each Interest Payment Date, such interest to be paid by check mailed by first class mail to such Holder at its address as it appears on such registration books, or, upon the written request of any Holder of at least \$1,000,000 in aggregate principal amount of Bonds, submitted to the Trustee at least one Business Day prior to the Record Date, by wire transfer in immediately available funds to an account within the United States designated by such Holder. Notwithstanding the foregoing, as long as Cede & Co. is the Holder of all or part of the Bonds in book-entry form, said principal or Make-Whole Redemption Price and interest payments will be made to Cede & Co. by wire transfer in immediately available funds.

### **Redemption**

The Bonds are subject to redemption prior to maturity by written direction of the University, in whole or in part, on any Business Day, in such order of maturity as directed by the University, at the Make-Whole Redemption Price. The "Make-Whole Redemption Price" is the greater of (i) 100% of the principal amount of the Bonds to be redeemed or (ii) the sum of the present value of the remaining scheduled payments of principal and interest to the maturity date of the Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which the Bonds are to be redeemed, discounted to the date on which the Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the adjusted Treasury Rate (as defined below) plus 12.5 basis points, plus, in each case, accrued and unpaid interest on the Bonds to be redeemed on the redemption date. The "Treasury Rate" is, as of any redemption date, the yield to maturity as of such redemption date of United States Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) that has become publicly available at least two Business Days prior to the redemption date (excluding inflation indexed securities) (or, if such Statistical Release is no longer published, any publicly available source of similar market data)) most nearly equal to the period from the redemption date to the maturity date of the Bonds to be redeemed; provided, however, that if the period from the redemption date to such maturity date is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year will be used.

### **Notice of Redemption**

Notice of redemption will be mailed by the Trustee by first class mail, not less than 25 days, nor more than 60 days prior to the redemption date, to the respective Holders of any Bonds designated for redemption at their addresses appearing on the bond registration books of the Trustee. If the Bonds are no longer held by the Securities Depository or its successor or substitute, the Trustee shall also give notice of redemption by overnight mail to such securities depositories and/or securities information services as shall be designated in a certificate of the University. Each notice of redemption shall state the date of such notice, the date of issue of the Bonds, the redemption date, the method for determining the Make-Whole Redemption Price, the place or places of redemption (including the name and appropriate address or addresses of the Trustee), the maturity (including CUSIP number, if any), and, in the case of Bonds to be redeemed in part only, the portion of the principal amount thereof to be redeemed. Each such notice will also state that on said date there will become due and payable on each of said Bonds the Make-Whole

Redemption Price thereof or of said specified portion of the principal amount thereof in the case of a Bond to be redeemed in part only, and that from and after such redemption date interest thereon shall cease to accrue, and shall require that such Bonds be then surrendered.

Failure by the Trustee to give notice as described above to any one or more of the securities information services or depositories designated by the University, or the insufficiency of any such notice will not affect the sufficiency of the proceedings for redemption. Failure by the Trustee to mail notice of redemption to any one or more of the respective Holders of any Bonds designated for redemption will not affect the sufficiency of the proceedings for redemption with respect to the Holders to whom such notice was mailed.

The University may instruct the Trustee to provide conditional notice of redemption, which may be conditioned upon the receipt of moneys or any other event.

### **Effect of Redemption**

Notice of redemption having been duly given as provided in the Indenture and as described above, and moneys for payment of the Make-Whole Redemption Price of the Bonds (or portion thereof) so called for redemption being held by the Trustee, on the date fixed for redemption designated in such notice, the Bonds (or portion thereof) so called for redemption shall become due and payable at the Make-Whole Redemption Price, interest on the Bonds so called for redemption shall cease to accrue, said Bonds (or portion thereof) will cease to be entitled to any benefit or security under the Indenture, and the Holders of said Bonds will have no rights in respect thereof except to receive payment of said Make-Whole Redemption Price from funds held by the Trustee for such payment.

### **Selection of Bonds for Redemption**

If the Bonds are registered in book-entry only form and so long as DTC or its nominee or a successor securities depository is the sole registered owner of the Bonds, if less than all of the Bonds are called for redemption, the particular Bonds or portions thereof to be redeemed will be selected on a pro rata pass-through distribution of principal basis in accordance with DTC procedures, provided that the selection for redemption of such Bonds will be made in accordance with the operational arrangements of DTC then in effect.

It is the University's intent that redemption allocations made by DTC be made on a pro rata pass-through distribution of principal basis as described above. However, the University can provide no assurance that DTC, DTC's direct and indirect participants or any other intermediary will allocate the redemption of Bonds on such basis. If the DTC operational arrangements do not allow for the redemption of the Bonds on a pro rata pass-through distribution of principal basis, then the Bonds will be selected for redemption, in accordance with DTC procedures, by lot.

If DTC or its nominee or a successor securities depository is no longer the sole registered owner of the Bonds, if less than all of the Bonds are called for redemption, the Trustee will select the Bonds to be redeemed on a pro rata basis.

### **BOOK-ENTRY ONLY SYSTEM**

The Depository Trust Company, New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered Bond certificate will be issued for each maturity of the Bonds, and will be deposited with DTC.

The information set forth in this section under the subheading "General" has been obtained from sources that the University and the Trustee believe to be reliable, but the University and Trustee make no representation as to the completeness or accuracy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof.

NONE OF THE UNIVERSITY, THE TRUSTEE AND THE UNDERWRITERS WILL HAVE ANY RESPONSIBILITY OR OBLIGATIONS TO DTC PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE PAYMENTS TO OR THE PROVIDING OF NOTICE FOR DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS.

SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE BONDS, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE BONDHOLDERS OR REGISTERED OWNERS OF THE BONDS SHALL MEAN CEDE & CO. AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE BONDS.

### **General**

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants," and together with Direct Participants, "Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for such Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested

by an authorized representative of DTC. The deposit of the Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the Bonds of an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the University as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payment of the principal or Make-Whole Redemption Price of and interest on the Bonds will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the University or the Trustee on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Underwriters, the Trustee or the University subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal or Make-Whole Redemption Price and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the University or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time if it is unwilling or unable to continue as depository by giving reasonable notice to the University or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, the Bond certificates are required to be printed and delivered. See "Certificated Bonds" below.

The University may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, the Bond certificates will be printed and delivered to DTC.

Each person for whom a Participant acquires an interest in the Bonds, as nominee, may desire to make arrangements with such Participant to receive a credit balance in the records of such Participant, and may desire to make arrangements with such Participant to have all notices of redemption or other communications to DTC, which may affect such persons, to be forwarded in writing by such Participant and to have notification made of all interest payments. **NONE OF THE UNIVERSITY, THE UNDERWRITERS AND THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO**

SUCH PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE BONDS.

When reference is made to any action which is required or permitted to be taken by the Beneficial Owners, such reference shall only relate to those permitted to act (by statute, regulation or otherwise) on behalf of such Beneficial Owners for such purposes. When notices are given, they shall be sent by the Trustee to DTC only.

For every transfer and exchange of Bonds, the Beneficial Owner may be charged a sum sufficient to cover any tax, fee or other governmental charge that may be imposed in relation thereto.

NONE OF THE UNIVERSITY, THE UNDERWRITERS AND THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DIRECT PARTICIPANTS, TO INDIRECT PARTICIPANTS, OR TO ANY BENEFICIAL OWNER WITH RESPECT TO (I) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DIRECT PARTICIPANT, OR ANY INDIRECT PARTICIPANT; (II) ANY NOTICE THAT IS PERMITTED OR REQUIRED TO BE GIVEN TO THE OWNERS OF THE BONDS UNDER THE AGREEMENT; (III) THE SELECTION BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE BONDS; (IV) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OR MAKE-WHOLE REDEMPTION PRICE, IF ANY, OR INTEREST DUE WITH RESPECT TO THE BONDS; (V) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE OWNER OF THE BONDS; OR (VI) ANY OTHER MATTER.

### **Certificated Bonds**

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time if it is unwilling or unable to continue as depository by giving reasonable notice to the University. In addition, the University may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). If for either reason the Book-Entry Only system is discontinued, Bond certificates will be delivered as described in the Indenture and the Beneficial Owner, upon registration of certificates held in the Beneficial Owner's name, will become the Bondowner. Thereafter, the Bonds may be exchanged for an equal aggregate principal amount of the Bonds in other authorized denominations and of the same maturity, upon surrender thereof at the principal corporate trust office of the Trustee. The transfer of any Bond may be registered on the books maintained by the Trustee for such purpose only upon assignment in form satisfactory to the Trustee. For every exchange or registration of transfer of the Bonds, the Trustee may make a charge sufficient to reimburse them for any tax or other governmental charge required to be paid with respect to such exchange or registration of transfer, and the Trustee may also require the Bondholder requesting such exchange to pay a reasonable sum to cover any expenses incurred by the University in connection with such exchange. The Trustee will not be required to transfer or exchange any Bond during the 15 days next preceding the selection of Bonds for redemption if such Bond (or any part thereof) is eligible to be selected or has been selected for redemption.

## SECURITY FOR THE BONDS

### General

The Indenture provides that, on or before 11:00 a.m. (Pacific time) on each Payment Date, the University will pay the Trustee a sum equal to the amount payable on such Payment Date as principal of and interest on the Bonds, less the amounts, if any, in the Bond Fund (described below) and available therefor. In addition, the Indenture provides that each such payment made (together with other available amounts, if any, in the Bond Fund) will at all times be sufficient to pay the total amount of interest and principal (whether at maturity or upon acceleration) becoming due and payable on the Bonds on such Payment Date. If on any Payment Date, the amounts held by the Trustee in the Bond Fund are insufficient to make any required payments of principal of (whether at maturity or upon acceleration) and interest on the Bonds as such payments become due, the University is required to pay such deficiency to the Trustee.

**The Bonds constitute unsecured general obligations of the University. The Bonds are not secured by a reserve fund, mortgage lien or security interest on or in any funds or other assets of the University, except for funds held from time to time by the Trustee for the benefit of the Holders of the Bonds under the Indenture. Pursuant to the Indenture, proceeds of the Bonds will be held by the University, rather than the Trustee, until expended, and may be commingled with general funds of the University. In addition, as described above, the University is not required to deposit with the Trustee amounts necessary to pay the principal of and interest on the Bonds until the Payment Date on which such amounts become due and payable; therefore, the funds held from time to time by the Trustee for the benefit of the Holders of the Bonds under the Indenture are expected to be minimal. Proceeds of the Bonds held by the University are not subject to any lien or charge in favor of the Holders of the Bonds and do not constitute security for the Bonds.**

The Indenture does not contain any financial covenants limiting the ability of the University to incur indebtedness or encumber or dispose of its property or any other similar covenants. Further, the University is not required by the Indenture to produce revenues at any specified level or to obtain any insurance with respect to its property or operations.

The University has other unsecured general obligations outstanding. See APPENDIX A – "STANFORD UNIVERSITY (INCLUDING FINANCIAL STATEMENTS AND DISCUSSION OF FINANCIAL RESULTS)" attached hereto. Moreover, the University is not restricted by the Indenture or otherwise from incurring additional indebtedness. Such additional indebtedness, if issued, may be either secured or unsecured and may be entitled to payment prior to payment on the Bonds.

### Indenture Fund

Under the Indenture, the Trustee has established a master fund for the sole benefit of the Bondholders referred to as the "Indenture Fund," containing the Bond Fund and the Redemption Fund and each of the funds and accounts contained therein. Upon the receipt thereof, the Trustee will deposit all payments (excluding income or profit from investments) received from the University into the Indenture Fund. The University has pledged, assigned and transferred the Indenture Fund and all amounts held therein to the Trustee for the benefit of the Bondholders to secure the full payment of the principal or Make-Whole Redemption Price of and interest on the Bonds in accordance with the terms and the provisions of the Indenture. The Indenture Fund and all amounts on deposit therein constitute collateral security to secure the full payment of the principal or Make-Whole Redemption Price of and interest on the Bonds in accordance with the terms and provisions of the Indenture. Due to the timing of payments by the University to the Trustee, in general there is not expected to be any money in the Indenture Fund except for

a brief period of time on the dates on which payments of principal or Make-Whole Redemption Price of or interest on the Bonds are made.

For information on other funds and accounts established by the Indenture, see APPENDIX B – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE" attached hereto.

### **ENFORCEABILITY OF REMEDIES**

The remedies available to the Trustee or the Holders of the Bonds upon an Event of Default under the Indenture are in many respects dependent upon judicial actions which are often subject to discretion and delay, and such remedies may not be readily available or may be limited. In particular, under the United States Bankruptcy Code, a bankruptcy case may be filed by or against the University or by or against any of its affiliates. In general, the filing of any such petition operates as a stay against enforcement of the terms of the agreements to which the bankrupt entity is a party and, in the bankruptcy process, executory contracts such as the Indenture may be subject to assumption or rejection by the bankrupt party. In the event of any such rejection, the non-rejecting party or its assigns may become an unsecured claimant of the rejecting party. The various legal opinions to be delivered concurrently with the Bonds (including the opinions of counsel to the University) will be qualified, as to the enforceability of the various legal instruments, by limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally and by general principles of equity applied in the exercise of judicial discretion.

### **CERTAIN INVESTMENT CONSIDERATIONS**

The following are certain investment considerations that have been identified by the University and should be carefully considered by prospective purchasers of the Bonds. The following list should not be considered to be exhaustive. Investors should read the Offering Memorandum in its entirety. Inclusion of certain factors below is not intended to signify that there are no other investment considerations or risks attendant to the Bonds. See APPENDIX A - "STANFORD UNIVERSITY (INCLUDING FINANCIAL STATEMENTS AND DISCUSSION OF FINANCIAL RESULTS)" for additional information about the University.

The University's stature in the educational community and its consolidated revenues, expenses, assets and liabilities may be affected by events, developments and conditions relating generally to, among other things, the ability of the University to (a) conduct educational and research activities of the types and quality required to maintain its stature, (b) generate sufficient revenues, while controlling expenses, to fund adequately the cost of these activities, (c) attract faculty, staff and management necessary to conduct these activities, (d) attract a student body of commensurate quality and (e) build and maintain the facilities necessary to conduct these activities.

Success in these areas depends upon the ability of the University and its management to respond to substantial challenges in a rapidly changing environment including, among others:

(i) Volatility and dislocations in the global financial markets and other economic factors, which may reduce the value of the University's endowment, impact investment returns, reduce investment income distributable from the endowment for operations and affect the ability of donors to contribute resources to support University operations and capital needs. See Notes 5, 6, 7 and 12 to the consolidated financial statements of the University for the years ended August 31, 2011 and 2010 (the "University's FY2011 Audited Financial Statements") included in Part II of Appendix A hereto.



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

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

(iv) Legislation and regulation by governmental authorities, including developments affecting the tax-exempt status of educational institutions such as the University, changes in levels of governmental research funding and reimbursement for administrative overhead and infrastructure, regulation of tuition levels and endowment payout, and limitations imposed by the General Use Permit on the University's expansion and use of facilities.

(v) Ability to recruit and retain faculty in light of the high regional cost of living and the limited availability of affordable housing within reasonable commuting distance.

The preservation and growth of the University's endowment are affected not only by the factors noted above but by discretionary changes in the annual payout to operations from endowment earnings, transfers of expendable funds and other distributions, all of which are subject to changes in policies and practices made by the Board of Trustees and University management.

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

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

The Hospitals obtained approval from local authorities to construct new facilities to address seismic requirements and to meet the health care needs of the community. The facilities have projected capital requirements of approximately \$3.2 billion. The Hospitals have informed the University that the sources of funding for such capital requirements include operating surpluses, gifts, government grants and bond proceeds. For this purpose, Lucile Salter Packard Children's Hospital at Stanford has undertaken a tax-exempt financing this fiscal year and may undertake additional tax-exempt financing within the next two fiscal years, and Stanford Hospital and Clinics has informed the University that it intends to undertake a tax-exempt financing this fiscal year. Each Hospital has its own separate liabilities, including bond debt obligations. The University and the Hospitals are not obligated to pay the debt of each other, and the University and the Hospitals receive separate ratings from the rating agencies.

For a discussion of certain financial challenges facing the University, see APPENDIX A – "STANFORD UNIVERSITY (INCLUDING FINANCIAL STATEMENTS AND DISCUSSION OF FINANCIAL RESULTS) – PART I – GENERAL INFORMATION ABOUT STANFORD UNIVERSITY – Capital Improvement Programs," "– Hospitals," "– Investments" and "– Liquidity," and "– PART II, PORTIONS OF THE UNIVERSITY'S FY2011 ANNUAL FINANCIAL REPORT – Discussion of Financial Results – Looking Forward" attached hereto.

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

#### **CERTAIN UNITED STATES FEDERAL TAX CONSIDERATIONS**

The following discussion summarizes certain U.S. federal tax considerations generally applicable to holders of the Bonds. The discussion below is based upon current provisions of the Internal Revenue Code of 1986, as amended (the "Code"), current final, temporary and proposed Treasury regulations, judicial authority and current administrative rulings and pronouncements of the Internal Revenue Service (the "IRS"). There can be no assurance that the IRS will not take a contrary view, and no ruling from the IRS has been, or is expected to be, sought on the issues discussed herein. Legislative, judicial, or administrative changes or interpretations may occur that could alter or modify the statements and conclusions set forth herein. Any such changes or interpretations may or may not be retroactive and could affect the tax consequences discussed below.

**TO ENSURE COMPLIANCE WITH REQUIREMENTS IMPOSED BY THE IRS, YOU ARE HEREBY NOTIFIED THAT ANY DISCUSSION OF FEDERAL TAX ISSUES CONTAINED HEREIN (I) IS WRITTEN IN CONNECTION WITH THE PROMOTION OR MARKETING OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN AND (II) IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED, BY ANY TAXPAYER FOR THE PURPOSE OF AVOIDING PENALTIES UNDER THE CODE. EACH TAXPAYER SHOULD SEEK ADVICE BASED ON THE TAXPAYER'S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.**

The summary is not a complete analysis or description of all potential U.S. federal tax considerations that may be relevant to, or of the actual tax effect that any of the matters described herein will have on, particular holders of Bonds and does not address U.S. federal gift or (for U.S. Holders) estate tax consequences or alternative minimum, foreign, state, local or other tax consequences. This summary does not purport to address special classes of taxpayers (such as S corporations, mutual funds, insurance companies, financial institutions, small business investment companies, regulated investment companies, real estate mortgage investment conduits, real estate investment trusts, grantor trusts, former citizens of the United States, persons whose functional currency is not the U.S. dollar, broker-dealers, traders in securities and tax-exempt organizations) that are subject to special treatment under the federal income tax laws, or persons that hold Bonds as part of a hedge against currency risk, or that are part of a hedge, straddle,

conversion, constructive ownership, constructive sale transaction, or other risk reduction or integrated transaction. This summary also does not address the tax consequences to an owner of Bonds held through a partnership or other pass-through entity treated as a partnership for U.S. federal income tax purposes. In addition, this discussion is limited to persons purchasing the Bonds for cash in this offering at their "issue price" within the meaning of Section 1273 of the Code (i.e., the first price at which a substantial amount of Bonds are sold to the public for cash), and it does not address the tax consequences to holders that purchase the Bonds after their original issuance. This discussion assumes that the Bonds will be held as capital assets within the meaning of Section 1221 of the Code.

As used herein, the term "U.S. Holder" means a beneficial owner of Bonds that is (i) an individual citizen or resident of the United States for U.S. federal income tax purposes, (ii) a corporation (or other entity classified as a corporation for U.S. federal tax purposes) created or organized in or under the laws of the United States or any state thereof or the District of Columbia, (iii) an estate, the income of which is includible in gross income for U.S. federal income tax purposes regardless of its source, or (iv) a trust if (a) a U.S. court can exercise primary supervision over the administration of such trust and one or more United States persons (within the meaning of the Code) has the authority to control all of the substantial decisions of such trust or (b) the trust has made a valid election under applicable Treasury regulations to be treated as a United States person (within the meaning of the Code). As used herein, the term "Non-U.S. Holder" means a beneficial owner of Bonds that is not a U.S. Holder.

If the liability of the University in respect of a Bond ceases as a result of an election by the University to pay and discharge the indebtedness on such Bond by depositing with the Trustee sufficient cash and/or obligations to pay or redeem and discharge the indebtedness on such Bond (a "legal defeasance"), under current tax law a Holder will be deemed to have sold or exchanged such Bond. In the event of such a legal defeasance, a Holder generally will recognize gain or loss on the deemed exchange of the Bond. Ownership of the Bond after a deemed sale or exchange as a result of a legal defeasance may have tax consequences different than those described in this "Tax Matters" section and each Holder should consult its own tax advisor regarding the consequences to such holder of a legal defeasance of a Bond.

BECAUSE INDIVIDUAL CIRCUMSTANCES MAY DIFFER, PROSPECTIVE HOLDERS OF THE BONDS ARE STRONGLY URGED TO CONSULT THEIR OWN TAX ADVISORS WITH RESPECT TO THEIR PARTICULAR TAX SITUATIONS AND AS TO ANY FEDERAL, FOREIGN, STATE, LOCAL OR OTHER TAX CONSIDERATIONS (INCLUDING ANY POSSIBLE CHANGES IN TAX LAW) AFFECTING THE PURCHASE, HOLDING AND DISPOSITION OF THE BONDS.

### **Certain U.S. Federal Income Tax Consequences to U.S. Holders**

This section describes certain U.S. federal income tax consequences to U.S. Holders. Non-U.S. Holders should see the discussion under the heading "Certain U.S. Federal Income and Estate Tax Consequences to Non-U.S. Holders" for a discussion of certain tax consequences applicable to them.

**Interest.** Interest on the Bonds will generally be taxable to a U.S. Holder as ordinary interest income at the time such amounts are accrued or received, in accordance with the U.S. Holder's method of accounting for U.S. federal income tax purposes.

If a Bond is issued at a discount from its stated redemption price at maturity, and the discount is more than the product of one-quarter of one percent (0.25%) of the stated redemption price at maturity of the Bond multiplied by the number of full years to maturity, the Bond will be an "OID Bond." In general, the excess of the stated redemption price at maturity of an OID Bond over its issue price will constitute original issue discount ("OID") for U.S. federal income tax purposes. The stated redemption price at maturity of a Bond is the sum of all scheduled amounts payable on the Bond (other than qualified stated interest). The term "qualified stated interest" generally means stated interest that is unconditionally payable

in cash or property (other than debt instruments of the University), or that is treated as constructively received, at least annually at a single fixed rate or, under certain conditions, at a variable rate. U.S. Holders of OID Bonds will be required to include OID in income for U.S. federal income tax purposes as it accrues, in accordance with a constant yield method based on a compounding of interest (which may be before the receipt of cash payments attributable to such income). Under this method, U.S. Holders generally will be required to include in income increasingly greater amounts of OID in successive accrual periods.

If a Bond is issued at a price greater than the principal amount payable at maturity, a U.S. Holder generally will be considered to have purchased the Bond at a premium, and generally may elect to amortize the premium as an offset to interest income, using a constant-yield method, over the remaining term of the Bond. If a U.S. Holder makes the election to amortize the premium, it generally will apply to all debt instruments held by such U.S. Holder at the time of the election, as well as any debt instruments that are subsequently acquired by such U.S. Holder. In addition, a U.S. Holder may not revoke the election without the consent of the IRS. If such U.S. Holder elects to amortize the premium, such U.S. Holder will be required to reduce its tax basis in the Bond by the amount of the premium amortized during the holding period of the U.S. Holder. If such U.S. Holder does not elect to amortize premium, the amount of premium will be included in its tax basis in the Bond. Therefore, if a U.S. Holder does not elect to amortize premium and holds the Bond to maturity, such U.S. Holder generally will be required to treat the premium as capital loss when the Bond matures.

**Disposition of the Bonds.** Unless a nonrecognition provision of the Code applies, the sale, exchange, redemption (including pursuant to an offer by the University) or other disposition of a Bond, will be a taxable event for U.S. federal income tax purposes. In such event, in general, a U.S. Holder of Bonds will recognize gain or loss equal to the difference between (i) the amount of cash plus the fair market value of property received (except to the extent attributable to accrued but unpaid interest on the Bonds which will be taxed in the manner described above under "Interest") and (ii) the U.S. Holder's adjusted tax basis in the Bonds (generally, the purchase price paid by the U.S. Holder for the Bonds, less any principal payments received by the U.S. Holder). Any such gain or loss generally will be long-term capital gain or loss, provided the Bonds have been held for more than one year at the time of the disposition. The deductibility of capital losses is subject to limitations.

**Information Reporting and Backup Withholding.** Payments of interest on the Bonds will be generally subject to IRS information reporting. In addition, under Section 3406 of the Code and applicable Treasury Regulations, a non-corporate U.S. Holder of the Bonds may be subject to backup withholding at the current rate of 28% (subject to future adjustment) with respect to "reportable payments," which include interest paid on the Bonds and the gross proceeds of a sale, exchange, redemption or retirement of the Bonds. The applicable payor will be required to deduct and withhold the prescribed amounts if (i) the payee fails to furnish a taxpayer identification number ("TIN") to the payor in the manner required, (ii) the IRS notifies the payor that the TIN furnished by the payee is incorrect, (iii) there has been a "notified payee underreporting" described in Section 3406(c) of the Code or (iv) there has been a failure of the payee to certify under penalty of perjury that the payee is not subject to withholding under Section 3406(a)(1)(C) of the Code. Amounts withheld under the backup withholding rules may be refunded or credited against the U.S. Holder's federal income tax liability, if any, provided that the required information is timely furnished to the IRS.

### **Certain U.S. Federal Income and Estate Tax Consequences to Non-U.S. Holders**

This section describes certain U.S. federal income and estate tax consequences to Non-U.S. Holders.

**Interest.** If, under the Code, interest on the Bonds is "effectively connected with the conduct of a trade or business within the United States" by a Non-U.S. Holder, such interest will be subject to U.S.

federal income tax in a similar manner as if the Bonds were held by a U.S. Holder, as described above, and in the case of Non-U.S. Holders that are corporations may be subject to U.S. branch profits tax at a rate of up to 30%, unless an applicable tax treaty provides otherwise. Such Non-U.S. Holder will not be subject to withholding taxes, however, if it provides a properly executed Form W-8ECI.

Interest on the Bonds held by other Non-U.S. Holders may be subject to withholding taxes of up to 30% of each payment made to the Non-U.S. Holders unless the "portfolio interest" exemption applies. In general, interest paid on the Bonds to a Non-U.S. Holder will qualify for the portfolio interest exemption, and thus will not be subject to U.S. federal withholding tax, if (i) such Non-U.S. Holder is not a "controlled foreign corporation" (within the meaning of Section 957 of the Code) related, directly or indirectly, to the University; (ii) the Non-U.S. Holder is not actually or constructively a "10-percent shareholder" under Section 871(h) of the Code; (iii) the Non-U.S. Holder is not a bank receiving interest described in Section 881(c)(3)(A) of the Code; (iv) the interest is not effectively connected with the conduct by the Non-U.S. Holder of a trade or business in the United States under Section 871(b) or Section 882 of the Code; and (v) either (a) the Non-U.S. Holder who is the beneficial owner of the obligation provides a statement signed by such person under penalties of perjury, on IRS Form W-8BEN (or successor form), certifying that such owner is not a U.S. Holder and providing such owner's name and address or (b) a securities clearing organization, bank or other financial institution that holds the Bonds on behalf of such Non-U.S. Holder in the ordinary course of its trade or business certifies under penalties of perjury that such an IRS Form W-8BEN (or a successor form) has been received from the beneficial owner and furnishes a copy thereof. A certificate is effective only with respect to payments of interest made to the certifying Non-U.S. Holder after issuance of the certificate in the calendar year of its issuance and the two immediately succeeding calendar years. Alternative methods may be applicable for satisfying the certification requirement described above. Foreign trusts and their beneficiaries are subject to special rules, and such persons should consult their own tax advisors regarding the certification requirements.

If a Non-U.S. Holder does not claim, or does not qualify for, the benefit of the portfolio interest exemption, the Non-U.S. Holder may be subject to a 30% withholding tax on interest payments on the Bonds. However, the Non-U.S. Holder may be able to claim the benefit of a reduced withholding tax rate under an applicable income tax treaty between the Non-U.S. Holder's country of residence and the U.S. Non-U.S. Holders are urged to consult their own tax advisors regarding their eligibility for treaty benefits. The required information for claiming treaty benefits is generally submitted on Form W-8BEN. In addition, a Non-U.S. Holder may under certain circumstances be required to obtain a U.S. taxpayer identification number.

**Disposition of the Bonds.** A Non-U.S. Holder will generally not be subject to U.S. federal income tax or withholding tax on gain recognized on a sale, exchange, redemption, retirement, or other disposition of a Bond. (Such gain does not include proceeds attributable to accrued but unpaid interest on the Bonds, which will be treated as interest). A Non-U.S. Holder may, however, be subject to U.S. federal income tax on such gain if: (i) the Non-U.S. Holder is a nonresident alien individual who was present in the United States for 183 days or more in the taxable year of the disposition and certain other conditions are met under Section 871(a)(2) of the Code; or (ii) the gain is effectively connected with the conduct of a U.S. trade or business, as provided by applicable U.S. tax rules (in which case the U.S. branch profits tax may also apply), unless an applicable tax treaty provides otherwise; or the Non-U.S. Holder is required to pay tax pursuant to the provisions of the United States tax law applicable to certain United States expatriates.

**Information Reporting and Backup Withholding.** Certain payors must report annually to the IRS and to each Non-U.S. Holder any interest that is subject to U.S. withholding taxes or that is exempt from U.S. withholding taxes pursuant to an income tax treaty or certain provisions of the Code. Copies of these information returns may also be made available under the provisions of a specific tax treaty or agreement with the tax authorities of the country in which the Non-U.S. Holder resides.

A Non-U.S. Holder generally will not be subject to backup withholding with respect to payments of interest on the Bonds as long as the Non-U.S. Holder (i) has furnished to the applicable payor, a valid IRS Form W-8BEN certifying, under penalties of perjury, its status as a non-U.S. person, (ii) has furnished to the applicable payor, other documentation upon which it may rely to treat the payments as made to a non-U.S. person in accordance with Treasury regulations, or (iii) otherwise establishes an exemption. A Non-U.S. Holder may be subject to information reporting and/or backup withholding on a sale of the Bonds through the United States office of a broker and may be subject to information reporting (but generally not backup withholding) on a sale of the Bonds through a foreign office of a broker that has certain connections to the United States, unless the Non-U.S. Holder provides the certification described above or otherwise establishes an exemption. Non-U.S. Holders should consult their own tax advisors regarding their qualification for exemption from backup withholding and the procedure for obtaining such an exemption.

Amounts withheld under the backup withholding rules may be refunded or credited against the Non-U.S. Holder's U.S. federal income tax liability, if any, provided that the required information is timely furnished to the IRS.

**U.S. Federal Estate Tax.** A Bond held or beneficially owned by an individual who, for estate tax purposes, is not a citizen or resident of the United States at the time of death will not be includable in the decedent's gross estate for U.S. estate tax purposes, provided that, at the time of death, payments with respect to such Bond would not have been effectively connected with the conduct by such individual of a trade or business in the United States. In addition, the U.S. estate tax may be inapplicable to such Bond under the terms of an applicable estate tax treaty.

THE FOREGOING SUMMARY IS INCLUDED HEREIN FOR GENERAL INFORMATION ONLY AND DOES NOT DISCUSS ALL ASPECTS OF U.S. FEDERAL INCOME TAXATION THAT MAY BE RELEVANT TO A PARTICULAR HOLDER OF BONDS IN LIGHT OF THE HOLDER'S PARTICULAR CIRCUMSTANCES AND INCOME TAX SITUATION. PROSPECTIVE INVESTORS ARE URGED TO CONSULT THEIR OWN TAX ADVISORS AS TO ANY TAX CONSEQUENCES TO THEM FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF BONDS, INCLUDING THE APPLICATION AND EFFECT OF STATE, LOCAL, FOREIGN AND OTHER TAX LAWS.

## ERISA CONSIDERATIONS

The Employee Retirement Income Security Act of 1974, as amended ("ERISA"), imposes certain fiduciary obligations and prohibited transaction restrictions on employee pension and welfare benefit plans subject to ERISA ("ERISA Plans") and the fiduciaries of such plans. Section 4975 of the Code imposes similar prohibited transaction restrictions on tax-qualified retirement plans described in Section 401(a) and 403(a) of the Code, which are exempt from tax under Section 501(a) of the Code, other than governmental and church plans as defined herein ("Qualified Retirement Plans"), and on Individual Retirement Accounts/Annuities ("IRAs") described in Section 408(a) and 408(b) of the Code and certain other tax favored accounts (collectively, "Tax-Favored Plans"). Certain employee benefit plans, such as governmental plans (as defined in Section 3(32) of ERISA), and, if no election has been made under Section 410(d) of the Code, church plans (as defined in Section 3(33) of ERISA), are not subject to ERISA requirements. Additionally, such governmental and non-electing church plans are not subject to the requirements of Section 4975 of the Code.

Under ERISA and the Code, any person who exercises any discretionary authority or control over the administration of an ERISA Plan or Tax-Favored Plan and entities whose underlying assets include plan assets by reason of ERISA Plans or Tax-Favored Plans investing in such entities (collectively, "Benefit Plans") or the management or disposition of the assets of a Benefit Plan, or who renders investment advice for a fee or other compensation to an ERISA Plan, is generally considered to be a fiduciary of the Benefit Plan. In considering an investment in the Bonds of a portion of the assets of any Benefit Plan, a fiduciary

should determine, particularly in light of the risks and lack of liquidity inherent in an investment in the Bonds, whether the investment is in accordance with the documents and instruments governing the Benefit Plan and the applicable provisions of ERISA, the Code or any similar law relating to a fiduciary's duties to the Benefit Plan including, without limitation, the prudence, diversification, delegation of control and prohibited transaction provisions of ERISA, the Code and any other applicable similar laws.

In addition to the imposition of general fiduciary obligations under ERISA, including those of investment prudence and diversification and the requirement that a plan's investment be made in accordance with the documents governing the plan, Section 406 of ERISA and Section 4975 of the Code prohibit a broad range of transactions involving assets of Benefit Plans and persons who have certain specified relationships to the Benefit Plans ("Parties in Interest" or "Disqualified Persons"), unless a statutory or administrative exemption is available. Certain Parties in Interest or Disqualified Persons that participate in a prohibited transaction may be subject to a penalty or an excise tax imposed pursuant to Section 502(i) of ERISA or Section 4975 of the Code unless a statutory or administrative exemption is available.

Certain transactions involving the purchase, holding or transfer of the Bonds might be deemed to constitute prohibited transactions under ERISA or the Code if assets of the University were deemed to be assets of a Benefit Plan. Under final regulations issued by the United States Department of Labor, as modified by ERISA (the "Plan Assets Regulation"), the assets of the University would be treated as plan assets of a Benefit Plan for the purposes of ERISA and the Code only if the Benefit Plan acquires an "equity interest" in the University and none of the exceptions contained in the Plan Assets Regulation is applicable. An equity interest is defined under the Plan Assets Regulation as an interest in an entity other than an instrument which is treated as indebtedness under applicable local law and which has no substantial equity features. Fiduciaries with respect to Benefit Plans should consult their own advisors as to whether the Bonds are treated as debt without substantial equity features for purposes of the Plan Assets Regulation. However, without regard to whether the Bonds are treated as an equity interest for such purposes, the acquisition or holding of Bonds by or on behalf of a Benefit Plan could be considered to give rise to a prohibited transaction if the University or the Trustee, or any of their respective affiliates, is or becomes a Party in Interest or a Disqualified Person with respect to such Benefit Plan. In such case, certain exemptions from the prohibited transaction rules could be applicable depending on the type and circumstances of the plan fiduciary making the decision to acquire a Bond. Included among these exemptions are: Prohibited Transaction Class Exemption ("PTCE") 96-23, regarding transactions effected by "in-house asset managers"; PTCE 90-1, regarding investments by insurance company pooled separate accounts; PTCE 95-60, regarding transactions effected by "insurance company general accounts"; PTCE 91-38, regarding investments by bank collective investment funds; and PTCE 84-14, regarding transactions effected by "qualified professional asset managers."

Any ERISA Plan fiduciary considering whether to purchase Bonds on behalf of a Benefit Plan should consult with its counsel regarding the applicability of the fiduciary responsibility and prohibited transaction provisions of ERISA and the Code to such investment and the availability of any of the exemptions referred to above. Persons responsible for investing the assets of Tax-Favored Plans that are not ERISA Plans or any plans that are subject to similar laws should seek similar counsel with respect to the prohibited transaction provisions of the Code and the applicability of any similar state, federal, local or foreign law.

## **UNDERWRITING**

The University has entered into a purchase contract with the Underwriters listed on the cover hereof for whom Morgan Stanley & Co. LLC is acting as representative, and the Underwriters have agreed to purchase the Bonds from the University at an aggregate discount of \$551,226.92 from the public offering price set forth on the cover page hereof.

The purchase contract pursuant to which the Bonds are being sold provides that the Underwriters will purchase not less than all of the Bonds. The Underwriters' obligation to make such purchase is subject to certain terms and conditions set forth in the purchase contract, including the approval of certain legal matters by counsel and certain other conditions.

The Underwriters may offer and sell the Bonds to certain dealers and others at a price lower than the initial offering price. The offering price of Bonds may be changed from time to time by the Underwriters.

Morgan Stanley and Citigroup Inc., the respective parent companies of Morgan Stanley & Co. LLC and Citigroup Global Markets Inc., each an underwriter of the Bonds, have entered into a retail brokerage joint venture. As part of the joint venture, each of Morgan Stanley & Co. LLC and Citigroup Global Markets Inc. will distribute municipal securities to retail investors through the financial advisor network of a new broker-dealer, Morgan Stanley Smith Barney LLC. This distribution arrangement became effective on June 1, 2009. As part of this arrangement, each of Morgan Stanley & Co. LLC and Citigroup Global Markets Inc. will compensate Morgan Stanley Smith Barney LLC for its selling efforts in connection with their respective allocations of Bonds.

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

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

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

#### **CERTAIN RELATIONSHIPS**

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

#### **ANNUAL REPORTS**

The University routinely posts its annual report containing financial information on its website (<http://bondholder-information.stanford.edu/financials/index.html>). The information contained in the University's website is not a part of this Offering Memorandum and is not incorporated by reference herein.



## **LITIGATION**

There is no litigation pending concerning the validity of the Bonds. The University is, however, a party to certain other litigation which is described in "Regulatory Matters and Litigation" in Appendix A.

## **APPROVAL OF LEGALITY**

Legal matters incident to validity of the Bonds and certain other matters are subject to the approving opinion of Ropes & Gray LLP, counsel to the University. The proposed form of opinion of counsel to the University relating to the validity of the issuance of the Bonds and certain other matters is attached hereto as Appendix C. In addition, certain other legal matters will be passed upon for the University by the General Counsel to the University, and for the Underwriters by their counsel, Hawkins Delafield & Wood LLP. None of the firms named above undertakes any responsibility to Holders of the Bonds for accuracy, completeness or fairness of this Offering Memorandum.

## **INDEPENDENT ACCOUNTANTS**

The University's FY2011 Audited Financial Statements, which are included in Part II of Appendix A hereto, have been audited by PricewaterhouseCoopers LLP, independent accountants, as stated in their report appearing therein. Such financial statements are an integral part of this Offering Memorandum and should be carefully reviewed in their entirety.

## **RATINGS**

The Bonds have been given an "Aaa" rating by Moody's, an "AAA" rating by S&P and an "AAA" rating by Fitch. An explanation of the significance of the ratings given can be obtained from Moody's at 7 World Trade Center at 250 Greenwich Street, Public Finance Group, 23rd Floor, New York, New York 10007, from S&P at 55 Water Street, New York, New York 10041 and from Fitch at One State Street Plaza, New York, New York, 10004. Such ratings reflect only the views of Moody's, S&P and Fitch, respectively, and there is no assurance that any of the ratings, if received, will continue for any given period of time or that any of the ratings will not be lowered or withdrawn entirely if, in the judgment of Moody's, S&P or Fitch, circumstances so warrant. Neither the University nor the Underwriters have undertaken any responsibility either to bring to the attention of the Holders of the Bonds any proposed change in or withdrawal of the ratings received or to oppose any such proposed revision. Any such change in or withdrawal of the ratings received could have an adverse effect on the market price of the Bonds.

## **MISCELLANEOUS**

All quotations from, and summaries and explanations of, the Indenture and of other statutes and documents contained herein do not purport to be complete, and reference is made to said documents and statutes for full and complete statements of their provisions. Copies in reasonable quantity of the Indenture may be obtained upon request directed to the Underwriters or the University.

Any statements in this Offering Memorandum involving matters of opinion are intended as such and not as representations of fact. This Offering Memorandum is not to be construed as a contract or agreement between the University and Holders of any of the Bonds.



## APPENDIX A

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

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

#### PART I

##### GENERAL INFORMATION ABOUT STANFORD UNIVERSITY

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

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

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

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

##### **Governance and Management**

**Board of Trustees.** Stanford is a trust with corporate powers under the laws of the State of California. The Internal Revenue Service has determined the University to be a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. Under the provisions of the founding grant of Senator Leland Stanford and Jane Lathrop Stanford and related organizational documents of the University (the "Founding Grant"), the Board of Trustees is custodian of the endowment and all the

properties of the University. The Board administers the invested funds, and has the ultimate authority over the annual budget, and policies for operation and control of the University. The powers and duties of the Board of Trustees derive from a combination of the Founding Grant, amendments to the Founding Grant, and legislation and court decrees specific to Stanford. In addition, the Board operates under its own bylaws and a series of resolutions on major policy. The Board conducts its business through standing committees, currently consisting of the Committees on Academic Policy, Planning and Management; Alumni and External Affairs; Audit and Compliance; Development; Finance; Land and Buildings; the Medical Center; and Trusteeship. The maximum membership of the Board is 35, including the President of the University. The Board nominates and selects successor trustees, eight of whom shall be alumni trustees.

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

Leslie P. Hume (Chair) <sup>(1)</sup>	Goodwin Liu
Robert M. Bass	Susan R. McCaw
William R. Brody	Hamid R. Moghadam
Brook H. Byers <sup>(2)</sup>	Wendy Munger
Mariann Byerwalter <sup>(3)</sup>	Paul A. Ormond
James E. Canales	Ruth M. Porat
James G. Coulter	Penny S. Pritzker
Steven A. Denning <sup>(4)</sup>	Miriam Rivera
Bruce W. Dunlevie	Victoria B. Rogers
Armando Garza	Richard A. Sapp
John A. Gunn	Kavitark R. Shriram
Christine U. Hazy	Ronald P. Spogli
John L. Hennessy <sup>(5)</sup>	Isaac Stein
Pete Higgins <sup>(6)</sup>	Thomas F. Steyer
Ronald B. Johnson	Vaughn C. Williams
Ann H. Lamont	Jerry Yang
Frank D. Lee	Deborah A. Zoullas

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

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

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

**University Officers**

John L. Hennessy<sup>(1)</sup>  
*President*

John W. Etchemendy  
*Provost and Acting President*<sup>(2)</sup>

David F. Demarest  
*Vice President for Public Affairs*

David A. Jones  
*Vice President for Human Resources*

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

William J. Madia  
*Vice President for SLAC National Accelerator  
Laboratory*

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

Martin W. Shell  
*Vice President for Development*

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

Debra L. Zumwalt  
*Vice President and General Counsel*

**Stanford Management Company**

John F. Powers  
*President and Chief Executive Officer*

**University Cabinet**

Ann M. Arvin  
*Vice Provost and Dean of Research*

Harry J. Elam Jr.  
*Vice Provost for Undergraduate Education*

Persis S. Drell<sup>(3)</sup>  
*Director, SLAC National Accelerator Laboratory*

Patricia J. Gumport  
*Vice Provost for Graduate Education*

Larry Kramer<sup>(4)</sup>  
*Dean, School of Law*

Pamela A. Matson  
*Dean, School of Earth Sciences*

Philip A. Pizzo, M.D.<sup>(5)</sup>  
*Dean, School of Medicine*

James D. Plummer  
*Dean, School of Engineering*

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

Richard P. Saller  
*Dean, School of Humanities and Sciences*

Garth Saloner  
*Dean, Graduate School of Business*

Claude M. Steele  
*Dean, School of Education*

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

## Faculty and Staff

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

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

## Students

For the 2011 fall quarter, the University enrolled 6,927 undergraduate and 8,796 graduate students. During academic year 2010-2011, 1,670 bachelor degrees and 3,199 advanced degrees were conferred. Both the undergraduate and graduate student bodies are among the most highly qualified in the country. The following table provides a summary for the last five academic years of undergraduate and graduate applications, admissions and enrollment.

Academic Year	Undergraduate <sup>(1)(2)</sup>			Graduate <sup>(2)</sup>		
	<u>Applications</u>	<u>Admissions</u>	<u>Enrollment</u>	<u>Applications</u>	<u>Admissions</u>	<u>Enrollment</u>
2007-08	25,358	2,487	1,741	33,623	4,352	2,400
2008-09	26,479	2,425	1,725	34,566	4,350	2,379
2009-10	31,731	2,451	1,715	36,326	4,419	2,345
2010-11	33,275	2,365	1,694	37,983	4,580	2,608
2011-12	35,761	2,495	1,754	38,750	4,570	2,628

(1) Includes both freshman and transfer students.

(2) Fall only.

## Tuition, Fees and Financial Aid

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

<u>Academic Year</u>	<u>Tuition and Fees</u>	<u>Room and Board</u>	<u>Total</u>	<u>Average Financial Aid<sup>(1)</sup></u>
2007-08	\$34,800	\$10,808	\$45,608	\$11,125
2008-09	36,030	11,182	47,212	15,122
2009-10	37,380	11,463	48,843	16,300
2010-11	38,700	11,876	50,576	17,100
2011-12	40,050	12,291	52,341	17,500 <sup>(2)</sup>

<sup>(1)</sup> Includes only Stanford-funded scholarship aid awarded on the basis of financial need averaged over the total number of undergraduate students.

<sup>(2)</sup> Average Financial Aid amount for 2011-12 is an estimate.

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

### **The Stanford Campus and Other Real Property**

Stanford's campus consists of approximately 8,200 acres of land owned by the University near Palo Alto, California, much of which was given to the University under the Founding Grant on the condition that the lands subject to the grant may not be sold. The campus is in six different cities and counties. A portion of Stanford lands are leaseholds related to commercial, residential, agriculture and other developments that provide rental income for the University. Income-generating properties include the Stanford Research Park, the Stanford Shopping Center, the Welch Road professional office buildings, the Vi senior living facility, the Rosewood Sand Hill Hotel and Office Complex and buildings along El Camino Real and Sand Hill Road occupied by venture capital firms, investment banks, law firms, other service-oriented entities and retailers. Much of the University's other land remains undeveloped and is used primarily for agricultural purposes.

Stanford also owns substantial real property elsewhere. Some of this property has been acquired for expansion or relocation of programs, including approximately 35 acres in Redwood City, California. The University also owns facilities for use in study programs in Pacific Grove, California, in the District of Columbia and in Berlin, Germany. Other holdings have been acquired by gift or purchase, and are widely dispersed throughout the United States and abroad.

### **Capital Improvement Programs**

The University makes a significant investment in its facilities for teaching, research and related activities. The University's Capital Budget and three-year Capital Plan are based on a projection of major capital projects the University will pursue in support of the academic mission. The fiscal year 2012 Capital Budget approved by the Board of Trustees is \$455.5 million and represents the anticipated capital expenditures in the first year of the rolling three-year Capital Plan. The fiscal year 2012-2014 Capital Plan includes projects with estimated total costs of \$1.9 billion. Estimated funding sources for projects under the current Capital Plan consist of \$452.4 million of gifts, \$332.8 million of reserves and other funds, \$255.5 million of resources expected to be identified in the course of annual capital planning, and \$836.5 million of debt. Additional debt will be required to bridge timing differences between project

expenditures and the receipt of gifts. The Capital Budget and the Capital Plan are both subject to change based on funding availability, budget affordability and university priorities.

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

## **Hospitals**

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

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

## **Regulatory Matters and Litigation**

The University is subject to various suits, audits, investigations and other legal proceedings in the course of its operations. While the University's ultimate liability, if any, is not determinable at present, no proceedings are pending or threatened that, in management's opinion, would be likely to have a material adverse effect on the University's financial position.

## **Investments**

At August 31, 2011, the University held investments with a fair value of approximately \$21.2 billion. The following table summarizes the fair value of the University's investments for each of



the past five fiscal years. The table below should be read in conjunction with the University's FY2011 Audited Financial Statements and prior years' financial statements.

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

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

**Liquidity**

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

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

**Recent Changes in University Indebtedness**

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

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

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**PART II**

**PORTIONS OF THE UNIVERSITY'S FY2011 ANNUAL FINANCIAL REPORT**

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## DISCUSSION OF FINANCIAL RESULTS

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

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

### University

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

### FY11 FINANCIAL HIGHLIGHTS

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

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

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

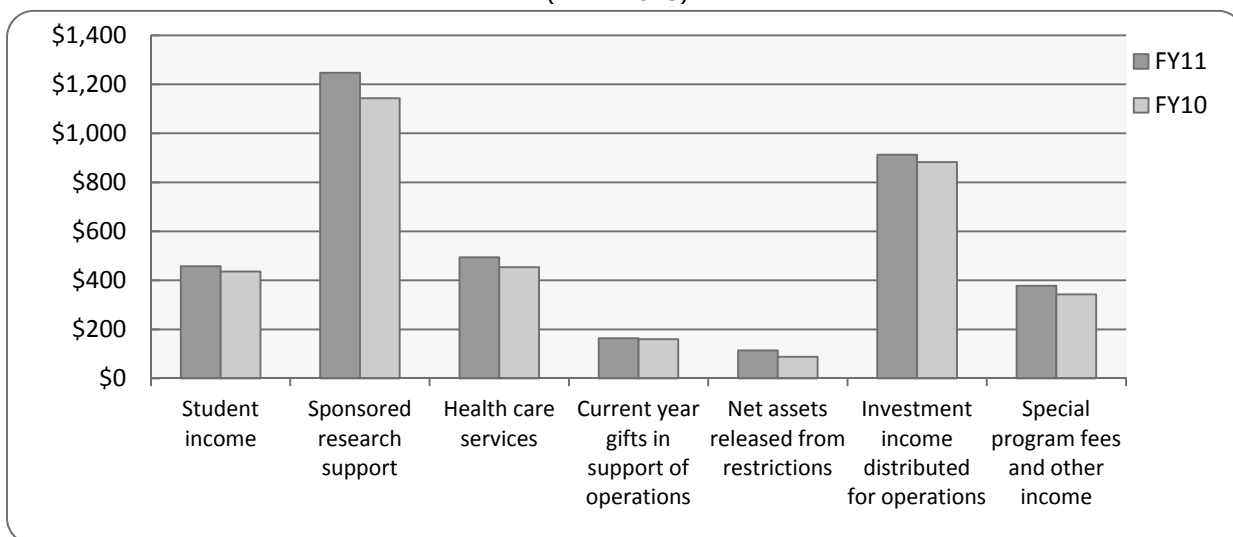
### OPERATING RESULTS

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

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

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

**FIGURE 1  
OPERATING REVENUES**  
(in millions)



**OPERATING REVENUES**

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

**Student Income**

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

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

**Sponsored Research Support**

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

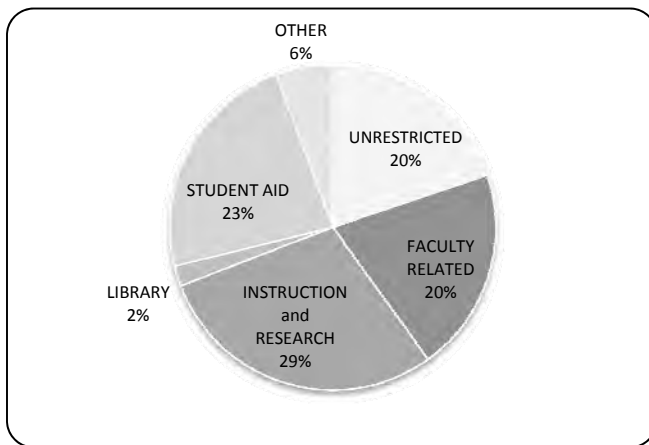
Approximately 84% of the University’s sponsored research support, including SLAC National Accelerator Laboratory (SLAC), is received directly or indirectly from the federal government. The largest federal sponsor, the Department of Health and Human Services, provided revenue of \$449 million during FY11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

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

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

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

**FIGURE 2  
ENDOWMENT PAYOUT BY PURPOSE**



**Health Care Services**

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

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

**THE UNIVERSITY'S ENDOWMENT**

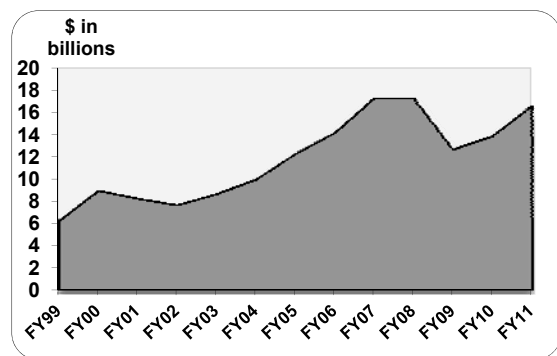
The University's endowment is a collection of gift funds and reserves which are set aside and invested to support the University's teaching and research missions. At August 31, 2011, the endowment totaled \$16.5 billion and represented approximately 73% of the University's net assets. The endowment includes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

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

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

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

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



**UNIVERSITY ENDOWMENT BY YEAR**

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

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

### **Total Investment Income Distributed for Operations**

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

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

### **OPERATING EXPENSES**

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

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

### **FINANCIAL POSITION**

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

### **Cash and Cash Equivalents**

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



position included approximately \$490 million of the April 2009 taxable bond proceeds.

### **Investments**

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

### **Capital Projects**

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

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

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

overall energy consumption and use cleaner energy sources.

### **Debt**

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

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

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

### **Unrestricted Net Assets**

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

### **Temporarily Restricted Net Assets**

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

### **Permanently Restricted Net Assets**

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

### **Hospitals**

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

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

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

### **Stanford Hospital and Clinics**

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

### **Operating Results**

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

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

### **Statement of Financial Position (Balance Sheet)**

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

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

### **Other SHC highlights**

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

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

#### **Lucile Packard Children's Hospital at Stanford**

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

#### **Operating Results**

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

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

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

benefit costs, and an increase in needed temporary labor.

#### **Statement of Financial Position (Balance Sheet)**

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

#### **Other LPCH Highlights**

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

#### **Health Care Reform**

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

#### **LOOKING FORWARD**

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

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

Despite the very positive FY11 results, Stanford has not lost sight of the impending risks ahead: the outlook for federal research funding remains uncertain, investment markets remain volatile due to continued global economic malaise, and health

care reform is upon us. The need for financial aid is also expected to continue increasing as many of our students and their families experience additional financial pressures. We remain mindful of the recent economic events and challenges ahead. We plan to approach FY12 and beyond cautiously yet opportunistically.

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



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



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



Daniel J. Morissette  
Chief Financial Officer  
Stanford Hospital and Clinic



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

## SELECTED FINANCIAL AND OTHER DATA

Fiscal Years Ended August 31

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

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

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

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

## MANAGEMENT RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

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

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

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

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



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



## Report of Independent Auditors

To the Board of Trustees  
Stanford University

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

*PricewaterhouseCoopers LLP*

December 14, 2011

# CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

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

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

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



# CONSOLIDATED STATEMENTS OF ACTIVITIES

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

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

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

# CONSOLIDATED STATEMENTS OF ACTIVITIES

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

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

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

# CONSOLIDATED STATEMENTS OF CASH FLOWS

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. Basis of Presentation and Significant Accounting Policies

### **BASIS OF PRESENTATION**

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

### **University**

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

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

### **Hospitals**

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

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

## **TAX STATUS**

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

## **BASIS OF ACCOUNTING**

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

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

### **Unrestricted Net Assets**

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

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

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

### **Temporarily Restricted Net Assets**

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

### **Permanently Restricted Net Assets**

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

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

**CASH AND CASH EQUIVALENTS**

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

**ACCOUNTS AND LOANS RECEIVABLE**

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

**PLEDGES RECEIVABLE**

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

**INVESTMENTS**

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

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

**PLANT FACILITIES**

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

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

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

### **WORKS OF ART AND SPECIAL COLLECTIONS**

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

### **DONATED ASSETS**

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

### **DONOR ADVISED FUNDS**

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

### **SPLIT INTEREST AGREEMENTS**

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

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

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

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

## **SELF-INSURANCE**

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

## **INTEREST RATE EXCHANGE AGREEMENTS**

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

## **STUDENT INCOME**

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

## **PATIENT CARE AND OTHER SERVICES**

### **Health Care Services**

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

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

### **Charity Care**

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



**Provider Fee**

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

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

**RECENT ACCOUNTING PRONOUNCEMENTS**

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

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

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

## 2. Accounts Receivable

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

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

## 3. Pledges Receivable

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

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

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

#### 4. Loans Receivable

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

##### **STUDENT LOANS RECEIVABLE**

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

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

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

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

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

##### **FACULTY AND STAFF MORTGAGES**

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

## 5. Investments

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

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

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

### VALUATION METHODOLOGY

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

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

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

### **INVESTMENT CATEGORIES**

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

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

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

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

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

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

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

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

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

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

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

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

#### **FAIR VALUE HIERARCHY**

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

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

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

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

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

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

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

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

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

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

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

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

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



### SUMMARY OF LEVEL 3 INVESTMENT ACTIVITIES AND TRANSFERS

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

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

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

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

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

## INVESTMENT-RELATED COMMITMENTS

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

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

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

## INVESTMENT RETURNS

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

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

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

**FUTURE MINIMUM RENTAL INCOME**

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

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

## 6. Investment Pools

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

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

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

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

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

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

## 7. Derivatives

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

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

### INVESTMENT-RELATED DERIVATIVES

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

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

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

<sup>1</sup> The notional amount is representative of the volume and activity of the respective derivative type during the years ended August 31, 2011 and 2010.

<sup>2</sup> Gross derivative assets less gross derivative liabilities is presented as "derivatives" on the investment table in Note 5.

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

## Credit Default Swaps

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

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

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

<sup>1</sup> The notional amount is representative of the volume and activity of the respective derivative type during the years ended August 31, 2011 and 2010.

<sup>2</sup> The credit rating is according to Standard & Poor's and represents the current performance risk of the swap.

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

## DEBT-RELATED DERIVATIVES

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

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

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

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

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

<sup>1</sup> The notional amount is representative of the volume and activity of the respective derivative type during the years ended August 31, 2011 and 2010.

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

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

## 8. Plant Facilities

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

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

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

## 9. Liabilities Under Security Lending Agreements

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

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

<sup>1</sup> The corresponding investments are included as "investments" in the Statements of Financial Position (see Note 5).

<sup>2</sup> The estimated fair value of securities loaned to brokers at August 31, 2011 and 2010 was \$125.0 million and \$118.1 million, respectively.



## 10. University Notes and Bonds Payable

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## 11. Hospitals Notes and Bonds Payable

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

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

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

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

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

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

## **SHC**

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

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

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

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

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

## **LPCH**

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

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

**INTEREST**

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

**PRINCIPAL PAYMENTS**

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

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

## 12. University Endowment

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

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

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

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

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

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

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

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



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

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

<sup>1</sup> \$58.2 million of endowment funds used to support pediatric research programs were transferred from the Hospitals to the University in 2010.

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

### 13. Hospitals Endowments

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

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

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

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

<sup>1</sup> \$58.2 million of endowment funds used to support pediatric research programs were transferred from the Hospitals to the University in 2010.

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

## 14. University Gifts and Pledges

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

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

## 15. Functional Expenses

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

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

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

## 16. University Retirement Plans

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

### **DEFINED CONTRIBUTION PLAN**

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

### **DEFINED BENEFIT PLANS**

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

#### **Staff Retirement Annuity Plan**

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

#### **Faculty Retirement Incentive Program**

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

#### **Postretirement Benefit Plan**

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

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

	STAFF RETIREMENT ANNUITY PLAN (SRAP)	FACULTY RETIREMENT INCENTIVE PROGRAM (FRIP)	POST RETIREMENT BENEFIT PLAN (PRBP)	TOTAL
2011				
<b>Change in plan assets:</b>				
Fair value of plan assets, beginning of year	\$ 242,859	\$ -	\$ 106,851	\$ 349,710
Actual return on plan assets	33,585	-	13,282	46,867
Employer contributions	-	1,256	22,147	23,403
Plan participants' contributions	-	-	6,839	6,839
Benefits and plan expenses paid	(17,548)	(1,256)	(20,128) *	(38,932)
<b>FAIR VALUE OF PLAN ASSETS, END OF YEAR</b>	<b>258,896</b>	<b>-</b>	<b>128,991</b>	<b>387,887</b>
<b>Change in projected benefit obligation:</b>				
Benefit obligation, beginning of year	302,698	140,299	461,081	904,078
Service cost	3,782	9,100	14,432	27,314
Interest cost	13,349	6,432	23,814	43,595
Plan participants' contributions	-	-	6,839	6,839
Actuarial (gain) loss	(8,548)	(9,032)	6,242	(11,338)
Benefits and plan expenses paid	(17,548)	(1,256)	(20,128) *	(38,932)
Plan amendments	(336)	-	(21,826)	(22,162)
<b>BENEFIT OBLIGATION, END OF YEAR</b>	<b>293,397</b>	<b>145,543</b>	<b>470,454</b>	<b>909,394</b>
<b>NET LIABILITY RECOGNIZED IN THE STATEMENTS OF FINANCIAL POSITION</b>				
	<b>\$ (34,501)</b>	<b>\$ (145,543)</b>	<b>\$ (341,463)</b>	<b>\$ (521,507)</b>
Prior service cost	\$ 1,879	\$ -	\$ 11,132	\$ 13,011
Net actuarial loss	22,308	107,352	167,753	297,413
<b>ACCUMULATED PLAN BENEFIT COSTS NOT YET RECOGNIZED IN THE STATEMENTS OF ACTIVITIES</b>				
	<b>\$ 24,187</b>	<b>\$ 107,352</b>	<b>\$ 178,885</b>	<b>\$ 310,424</b>
* Net of Medicare subsidy				
2010				
<b>Change in plan assets:</b>				
Fair value of plan assets, beginning of year	\$ 241,296	\$ -	\$ 100,085	\$ 341,381
Actual return on plan assets	18,620	-	5,659	24,279
Employer contributions	-	32,871	13,980	46,851
Plan participants' contributions	-	-	6,796	6,796
Benefits and plan expenses paid	(17,057)	(7,570)	(19,669) *	(44,296)
Settlements on Special Retirement Incentive programs (SRI)	-	(25,301)	-	(25,301)
<b>FAIR VALUE OF PLAN ASSETS, END OF YEAR</b>	<b>242,859</b>	<b>-</b>	<b>106,851</b>	<b>349,710</b>
<b>Change in projected benefit obligation:</b>				
Benefit obligation, beginning of year	270,979	165,937	320,212	757,128
Service cost	3,642	8,481	9,964	22,087
Interest cost	14,863	8,015	20,532	43,410
Plan participants' contributions	-	-	6,796	6,796
Actuarial loss (gain)	30,271	(9,263)	123,246	144,254
Benefits and plan expenses paid	(17,057)	(7,570)	(19,669) *	(44,296)
Settlements on SRI	-	(25,301)	-	(25,301)
<b>BENEFIT OBLIGATION, END OF YEAR</b>	<b>302,698</b>	<b>140,299</b>	<b>461,081</b>	<b>904,078</b>
<b>NET LIABILITY RECOGNIZED IN THE STATEMENTS OF FINANCIAL POSITION</b>				
	<b>\$ (59,839)</b>	<b>\$ (140,299)</b>	<b>\$ (354,230)</b>	<b>\$ (554,368)</b>
Prior service cost	\$ 2,889	\$ -	\$ 40,564	\$ 43,453
Net actuarial loss	50,874	123,806	174,846	349,526
<b>ACCUMULATED PLAN BENEFIT COSTS NOT YET RECOGNIZED IN THE STATEMENTS OF ACTIVITIES</b>				
	<b>\$ 53,763</b>	<b>\$ 123,806</b>	<b>\$ 215,410</b>	<b>\$ 392,979</b>
* Net of Medicare subsidy				

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

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

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

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

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

### ACTUARIAL ASSUMPTIONS

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

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

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

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

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

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

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

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

### EXPECTED CONTRIBUTIONS

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

### EXPECTED BENEFIT PAYMENTS

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

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

### INVESTMENT STRATEGY

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

### CONCENTRATION OF RISK

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



**PLAN ASSET ALLOCATIONS**

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

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

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

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

## FAIR VALUE OF PLAN ASSETS

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

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

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

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

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

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

## 17. Hospitals Retirement Plans

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

### **DEFINED CONTRIBUTION PLAN**

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

### **DEFINED BENEFIT PLANS**

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

### **POST RETIREMENT MEDICAL BENEFIT PLAN**

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

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

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

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

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

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

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

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

### ACTUARIAL ASSUMPTIONS

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

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

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

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

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

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

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

### EXPECTED CONTRIBUTIONS

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

## EXPECTED BENEFIT PAYMENTS

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

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

## INVESTMENT STRATEGY

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

## CONCENTRATION OF RISK

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

## PLAN ASSETS

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

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

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

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

### FAIR VALUE OF PLAN ASSETS

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

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

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

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

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

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



## 18. Operating Leases

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

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

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

## 19. Related Party Transactions

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

## 20. Commitments and Contingencies

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

### **SPONSORED PROJECTS**

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

### **HEALTH CARE**

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

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

### **MEDICAL CENTER RENEWAL PROJECT**

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

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

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

**LABOR AGREEMENTS**

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

**LITIGATION**

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

**CONTRACTUAL COMMITMENTS**

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

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

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

**GUARANTEES AND INDEMNIFICATIONS**

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

## 21. Subsequent Events

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

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

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## APPENDIX B

### SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

The following is a summary of certain provisions of the Indenture that are not described elsewhere in this Offering Memorandum. The Bonds are issued and secured pursuant to the Indenture. References to the Indenture or a fund or account refer to the related document, fund or account with respect to the Bonds, as described in the Offering Memorandum. Unless otherwise specified to the contrary in this Appendix B, all definitions and provisions summarized refer to the Indenture. This summary does not purport to be comprehensive and reference should be made to the Indenture for a full and complete statement of its provisions.

#### Definitions

Unless the context otherwise requires, the following terms shall have the meanings specified below.

*"Authorized Denomination"* means \$1,000 or any multiple integral thereof.

*"Authorized Representative"* means the Institution's Vice President for Business Affairs and Chief Financial Officer, its Senior Associate Vice President for Finance, its Treasurer, or any other individual designated as an Authorized Representative of the Institution by a Certificate of the Institution signed by the Institution's Vice President for Business Affairs and Chief Financial Officer, its Senior Associate Vice President for Finance, or its Treasurer and filed with the Trustee.

*"Beneficial Owner"* means any Person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any of the Bonds (including any Person holding Bonds through nominees, depositories or other intermediaries) established to the reasonable satisfaction of the Trustee or the Institution.

*"Bond Fund"* means the fund by that name established pursuant to the Indenture.

*"Bonds"* means Stanford University Taxable Bonds Series 2012 authorized by, and at any time Outstanding pursuant to, the Indenture.

*"Book-Entry Form"* or *"Book-Entry System"* means a form or system, as applicable, under which physical bond certificates in fully registered form are registered only in the name of a Securities Depository or its nominee as Bondholder, with the physical bond certificates held by and "immobilized" in the custody of the Securities Depository and the book-entry system maintained by and the responsibility of others than the Institution or the Trustee is the record that identifies and records the transfer of the interests of the owners of book-entry interests in those Bonds.

*"Business Day"* means any day other than (A) a Saturday or Sunday or legal holiday or a day on which banking institutions in the city or cities in which the Designated Office of the Trustee is located are authorized by law or executive order to close or (B) a day on which the New York Stock Exchange is closed.

*"Certificate", "Statement", "Request" or "Requisition" of the Institution* mean, respectively, a written certificate, statement, request or requisition signed in the name of the Institution by an Authorized Representative. Any such instrument and supporting opinions or representations, if any, may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined shall be read and construed as a single instrument. If and to the extent required by the Indenture, each such instrument shall include the statements provided for in the Indenture.

*"Code"* means the Internal Revenue Code of 1986, as amended, or any successor statute thereto and any regulations promulgated thereunder.

*"Default"* means any event which is or after notice or lapse of time or both would become an Event of Default.

*"Designated Office"* means the Designated Office of the Trustee as specified in the Indenture.

*"Event of Default"* means any of the events specified as such in the Indenture.

*"Fitch"* means Fitch, Inc., doing business as Fitch Ratings, a corporation organized and existing under the laws of the State of Delaware, its successors and their assigns, or, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, any other nationally recognized securities rating agency designated by the Institution upon Notice to the Trustee.

*"Holder"* or *"Bondholder"*, whenever used in the Indenture with respect to a Bond, means the Person in whose name such Bond is registered.

*"Indenture"* means the Indenture of Trust, by and between the Institution and the Trustee, as originally executed or as it may from time to time be supplemented, modified or amended by any Supplemental Indenture.

*"Indenture Fund"* means the fund by that name established pursuant to the Indenture.

*"Institution"* means the Board of Trustees of the Leland Stanford Junior University, a body having corporate powers under the Constitution and laws of the State of California, or said body's successor or successors.

*"Interest Account"* means the account by that name in the Bond Fund established pursuant to the Indenture.

*"Interest Payment Date"* means May 1 and November 1 of each year, commencing on November 1, 2012.

*"Investment Securities"* means either of the following: (1) direct nonprepayable, noncallable obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury of the United States of America) or direct nonprepayable, noncallable obligations the timely payment of the principal of and interest on which is fully guaranteed by the United States of America, including instruments evidencing a direct ownership interest in securities described in this clause such as CATS, TIGRs, and Stripped Treasury Coupons rated or assessed in the highest Rating Categories by S&P and Moody's and held by a custodian for safekeeping on behalf of holders of such securities and (2) money market funds registered under the Investment Company Act of 1940, the shares in which are registered under the Securities Act of 1933 and that have a rating by S&P of AAAM-G, AAAM or AAM, including such funds for which the Trustee or its affiliates provide investment advisory or other management services.

*"Make-Whole Redemption Price"* means the greater of (1) 100% of the principal amount of the Bonds to be redeemed; or (2) the sum of the present value of the remaining scheduled payments of principal and interest to the maturity date of the Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which the Bonds are to be redeemed, discounted to the date on which the Bonds are to be redeemed on a semi-annual basis assuming a 360-day year consisting of twelve 30-day months at the adjusted Treasury Rate plus 12.5 basis points, plus, in each case, accrued and unpaid interest on the Bonds to be redeemed on the redemption date.

*"Moody's"* means Moody's Investors Service, a corporation organized and existing under the laws of the State of Delaware, its successors and their assigns, or, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, any other nationally recognized securities rating agency designated by the Institution upon notice to the Trustee.

*"Offering Memorandum"* means the final offering memorandum dated April 3, 2012, relating to the Bonds.

*"Opinion of Counsel"* means a written opinion of counsel (who may be counsel for the Institution) satisfactory to the Trustee.

*"Outstanding"* when used as of any particular time with reference to Bonds, means (subject to the provisions of the Indenture) all Bonds theretofore, or thereupon being, authenticated and delivered by the Trustee

under the Indenture except (1) Bonds theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation; (2) Bonds with respect to which all liability of the Institution shall have been discharged in accordance with the Indenture; and (3) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Trustee pursuant to the Indenture.

"*Payment Date*" means an Interest Payment Date or a Principal Payment Date.

"*Person*" means an individual, corporation, firm, association, partnership, trust, limited liability company or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof.

"*Principal Account*" means the account by that name in the Bond Fund established pursuant to the Indenture.

"*Principal Payment Date*" means May 1, 2042, the date of final maturity of the Bonds.

"*Rating Agency*" means Moody's, S&P and Fitch.

"*Rating Category*" means a generic securities rating category, without regard to any refinement or gradation of such rating category by a numerical modifier or otherwise.

"*Record Date*" means the fifteenth (15th) day (whether or not a Business Day) of the month immediately preceding each Interest Payment Date.

"*Redemption Fund*" means the fund by that name established pursuant to the Indenture.

"*Responsible Officer*" means any officer of the Trustee assigned to administer its duties under the Indenture.

"*S&P*" means Standard & Poor's, a division of The McGraw-Hill Companies, a corporation organized and existing under the laws of the State of New York, its successors and their assigns, or, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, any other nationally recognized securities rating agency designated by the Institution upon notice to the Trustee.

"*Securities Depository*" means The Depository Trust Company and its successors and assigns, or any other securities depository selected as set forth in the Indenture, which agrees to follow the procedures required to be followed by such securities depository in connection with the Bonds.

"*Special Record Date*" means the date established by the Trustee pursuant to the Indenture as the record date for the payment of defaulted interest on the Bonds.

"*Supplemental Indenture*" means any indenture hereafter duly authorized and entered into between the Institution and the Trustee, supplementing, modifying or amending the Indenture; but only if and to the extent that such Supplemental Indenture is specifically authorized under the Indenture.

"*Treasury Rate*" means, as of any redemption date, the yield to maturity as of such redemption date of United States Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) that has become publicly available at least two Business Days prior to the redemption date (excluding inflation indexed securities) (or, if such Statistical Release is no longer published, any publicly available source of similar market data)) most nearly equal to the period from the redemption date to the maturity date of the Bond to be redeemed; provided, however, that if the period from the redemption date to such maturity date is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year will be used.

"Trustee" means The Bank of New York Mellon Trust Company, N.A., a national banking association duly organized and existing under and by virtue of the laws of the United States, or its successor or successors, as Trustee hereunder as provided in the Indenture.

"Underwriters" means Goldman, Sachs & Co., Morgan Stanley & Co. LLC, Citigroup Global Markets Inc., J.P. Morgan Securities LLC, and Prager & Co., LLC.

"Uniform Commercial Code" means the Uniform Commercial Code as in effect in the State of California from time to time.

### **Establishment and Pledge of Indenture Fund**

Subject only to the provisions of the Indenture permitting or requiring the application thereof for the purposes and on the terms and conditions set forth therein, the Indenture Fund and all amounts held therein are pledged, assigned and transferred by the Institution to the Trustee for the benefit of the Bondholders to secure the full payment of the principal or Make-Whole Redemption Price of and interest on the Bonds in accordance with their terms and the provisions of the Indenture. The Institution grants to the Trustee a security interest in and acknowledges and agrees that the Indenture Fund and all amounts on deposit therein shall constitute collateral security to secure the full payment of the principal or Make-Whole Redemption Price of and interest on the Bonds in accordance with their terms and the provisions of the Indenture.

Nothing in the Indenture or in the Bonds, expressed or implied, shall be construed to constitute a security interest under the Uniform Commercial Code or otherwise in the assets of the Institution other than in any interest of the Institution in the Indenture Fund and/or the amounts on deposit therein. No recourse for the payment of the principal or Make-Whole Redemption Price of or interest on any Bond, or for any claim based thereon or otherwise in respect thereof, and no recourse under or upon any obligation, covenant or agreement of the Institution in the Indenture or in any Supplemental Indenture or in any Bond, or because of the creation of any indebtedness represented thereby, shall be had against any employee, agent, or officer, as such, past, present or future, of the Institution or of any successor entity, either directly or through any successor entity, whether by virtue of any constitution, statute or rule of law, or by the enforcement of any assessment or penalty or otherwise, it being expressly understood that all such liability is expressly waived and released as a condition of, and as a consideration for, the execution of the Indenture and the issue of the Bonds. No officer or agent of the Institution, nor any individual executing the Bonds, shall in any event be subject to any personal liability or accountability by reason of the issuance of the Bonds.

### **Funds and Accounts**

The Indenture creates an Indenture Fund (and a Bond Fund and a Redemption Fund thereunder). The Indenture also creates an Interest Account and Principal Account under the Bond Fund. All of the funds and accounts are to be held by the Trustee.

*Application of Proceeds of Bonds.* The proceeds of the Bonds will be used to refinance commercial paper and other debt of the University that refinanced capital projects of the University, and to pay costs of issuance of the Bonds.

*Indenture Fund.* The Trustee establishes for the sole benefit of the Bondholders, a master fund referred to in the Indenture as the "Indenture Fund" containing the Bond Fund and the Redemption Fund and each of the accounts contained therein. The Indenture Fund and each of the funds and accounts in the Indenture Fund shall be identified on the books of the Trustee with reference hereto and shall be maintained by the Trustee and held in trust apart from all other moneys and securities held under the Indenture or otherwise, and the Trustee shall have the exclusive and sole right of withdrawal therefrom in accordance with the terms of the Indenture. All amounts deposited with the Trustee pursuant to the Indenture shall be held, disbursed, allocated and applied by the Trustee only as provided in the Indenture.



*Bond Fund.* Upon the receipt thereof, the Trustee shall deposit all payments received from the Institution (other than amounts which are to be deposited in the Redemption Fund or income or profit from investments which are to be applied pursuant to the Indenture) in a special fund designated the "Bond Fund" which the Trustee shall establish and maintain and hold in trust and which shall be disbursed and applied only as authorized in the Indenture.

At the times specified below, the Trustee shall allocate within the Bond Fund in the following order of priority the following amounts to the following accounts or funds, each of which the Trustee shall establish and maintain and hold in trust and each of which shall be disbursed and applied only as hereinafter authorized: (1) on each Interest Payment Date, the Trustee shall deposit in the "Interest Account" the aggregate amount of interest becoming due and payable on such Interest Payment Date on all Bonds then Outstanding, until the balance in said account is equal to said aggregate amount of interest; and (2) on each Principal Payment Date, the Trustee shall deposit in the "Principal Account" the aggregate amount of principal becoming due and payable on such Principal Payment Date, until the balance in said account is equal to said aggregate amount of such principal.

*Interest Account.* All amounts in the Interest Account shall be used and withdrawn by the Trustee solely for the purpose of paying interest on the Bonds as it shall become due and payable (including accrued interest on any Bonds redeemed prior to maturity pursuant to the Indenture).

*Principal Account.* All amounts in the Principal Account shall be used and withdrawn by the Trustee solely to pay at maturity the Bonds.

*Redemption Fund.* Upon the receipt thereof, the Trustee shall deposit the following amounts in a special fund designated the "Redemption Fund" which the Trustee shall establish and maintain and hold in trust: (1) all moneys deposited by the Institution with the Trustee directed to be deposited in the Redemption Fund; and (2) all interest, profits and other income received from the investment of moneys in the Redemption Fund.

All amounts deposited in the Redemption Fund shall be used and withdrawn by the Trustee solely for the purpose of redeeming Bonds, in the manner and upon the terms and conditions specified in the Indenture, at the next succeeding date of redemption for which notice has been given; provided that, at any time prior to the selection of Bonds for such redemption, the Trustee shall, upon direction of the Institution, apply such amounts to the purchase of Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as the Institution may direct, except that the purchase price (exclusive of accrued interest) may not exceed the Make-Whole Redemption Price then applicable to such Bonds (or, if such Bonds are not then subject to redemption, the par value of such Bonds); and provided further that in lieu of redemption at such next succeeding date of redemption, or in combination therewith, amounts in such account may be transferred to the Principal Account as set forth in a Request of the Institution.

*Payments by the Institution; Allocation of Funds.* On or before 11:00 AM (Pacific time) on each Payment Date, until the principal of and interest on the Bonds shall have been fully paid or provision for such payment shall have been made as provided in the Indenture, the Institution shall pay to the Trustee a sum equal to the amount payable on such Payment Date as principal of and interest on the Bonds, less the amounts, if any, in the Bond Fund and available therefor. Each payment made pursuant to this paragraph, together with other available amounts, if any, in the Bond Fund, shall at all times be sufficient to pay the total amount of interest and principal (whether at maturity or upon acceleration) becoming due and payable on the Bonds on such Payment Date. If on any Payment Date the available amounts held by the Trustee in the Bond Fund are insufficient to make any required payments of principal of (whether at maturity or upon acceleration) and interest on the Bonds as such payments become due, the Institution shall forthwith pay such deficiency to the Trustee.

The obligations of the Institution to make the payments required by the immediately preceding paragraph and to perform and observe the other agreements on its part contained in the Indenture shall be a general obligation of the Institution, absolute and unconditional, irrespective of any defense or any rights of set-off, recoupment or counterclaim it might otherwise have against the Trustee, and during the term of the Indenture, the Institution shall pay all payments required to be made by the immediately preceding paragraph (which payments shall be net of any other obligations of the Institution) as prescribed therein and all other payments required under the Indenture, free of any deductions and without abatement, diminution or set-off. Until such time as the principal of and interest on the

Bonds shall have been fully paid, or provision for the payment thereof shall have been made as required by the Indenture, the Institution (i) will not suspend or discontinue any payments provided for in the immediately preceding paragraph; (ii) will perform and observe all of its other covenants contained in the Indenture; and (iii) except as otherwise provided in the Indenture, will not terminate the Indenture for any cause, including, without limitation, the occurrence of any act or circumstances that may constitute failure of consideration, destruction of or damage to all or a portion of the projects financed with the proceeds of the Bonds, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the State of California or any political subdivision of either of these, or any failure of the Trustee to perform and observe any covenant, whether express or implied, or any duty, liability or obligation arising out of or connected with the Indenture, except to the extent permitted by the Indenture.

### **Validity of Bonds**

The recital contained in the Bonds that the same are issued pursuant to the Indenture shall be conclusive evidence of their validity and of compliance with the provisions of the Indenture in their issuance.

### **Redemption of Bonds**

*Terms of Redemption.* The Bonds are redeemable prior to maturity at the written direction of the Institution to the Trustee at least thirty (30) days before the redemption date. Such redemption shall be in accordance with the terms of the Bonds, as a whole or in part on any Business Day in such order of maturity as directed by the Institution at the Make-Whole Redemption Price. The Make-Whole Redemption Price will be calculated by an independent accounting firm, investment banking firm or financial advisor retained by the Institution at its expense. The Trustee and the Institution may conclusively rely on such accounting firm's, investment banking firm's or financial advisor's determination of such Make-Whole Redemption Price and shall bear no liability for such reliance.

*Selection of Bonds for Redemption.* If the Bonds are registered in book-entry only form and so long as the Securities Depository or its nominee is the sole registered owner of the Bonds, if less than all of the Bonds are called for redemption, the particular Bonds or portions thereof to be redeemed shall be selected on a pro rata pass-through distribution of principal basis in accordance with procedures of the Securities Depository, provided that the selection for redemption of such Bonds shall be made in accordance with the operational arrangements of the Securities Depository then in effect, and, if the Securities Depository's operational arrangements at such time do not allow for redemption on a pro rata pass-through distribution of principal basis, the Bonds shall be selected for redemption, in accordance with Securities Depository procedures, by lot. If the Securities Depository or its nominee is no longer the sole registered owner of the Bonds, if less than all of the Bonds are called for redemption, the Trustee shall select the Bonds to be redeemed on a pro rata basis.

*Notice of Redemption.* Notice of redemption shall be mailed by the Trustee by first class mail, not less than twenty-five (25) days nor more than sixty (60) days prior to the redemption date, to the respective Holders of any Bonds designated for redemption at their addresses appearing on the bond registration books of the Trustee. If the Bonds are no longer held by the Securities Depository or its successor or substitute, the Trustee shall also give notice of redemption by overnight mail to such securities depositories and/or securities information services as shall be designated in a Certificate of the Institution. Each notice of redemption shall state the date of such notice, the date of issue of the Bonds, the redemption date, the Make-Whole Redemption Price, the place or places of redemption (including the name and appropriate address or addresses of the Trustee), the maturity (including CUSIP number, if any), the conditions, if any, to the redemption, and, in the case of Bonds to be redeemed in part only, the portion of the principal amount thereof to be redeemed. Each such notice shall also state that on said date there will become due and payable on each of said Bonds the Make-Whole Redemption Price thereof or of said specified portion of the principal amount thereof in the case of a Bond to be redeemed in part only, and that from and after such redemption date interest thereon shall cease to accrue, and shall require that such Bonds be then surrendered.

Notice of redemption of Bonds shall be given by the Trustee, at the expense of the Institution, for and on behalf of the Institution.

Failure by the Trustee to give notice pursuant to the Indenture to any one or more of the securities information services or depositories designated by the Institution, or the insufficiency of any such notice shall not

affect the sufficiency of the proceedings for redemption. Failure by the Trustee to mail notice of redemption pursuant to the Indenture to any one or more of the respective Holders of any Bonds designated for redemption shall not affect the sufficiency of the proceedings for redemption with respect to the Holders to whom such notice was mailed.

The Institution may instruct the Trustee to provide conditional notice of redemption, which may be conditioned upon the receipt of moneys or any other event. Additionally, any notice given pursuant to the Indenture may be rescinded by written notice given to the Trustee by the Institution no later than five (5) Business Days prior to the date specified for redemption. The Trustee shall give notice of such rescission, as soon thereafter as practicable, in the same manner, to the same Persons, as notice of such redemption was given pursuant to the Indenture.

*Partial Redemption of Bonds.* Upon surrender of any Bond redeemed in part only, the Institution shall execute (but need not prepare) and the Trustee shall prepare or cause to be prepared, authenticate and deliver to the Holder thereof, at the expense of the Institution, a new Bond or Bonds of Authorized Denominations, equal in aggregate principal amount to the unredeemed portion of the Bond surrendered.

*Effect of Redemption.* Notice of redemption having been duly given as aforesaid, and moneys for payment of the Make-Whole Redemption Price of the Bonds (or portion thereof) so called for redemption being held by the Trustee, and any conditions specified in the notice of redemption having been satisfied, on the date fixed for redemption designated in such notice, the Bonds (or portion thereof) so called for redemption shall become due and payable at the Make-Whole Redemption Price specified in such notice, interest on the Bonds so called for redemption shall cease to accrue, said Bonds (or portion thereof) shall cease to be entitled to any benefit or security under the Indenture, and the Holders of said Bonds shall have no rights in respect thereof except to receive payment of said Make-Whole Redemption Price from funds held by the Trustee for such payment.

All Bonds redeemed pursuant to the provisions of the Indenture shall be cancelled by the Trustee upon surrender thereof and delivered to, or upon the order of, the Institution.

### **Use of Securities Depository**

Notwithstanding any provision of the Indenture to the contrary:

The Bonds shall be initially issued as fully registered Bonds, registered in the name of "Cede & Co.," as nominee of the Securities Depository and shall be evidenced by one Bond for each maturity in the principal amount of the Bonds of such maturity. Registered ownership of the Bonds, or any portion thereof, may not thereafter be transferred except: (1) to any successor of the Securities Depository or its nominee, or to any substitute depository designated pursuant to clause (2) of this paragraph ("substitute depository"); provided that any successor of the Securities Depository or substitute depository shall be qualified under any applicable laws to provide the service proposed to be provided by it; (2) to any substitute depository designated by the Institution and not objected to by the Trustee, upon (i) the resignation of the Securities Depository or its successor (or any substitute depository or its successor) from its functions as depository or (ii) a determination by the Institution that the Securities Depository or its successor (or any substitute depository or its successor) is no longer able to carry out its functions as depository; provided that any such substitute depository shall be qualified under any applicable laws to provide the services proposed to be provided by it; or (3) to any Person as provided below, upon (i) the resignation of the Securities Depository or its successor (or substitute depository or its successor) from its functions as depository; provided that no substitute depository which is not objected to by the Trustee can be obtained or (ii) a determination by the Institution that it is in the best interests of the Institution to remove the Securities Depository or its successor (or any substitute depository or its successor) from its functions as depository.

In the case of any transfer pursuant to clause (1) or clause (2) of the immediately preceding paragraph, upon receipt of the Outstanding Bonds by the Trustee, together with a Certificate of the Institution to the Trustee, new Bonds for each maturity shall be executed and delivered in the principal amount of the Bonds of such maturity, registered in the name of such successor or such substitute depository, or their nominees, as the case may be, all as specified in such Certificate of the Institution. In the case of any transfer pursuant to clause (3) of the immediately preceding paragraph, upon receipt of the Outstanding Bonds by the Trustee together with a Certificate of the

Institution to the Trustee, new Bonds shall be executed and delivered in such denominations and registered in the names of such persons as are requested in such a Certificate of the Institution, subject to the limitations of the Indenture, provided the Trustee shall not be required to deliver such new Bonds within a period less than sixty (60) days from the date of receipt of such a Certificate of the Institution.

In the case of partial redemption or an advance refunding of the Bonds evidencing all or a portion of the principal amount Outstanding, the Securities Depository shall make an appropriate notation on the Bonds indicating the date and amounts of such reduction in principal, in form acceptable to the Trustee.

The Institution and the Trustee shall be entitled to treat the Person in whose name any Bond is registered as the Bondholder thereof for all purposes of the Indenture and any applicable laws, notwithstanding any notice to the contrary received by the Institution or the Trustee. So long as the Outstanding Bonds are registered in the name of the Cede & Co. or its registered assign, the Institution and the Trustee shall cooperate with Cede & Co., as sole registered Bondholder, and its registered assigns, in effecting payment of the principal or Make-Whole Redemption Price of and interest on the Bonds by arranging for payment in such manner that funds for such payments are properly identified and are made immediately available on the date they are due, all in accordance with the letter of representations of the Institution to the Securities Depository or as otherwise agreed by the Trustee and the Securities Depository.

### **Particular Covenants**

*Punctual Payment.* The Institution shall punctually pay the principal or Make-Whole Redemption Price and interest to become due in respect of all the Bonds, in strict conformity with the terms of the Bonds and of the Indenture, according to the true intent and meaning thereof. When and as paid in full, all Bonds shall be delivered to the Trustee and shall forthwith be cancelled by the Trustee and delivered to, or upon the order of, the Institution.

*Power to Issue Bonds.* The Institution is duly authorized to issue the Bonds and to enter into the Indenture in the manner and to the extent provided in the Indenture. The Bonds are and will be legal, valid and binding obligations of the Institution in accordance with their terms, and the Institution and the Trustee shall at all times, to the extent permitted by law, defend, preserve and protect said pledge and assignment of funds and accounts and all the rights of the Bondholders under the Indenture against all claims and demands of all Persons whomsoever, subject to the limitations set forth in the Indenture relating to the Trustee.

*Accounting Records and Financial Statements.* With respect to each fund or account established and maintained by the Trustee pursuant to the Indenture, the Trustee shall at all times keep, or cause to be kept, proper books of record and account prepared in accordance with corporate trust accounting standards, in which complete and accurate entries shall be made of all transactions relating to the receipt, investment, disbursement, allocation and application of payments received from the Institution and the proceeds of the Bonds. Such books of record and account shall be available for inspection by the Institution and any Bondholder, or his or her agent or representative duly authorized in writing, at reasonable hours and under reasonable circumstances.

The Trustee shall file with the Institution, within twenty (20) days after the end of each month, a complete financial statement (which need not be audited and may be its regular account statements) covering receipts, disbursements, allocation and application of any moneys (including proceeds of Bonds) in any of the funds and accounts established pursuant to the Indenture for such month; provided that the Trustee shall not be obligated to deliver an accounting for any fund or account that has a balance of \$0.00 and has not had any activity since the last reporting.

### **Events of Default and Remedies of Bondholders**

*Events of Default.* The following events shall be "Events of Default": (a) default in the due and punctual payment of the principal or Make-Whole Redemption Price of any Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by acceleration or otherwise; (b) default in the due and punctual payment of any interest on any Bond when and as such interest shall become due and payable; (c) default by the Institution in the performance or observance of any of the other covenants,

agreements or conditions on its part contained in the Indenture or in the Bonds (other than a covenant, agreement or condition a default in performance or observance of which is elsewhere in the Indenture specifically dealt with), if such default shall have continued for a period of sixty (60) days after written notice thereof, specifying such default and requiring the same to be remedied and stating that such notice is a "Notice of Default" under the Indenture, shall have been given to the Institution by the Trustee, or to the Institution and the Trustee by the Holders of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding; (d) the commencement by the Institution of a voluntary case under the federal bankruptcy laws, or if the Institution shall become insolvent or unable to pay its debts as they become due, or shall make an assignment for the benefit of creditors, or shall apply for, consent to or acquiesce in the appointment of, or taking possession by, a trustee, receiver, custodian or similar official or agent for itself or any substantial part of its property; (e) the appointment of a trustee, receiver, custodian or similar official or agent for the Institution or for any substantial part of its property and such trustee or receiver shall not be discharged within sixty (60) days; or (f) an order or decree for relief in an involuntary case under the federal bankruptcy laws shall be entered against the Institution, or a petition seeking reorganization, readjustment, arrangement, composition, or other similar relief as to it under the federal bankruptcy laws or any similar law for the relief of debtors shall be brought against it and shall be consented to by it or shall remain undismissed for sixty (60) days.

*Acceleration of Maturity.* If an Event of Default shall occur, then, and in each and every such case during the continuance of such Event of Default, the Trustee may, upon notice in writing to the Institution, declare the principal of all the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration by the Trustee the same shall become and shall be immediately due and payable, anything in the Indenture or in the Bonds contained to the contrary notwithstanding.

Any such declaration, however, is subject to the condition that if, at any time after such declaration and before any judgment or decree for the payment of the moneys due shall have been obtained or entered, there shall be deposited with the Trustee a sum sufficient to pay all the principal or Make-Whole Redemption Price of and interest on the Bonds payment of which is overdue, with interest on such overdue principal at the rate borne by the Bonds, and the reasonable charges and expenses of the Trustee, and any and all other Defaults known to the Trustee (other than in the payment of principal of and interest on the Bonds due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor, then, and in every such case, the Trustee shall, on behalf of the Holders of all of the Bonds, by written notice to the Institution, rescind and annul such declaration and its consequences and waive such Default; but no such rescission and annulment shall extend to or shall affect any subsequent Default, or shall impair or exhaust any right or power consequent thereon.

*Application of Moneys Collected by the Trustee.* If an Event of Default shall occur and be continuing, all moneys then held or thereafter received by the Trustee under any of the provisions of the Indenture (subject to provisions of the Indenture requiring moneys to be held for payment of particular Bonds) shall be applied by the Trustee as follows and in the following order:

(A) To the payment of any expenses necessary in the opinion of the Trustee to protect the interests of the Holders of the Bonds and payment of reasonable fees and expenses of the Trustee (including reasonable fees and disbursements of its counsel) incurred in and about the performance of its powers and duties under the Indenture; and

(B) To the payment of the principal or Make-Whole Redemption Price of and interest then due on the Bonds (upon presentation of the Bonds to be paid, and stamping thereon of the payment if only partially paid, or surrender thereof if fully paid) subject to the provisions of the Indenture, as follows:

(1) Unless the principal of all of the Bonds shall have become or have been declared due and payable,

*First:* To the payment to the Persons entitled thereto of all installments of interest then due in the order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full any installment or installments due on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the Persons entitled thereto, without any discrimination or preference; and

*Second:* To the payment to the Persons entitled thereto of the unpaid principal or Make-Whole Redemption Price of any Bonds which shall have become due, whether at maturity or by call for redemption, in the order of their due dates, with interest on the overdue principal at the rate borne by the Bonds, and, if the amount available shall not be sufficient to pay in full all the Bonds due on any date, together with such interest, then to the payment thereof ratably, according to the amounts of principal or Make-Whole Redemption Price due on such date to the Persons entitled thereto, without any discrimination or preference.

(2) If the principal of all of the Bonds shall have become or have been declared due and payable, to the payment of the principal and interest then due and unpaid upon the Bonds, with interest on the overdue principal at the rate borne by the Bonds, and, if the amount available shall not be sufficient to pay in full the whole amount so due and unpaid, then to the payment thereof ratably, without preference or priority of principal over interest, or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, according to the amounts due respectively for principal and interest, to the Persons entitled thereto without any discrimination or preference.

*Trustee to Represent Bondholders.* The Trustee is irrevocably appointed (and the successive respective Holders of the Bonds, by taking and holding the same, shall be conclusively deemed to have so appointed the Trustee) as trustee and true and lawful attorney-in-fact of the Holders of the Bonds for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to such Holders under the provisions of the Bonds, the Indenture and applicable provisions of any law. Upon the occurrence and continuance of an Event of Default or other occasion giving rise to a right in the Trustee to represent the Bondholders, the Trustee in its discretion may, and upon the written request of the Holders of not less than a majority in aggregate principal amount of the Bonds then Outstanding, and upon being indemnified to its satisfaction therefor, shall, proceed to protect or enforce its rights or the rights of such Holders by such appropriate action, suit, mandamus or other proceedings as it shall deem most effectual to protect and enforce any such right, at law or in equity, either for the specific performance of any covenant or agreement contained in the Indenture, or in aid of the execution of any power granted in the Indenture, or for the enforcement of any other appropriate legal or equitable right or remedy vested in the Trustee, or in such Holders under the Bonds, the Indenture or any applicable law; and upon instituting such proceeding, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver of the amounts pledged under the Indenture, pending such proceedings. If more than one such request is received by the Trustee from the Holders, the Trustee shall follow the written request executed by the Holders of the greatest percentage (which percentage shall be, in any case, not less than a majority in aggregate principal amount) of the Bonds then Outstanding. All rights of action under the Indenture or the Bonds or otherwise may be prosecuted and enforced by the Trustee without the possession of any of the Bonds or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in the name of the Trustee for the benefit and protection of all the Holders of such Bonds, subject to the provisions of the Indenture.

*Bondholders' Direction of Proceedings.* The Holders of a majority in aggregate principal amount of the Bonds then Outstanding shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, and upon indemnifying the Trustee to its satisfaction therefor, to direct the time, method and place of conducting all remedial proceedings taken by the Trustee under the Indenture, provided that such direction shall not be otherwise than in accordance with law and the provisions of the Indenture, and that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Bondholders not parties to such direction.

*Limitation on Bondholders' Right to Sue.* No Holder of any Bond shall have the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under the Indenture or any applicable law with respect to such Bond, unless (1) such Holder shall have given to the Trustee written notice of the occurrence of an Event of Default; (2) the Holders of not less than a majority in aggregate principal amount of the Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers granted in the Indenture or to institute such suit, action or proceeding in its own name; (3) such Holder or said Holders shall have tendered to the Trustee indemnity satisfactory to it against the costs, expenses and liabilities to be incurred in compliance with such request; and (4) the Trustee shall have refused or omitted to comply with

such request for a period of sixty (60) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee.

Such notification, request, tender of indemnity and refusal or omission are declared by the Indenture, in every case, to be conditions precedent to the exercise by any Holder of Bonds of any remedy under the Indenture or under law; it being understood and intended that no one or more Holders of Bonds shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Indenture or the rights of any other Holders of Bonds, or to enforce any right under the Indenture or applicable law with respect to the Bonds, except in the manner provided in the Indenture, and that all proceedings at law or in equity to enforce any such right shall be instituted, had and maintained in the manner provided in the Indenture and for the benefit and protection of all Holders of the Outstanding Bonds, subject to the provisions of the Indenture.

*Absolute Obligation of Institution.* Notwithstanding any other provision of the Indenture, or in the Bonds, nothing shall affect or impair the obligation of the Institution, which is absolute and unconditional, to pay the principal or Make-Whole Redemption Price of and interest on the Bonds to the respective Holders of the Bonds at their respective dates of maturity, or upon call for redemption, as provided in the Indenture, or, subject to the provisions of the Indenture regarding limitation on Bondholders' right to sue, affect or impair the right of such Holders to enforce such payment by virtue of the contract embodied in the Bonds.

*Termination of Proceedings.* In case any proceedings taken by the Trustee or any one or more Bondholders on account of any Event of Default shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Trustee or the Bondholders, then in every such case the Institution, the Trustee and the Bondholders, subject to any determination in such proceedings, shall be restored to their former positions and rights under the Indenture, severally and respectively, and all rights, remedies, powers and duties of the Institution, the Trustee and the Bondholders shall continue as though no such proceedings had been taken.

*Remedies Not Exclusive.* No remedy conferred in the Indenture upon or reserved to the Trustee or to the Holders of the Bonds is intended to be exclusive of any other remedy or remedies, and each and every such remedy, to the extent permitted by law, shall be cumulative and in addition to any other remedy given under the Indenture or now or hereafter existing at law or in equity or otherwise.

*Delay or Omission Not Waiver.* No delay or omission of the Trustee or of any Holder of the Bonds to exercise any right or power arising upon the occurrence of any Default shall impair any such right or power or shall be construed to be a waiver of any such Default or an acquiescence therein; and every power and remedy given by the Indenture to the Trustee or to the Holders of the Bonds may be exercised from time to time and as often as may be deemed expedient.

*Waiver of Past Defaults.* The Trustee may, and upon request of the Holders of not less than a majority in aggregate principal amount of the Outstanding Bonds shall, on behalf of the Holders of all the Bonds waive any past Default under the Indenture and its consequences, except a Default: (A) In the payment of the principal or Make-Whole Redemption Price of or interest on any Bond, or (B) in respect of a covenant or other provision of the Indenture which, pursuant to the Indenture, cannot be modified or amended without the consent of the Holder of each Outstanding Bond affected. Upon any such waiver, such Default shall cease to exist, and any Event of Default arising therefrom shall be deemed to have been cured, for every purpose of the Indenture, but no such waiver shall extend to any subsequent or other Default or impair any right consequent thereon.

*Undertaking for Costs.* Subject to the provisions of the Indenture regarding the Trustee's rights to compensation and indemnification, the parties to the Indenture agree, and each Holder of any Bond by such Person's acceptance thereof shall be deemed to have agreed, that any court may in its discretion require, in any suit for the enforcement of any right or remedy under the Indenture, or in any suit against the Trustee for any action taken or omitted by it as Trustee, the filing by any party litigant in such suit of an undertaking to pay the costs of such suit, and that such court may in its discretion assess reasonable costs, including reasonable attorneys fees, against any party litigant in such suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant; but the provisions of this paragraph shall not apply to any suit instituted by the Trustee or to any suit instituted by any Bondholder or group of Bondholders holding in the aggregate more than a majority in aggregate principal amount of the Outstanding Bonds.

*Notice of Default.* Upon a Responsible Officer's actual knowledge of the existence of any Default under the Indenture, the Trustee shall notify the Institution in writing as soon as practicable, but in any event within five (5) Business Days.

Upon a Responsible Officer's actual knowledge of the existence of any Default under the Indenture, the Trustee shall transmit by mail to all Bondholders, as their names and addresses appear in the bond register, notice of such Default under the Indenture within ninety (90) days, unless such Default shall have been cured or waived; provided, however, that, except in the case of a Default in the payment of the principal or Make-Whole Redemption Price of or interest on any Bond, the Trustee shall be protected in withholding such notice if and so long as the board of directors, the executive committee or a trust committee of directors or Responsible Officers of the Trustee in good faith determine that the withholding of such notice is in the interest of the Bondholders; and provided, further, that in the case of any Default of the character specified in (c) under "Events of Default" above, no such notice to Bondholders shall be given until at least thirty (30) days after date of the applicable Notice of Default.

*Trustee May File Proofs of Claim.* In case of the pendency of any receivership, insolvency, liquidation, bankruptcy, reorganization, arrangement, adjustment, composition or other judicial proceeding relative to the Institution or any other obligor upon the Bonds or the property of the Institution or of such other obligor or their creditors, the Trustee (irrespective of whether the principal of the Bonds shall then be due and payable as therein expressed or by declaration or otherwise and irrespective of whether the Trustee shall have made any demand on the Institution for the payment of overdue principal or interest) shall be entitled and empowered, by intervention in such proceeding or otherwise: (1) To file and prove a claim for the whole amount of principal (or Make-Whole Redemption Price) and interest owing and unpaid in respect of the Bonds and to file such other papers or documents as may be necessary or advisable in order to have the claims of the Trustee (including any claim for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel including expenses and fees of outside counsel and allocated costs of internal legal counsel) and of the Bondholders allowed in such judicial proceeding; and (2) To collect and receive any moneys or other property payable or deliverable on any such claims and to distribute the same; and any receiver, assignee, trustee, liquidator or sequestrator (or other similar official) in any such judicial proceeding is, by the Indenture, authorized by each Bondholder to make such payments to the Trustee and, in the event that the Trustee shall consent to the making of such payments directly to the Bondholders, to pay to the Trustee any amount due to it for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel including expenses and fees of outside counsel and allocated costs of internal legal counsel, and any other amounts due the Trustee under the Indenture.

Nothing contained in the Indenture shall be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Bondholder any plan of reorganization, arrangement, adjustment or composition affecting the Bonds or the rights of any Holder thereof, or to authorize the Trustee to vote in respect of the claim of any Bondholder in any such proceeding.

## **The Trustee**

*Duties, Immunities and Liabilities of Trustee.* The Trustee shall, prior to an Event of Default, and after the curing or waiver of all Events of Default which may have occurred, perform such duties and only such duties as are specifically set forth in the Indenture, and, except to the extent required by law, no implied covenants or obligations shall be read into the Indenture against the Trustee. The Trustee shall, during the existence of any Event of Default (which has not been cured or waived), exercise such of the rights and powers vested in it by the Indenture, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs.

The Institution may remove the Trustee at any time unless an Event of Default shall have occurred and then be continuing, and shall remove the Trustee if at any time requested to do so by an instrument or concurrent instruments in writing signed by the Holders of not less than a majority in aggregate principal amount of the Bonds then Outstanding (or their attorneys duly authorized in writing) or if at any time the Trustee shall cease to be eligible in accordance with the Indenture, or shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or a receiver of the Trustee or its property shall be appointed, or any public officer shall take control or charge of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation, in each case by



giving written notice of such removal to the Trustee, and thereupon shall appoint a successor Trustee by an instrument in writing.

The Trustee may at any time resign by giving written notice of such resignation to the Institution and by giving the Bondholders notice of such resignation by mail at the addresses shown on the registration books maintained by the Trustee. Upon receiving such notice of resignation, the Institution shall promptly appoint a successor Trustee by an instrument in writing. The Trustee shall not be relieved of its duties until such successor Trustee has accepted appointment.

Any removal or resignation of the Trustee and appointment of a successor Trustee shall become effective upon acceptance of appointment by the successor Trustee. If no successor Trustee shall have been appointed and have accepted appointment within thirty (30) days of giving notice of removal or notice of resignation as aforesaid, the resigning Trustee or any Bondholder (on behalf of itself and all other Bondholders) may petition any court of competent jurisdiction for the appointment of a successor Trustee, and such court may thereupon, after such notice (if any) as it may deem proper, appoint such successor Trustee. Any successor Trustee appointed under the Indenture, shall signify its acceptance of such appointment by executing and delivering to the Institution and to its predecessor Trustee a written acceptance thereof, and thereupon such successor Trustee, without any further act, deed or conveyance, shall become vested with all the moneys, estates, properties, rights, powers, trusts, duties and obligations of such predecessor Trustee, with like effect as if originally named Trustee in the Indenture; but, nevertheless at the request of the successor Trustee, such predecessor Trustee shall execute and deliver any and all instruments of conveyance or further assurance and do such other things as may reasonably be required for more fully and certainly vesting in and confirming to such successor Trustee all the right, title and interest of such predecessor Trustee in and to any property held by it under the Indenture and shall pay over, transfer, assign and deliver to the successor Trustee any money or other property subject to the trusts and conditions set forth in the Indenture. Upon request of the successor Trustee, the Institution shall execute and deliver any and all instruments as may be reasonably required for more fully and certainly vesting in and confirming to such successor Trustee all such moneys, estates, properties, rights, powers, trusts, duties and obligations. Upon acceptance of appointment by a successor Trustee as provided in this paragraph, the Institution shall mail or cause to be mailed (at the expense of the Institution) a notice of the succession of such Trustee to the trusts under the Indenture to the Bondholders at the addresses shown on the registration books maintained by the Trustee. If the Institution fails to mail such notice within fifteen (15) days after acceptance of appointment by the successor Trustee, the successor Trustee shall cause such notice to be mailed at the expense of the Institution.

Any successor Trustee shall be a national banking association, trust company or bank having trust powers in the State of California, having a combined capital and surplus of (or if such national banking association, trust company or bank is a member of a bank holding system, its bank holding company shall have a combined capital and surplus of) at least fifty million dollars (\$50,000,000), and subject to supervision or examination by federal or State of California authority. If such national banking association, bank or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purpose of this subsection the combined capital and surplus of such national banking association, bank or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. In case at any time the Trustee shall cease to be eligible in accordance with the provisions of this paragraph, the Trustee shall resign immediately in the manner and with the effect specified in the Indenture.

*Preservation and Inspection of Documents.* All documents received by the Trustee under the provisions of the Indenture shall be retained in its possession and shall be subject upon prior written notice to the inspection of the Institution and any Bondholder, and their agents and representatives duly authorized in writing, at reasonable hours and under reasonable conditions.

#### **Modification or Amendment of the Indenture**

*Amendments Permitted.* The Indenture and the rights and obligations of the Institution and of the Holders of the Bonds and of the Trustee may be modified or amended from time to time and at any time by an indenture or one or more Supplemental Indentures, which the Institution and the Trustee may enter into when the written consent of the Holders of a majority in aggregate principal amount of the Bonds then Outstanding shall have been filed with

the Trustee. No such modification or amendment shall (1) extend the fixed maturity of any Bond, or reduce the amount of principal thereof, or reduce the rate of interest thereon, or extend the time of payment of interest thereon, or reduce any premium payable upon the redemption thereof, without the consent of the Holder of each Bond so affected, or (2) reduce the aforesaid percentage of Bonds the consent of the Holders of which is required to effect any such modification or amendment, or permit the creation of any lien on the Indenture Fund or the amounts pledged under the Indenture prior to or on a parity with the lien created by the Indenture, or deprive the Holders of the Bonds of the lien created by the Indenture on the Indenture Fund and such amounts (except as expressly provided in the Indenture), without the consent of the Holders of all Bonds then Outstanding. It shall not be necessary for the consent of the Bondholders to approve the particular form of any Supplemental Indenture, but it shall be sufficient if such consent shall approve the substance thereof. Promptly after the execution by the Institution and the Trustee of any Supplemental Indenture pursuant to this paragraph, the Trustee shall mail a notice, setting forth in general terms the substance of such Supplemental Indenture, to the Bondholders at the addresses shown on the registration books maintained by the Trustee. Any failure to give such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such Supplemental Indenture.

The Indenture and the rights and obligations of the Institution, of the Trustee and of the Holders of the Bonds may also be modified or amended from time to time and at any time by an indenture or one or more Supplemental Indentures, which the Institution and the Trustee may enter into without the necessity of obtaining the consent of any Bondholders, but only to the extent permitted by law and only for any one or more of the following purposes: (1) to add to the covenants and agreements of the Institution contained in the Indenture other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power reserved in the Indenture to or conferred upon the Institution, provided that such covenant, agreement, pledge, assignment or surrender shall not materially adversely affect the interests of the Holders of the Bonds; (2) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in the Indenture, or in regard to matters or questions arising under the Indenture, as the Institution or the Trustee may deem necessary or desirable and not inconsistent with the Indenture, and which shall not materially adversely affect the interests of the Holders of the Bonds; (3) to modify, amend or supplement the Indenture or any Supplemental Indenture in such manner as to permit the qualification hereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute, and which shall not materially adversely affect the interests of the Holders of the Bonds; (4) to provide for the procedures required to permit any Bondholder, at its option, to utilize an uncertificated system of registration of its Bond or to facilitate the registration of the Bonds in the name of a nominee of the Securities Depository in accordance with the provisions of the Indenture; (5) to authorize different authorized denominations of the Bonds and to make correlative amendments and modifications to the Indenture regarding exchangeability of Bonds of different authorized denominations, redemptions of portions of Bonds of particular authorized denominations and similar amendments and modifications of a technical nature; (6) to make any changes required by a Rating Agency in order to obtain or maintain a rating for the Bonds; or (7) to modify, amend or supplement any other provision of the Indenture that shall not materially adversely affect the interests of the Holders of the Bonds.

The Trustee may in its discretion, but shall not be obligated to, enter into any such Supplemental Indenture authorized by either of the two preceding paragraphs which materially adversely affects the Trustee's own rights, duties or immunities under the Indenture or otherwise.

*Effect of Supplemental Indenture.* Upon the execution of any Supplemental Indenture pursuant to the Indenture, the Indenture shall be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under the Indenture of the Institution, the Trustee and all Holders of Bonds Outstanding shall thereafter be determined, exercised and enforced under the Indenture subject in all respects to such modification and amendment, and all the terms and conditions of any such Supplemental Indenture shall be deemed to be part of the terms and conditions of the Indenture for any and all purposes.

*Amendment of Particular Bonds.* The provisions of the Indenture regarding modification or amendment of the Indenture shall not prevent any Bondholder from accepting any amendment as to the particular Bonds held by such Bondholder, provided that due notation thereof is made on such Bonds.

## Defeasance

*Discharge of Indenture.* The Bonds may be paid or discharged by the Institution or the Trustee on behalf of the Institution in any of the following ways: (A) by paying or causing to be paid the principal or Make-Whole Redemption Price of and interest on all Bonds Outstanding, as and when the same become due and payable; (B) by depositing with the Trustee, in trust, at or before maturity, moneys or securities in the necessary amount (as provided in the Indenture) to pay when due or redeem all Bonds then Outstanding; or (C) by delivering to the Trustee, for cancellation by it, all Bonds then Outstanding.

If the Institution shall also pay or cause to be paid all other sums payable under the Indenture by the Institution, then and in that case at the election of the Institution (evidenced by a Certificate of the Institution filed with the Trustee signifying the intention of the Institution to discharge all such indebtedness and the Indenture and upon receipt by the Trustee of an Opinion of Counsel to the effect that the obligations under the Indenture and the Bonds have been discharged), and notwithstanding that any Bonds shall not have been surrendered for payment, the Indenture and the pledge of the Indenture Fund and all amounts held therein made under the Indenture and all covenants, agreements and other obligations of the Institution under the Indenture (except as otherwise provided in the Indenture) shall cease, terminate, become void and be completely discharged and satisfied and the Bonds shall be deemed paid. In such event, upon the request of the Institution, the Trustee shall cause an accounting for such period or periods as may be requested by the Institution to be prepared and filed with the Institution and shall execute and deliver to the Institution all such instruments as may be necessary to evidence such discharge and satisfaction, and the Trustee shall pay over, transfer, assign or deliver to the Institution all moneys or securities or other property held by it pursuant to the Indenture which are not required for the payment or redemption of Bonds not theretofore surrendered for such payment or redemption.

*Discharge of Liability on Bonds.* Upon the deposit with the Trustee, in trust, at or before maturity, of money or securities in the necessary amount (as provided in the Indenture) to pay or redeem any Outstanding Bond (whether upon or prior to its maturity or the redemption date of such Bond), provided that, if such Bond is to be redeemed prior to maturity, notice of such redemption shall have been given as provided in the Indenture or provision satisfactory to the Trustee shall have been made for the giving of such notice, then all liability of the Institution in respect of such Bond shall cease, terminate and be completely discharged, and the Bonds shall be deemed paid, except only that thereafter the Holder thereof shall be entitled to payment of the principal or Make-Whole Redemption Price of and interest on such Bond by the Institution, and the Institution shall remain liable for such payments, but only out of such money or securities deposited with the Trustee as aforesaid for their payment, subject, however, to the provisions of the Indenture regarding payment of Bonds after discharge of the Indenture.

The Institution may at any time surrender to the Trustee for cancellation by it any Bonds previously issued and delivered, which the Institution may have acquired in any manner whatsoever, and such Bonds, upon such surrender and cancellation, shall be deemed to be paid and retired.

*Payment of Bonds After Discharge of Indenture.* Notwithstanding any provisions of the Indenture, any moneys held by the Trustee in trust for the payment of the principal or Make-Whole Redemption Price of, or interest on, any Bonds and remaining unclaimed for two years (or, if shorter, one day before such moneys would escheat to the State of California under then applicable California law) after such principal, Make-Whole Redemption Price or interest, as the case may be, has become due and payable (whether at maturity or upon call for redemption), shall be repaid to the Institution free from the trusts created by the Indenture upon receipt of an indemnification agreement acceptable to the Institution and the Trustee indemnifying the Institution and the Trustee with respect to claims of Holders of Bonds which have not yet been paid, and all liability of the Trustee and the Institution with respect to such moneys shall thereupon cease; provided, however, that before the repayment of such moneys to the Institution as aforesaid, the Trustee may (at the cost of the Institution) first mail to the Holders of Bonds which have not yet been paid, at the addresses shown on the registration books maintained by the Trustee, a notice, in such form as may be deemed appropriate by the Trustee with respect to the Bonds so payable and not presented and with respect to the provisions relating to the repayment to the Institution of the moneys held for the payment thereof.

## **Limitation of Rights to Parties and Bondholders**

Nothing in the Indenture or in the Bonds expressed or implied is intended or shall be construed to give to any Person other than the Institution, the Trustee and the Holders of the Bonds, any legal or equitable right, remedy or claim under or in respect of the Indenture or any covenant, condition or provision therein contained; and all such covenants, conditions and provisions are and shall be held to be for the sole and exclusive benefit of the Institution, the Trustee and the Holders of the Bonds.

## **Evidence of Rights of Bondholders**

Any request, consent or other instrument required or permitted by the Indenture to be signed and executed by Bondholders may be in any number of concurrent instruments of substantially similar tenor and shall be signed or executed by such Bondholders in person or by an agent or agents duly appointed in writing.

The fact and date of the execution by any individual of any such request, consent or other instrument or writing may be proved by the certificate of any notary public or other officer of any jurisdiction, authorized by the laws thereof to take acknowledgments of deeds, certifying that the individual signing such request, consent or other instrument acknowledged to him the execution thereof, or by an affidavit of a witness of such execution duly sworn to before such notary public or other officer.

The ownership of Bonds shall be proved by the registration books for the Bonds held by the Trustee.

Any request, consent, or other instrument or writing of the Holder of any Bond shall bind every future Holder of the same Bond and the Holder of every Bond issued in exchange therefor or in lieu thereof, in respect of anything done or suffered to be done by the Trustee or the Institution in accordance therewith or reliance thereon.

## **Waiver of Personal Liability**

No member, officer, agent or employee of the Institution shall be individually or personally liable for the payment of the principal or Make-Whole Redemption Price of or interest on the Bonds or be subject to any personal liability or accountability by reason of the issuance thereof or the performance of any duty under the Indenture; but nothing contained in the Indenture shall relieve any such member, officer, agent or employee from the performance of any official duty provided by law or by the Indenture.

## **Governing Law; Venue**

The Indenture shall be construed in accordance with and governed by the Constitution and the laws of the State of California applicable to contracts made and performed in the State of California. The Indenture shall be enforceable in the State of California, provided, however, that any action arising under the Indenture shall (unless waived by the Institution) be filed and maintained in the State of California.

## **CUSIP Numbers**

Neither the Trustee nor the Institution shall be liable for any defect or inaccuracy in the CUSIP number that appears on any Bond or in any redemption notice. The Trustee may, in its discretion, include in any redemption notice a statement to the effect that the CUSIP numbers on the Bonds have been assigned by an independent service and are included in such notice solely for the convenience of the Holders and that neither the Trustee nor the Institution shall be liable for any inaccuracies in such numbers.

**APPENDIX C**

**PROPOSED FORM OF OPINION OF COUNSEL TO THE UNIVERSITY**

April \_\_\_\_, 2012

Morgan Stanley & Co. LLC  
as Representative of the Underwriters  
New York, New York

The Bank of New York Mellon Trust Company, N.A., as Trustee  
San Francisco, California

Ladies and Gentlemen:

We have been requested to furnish you with an opinion in connection with the issuance by The Board of Trustees of the Leland Stanford Junior University (the "University") of \$143,235,000 aggregate principal amount of Stanford University Taxable Bonds Series 2012 (the "Bonds").

We have examined executed copies of the Indenture of Trust dated as of April 1, 2012 (the "Indenture") between the University and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"), specimen bonds as executed on behalf of the University and authenticated by the Trustee, and a certified copy of proceedings of the University authorizing the execution of the Indenture, certain other documents and the issuance of the Bonds.

In addition, we have examined such other documents and have made such investigation and such examination of law as we have deemed necessary for the purposes of the following opinion.

For purposes of this opinion, we have relied on an opinion addressed to each of you by the General Counsel of the University as to the due authorization, execution and delivery of the Indenture and as to the issuance, sale and delivery of the Bonds, and we have assumed that the Trustee has all requisite power and authority and has taken all necessary corporate action, consistent with all applicable laws and regulations, to execute and deliver the Indenture and to effect the transactions contemplated thereby.

We express no opinion as to the laws of any jurisdiction other than those of the State of California and the federal laws of the United States of America.

Based upon the foregoing, we are of the opinion that:

1. The Indenture constitutes a valid and legally binding obligation of the University and, subject to the qualifications stated in the unnumbered paragraphs at the end of this opinion, is enforceable against the University in accordance with its terms.

2. The Bonds have been duly authorized, issued and delivered against payment of the agreed upon consideration and, subject to the qualifications contained in the unnumbered paragraphs at the end of this opinion, are valid, legally binding, general obligations of the University, enforceable against the University in accordance with their terms.

Our opinion that the Indenture and the Bonds are enforceable, each in accordance with its terms, is qualified to the extent that enforcement of the rights and remedies created thereby is subject to (i) general principles of equity and (ii) bankruptcy, insolvency, moratorium and other similar laws affecting the rights and remedies of creditors and secured parties. We do not express any opinion herein as to the availability of the remedy of specific performance or injunctive relief or other relief in equity upon breach of any of the agreements, documents, or obligations referred to herein.

In addition, we express no opinion as to (i) the extent to which broadly worded waivers, conclusive presumptions or determinations or powers of attorney may be enforced; (ii) the enforceability of any provision of the Indenture which permits the exercise of a right of set-off against amounts not then due or which constitutes a penalty or forfeiture; or (iii) the enforceability of any provision that provides for non-effectiveness of oral modifications, waiver of or consent to service of process and venue, or waiver of offset or defenses.

Very truly yours,

Ropes & Gray LLP



