

2009 FINANCIAL REVIEW

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DISCUSSION OF FINANCIAL RESULTS

Fiscal year 2009 (FY09) was dominated by significant turmoil in the financial markets and global economy. During the year Stanford recognized a large decrease in the overall value of its investments. Consolidated net assets decreased \$4.9 billion or 20% to \$19.9 billion at August 31, 2009. Although Stanford's operating results were strong, with consolidated revenues, including endowment payout, exceeding expenses by \$509 million, FY09 financial results were overshadowed by investment losses.

Below are additional details about the University's and Hospitals' operations and financial results.

University

In FY09, the University's investments declined \$5.3 billion or 24% to \$16.5 billion, the endowment declined \$4.6 billion or 27% to \$12.6 billion, and net assets declined \$4.7 billion or 21% to \$18.0 billion. Despite the economic climate, the University ended the year with a surplus from operations of \$362 million compared to \$300 million in fiscal year 2008 (FY08). The operating surplus was largely due to three factors: 1) endowment payout was fixed prior to the beginning of the fiscal year and the financial downturn; 2) substantial operating funds were allocated for facilities projects and were capitalized rather than expensed; and 3) as the financial downturn unfolded, expenses were reduced in anticipation of lower revenues in fiscal year 2010 (FY10) and thereafter. The effects of the market decline on the University's operations will be felt more fully in the next few years as endowment payout is reduced.

Early in FY09, the University's President and Provost announced plans to curtail spending, and required budget units to identify specific actions to achieve this goal. FY09 operating results reflected a 1% decrease in total expenses. By year end, more than 400 staff had been laid off and more than 50 faculty searches were frozen. In addition, the University suspended or cancelled over \$1 billion of planned construction projects.

Maintaining adequate liquidity was a focal point throughout the year. In April, the University issued \$1 billion of taxable debt of which \$800 million, net of issuance costs, was set aside in a fund invested in money market securities to provide additional liquidity for the University's general purposes.

Despite the financial crisis, the University has not lost sight of its purpose. Teaching and research remain the highest priorities. The University continues to support the expanded student aid programs introduced in FY08 which make Stanford more affordable to students and their families.

Throughout this year, our donors have continued to show their support. The Stanford Challenge, the five-year effort launched in 2006, surpassed the \$4.3 billion milestone, reaching a total of \$4.48 billion in FY09. It is important to note that many priority areas included in the original goal have not yet been funded, and new needs have been identified since the campaign began. Campaign accomplishments in FY09 included the establishment of 11 new endowed professorships, 66 new funds for graduate fellowships, and 30 new undergraduate scholarship funds.

OPERATIONS

Operating activities include all revenues and expenses that support current-year teaching and research efforts and other University priorities. Total revenues of \$3.5 billion exceeded expenses by \$362 million in FY09.

OPERATING REVENUES

The University's operating revenues were primarily comprised of sponsored research support (30%), investment income distributed for operations (30%), student income (11%) and health care services revenues (12%).

Total student income declined a modest 1% to \$401 million in FY09. Tuition rates increased 3.5% for undergraduate students and, on average, 4.5% for graduate students. In keeping with

FIGURE 1
FY09 UNIVERSITY OPERATING REVENUES (\$3.5 BILLION)

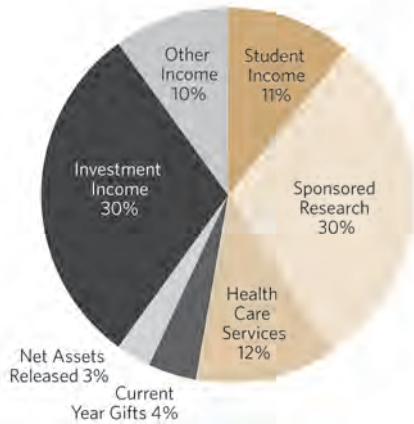


FIGURE 2
FY09 UNIVERSITY OPERATING EXPENSES (\$3.1 BILLION)



Stanford's commitment to provide an affordable education to all students, financial aid increased 19% to \$210 million in FY09.

Sponsored research support decreased \$45 million or 4% to \$1 billion in FY09, primarily due to a decrease in funding from the Department of Energy for construction of SLAC's Linac Coherent Light Source facilities which were completed in FY09. Approximately 80% of sponsored research support was received directly or indirectly from the federal government. Other sponsors included the California Institute for Regenerative Medicine, voluntary health organizations, corporations and foundations.

Investment Income Distributed to Operations was a significant source of operating revenue for the University, covering approximately 34% of expenses in FY09 compared to 31% in FY08. Endowment payout increased 9% from FY08 levels to \$957 million. Other investment income decreased 15% to \$94 million due to lower interest rates on cash and short-term investments. In light of the decline in the value of the University's investments, the endowment payout on existing funds is budgeted to decrease 10% in FY10 and expected to decrease a further 15% in fiscal year 2011 (FY11).

Health care services revenues increased \$57 million or 15% to \$429 million in FY09. Health care services included the School of Medicine faculty physician services and blood center services provided to the Hospitals. These amounts were

eliminated in consolidation. Faculty physicians also provided services to external parties, including the Santa Clara Valley Medical Center and the Palo Alto Veterans Affairs Hospital generating \$16 million in revenue.

Special program fees and other income totaled \$341 million in FY09, a 4% decrease over FY08 due primarily to lower participation in travel study programs, professional education programs, other special programs and conferences. Also included in this category were revenues from technology licensing, operations of residential housing and dining (other than student room and board) and intercollegiate athletic activities.

OPERATING EXPENSES

With the economic downturn in October 2008, the Provost requested all University units to significantly reduce their operating expenses. These actions resulted in a decline in operating expenses of \$46 million or 1% from prior year levels.

Salaries and benefits increased 6% in FY09 to \$2.0 billion. Average staff headcount in FY09 was about 3% higher than during FY08. Most of the staff reductions occurred during the second half of FY09, and the University incurred one-time severance expenses for terminated employees. In addition, health care costs and expenses associated with retirement plans drove FY09 benefit costs higher.

Depreciation expense declined 4% to \$214 million in FY09. FY08 was moderately higher due to the demolition and related write-off of buildings to make way for new construction.

Other operating expenses decreased 14% to \$920 million in FY09. This decline reflects the cost cutting efforts implemented by University departments and includes a reduction of \$53 million in supplies, food and travel. In addition, SLAC construction costs were lower by \$50 million due to the completion of the Linac Coherent Light Source facility. Interest costs declined \$20 million due to lower interest rates.

OTHER FINANCIAL HIGHLIGHTS

Gifts and Pledges

Total gifts and pledges decreased \$384 million from FY08 levels. Despite these difficult times, University donors continued to show their support as evidenced by over 104,000 gifts totaling \$542 million as reported in the financial statements (\$640 million on a cash basis as reported by the University Office of Development).

Investments

Total investment losses were \$4.0 billion, compared to positive returns of \$767 million in FY08. These losses occurred during a year in which U.S. and international equity markets, and most other asset classes were also down. Investment income, including interest and dividends, was \$162 million in FY09 compared to \$268 million in FY08. Net realized and unrealized losses on investments were \$4.2 billion in FY09 compared to gains of \$499 million in FY08. See the report from the Stanford Management Company on page 47 for additional analysis of University investment strategies and performance.

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, 2009, the endowment totaled \$12.6 billion, a decline of 27% from the previous year and represented approximately 70% of the University's net assets. Investment losses and distribution of funds to operations were the principal factors in the endowment's decline. See Note 11 to the consolidated financial statements for a detailed discussion of the University's endowment.

Plant Facilities

Plant facilities increased \$383 million to \$3.3 billion as of August 31, 2009. Projects completed in FY09 include four of the five Munger Graduate Residence buildings and renovations of Crothers Hall and Crothers Memorial Hall which have been converted to undergraduate housing. Progress continues on the Knight Management Center, the new Graduate School of Business campus. Other major construction projects underway include the Huang School of Engineering Center, the Lorry I. Lokey Stem Cell Research Building, the School of Medicine's Li Ka Shing Center for Learning and Knowledge, and the Center for Nanoscale Science and Technology.

Borrowings

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

Total borrowings increased \$984 million to \$2.5 billion as of August 31, 2009. In FY09 the University issued \$1 billion in taxable bonds, of which approximately \$800 million is being held for liquidity purposes. The remaining proceeds were used to convert taxable commercial paper to fixed rate debt to take advantage of favorable interest rates. In connection with the bond issuance, the University's AAA/Aaa/AAA ratings were affirmed by Standard & Poor's, Moody's and Fitch, respectively. See Note 9 to the consolidated financial statements for further discussion.

Net Assets—Permanently Restricted, Temporarily Restricted, Unrestricted

Net assets are presented in three categories in the financial statements, reflecting the nature of the restrictions placed on gifts by donors. These net asset categories reflect the results described above.

Permanently restricted net assets represent gifts whose original principal is to be maintained in perpetuity. Income from these gifts provides critical ongoing funding to support important University programs and activities. The decrease in permanently restricted net assets of \$101 million to \$4.7 billion in FY09 reflects investment losses of \$243 million offset by \$172 million in new gifts and pledges.

Temporarily restricted net assets increased \$3.8 billion to \$5.1 billion in FY09. The adoption of a new accounting principle (FSP 117-1) resulted in reclassifying \$6.3 billion of expendable appreciation on donor-restricted endowment funds from unrestricted to temporarily restricted net assets. Investment losses of \$2.5 billion and new gifts and pledges of \$209 million also impacted temporarily restricted net assets.

Unrestricted net assets of the University declined \$8.3 billion in FY09. The \$362 million excess of revenues over expenses was offset by the \$6.3 billion reclassification discussed above and a \$2.2 billion decrease in reinvested gains.

Hospitals

The financial results and financial position of Stanford Hospital and Clinics (SHC) and the Lucile Packard Children's Hospital (LPCH) are combined in the consolidated financial statements under the "Hospitals" column. The University is the sole member of each of the Hospitals. The Hospitals had a combined operating surplus of \$147 million in FY09. At August 31, 2009, the Hospitals' net assets were \$1.9 billion compared to \$2.2 billion at August 31, 2008, a decrease of \$289 million. As discussed in Note 1 to the consolidated financial statements, the consolidated statement of cash flows for 2008 was restated to correct errors in the classification of cash flow activities among operating, investing and financing activities. There was no impact on the reported amounts for cash and cash equivalents as of August 31, 2008 or for the net increase in cash and cash equivalents for the year then ended.

The following discussion summarizes the individual financial results of SHC and LPCH.

STANFORD HOSPITAL AND CLINICS

SHC generated \$95 million of income from operations in FY09 compared to \$105 million for FY08. Despite these solid results, overall net assets declined by \$165 million to \$807 million in FY09.

In February 2009, SHC expanded its patient care capacity by opening the Stanford Medicine Outpatient Center in Redwood City, California, that includes 96 exam rooms, advanced imaging service, and eight operating rooms. In addition, in FY09, SHC completed implementation of a new Clinical Information System.

Statement of Activities

SHC revenues increased by 10% to \$1.8 billion in FY09 due to increased patient revenues. Inpatient revenues, comprising 54% of total patient revenues, grew by 9% due to continuing increases in patient volume. Outpatient revenues increased by 12%. Other income, which includes the results of various related entities, increased by 13% to \$58 million.

Expenses increased by 12% to \$1.7 billion. Salaries and benefits grew 10% to \$787 million due to the growth in patient volumes, staffing of expanded clinical facilities and the competitive market for health care professionals. Physicians' services and support increased 14% to \$296 million which includes all payments to the University for services. Additionally, other operating expenses increased by 13% to \$576 million largely as a result of costs related to the increase in patient activity and expanded clinical services.

Financial Position

SHC's unrestricted net assets decreased \$178 million to \$731 million due to investment losses of \$143 million, fair market value adjustments of \$48 million on interest rate exchange agreements, and \$75 million increase in accrued liability on certain pension and post retirement plans. Temporarily restricted net assets increased by \$14 million to \$70 million due to new gifts and transfers from the University of \$21 million offset by assets released from restrictions of \$6 million and investment losses of \$1 million. Permanently restricted net assets remained constant at \$6 million in FY09.

LUCILE PACKARD CHILDREN'S HOSPITAL

LPCH generated excess operating revenues over expenses of \$53 million in FY09, an increase of \$11 million from FY08. Operating results were strengthened by several factors in FY09, including the addition of MediCal Disproportionate Share Hospital (DSH) revenue, favorable contract rate increases, increased outpatient activity, continued enhancements to the hospital's charging processes and successful efforts to decrease the rate of growth in operating costs.

Net assets decreased \$125 million to \$1.1 billion as of August 31, 2009. Investment losses of \$167 million drove the decrease.

Operating expenses grew by 9%. Salaries and benefits representing 44% of total expenses increased 7% in FY09.

Full time equivalent staff increased 3% due, in part, to the opening of new operating rooms and additional beds; these increases were somewhat offset by a transfer of lab personnel to SHC. Additionally, salaries and benefits increased to remain competitive in the market for health care professionals. Supply costs increased 33%, principally due to the addition of the new operating rooms and a 14% increase in pharmaceutical costs. The completion of the Phase I building program, which consisted of construction of 25 additional beds and seven surgical suites was completed during the year and drove a 29% increase in depreciation.

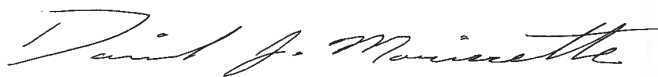
Unrestricted cash and investments decreased by \$130 million to \$366 million at August 31, 2009. This represents a decrease in day's cash on hand from 293 to 201. The decrease in unrestricted cash and investments is the result of investment losses and LPCH's implementation of FSP 117-1, which resulted in a reclassification of \$112 million from unrestricted to temporarily restricted net assets.

Challenges facing the University and Hospitals

Global equity markets are continuing to recover in the early months of FY10, although it will take years of economic gains and continued vigilance of expenditure levels to restore the University and Hospital investment balances to the 2008 levels. We anticipate that gifts will not return to the strong levels of the past few years in the near term, as donors also feel the strain of declining investment portfolios. In addition, we expect families of University students will continue to need increased financial assistance in the years to come.



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



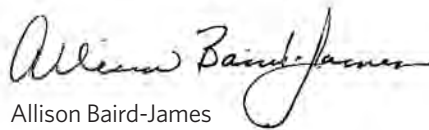
Daniel J. Morissette
Chief Financial Officer
Stanford Hospital and Clinics

As a result of our swift response to the economic downturn, our cost reduction measures are largely identified and in place to support the future. In addition, we are beginning to receive awards from the federal research stimulus funds under the American Recovery and Reinvestment Act of 2009 (ARRA). To date, ARRA awarded Stanford funds totaling \$173 million.

The University's President and Provost are asking all faculty and staff to find new ways to function efficiently and provide high levels of service with reduced resources. The Provost has announced plans to focus our ingenuity and energies on increasing efficiency as we adjust to the loss of various programs and valued employees. As part of this effort, the Provost has launched several task forces to examine major functions that cut across organizational boundaries at the University.

On the health care side, the Hospitals continue to be constrained by inpatient capacity, along with escalating costs. Construction of new facilities to meet community health care needs continues to be a priority. These new facilities are projected to cost more than \$3 billion, representing the largest capital projects ever undertaken by the Hospitals.

With the financial challenges that the University and Hospitals faced this past year, we have recommitted and refocused on our core missions of teaching, research and health care, and are poised to continue addressing future challenges. We continue to critically examine our resources and processes to ensure they support the excellence of our world class institutions, allowing us to identify solutions to global problems, educate a new generation of leaders and provide preeminent health care services. We appreciate the continued support of the entire Stanford community that enables us to achieve these goals.



Allison Baird-James
Controller
Stanford University



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

SELECTED FINANCIAL DATA

Fiscal Years Ended August 31

	2009	2008	2007	2006	2005	2004
(in millions of dollars)						
STATEMENT OF ACTIVITIES DATA:						
Student income (A)	\$ 401	\$ 405	\$ 394	\$ 376	\$ 356	\$ 332
Sponsored research support	1,031	1,076	1,058	994	973	924
Health care services	2,424	2,193	1,997	1,851	1,699	1,501
Current year gifts in support of operations	155	189	198	168	144	105
Net assets released from restrictions	97	104	122	117	104	64
Investment income distributed for operations	1,071	1,007	710	609	514	460
Special program fees and other income	423	429	398	396	351	329
Total Revenues	5,602	5,403	4,877	4,511	4,141	3,715
Total Expenses	5,093	4,957	4,467	4,212	3,842	3,572
Excess of revenues over expenses	509	446	410	299	299	143
Other changes in net assets	(5,450)	471	3,647	2,709	2,598	1,596
Net change to total net assets	(4,941)	917	4,057	3,008	2,897	1,739
FINANCIAL POSITION HIGHLIGHTS:						
Cash and cash equivalents	\$ 1,781	\$ 859	\$ 647	\$ 579	\$ 629	\$ 638
Pledges receivable, net	894	883	758	619	507	454
Investments at fair value	17,757	23,470	23,119	19,263	16,351	13,318
Plant facilities, net of accumulated depreciation	4,530	3,967	3,472	3,164	2,800	2,743
Notes and bonds payable:						
University	2,517	1,532	1,494	1,309	1,266	1,288
Hospitals	999	1,007	1,015	1,006	582	587
Total net assets, end of year	19,914	24,855	23,938	19,881	16,873	13,976
University endowment	12,619	17,214	17,165	14,085	12,205	9,922
STUDENTS:						
ENROLLMENT: (B)						
Undergraduate	6,878	6,812	6,759	6,689	6,705	6,753
Graduate	8,441	8,328	8,186	8,201	8,176	8,093
DEGREES CONFERRED:						
Bachelor degrees	1,680	1,646	1,709	1,756	1,790	1,713
Advanced degrees	2,932	2,928	3,100	3,093	2,945	2,931
FACULTY:						
Members of The Academic Council	1,451	1,459	1,428	1,418	1,400	1,410
ANNUAL UNDERGRADUATE TUITION RATE (in dollars)	\$ 36,030	\$ 34,800	\$ 32,994	\$ 31,200	\$ 29,847	\$ 28,563

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

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

REPORT OF INDEPENDENT AUDITORS

To the Board of Trustees
Stanford University

In our opinion, the accompanying consolidated statements of financial position and the related consolidated statements of activities and cash flows, present fairly, in all material respects, the financial position of Stanford University (the "University") at August 31, 2009 and 2008 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1 to the financial statements, effective September 1, 2008 the University adopted the provisions of Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* and changed the manner in which it evaluates the fair value of financial assets and liabilities. Also, as discussed in Note 1, effective September 1, 2008 the University adopted the provisions of Financial Accounting Standards Board (FASB) Staff Position No. 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for all Endowment Funds* and changed the manner in which it classifies donor-restricted endowment funds.

As described in Note 1, the fiscal year 2008 consolidated statement of cash flows has been restated.

December 14, 2009

A handwritten signature in black ink that reads "PricewaterhouseCoopers LLP". The signature is written in a cursive, flowing style.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

At August 31, 2009 and 2008 (in thousands of dollars)

	2009			2008
	UNIVERSITY	HOSPITALS	CONSOLIDATED	CONSOLIDATED
ASSETS				
Cash and cash equivalents	\$ 1,335,145	\$ 446,129	\$ 1,781,274	\$ 859,030
Accounts receivable, net	186,613	369,357	555,970	599,779
Receivables (payables) from SHC and LPCH, net	51,942	(51,942)	-	-
Prepaid expenses and other assets	51,595	79,872	131,467	146,974
Pledges receivable, net	782,523	111,922	894,445	883,347
Student loans receivable, net	72,375	-	72,375	70,950
Faculty and staff mortgages and other loans receivable, net	421,052	-	421,052	376,491
Investments at fair value, including securities pledged or on loan of \$193,862 and \$464,777 for 2009 and 2008, respectively	16,500,670	1,256,803	17,757,473	23,469,799
Plant facilities, net of accumulated depreciation	3,269,635	1,260,001	4,529,636	3,967,183
Works of art and special collections	-	-	-	-
TOTAL ASSETS	22,671,550	3,472,142	26,143,692	30,373,553
LIABILITIES AND NET ASSETS				
LIABILITIES:				
Accounts payable and accrued expenses	637,868	452,766	1,090,634	1,107,114
Accrued pension and post retirement benefit cost	415,747	145,305	561,052	287,987
Pending trades	66,160	-	66,160	170,919
Liabilities under security lending agreements	248,048	-	248,048	548,951
Deferred rental income	378,496	-	378,496	388,018
Income beneficiary share of split interest agreements	316,404	-	316,404	423,197
Notes and bonds payable	2,516,584	999,006	3,515,590	2,539,536
U.S. government refundable loan funds	53,203	-	53,203	52,848
TOTAL LIABILITIES	4,632,510	1,597,077	6,229,587	5,518,570
NET ASSETS:				
Unrestricted	8,286,639	1,372,851	9,659,490	18,261,974
Temporarily restricted	5,094,032	213,133	5,307,165	1,558,349
Permanently restricted	4,658,369	289,081	4,947,450	5,034,660
TOTAL NET ASSETS	18,039,040	1,875,065	19,914,105	24,854,983
TOTAL LIABILITIES AND NET ASSETS	\$ 22,671,550	\$ 3,472,142	\$ 26,143,692	\$ 30,373,553

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

CONSOLIDATED STATEMENTS OF ACTIVITIES

For the years ended August 31, 2009 and 2008 (in thousands of dollars)

	2009			2008
	UNIVERSITY	HOSPITALS	CONSOLIDATED	CONSOLIDATED
UNRESTRICTED NET ASSETS				
REVENUES:				
Student income:				
Undergraduate programs	\$ 252,291	\$ -	\$ 252,291	\$ 241,302
Graduate programs	249,401	-	249,401	234,986
Room and board	110,123	-	110,123	104,977
Student financial aid	(210,320)	-	(210,320)	(176,444)
TOTAL STUDENT INCOME	401,495	-	401,495	404,821
Sponsored research support:				
Direct costs - University	563,695	-	563,695	555,898
Direct costs - SLAC National Accelerator Laboratory	293,666	-	293,666	350,989
Indirect costs	173,984	-	173,984	169,042
TOTAL SPONSORED RESEARCH SUPPORT	1,031,345	-	1,031,345	1,075,929
Health care services:				
Patient care, net	-	2,407,724	2,407,724	2,179,841
Physicians' services and support - SHC and LPCH, net	412,883	(412,883)	-	-
Physicians' services and support - other facilities, net	16,205	-	16,205	13,127
TOTAL HEALTH CARE SERVICES	429,088	1,994,841	2,423,929	2,192,968
CURRENT YEAR GIFTS IN SUPPORT OF OPERATIONS	149,035	6,002	155,037	189,378
Net assets released from restrictions:				
Prior year pledges released	58,334	1,037	59,371	57,006
Prior year gifts released from donor restrictions	30,668	7,389	38,057	47,350
TOTAL NET ASSETS RELEASED FROM RESTRICTIONS	89,002	8,426	97,428	104,356
Investment income distributed for operations:				
Endowment	956,518	20,039	976,557	896,011
Expendable funds pool and other investment income	94,248	-	94,248	110,908
TOTAL INVESTMENT INCOME DISTRIBUTED FOR OPERATIONS	1,050,766	20,039	1,070,805	1,006,919
SPECIAL PROGRAM FEES AND OTHER INCOME	341,265	81,476	422,741	429,188
TOTAL REVENUES	3,491,996	2,110,784	5,602,780	5,403,559
EXPENSES:				
Salaries and benefits	1,995,889	1,094,394	3,090,283	2,884,928
Depreciation	213,673	107,937	321,610	315,415
Other operating expenses	920,284	761,291	1,681,575	1,756,741
TOTAL EXPENSES	3,129,846	1,963,622	5,093,468	4,957,084
EXCESS OF REVENUES OVER EXPENSES	\$ 362,150	\$ 147,162	\$ 509,312	\$ 446,475

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

CONSOLIDATED STATEMENTS OF ACTIVITIES

For the years ended August 31, 2009 and 2008 (in thousands of dollars)

	2009			2008
	UNIVERSITY	HOSPITALS	CONSOLIDATED	CONSOLIDATED
UNRESTRICTED NET ASSETS (continued)				
EXCESS OF REVENUES OVER EXPENSES	\$ 362,150	\$ 147,162	\$ 509,312	\$ 446,475
Other changes in unrestricted net assets:				
Decrease in reinvested gains (1)	(2,214,825)	(244,604)	(2,459,429)	(201,623)
Donor advised funds, net	1,010	-	1,010	165,583
Current year gifts not included in operations	10,711	-	10,711	8,976
Contribution revenue from merger with CASBS	-	-	-	29,198
Hospital equity transfers	12,904	(12,904)	-	-
Capital and other gifts released from restrictions	101,741	76,293	178,034	66,742
Pension and other post employment benefit related changes other than net periodic benefit expense	(200,258)	(78,070)	(278,328)	(13,572)
Transfer to permanently restricted net assets, net	(52,236)	-	(52,236)	(41,348)
Transfer to temporarily restricted net assets, net	(6,552)	-	(6,552)	(43,657)
Swap interest and unrealized losses	(17,650)	(48,338)	(65,988)	(52,243)
Loss on extinguishment of debt	-	-	-	(17,855)
Other	6,235	-	6,235	1,028
Net change in unrestricted net assets before effect of change in accounting principle	(1,996,770)	(160,461)	(2,157,231)	347,704
Effect of change in accounting principle (see Note 1)	(6,333,634)	(111,619)	(6,445,253)	-
NET CHANGE IN UNRESTRICTED NET ASSETS AFTER EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	(8,330,404)	(272,080)	(8,602,484)	347,704
TEMPORARILY RESTRICTED NET ASSETS				
Gifts and pledges, net	209,293	18,509	227,802	366,471
(Decrease) increase in reinvested gains (1)	(2,546,249)	(65,056)	(2,611,305)	5,883
Change in value of split interest agreements, net	(3,070)	(490)	(3,560)	5,530
Net assets released to operations	(89,002)	(34,467)	(123,469)	(125,764)
Capital and other gifts released to unrestricted net assets	(101,741)	(76,293)	(178,034)	(66,742)
Capital gifts transferred to Hospitals	(15,167)	15,167	-	-
Transfer from unrestricted net assets, net	6,552	-	6,552	43,657
Transfer (to) from permanently restricted net assets, net	(12,859)	508	(12,351)	(18,396)
Other	(2,072)	-	(2,072)	(781)
Net change in temporarily restricted net assets before effect of change in accounting principle	(2,554,315)	(142,122)	(2,696,437)	209,858
Effect of change in accounting principle	6,333,634	111,619	6,445,253	-
NET CHANGE IN TEMPORARILY RESTRICTED NET ASSETS AFTER EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	3,779,319	(30,503)	3,748,816	209,858
PERMANENTLY RESTRICTED NET ASSETS				
Gifts and pledges, net	172,128	18,740	190,868	299,459
Contribution revenue from merger with CASBS	-	-	-	29,690
Investment losses	(243,488)	-	(243,488)	(13,458)
Change in value of split interest agreements, net	(97,236)	(1,917)	(99,153)	(12,285)
Transfer from unrestricted net assets, net	52,236	-	52,236	41,348
Transfer from (to) temporarily restricted net assets, net	12,859	(508)	12,351	18,396
Other	2,998	(3,022)	(24)	(3,255)
NET CHANGE IN PERMANENTLY RESTRICTED NET ASSETS	(100,503)	13,293	(87,210)	359,895
NET CHANGE IN TOTAL NET ASSETS	(4,651,588)	(289,290)	(4,940,878)	917,457
Total net assets, beginning of year	22,690,628	2,164,355	24,854,983	23,937,526
TOTAL NET ASSETS, END OF YEAR	\$ 18,039,040	\$ 1,875,065	\$ 19,914,105	\$ 24,854,983

(1) Investment returns for the year ended August 31, 2009 reflect net gains and losses under the guidelines of FSP117-1. Results for the year ended August 31, 2008 have not been restated.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended August 31, 2009 and 2008 (in thousands of dollars)

	2009			2008
	UNIVERSITY	HOSPITALS	CONSOLIDATED	CONSOLIDATED
CASH FLOW FROM OPERATING ACTIVITIES:				(as restated, Note 1)
Change in net assets	\$ (4,651,588)	\$ (289,290)	\$ (4,940,878)	\$ 917,457
Adjustments to reconcile change in net assets to net cash (used for) provided by operating activities:				
Depreciation, amortization and loss on disposal of fixed assets	215,452	109,505	324,957	317,287
Net realized and unrealized losses (gains) on investments and security agreements	4,239,363	316,028	4,555,391	(439,399)
Net realized and unrealized losses on derivatives	12,679	48,338	61,017	52,212
Actuarial change in split interest agreements	(54,707)	-	(54,707)	(55,947)
Permanently restricted investment income	(11,957)	-	(11,957)	(18,838)
Gifts restricted for long-term investments	(227,204)	(24,042)	(251,246)	(473,693)
Gifts of securities and properties	(81,544)	-	(81,544)	(167,038)
Contribution revenue from merger with CASBS	-	-	-	(59,319)
Gain from sale of discontinued operations	-	-	-	(21,273)
Loss on extinguishment of debt	260	-	260	25,452
Net decrease (increase) in accounts receivable, pledges receivable and receivables from SHC and LPCH	3,133	5,144	8,277	(21,757)
Decrease in prepaid expenses and other assets	24,935	13,639	38,574	14,111
(Decrease) increase in accounts payable and accrued expenses	(67,047)	(17,668)	(84,715)	120,973
Increase in accrued pension and post retirement benefit costs	196,795	76,270	273,065	10,714
Decrease in deferred rental income	(9,522)	-	(9,522)	(4,981)
Increase in U.S. government refundable loan funds	355	-	355	163
NET CASH (USED FOR) PROVIDED BY OPERATING ACTIVITIES	(410,597)	237,924	(172,673)	196,124
CASH FLOW FROM INVESTING ACTIVITIES:				
Land, building and equipment purchases	(579,308)	(293,580)	(872,888)	(723,822)
Student, faculty and other loans:				
New loans made	(76,634)	-	(76,634)	(78,620)
Principal collected	25,203	-	25,203	29,642
Contribution revenue from merger with CASBS	-	-	-	59,319
Net proceeds from sale of discontinued operations	-	-	-	21,273
Purchases of investments	(12,975,015)	(44,496)	(13,019,511)	(21,767,875)
Sales and maturities of investments	13,954,656	161,085	14,115,741	22,141,467
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	348,902	(176,991)	171,911	(318,616)
CASH FLOW FROM FINANCING ACTIVITIES:				
Gifts and reinvested endowment income, capital projects and other restricted purposes	188,575	50,709	239,284	400,872
Investment income for restricted purposes	11,957	-	11,957	18,838
Proceeds from borrowing	1,141,955	70,500	1,212,455	1,123,646
Bond issuance costs and interest rate swaps	(5,179)	-	(5,179)	(13,380)
Repayment of notes and bonds payable	(154,262)	(80,346)	(234,608)	(1,095,302)
Decrease in liabilities under security agreements	(300,903)	-	(300,903)	(99,772)
NET CASH PROVIDED BY FINANCING ACTIVITIES	882,143	40,863	923,006	334,902
INCREASE IN CASH AND CASH EQUIVALENTS	820,448	101,796	922,244	212,410
Cash and cash equivalents, beginning of year	514,697	344,333	859,030	646,620
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 1,335,145	\$ 446,129	\$ 1,781,274	\$ 859,030
SUPPLEMENTAL DATA:				
Interest paid during the year	\$ 78,066	\$ 43,668	\$ 121,734	\$ 118,390
Cash collateral received under securities lending agreements	\$ 205,622	\$ -	\$ 205,622	\$ 491,944
(Increase) decrease in payables for plant facilities	\$ (14,326)	\$ (5,719)	\$ (20,045)	\$ 4,638

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation and Significant Accounting Policies

BASIS OF PRESENTATION

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

University

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

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

Hospitals

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

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

TAX STATUS

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

BASIS OF ACCOUNTING

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

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

Unrestricted Net Assets

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

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

Transfers from unrestricted net assets to temporarily restricted net assets and permanently restricted net assets are primarily the result of donor redesignations or matching funds that are added to the 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 support. In addition, appreciation and income on certain donor-restricted endowment funds are classified as temporarily restricted net assets until authorized for spending (see Note 11). Donor-restricted resources intended for capital projects are initially recorded as temporarily restricted and released from their temporary restrictions and reclassified as unrestricted support when the asset is placed in service.

Permanently Restricted Net Assets

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

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of U.S. Treasury bills, commercial paper, certificates of deposit, money market funds and all other short-term investments with 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 equivalent amounts held for investment purposes, collateral held for securities loaned and certain cash restricted in its use, are classified as investments.

PLEDGES RECEIVABLE

Unconditional promises to give are included in the financial statements as pledges receivable and are classified as temporarily restricted or permanently restricted, depending upon donor requirements. Pledges are recorded at the present value of the discounted cash flows. The discount rate considers market and realizability factors, as applicable. Conditional promises, which depend on the occurrence of a specified future and uncertain event, such as matching gifts from other donors, are recognized when the conditions are substantially met.

ACCOUNTS AND STUDENT LOANS RECEIVABLE

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

INVESTMENTS

Investments are recorded at fair value. Gains and losses (realized and unrealized) on investments, except for donated assets and undeveloped land, are recognized in the consolidated statements of activities (see Note 5).

Cash and cash equivalents categorized as investments include money market funds and overnight receivables on repurchase agreements. Collateral held for securities loaned originates in the form of short-term U.S. government obligations, as well as cash which is reinvested for income in cash equivalent vehicles.

Publicly traded equity securities and mutual funds are valued based on quoted market prices (and exchange rates, if applicable). Securities transactions are reported on a trade-date basis. Non-exchange traded debt instruments are primarily valued using independent pricing services or by broker/dealers who actively make markets in these securities.

Derivatives such as forward contracts, currency options, interest rate swaps and credit default swaps are valued using models based on market verifiable inputs, or by using independent broker quotes.

All other investments are recorded based on estimated fair values. Most non-public equity investments and limited partnerships are considered alternative investments, with the investment manager reporting the Net Asset Value (NAV) of the underlying investments on a periodic basis. These investments are generally less liquid than other investments, and the value reported by the general partner or investment manager may differ from the values that would have been reported had a ready market for these securities existed. The University exercises due diligence in assessing the policies, procedures, and controls implemented by its external investment managers, and believes the carrying amount of these assets is a reasonable estimate of fair value.

For these alternative investments, the University has reported the NAV per share, adjusted as described below, as a reasonable estimate of fair value. The most recent NAV reported by the investment manager is adjusted for capital calls, distributions and significant known valuation changes in market values of publicly held securities contained in the portfolio and securities distributions through August 31, 2009.

A majority of the non-public equity investments consist of absolute return interests, held as corporate equity investments. Other investments in this category include hedge funds investing in public equities, as well as funds investing in natural resources and real estate. Direct equity investments in private companies are also included in this category.

Limited partnerships include various investment strategies owned in partnership form. Limited partnerships include investments in the asset classes of Private Equity, Real Estate, Natural Resources, Absolute Return, and Public Equity.

Assets held by other trustees generally represent the University's and the Hospitals' residual interest in split interest agreements, which are discussed in more detail below. 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.

The fair value of real estate and improvements is based primarily on discounted cash flows, using estimates from the asset manager or general partner, corroborated by appraisals and market data, if available.

Assets limited as to use include various hospital accounts held by a trustee in accordance with indenture requirements. The indenture terms require that the trustee control the expenditure of bonds proceeds for hospital capital projects, and the assets are recorded at fair value. Assets limited as to use of \$49,327,000 and \$189,770,000 as of August 31, 2009 and 2008, respectively, are included in "Cash and cash equivalents" on the investment table in Note 5.

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

With the exceptions of cash equivalents, public equities, mutual funds and derivatives, the above investments generally are not readily convertible to cash, except to the extent the investment agreement provides for redemption periods or liquidating payments. Although certain of these investments may be sold in a secondary market, these markets generally are inactive. If the University were to sell an asset in the secondary market, it is possible the sale could occur at a price materially different from the reported fair value. Fair value reporting requires management to make estimates and assumptions about the effects of matters that are inherently uncertain, including risks related to inactive markets. 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 reflect market and credit risks. Estimates, by their nature, are based on judgment and available information. Changes in assumptions could have a significant effect on the fair value of these instruments. Actual results could differ from these estimates and such differences could have a material impact on the financial statements.

PLANT FACILITIES

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

The useful lives used in calculating depreciation for the years ended August 31, 2009 and 2008 are as follows:

	UNIVERSITY	HOSPITALS
Land improvements	10-25 years	10-25 years
Buildings and building improvements	4-50 years	7-40 years
Furniture, fixtures and medical equipment	5-10 years	3-20 years
Equipment, books and software	3-10 years	3-20 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. Purchases of such collections are recorded as operating expenses in the period in which they are acquired.

SELF-INSURANCE

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

DONOR ADVISED FUNDS

The University receives gifts from donors under donor advised fund agreements (DAFs). These funds are owned and controlled by the University and are separately identified by the donor. A substantial portion of the gift must be designated to the University. The balance may be used to support other approved charities. The donors have advisory privileges with respect to the distribution of certain amounts in the funds. DAFs are recorded in other changes in unrestricted net assets at the full amount of the gift. Transfers of funds to other charitable organizations are recorded on the statement of activities as a reduction to other changes in unrestricted net assets at the time the transfer is made. At August 31, 2009 and 2008, approximately \$139,000,000 and \$180,000,000, respectively, of DAFs are not designated to the University.

SPLIT INTEREST AGREEMENTS

Split interest agreements represent trusts with living income beneficiaries where the University has a residual interest. The discounted present value of any income beneficiary interest is reported as a liability in the statement of financial position based on actuarial tables established by the Internal Revenue Service using discount rates ranging from 3% to 6%. Discount rates used apply to the year the gift was received and consider market and realizability factors, as applicable. Gifts subject to such agreements are recorded as revenue, net of the income beneficiary share, at the date of the gift. Actuarial gains or losses are included in "Change in value of split interest agreements" in the statement of activities. Resources that are expendable upon maturity are classified as temporarily restricted net assets; all others are classified as permanently restricted net assets.

STUDENT INCOME

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

HEALTH CARE SERVICES

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

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

CHARITY CARE

The Hospitals provide care to patients who meet certain criteria under their charity care policies without charge or at amounts less than their established rates. The Hospitals do not record revenue for amounts determined to qualify as charity care. The amount of charity care services, quantified at established rates, was \$60,500,000 and \$52,674,000 for the years ended August 31, 2009 and 2008, 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, 2009 and 2008 were \$186,033,000 and \$178,573,000, respectively.

RECENT PRONOUNCEMENTS

Effective September 1, 2008, the University and the Hospitals adopted Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (FAS 157), which defines fair value, establishes a framework for measuring fair value and expands the related disclosure requirements about fair value measurements. The impact of adopting FAS 157 is discussed in Note 6.

Effective September 1, 2008, the University and the Hospitals adopted FASB Staff Position No. 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* (FSP FAS 157-4). FSP FAS 157-4 provides additional guidance on estimating the fair value of an asset or liability where the level of activity has decreased significantly, and affirms that the objective fair value is the price that would be received to sell the asset in an orderly transaction, even when the market for the asset is not active. The University's valuation methodology is consistent with FSP FAS 157-4.

In September 2009, the FASB issued FASB Accounting Standards Update No. 2009-12, *Investments in Certain Entities That Calculate Net Asset Value per Share (or its Equivalent)* (ASU 2009-12). ASU 2009-12 amends FASB Statement No. 157, *Fair Value Measurements*, and provides guidance for estimating the fair value of investments in investment companies that calculate net asset value per share, allowing the Net Asset Value per Share (NAV), or its equivalent, to be used as a practical expedient for fair value where investment companies follow the American Institute of Certified Public Accounts (AICPA) Guide in arriving at their reported

NAV. Effective September 1, 2008, the University early-adopted the “practical expedient” provisions of ASU 2009-12. As permitted by ASU 2009-12, the disclosure provisions will not be adopted until the year ended August 31, 2010.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities — Including an Amendment of FASB Statement No. 115* (FAS 159). FAS 159 permits entities to choose to measure eligible items at fair value at specific election dates (the “fair value option”). FAS 159 was effective for the University and the Hospitals for their fiscal year ended August 31, 2009. The University and the Hospitals chose not to elect the fair value option for any eligible items under FAS 159.

Effective September 1, 2008, the University and the Hospitals adopted Statement of Financial Accounting Standards No. 165, *Subsequent Events* (FAS 165). FAS 165 establishes standards of accounting for and disclosure of events occurring after the reporting date but before issuance of the financial statements. The adoption of FAS 165 did not have a significant impact on the University's financial statements.

Effective September 1, 2008, the University and the Hospitals adopted FASB Staff Position No. 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act and Enhanced Disclosures for All Endowment Funds* (FSP FAS 117-1). FSP FAS 117-1 provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and requires additional disclosures about an organization's endowment funds. California adopted a version of UPMIFA effective January 1, 2009. The impact of adopting FSP FAS 117-1 was a reclassification of \$6,333,634,000 and \$111,619,000 from unrestricted net assets to temporarily restricted net assets for the University and the Hospitals, respectively, and is discussed in Notes 11 and 12 to the consolidated financial statements.

Effective September 1, 2008, the University and the Hospitals adopted FASB Staff Position No. 133-1 and FIN 45-4, *Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161* (FSP FAS 133-1 and FIN 45-4). FSP FAS 133-1 and FIN 45-4 establishes additional disclosure requirements for credit derivatives and certain guarantee contracts. The adoption of FSP FAS 133-1 and FIN 45-4 did not have a significant impact on the financial statements and is discussed in Note 5.

The following accounting pronouncements will be effective for the University and the Hospitals for the year ending August 31, 2010 and are currently being assessed to determine their impact on the financial statements:

FSP FAS 157-2, *Effective FAS Date of FASB Statement No. 157* (FSP FAS 157-2) delays the effective date of FAS 157 as it relates to nonfinancial assets and nonfinancial liabilities.

Statement of Financial Accounting Standards No. 161, *Disclosures about Derivative Instruments and Hedging Activities — An Amendment of FASB Statement No. 133* (FAS 161) requires entities that utilize derivative instruments or hedges to include enhanced disclosures about these activities in their financial statements, including their objectives for using derivative instruments in terms of underlying risk and accounting designation, the fair values of derivative instruments and related gains and losses, and information about credit-risk-related contingent features.

FASB Staff Position No. 132(R)-1, *Employers' Disclosures about Postretirement Benefit Plan Assets* (FSP 132(R)-1) requires entities with defined benefit or other postretirement plans to provide information regarding how investment decisions are made, major categories of plan assets, inputs and valuation techniques used in measuring the fair value of plan assets, the effect of fair value measurements using significant unobservable inputs on changes in plan assets, and significant concentrations of risk within plan assets.

Accounting Standards Update No. 2009-05, *Measuring Liabilities at Fair Value* (ASU 2009-05) provides guidance on measuring the fair value of liabilities and establishes that the quoted market price for an identical liability, when traded in an active market as an asset, qualifies as a Level 1 measurement for that liability when there is no adjustment to the quoted market price required.

RESTATEMENT OF FISCAL YEAR 2008 CONSOLIDATED STATEMENT OF CASH FLOWS

The fiscal year 2008 consolidated statement of cash flows has been restated to correct errors in the classification of cash flow activities among operating, investing and financing activities in the consolidated statement of cash flows. There is no impact on the reported amounts for cash and cash equivalents as of August 31, 2008 or for the net increase in cash and cash equivalents for the year then ended. The fiscal year 2008 cash flow statement misclassified approximately \$170,000,000 of cash activity related to changes in assets limited as to use, held by trustees, from SHC as operating activities rather than investing activities; certain SHC donor restricted gifts as financing activities rather than as operating activities; and certain LPCH noncash transactions as investing activities rather than operating activities. The effect of the restatement adjustments on the accompanying fiscal year 2008 consolidated statement of cash flows are as follows, in thousands of dollars:

	AS PREVIOUSLY REPORTED	ADJUSTMENT	AS RESTATED
Net cash provided by operating activities	\$ 352,091	\$ (155,967)	\$ 196,124
Net cash used for investing activities	(480,146)	161,530	(318,616)
Net cash provided by financing activities	340,465	(5,563)	334,902
INCREASE IN CASH AND CASH EQUIVALENTS	\$ 212,410	\$ -	\$ 212,410

2. Accounts Receivable

Accounts receivable at August 31, 2009 and 2008, in thousands of dollars, are as follows:

	2009	2008
UNIVERSITY:		
U.S. government	\$ 66,010	\$ 70,048
Non-government sponsors	31,273	27,122
Due from brokers	45,488	46,819
Accrued interest on investments	3,892	12,608
Student	8,000	7,322
Other	34,044	38,962
	188,707	202,881
Less bad debt allowances	(2,094)	(2,007)
University accounts receivable, net	186,613	200,874
HOSPITALS:		
Patient receivables	435,891	448,241
Other	13,327	33,739
	449,218	481,980
Less bad debt allowances	(79,861)	(83,075)
Hospitals' accounts receivable, net	369,357	398,905
CONSOLIDATED ACCOUNTS RECEIVABLE, NET	\$ 555,970	\$ 599,779

3. Pledges Receivable

Pledges are recorded at the present value of the discounted future cash flows, net of allowances, using discount rates ranging from 1.5% to 6.4%. At August 31, 2009 and 2008, pledges receivable are as follows, in thousands of dollars:

	2009			2008
	UNIVERSITY	HOSPITALS	CONSOLIDATED	CONSOLIDATED
One year or less	\$ 84,244	\$ 48,349	\$ 132,593	\$ 117,792
Between one year and five years	660,128	78,210	738,338	708,660
More than five years	309,687	3,333	313,020	366,083
	1,054,059	129,892	1,183,951	1,192,535
Less discount and allowances	(271,536)	(17,970)	(289,506)	(309,188)
PLEDGES RECEIVABLE, NET	\$ 782,523	\$ 111,922	\$ 894,445	\$ 883,347

Conditional pledges for the University, which depend on the occurrence of a specified future and uncertain event, were \$17,802,000 and \$13,772,000 at August 31, 2009 and 2008, respectively. The Hospitals do not have any conditional pledges.

4. Faculty and Staff Mortgages

In a program to attract and retain excellent faculty and senior staff, the University provides home mortgage financing assistance. Notes receivable amounting to \$418,166,000 and \$375,582,000 at August 31, 2009 and 2008, respectively, from University faculty and staff are included in "Faculty and staff mortgages and other loans receivable, net" in the consolidated statements of financial position and are collateralized by deeds of trust on properties concentrated in the region surrounding the University.

5. Investments

Investments held by the University and the Hospitals at August 31, 2009 and 2008 are as follows, in thousands of dollars:

	2009			2008
	UNIVERSITY	HOSPITALS	CONSOLIDATED	CONSOLIDATED
Cash and cash equivalents	\$ 327,154	\$ 83,900	\$ 411,054	\$ 535,193
Collateral held for securities loaned	205,622	-	205,622	491,944
Public equities and mutual funds	1,929,878	42,629	1,972,507	3,457,453
Derivatives	1,379	-	1,379	(17,026)
Bonds and short-term investments	227,827	-	227,827	695,816
Non-public equities	2,153,117	-	2,153,117	3,106,040
Assets held by other trustees (net of income beneficiary share of \$160,400 and \$94,151 at August 31, 2009 and 2008, respectively)	139,474	13,997	153,471	213,208
Real estate and improvements, including Stanford Shopping Center and Research Park	2,054,793	-	2,054,793	2,069,029
Limited partnership investments	10,507,461	-	10,507,461	12,819,211
Other	70,242	-	70,242	98,931
	17,616,947	140,526	17,757,473	23,469,799
The Hospitals' investment in the University's Merged Pool	(1,116,277)	1,116,277	-	-
INVESTMENTS AT FAIR VALUE	\$ 16,500,670	\$ 1,256,803	\$ 17,757,473	\$ 23,469,799

The University managed a portion of the Hospitals' investments including the Hospitals' investment in the Merged Pool, with a combined fair value of \$1,116,277,000 and \$1,441,181,000 at August 31, 2009 and 2008, respectively.

Total investment (losses) returns for the years ended August 31, 2009 and 2008, in thousands of dollars, are as follows:

	2009			2008
	UNIVERSITY	HOSPITALS	CONSOLIDATED	CONSOLIDATED
Investment income	\$ 162,068	\$ 3,589	\$ 165,657	\$ 292,288
Net realized and unrealized (losses) gains	(4,178,144)	(315,656)	(4,493,800)	538,342
TOTAL INVESTMENT (LOSS) RETURN	\$ (4,016,076)	\$ (312,067)	\$ (4,328,143)	\$ 830,630

Investment returns are net of investment management expenses, including both external management fees and internal University salaries, benefits and operating expenses, and the portion of interest expense and amortization related to the 2009 bond issuance held for liquidity purposes (see Note 9).

The University's investments are held in various pools or in specific instruments to comply with donor requirements as indicated in the following table, as of August 31, 2009 and 2008, in thousands of dollars:

	2009	2008
UNIVERSITY:		
Merged Pool	\$ 15,093,093	\$ 20,436,127
Expendable Funds Pool	2,034,885	2,087,214
Endowment Income Funds Pool	356,319	292,698
Other Investment Pools	361,418	450,909
Specific Investments	2,147,272	2,272,284
	19,992,987	25,539,232
Less amounts included in cash and cash equivalents	(510,843)	(467,018)
Less funds cross-invested in investment pools (including the Hospitals' investment of \$1,116,277 and \$1,425,087 in 2009 and 2008, respectively, in the University's Merged Pool)	(2,981,474)	(3,314,498)
	16,500,670	21,757,716
HOSPITALS:		
Investments	1,256,803	1,712,083
INVESTMENTS AT FAIR VALUE	\$ 17,757,473	\$ 23,469,799

The Merged Pool (MP) is the primary investment pool in which endowment (see Note 11) and other long-term funds are invested. The MP is invested with the objective of maximizing long-term total return. It is a unitized pool in which the fund holders purchase investments and withdraw funds based on a monthly share value.

The Expendable Funds Pool (EFP) and Endowment Income Funds Pool (EIFP) are the principal investment vehicles for the University's expendable funds. A substantial portion of the EFP is cross-invested in the MP. The EIFP holds income previously distributed to holders of permanently restricted endowment funds that has not yet been expended. The EIFP is invested in highly liquid instruments and is included in the statement of financial position as cash and cash equivalents. The total return on investments in the EIFP is distributed to fund holders. For the year ended August 31, 2008, the distribution was \$3,354,000. For the year ended August 31, 2009, the EIFP experienced losses on its investments, resulting in a reduction of the fund holders' principal balances of \$867,000.

The Board has established a policy for the distribution of the investment returns of the EFP. The difference between the actual return of this pool and the approved payout is deposited in, or withdrawn from, funds functioning as endowment. For the years ended August 31, 2009 and 2008, the results of the EFP, in thousands of dollars, are as follows:

	2009	2008
Total investment (loss)/return of the EFP	\$ (406,091)	\$ 44,796
Less distributions to fund holders and operations	(81,896)	(91,495)
AMOUNTS WITHDRAWN FROM THE ENDOWMENT	\$ (487,987)	\$ (46,699)

The University utilizes derivatives and other strategies to reduce investment risk, to serve as a temporary surrogate for investment in stocks and bonds, to manage interest exposure on the University's variable rate debt or to achieve specific exposure to foreign currencies. The University's derivative positions include forward contracts, swaps, options and futures contracts. The net unrealized depreciation on these derivatives was \$25,634,000 and \$25,805,000 at August 31, 2009 and 2008, respectively.

The University's derivative activities include both the purchase and sale of credit default swaps. Credit default swaps (CDSs) 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 CDSs will make payment to the seller and in return receives 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 CDSs. Under the index CDSs, the credit events that would trigger settlement of the credit default swap and require the University to remit payment are generally bankruptcy and failure to pay. The table below summarizes certain information regarding protection sold through CDSs as of August 31, 2009, in thousands of dollars:

CREDIT RATINGS OF THE REFERENCE OBLIGATION (1)	PROTECTION SOLD MAXIMUM POTENTIAL PAYOUT/NOTIONAL AMOUNT YEARS TO MATURITY					TOTAL	FAIR VALUE ASSET/ (LIABILITY)
	LESS THAN 1	1 - 3	3 - 5	OVER 5			
Single name credit default swaps:							
A+	\$ -	\$ -	\$ -	\$ (2,300)	\$ (2,300)	\$ (2,300)	\$ (152)
A	-	-	(400)	(6,400)	(6,800)	(6,800)	(205)
BBB+	-	(1,200)	-	-	(1,200)	(1,200)	(56)
Total single name credit default swaps	\$ -	\$ (1,200)	\$ (400)	\$ (8,700)	\$ (10,300)	\$ (10,300)	\$ (413)
Index credit default swaps (2)	-	-	(35,865)	-	(35,865)	(35,865)	751
TOTAL CREDIT DEFAULT SWAPS SOLD	\$ -	\$ (1,200)	\$ (36,265)	\$ (8,700)	\$ (46,165)	\$ (46,165)	\$ 338

(1) The credit rating is according to Standard & Poor's and represents the current performance risk of the swap.

(2) Index credit default swaps are made up of approximately 125 North American investment grade entities with at least 80% of the included entities having a Standard & Poor's rating of BBB- or higher.

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

The University has committed to invest in numerous investment partnerships over a period of years pursuant to provisions of the individual partnership agreements. As of August 31, 2009, the aggregated amount of such unfunded commitments was \$5,068,997,000.

The University holds certain investment properties that it leases to third parties. Future minimum rental income due from the Stanford Shopping Center, Research Park and other properties under non-cancelable leases in effect with tenants at August 31, 2009, is as follows, in thousands of dollars:

YEAR	
2010	\$ 71,350
2011	62,948
2012	59,027
2013	56,054
2014	54,068
Thereafter	1,390,849
TOTAL	\$ 1,694,296

6. Fair Value of Financial Instruments

FAS 157 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 and establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. 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 FAS 157 must maximize the use of observable inputs to the extent available.

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 - Quoted prices in active markets for identical assets or liabilities, at the reporting date, without adjustment. Market price data is generally obtained from relevant exchange or dealer markets.

LEVEL 2 - Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the same term of the assets or liabilities. Inputs are obtained from various sources including market participants, dealers and brokers.

LEVEL 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

A financial instrument’s categorization within this hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Investments and interest rate exchange agreements measured at fair value as of August 31, 2009, in thousands of dollars, are as follows:

	FAIR VALUE MEASUREMENTS AT REPORTING DATE USING			
	AS OF AUGUST 31, 2009	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
ASSETS				
UNIVERSITY*				
Cash and cash equivalents	\$ 327,154	\$ 303,308	\$ 23,846	\$ -
Collateral held for securities loaned	205,622	110,000	95,622	-
Public equities and mutual funds	1,929,878	1,691,009	238,869	-
Derivatives	1,379	80	1,299	-
Bonds and short-term investments	227,827	5,162	196,671	25,994
Non-public equities	2,153,117	-	924,164	1,228,953
Assets held by other trustees	139,474	-	-	139,474
Real estate and improvements, including Stanford Shopping Center and Research Park	2,054,793	-	-	2,054,793
Limited partnership investments	10,507,461	-	665,625	9,841,836
Other	70,242	262	1,548	68,432
TOTAL	\$ 17,616,947	\$ 2,109,821	\$ 2,147,644	\$ 13,359,482
HOSPITALS				
Cash and cash equivalents	\$ 83,900	\$ 83,900	\$ -	\$ -
Public equities and mutual funds	42,629	-	42,629	-
Assets held by other trustees	13,997	-	-	13,997
TOTAL	\$ 140,526	\$ 83,900	\$ 42,629	\$ 13,997
CONSOLIDATED				
Cash and cash equivalents	\$ 411,054	\$ 387,208	\$ 23,846	\$ -
Collateral held for securities loaned	205,622	110,000	95,622	-
Public equities and mutual funds	1,972,507	1,691,009	281,498	-
Derivatives	1,379	80	1,299	-
Bonds and short-term investments	227,827	5,162	196,671	25,994
Non-public equities	2,153,117	-	924,164	1,228,953
Assets held by other trustees	153,471	-	-	153,471
Real estate and improvements	2,054,793	-	-	2,054,793
Limited partnership investments	10,507,461	-	665,625	9,841,836
Other	70,242	262	1,548	68,432
TOTAL ASSETS	\$ 17,757,473	\$ 2,193,721	\$ 2,190,273	\$ 13,373,479
LIABILITIES				
HOSPITALS				
Interest rate exchange agreements	\$ (87,311)	\$ -	\$ (87,311)	\$ -

* Amounts include the Hospitals' cross investment in the University's Merged Pool of \$1,116,277.

The following table presents a reconciliation of beginning and ending balances for Level 3 investments for the year ended August 31, 2009, in thousands of dollars:

FAIR VALUE MEASUREMENTS USING SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)	BEGINNING			CHANGE IN		ENDING
	BALANCE AS OF SEPTEMBER 1, 2008	NET PURCHASES (SALES AND SETTLEMENTS)	REALIZED GAINS (LOSSES)	UNREALIZED GAINS (LOSSES)	NET TRANSFERS IN (OUT)	BALANCE AS OF AUGUST 31, 2009
UNIVERSITY						
Bonds and short-term investments	\$ 88,550	\$ (66,689)	\$ (1,004)	\$ 5,137	\$ -	\$ 25,994
Non-public equities	1,682,364	(27,653)	1,641	(427,399)	-	1,228,953
Assets held by other trustees	196,814	20,298	-	(77,638)	-	139,474
Real estate and improvements	2,069,029	97,458	(4,081)	(107,613)	-	2,054,793
Limited partnership investments	12,312,105	644,561	70,854	(2,856,793)	(328,891)	9,841,836
Other	94,651	(13,231)	5,235	(18,223)	-	68,432
	\$ 16,443,513	\$ 654,744	\$ 72,645	\$ (3,482,529)	\$ (328,891)	\$13,359,482
HOSPITALS						
Assets held by other trustees	\$ 16,394	\$ -	\$ 10	\$ (2,407)	\$ -	\$ 13,997
	\$ 16,394	\$ -	\$ 10	\$ (2,407)	\$ -	\$ 13,997
CONSOLIDATED						
Bonds and short-term investments	\$ 88,550	\$ (66,689)	\$ (1,004)	\$ 5,137	\$ -	\$ 25,994
Non-public equities	1,682,364	(27,653)	1,641	(427,399)	-	1,228,953
Assets held by other trustees	213,208	20,298	10	(80,045)	-	153,471
Real estate and improvements	2,069,029	97,458	(4,081)	(107,613)	-	2,054,793
Limited partnership investments	12,312,105	644,561	70,854	(2,856,793)	(328,891)	9,841,836
Other	94,651	(13,231)	5,235	(18,223)	-	68,432
TOTAL	\$ 16,459,907	\$ 654,744	\$ 72,655	\$ (3,484,936)	\$ (328,891)	\$13,373,479

Realized gains (losses) and the change in unrealized gains (losses) in the table above appear in the consolidated statement of activities primarily as unrestricted net assets – decrease in reinvested gains; temporarily restricted net assets – (decrease) increase in reinvested gains; and permanently restricted net assets – investment losses. These captions also include the change in unrealized gains (losses) relating to investments still held at the August 31, 2009 reporting date.

The University's net asset balances are classified as unrestricted, temporarily or permanently restricted based upon donor restrictions. Funds representing these net asset balances primarily own shares in the Merged Pool or other similar unitized investment pools. Accordingly, the total Level 3 realized gains (losses) and change in unrealized gains (losses) are distributed pro-rata among unrestricted, temporarily or permanently restricted net asset balances based upon the relative ownership of the unitized investment pools. The total gains (losses) are allocated among the unrestricted, temporarily restricted and permanently restricted net asset sections of the statement of activities.

7. Plant Facilities

Plant facilities at August 31, 2009 and 2008, in thousands of dollars, are as follows:

	2009			2008
	UNIVERSITY	HOSPITALS	CONSOLIDATED	CONSOLIDATED
Land and improvements	\$ 409,861	\$ 93,584	\$ 503,445	\$ 450,969
Buildings and building improvements	3,308,637	1,075,271	4,383,908	3,852,739
Furniture, fixtures and medical equipment	61,120	302,610	363,730	333,524
Equipment, books and software	1,469,958	320,146	1,790,104	1,685,827
Construction in progress	580,851	292,451	873,302	742,183
Plant facilities	5,830,427	2,084,062	7,914,489	7,065,242
Less accumulated depreciation	(2,560,792)	(824,061)	(3,384,853)	(3,098,059)
PLANT FACILITIES, NET OF ACCUMULATED DEPRECIATION	\$ 3,269,635	\$ 1,260,001	\$ 4,529,636	\$ 3,967,183

At August 31, 2009, \$1,543,145,000 of fully depreciated plant facilities were still in use.

8. Liabilities Under Security Lending Agreements

At August 31, 2009 and 2008, the University received \$206,277,000 and \$491,944,000, respectively, of short-term U.S. government obligations and cash as collateral deposits for certain securities loaned temporarily to brokers. The University also entered into certain forward sale and purchase agreements totaling \$41,771,000 and \$57,007,000 at August 31, 2009 and 2008, respectively. These amounts are included as investments and liabilities in the University's financial statements. The estimated fair value of securities on loan at August 31, 2009 and 2008, was \$193,862,000 and \$464,777,000, respectively. It is the University's policy to require receipt of collateral on securities lending contracts and repurchase agreements equal to a minimum of 102% of the fair market value of the security loaned.

9. University Notes and Bonds Payable

Notes and bonds payable at August 31, 2009 and 2008, in thousands of dollars, are as follows:

	YEAR OF MATURITY	EFFECTIVE INTEREST RATE		OUTSTANDING PRINCIPAL	
		2009/2008		2009	2008
Tax-exempt:					
California Educational Facilities Authority (CEFA) Fixed Rate Revenue Bonds:					
Series O	2031	5.1%	\$	89,555	\$ 89,555
Series P	2013	5.3%		51,260	110,440
Series Q	2032	5.3%		101,860	101,860
Series R	2011-2021	4.0%-5.0%		111,585	111,585
Series T	2014-2039	4.0%-5.0%		361,310	309,545
CEFA Variable Rate Revenue Notes and Bonds:					
Series L	2014-2022	0.14%/1.55%		83,818	83,818
Series S	2039-2050	0.4%-0.6%/ 1.42%		181,200	181,200
Commercial Paper	2009	0.2%/1.41%		152,140	69,951
Taxable:					
Fixed Rate Notes and Bonds:					
Stanford University Bonds	2024	6.9%		150,000	150,000
Medium Term Notes	2011-2026	6.2%-7.7%		100,000	150,000
Stanford University Series 2009A	2014-2019	3.6%-4.8%		1,000,000	-
Other	2015-2016	Various		1,601	1,032
Variable Notes and Bonds:					
Commercial Paper	2009	0.5%/2.5% *		97,476	140,250
University notes and bonds payable				2,481,805	1,499,236
Net premium				34,779	32,963
TOTAL			\$	2,516,584	\$ 1,532,199

*Exclusive of interest rate exchange agreements.

At August 31, 2009 and 2008, the fair value of these debt instruments approximated their recorded value.

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

In March 2009 the taxable Medium Term Notes 2A in the amount of \$50,000,000 matured.

In April 2009, the University issued \$1,000,000,000 of taxable fixed rate Series 2009A bonds. The series was comprised of \$350,000,000 in principal amount that will mature in 2014, \$250,000,000 in principal amount that will mature in 2016 and \$400,000,000 in principal amount that will mature in 2019 and bear interest at a rate of 3.625%, 4.25% and 4.75%, respectively. Proceeds of \$200,000,000 from the taxable Series 2009A were used to refinance the debt incurred to fund certain capital improvements of the University and the \$794,198,000 unspent balance, net of issuance costs, is currently invested in cash and cash equivalents to provide additional liquidity for the University's general purposes.

In May 2009, CEFA Series S4 (Tranche One) revenue bonds in the amount of \$51,200,000 were converted from a daily rate mode to a commercial paper rate mode. Series S bonds bear interest at a commercial paper municipal rate and are outstanding for various periods which may be from one day to 270 days.

In August 2009, CEFA T-5 revenue bonds (the T5 Bonds) in the amount of \$51,765,000 plus an original issue premium of \$7,382,700 were issued. Proceeds were used to refund a portion of CEFA P revenue bonds. During fiscal year 2009, the University legally defeased approximately \$59,180,000 of CEFA P revenue bonds. The T5 Bonds bear interest at a rate of 5%, mature on March 15, 2023 and are subject to redemption prior to maturity at the option of the University.

In connection with the issuances of Series 2009A bonds, the conversion of CEFA Series S4 (Tranche One) revenue bonds and CEFA T5 bonds, the University's long-term ratings of AAA/Aaa/AAA were affirmed with Standard and Poor's, Moody's Investors Service and Fitch Ratings, respectively.

The University's taxable commercial paper facility provides for borrowings up to \$350,000,000 outstanding at any time. As of August 31, 2009 the outstanding balance was \$97,476,000, the weighted average days to maturity were 19.2 and the weighted average effective interest rate was 0.51%.

The University's tax-exempt commercial paper facility provides for borrowings up to \$300,000,000 outstanding at any time. As of August 31, 2009 the outstanding balance was \$152,140,000, the weighted average days to maturity were 32.3 and the weighted average effective interest rate was 0.23%.

The University has \$265,018,000 of variable-rate revenue notes and bonds (VRDBs) outstanding (excluding commercial paper). CEFA Series L bonds bear interest at a weekly rate and CEFA Series S bonds bear interest at a commercial paper 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 uses interest rate exchange agreements to manage the interest rate exposure of its variable rate debt portfolio. Under the terms of these agreements, the University pays a fixed interest rate, determined at inception, and receives a variable rate on the underlying notional principal amount. At August 31, 2009, the University had exchange agreements expiring November 1, 2039 to pay an interest rate of approximately 3.69% on \$130,000,000 of the outstanding balance of the CEFA Series S VRDBs and exchange agreements expiring through 2011 to pay an interest rate of approximately 5.58% on approximately \$20,000,000 of the variable rate taxable commercial paper. The notional amount and the fair value of the exchange agreements were \$150,000,000 and (\$24,848,000), respectively, as of August 31, 2009, and \$150,000,000 and (\$12,169,000), respectively, as of August 31, 2008. Collateral posted with various counterparties was \$20,000,000 as of August 31, 2009, and is included in unrestricted net assets.

The University incurred interest expense of approximately \$57,901,000 and \$71,589,000 for fiscal years 2009 and 2008, respectively, which is net of \$460,000 and \$4,770,000, respectively, of interest income and approximately \$3,818,000 and \$2,902,000, respectively, in interest capitalized as a cost of construction. Interest expense associated with the Series 2009A bonds in the amount of \$10,529,000 (net of interest income of \$1,144,000) is included as an investment expense and has been excluded from the interest expense amount above. Payments on interest rate exchange agreements, which are included in other changes in unrestricted net assets, totaled \$4,971,000 and \$1,800,000 for fiscal years 2009 and 2008, respectively.

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

YEAR ENDING AUGUST 31	PRINCIPAL
2010 Commercial Paper	\$ 249,616
2010 Other	265,068
2011	50,050
2012	61,635
2013	50
2014	573,720
Thereafter	1,281,666
TOTAL	\$ 2,481,805

10. Hospitals' Notes and Bonds Payable

Bonds, certificates of participation and capital lease obligations at August 31, 2009 and 2008, in thousands of dollars, are as follows:

	YEAR OF MATURITY	EFFECTIVE INTEREST RATE 2009/2008	OUTSTANDING PRINCIPAL	
			2009	2008
SHC:				
California Health Facilities Financing Authority (CHFFA) Bonds:				
1998 Series B Fixed Rate Bonds	2031	5.0%	\$ 163,435	\$ 167,195
2003 Series A Fixed Rate Bonds	2007-2023	2.0% - 5.0%	88,015	91,990
2003 Series B, C and D Variable Rate Bonds	2036	0.67%/1.8%*	150,000	150,000
2008 Series A Variable Rate Bonds	2040	1.38%/2.2%	260,300	260,300
2008 Series B Variable Rate Bonds	2045	0.16%/1.5%	168,200	168,200
Promissory Note	2014	7.03%	857	999
LPCH:				
California Health Facilities Financing Authority (CHFFA) Bonds:				
2003 Series C Fixed Rate Bonds	2013-2027	3.25%	55,000	55,000
2008 Series A and B Variable Rate Bonds	2027-2033	0.15% & 0.14%/1.4% & 1.6%	60,680	60,680
2008 Series C Variable Rate Bonds	2015-2023	0.14%/1.6%	32,770	32,770
Capital lease obligation			15,748	15,896
Hospitals notes and bonds payable			995,005	1,003,030
Net premium			4,001	4,307
TOTAL			\$ 999,006	\$ 1,007,337

*Exclusive of interest rate exchange agreements.

At August 31, 2009 and 2008, the fair value of these debt instruments approximated their recorded value.

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

SHC and LPCH are each party to separate master trust indentures that include, among other things, limitations on the incurrence of additional indebtedness, liens on property, restrictions on disposition or transfer of assets and compliance with certain financial ratios. 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 has \$578,500,000 of Variable Rate Demand Bonds (VRDBs) outstanding, including \$150,000,000 of 2003 Series B, C and D, \$104,100,000 of 2008 Series A-2 and \$168,200,000 of 2008 Series B, all of which bear interest at weekly rates. Additionally, SHC has \$70,500,000 of 2008 Series A-1 and \$85,700,000 of 2008 Series A-3, which are VRDBs that bear interest at a long term rate and are subject to mandatory tender on June 15, 2010 and June 15, 2011, respectively.

In order to provide liquidity for the 2003 Series B, C and D VRDBs, SHC entered into standby bond purchase agreements in the aggregate amount of \$150,000,000, each of which expires in June 2011. Liquidity for the 2008 Series A-2 VRDBs is secured by a direct pay letter of credit that expires in June 2011.

The 2008 Series B, Series A-1 and Series A-3 VRDBs are supported with self-liquidity, including an agreement with the University to access on a same-day basis, up to \$200,000,000 of SHC's investments that are managed for SHC by the University. In the event SHC receives notice of any optional or mandatory tender of the 2008 Series B VRDBs, or if the 2008 Series A-1 or Series A-3 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, SHC will have a current obligation to purchase any tendered bonds that are not remarketed.

During 2009, SHC obtained standby letters of credit in the amount of \$85,000,000 to support collateral requirements under certain interest rate exchange agreements. Additionally, SHC has irrevocable letters of credit in the amount of \$14,619,000 which are posted as collateral for the workers' compensation self-insurance arrangement. No amounts have been drawn on these letters of credit as of August 31, 2009.

SHC uses interest rate exchange agreements to reduce the effect of interest rate fluctuations with respect to the VRDBs. Certain exchange agreements require mutual posting of collateral by SHC and the counterparties if the termination payments exceed a predetermined threshold dollar amount.

At August 31, 2009, SHC had interest rate exchange agreements expiring through November 2045 to pay fixed interest rates varying from 3.4% to 3.9% on the outstanding balance of \$749,400,000. The aggregate notional amount and the fair value of the exchange agreements were \$749,400,000 and (\$87,311,000), respectively, as of August 31, 2009 and \$749,400,000 and (\$38,973,000), respectively, as of August 31, 2008. The amount of collateral required to be posted with counterparties was \$29,718,000 as of August 31, 2009 and was met by the posting of standby letters of credit in the aggregate amount of \$85,000,000, which may only be drawn upon in the event of a default by SHC.

LPCH has \$93,450,000 of VRDBs outstanding, CHFFA 2008 Series A, B and C (the LPCH 2008 Bonds) which bear interest at a weekly rate.

The LPCH 2008 Bonds are supported by self-liquidity and holders have the option to tender these certificates weekly. 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 allows immediate availability of LPCH funds invested in the University Merged Pools for the purpose of funding tenders. The entire 2008 CHFFA Series A, B, and C issue is classified as a liability.

LPCH has irrevocable letters of credit in the amount of \$5,788,000 which are posted as collateral for the workers' compensation deductible plan. No amounts have been drawn on these letters of credit as of August 31, 2009.

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.

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

YEAR ENDING AUGUST 31	PRINCIPAL
2010	\$ 369,738
2011	9,985
2012	25,327
2013	13,135
2014	14,794
Thereafter	562,026
TOTAL	\$ 995,005

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

The University classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) 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. Net unrealized losses on permanently restricted endowment funds are classified as a reduction to unrestricted net assets until such time as the fair value of the fund equals or exceeds historic value. At August 31, 2009, unrestricted net assets were reduced by \$203,089,000 for such losses.

Endowment funds by net asset classification as of August 31, 2009, in thousands of dollars, are as follows:

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
Donor restricted endowment funds	\$ (203,089)	\$ 3,917,921	\$ 4,180,875	\$ 7,895,707
Funds functioning as endowment	4,723,387	-	-	4,723,387
TOTAL ENDOWMENT FUNDS	\$ 4,520,298	\$ 3,917,921	\$ 4,180,875	\$ 12,619,094

Most of the University's endowment is invested in the MP. The return objective for the MP is to generate optimal 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 and the Board.

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 UPMIFA, 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.

In February 2007 the Board approved an increase in the targeted spending rate from 5% to 5.5% effective beginning in fiscal year 2008. The sources of payout are earned income on endowment assets (interest, dividends, rents and royalties), realized capital gains and funds functioning as endowment, as needed.

In fiscal years 2009 and 2008, earned income and realized and previously reinvested gains on endowment funds were distributed for University operations, as follows, in thousands of dollars:

	2009		2008	
Earned income	\$	111,186	\$	176,072
Realized and previously reinvested gains		845,332		705,498
APPROVED PAYOUT	\$	956,518	\$	881,570

Changes in the University's endowment, excluding pledges, for the years ended August 31, 2009 and 2008, in thousands of dollars, are as follows:

	2009			2008	
	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL	TOTAL
ENDOWMENT, BEGINNING OF YEAR	\$ 12,929,342	\$ 88,226	\$ 4,196,805	\$ 17,214,373	\$ 17,164,836
Net asset reclassification based on adoption of FSP FAS 117-1	(6,333,634)	6,333,634	-	-	-
Endowment after reclassification	6,595,708	6,421,860	4,196,805	17,214,373	17,164,836
Investment returns:					
Earned income	111,186	-	-	111,186	176,072
Unrealized and realized gains (losses)	(1,429,929)	(1,905,295)	(246,805)	(3,582,029)	467,949
Total investment (losses) returns	(1,318,743)	(1,905,295)	(246,805)	(3,470,843)	644,021
Amounts distributed for operations	(353,084)	(603,434)	-	(956,518)	(881,570)
Gifts and pledge payments	11,841	2,238	141,280	155,359	188,283
Funds invested in endowment, net	82,739	(663)	80,792	162,868	118,331
EFP funds withdrawn from the endowment	(487,987)	-	-	(487,987)	(46,699)
Other	(10,176)	3,215	8,803	1,842	27,171
NET (DECREASE) INCREASE IN ENDOWMENT	(2,075,410)	(2,503,939)	(15,930)	(4,595,279)	49,537
ENDOWMENT, END OF YEAR	\$ 4,520,298	\$ 3,917,921	\$ 4,180,875	\$ 12,619,094	\$ 17,214,373

12. 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 11. These policies provide for annual amounts (payout) to be distributed. The Hospitals' endowment income distributed for operations of \$20,039,000 in fiscal year 2009 and \$14,441,000 in fiscal year 2008 represents current year payout spent for designated purposes during the year.

The Hospitals classify as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) 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.

Net unrealized losses on permanently restricted endowment funds are classified as a reduction to unrestricted net assets until such time as the fair value equals or exceeds historic value. The aggregate amount by which fair value was below historic value was approximately \$11,280,000 as of August 31, 2009.

Changes in the Hospitals' endowments, for the years ended August 31, 2009 and 2008, in thousands of dollars, are as follows:

	2009				2008
	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL	TOTAL
ENDOWMENT, BEGINNING OF YEAR	\$ 111,619	\$ 18,347	\$ 275,788	\$ 405,754	\$ 355,785
Net asset reclassification based on adoption of FSP FAS 117-1	(111,619)	111,619	-	-	-
Endowment after reclassification	-	129,966	275,788	405,754	355,785
Investment returns:					
Earned income	-	19,614	-	19,614	21,208
Unrealized and realized losses	(10,918)	(85,782)	(1,917)	(98,617)	(7,377)
Total investment (losses) returns	(10,918)	(66,168)	(1,917)	(79,003)	13,831
Amounts distributed for operations	-	(17,761)	-	(17,761)	(14,957)
Gifts and pledge payments	-	-	18,740	18,740	52,846
Other	-	-	(3,530)	(3,530)	(1,751)
NET (DECREASE) INCREASE IN ENDOWMENT	(10,918)	(83,929)	13,293	(81,554)	49,969
ENDOWMENT, END OF YEAR	\$ (10,918)	\$ 46,037	\$ 289,081	\$ 324,200	\$ 405,754

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

13. University Gifts and Pledges

The University's Office of Development (OOD) reports total gifts based on contributions received in cash or property during the fiscal year. Gifts and pledges reported for financial statement purposes are recorded on the accrual basis. The following summarizes gifts and pledges received for the years ended August 31, 2009 and 2008, per the statement of activities reconciled to the cash basis (as reported by OOD), in thousands of dollars:

	2009		2008	
Current year gifts in support of operations	\$	149,035	\$	182,411
Donor advised funds, net		1,010		165,583
Current year gifts not included in operations		10,711		8,976
Temporarily restricted gifts and pledges, net		209,293		322,366
Permanently restricted gifts and pledges, net		172,128		246,613
TOTAL PER STATEMENT OF ACTIVITIES		542,177		925,949
Adjustments to gift total as reported by OOD:				
New pledges		(279,505)		(378,372)
Payments made on pledges		243,581		215,453
Pledge discounts and other adjustments		48,089		40,646
Donor advised funds not designated for Stanford		43		(88,386)
Non-cash gifts		1,361		3,351
Non-government grants, recorded as sponsored research support when earned		74,772		63,774
Stanford Hospital grants		7,167		-
Other		2,422		2,628
TOTAL AS REPORTED BY OOD	\$	640,107	\$	785,043

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

14. Functional Expenses

Expenses for each of the years ended August 31, 2009 and 2008 are categorized on a functional basis as follows, in thousands of dollars:

	2009			2008	
	UNIVERSITY	HOSPITALS	CONSOLIDATED	CONSOLIDATED	
Organized research (direct costs)	\$ 816,477	\$ -	\$ 816,477	\$ 838,607	
Instruction and departmental research	1,098,245	-	1,098,245	1,089,872	
Auxiliary activities	595,263	-	595,263	564,647	
Administration and general	209,961	129,963	339,924	331,006	
Libraries	147,956	-	147,956	154,718	
Development	78,935	11,543	90,478	89,551	
Student services	128,608	-	128,608	120,880	
SLAC construction	54,401	-	54,401	108,730	
Patient services	-	1,822,116	1,822,116	1,659,073	
TOTAL EXPENSES	\$ 3,129,846	\$ 1,963,622	\$ 5,093,468	\$ 4,957,084	

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

15. University Retirement Plans

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

For fiscal year 2008, the University used June 30 as the measurement date to value the plan assets and the benefit obligation of the Pension and Post Retirement Medical Benefit plans. Beginning with fiscal year 2009, the University is required to use August 31 as its measurement date in accordance with the measurement date provisions of Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* (FAS 158). The impact of the change in measurement date during fiscal year 2009 was a net decrease to unrestricted net assets of \$6,259,000.

DEFINED CONTRIBUTION PLAN

The University offers a defined contribution plan to eligible faculty and staff. University and participant contributions are invested in annuities and mutual funds. University contributions under this plan, which are vested immediately to participants, were approximately \$97,705,000 and \$92,652,000 for the years ended August 31, 2009 and 2008, respectively.

DEFINED BENEFIT PENSION PLAN

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

POST RETIREMENT MEDICAL AND OTHER BENEFIT PLANS

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

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

	PENSION		POST RETIREMENT MEDICAL AND OTHER	
	2009	2008	2009	2008
CHANGE IN PLAN ASSETS				
Fair value of plan assets, beginning of year	\$ 268,886	\$ 289,646	\$ 101,350	\$ 102,081
Actual return on plan assets	(7,447)	(2,682)	(12,108)	(6,285)
Employer contributions	-	-	22,861	14,830
Plan participants' contributions	-	-	6,475	6,206
Benefits paid	(15,273)	(18,078)	(19,389)	(15,926)
Adjustments due to adoption of FAS 158				
measurement date provisions	(4,870)	-	896	-
Merger with CASBS	-	-	-	444
FAIR VALUE OF PLAN ASSETS, END OF YEAR	\$ 241,296	\$ 268,886	\$ 100,085	\$ 101,350
CHANGE IN PROJECTED BENEFIT OBLIGATION				
Benefit obligation, beginning of year	\$ 246,408	\$ 250,554	\$ 323,842	\$ 313,368
Service cost	3,493	3,950	11,104	10,810
Interest cost	15,670	15,016	21,990	19,895
Plan participants' contributions	-	-	6,475	6,206
Actuarial loss (gain)	22,357	(5,034)	(30,304)	(11,850)
Benefits paid, net of Medicare subsidy	(15,273)	(18,078)	(17,889)	(15,031)
Adjustments due to adoption of FAS 158				
measurement date provisions	(1,676)	-	4,994	-
Merger with CASBS	-	-	-	444
Benefit obligation, Faculty Retirement Incentive Program (FRIP)	-	-	165,937	-
BENEFIT OBLIGATION, END OF YEAR	\$ 270,979	\$ 246,408	\$ 486,149	\$ 323,842
AMOUNTS RECOGNIZED IN FINANCIAL STATEMENTS				
Plan assets minus projected benefit obligation	\$ (29,683)	\$ 22,478	\$ (386,064)	\$ (222,492)
Contributions after the measurement date	-	-	-	3,540
NET (LIABILITY) ASSET RECOGNIZED IN THE STATEMENT OF FINANCIAL POSITION	\$ (29,683)	\$ 22,478	\$ (386,064)	\$ (218,952)
Prior service cost	\$ 4,390	\$ 6,141	\$ 48,169	\$ 57,041
Net actuarial loss (gain)	23,221	(27,427)	51,733	64,419
FRIP cost	-	-	165,937	-
PENSION AND OTHER POST EMPLOYMENT BENEFIT RELATED CHANGES OTHER THAN NET PERIODIC BENEFIT EXPENSE	\$ 27,611	\$ (21,286)	\$ 265,839	\$ 121,460

The accumulated benefit obligation for the Pension plan was \$266,750,000 as of August 31, 2009 and \$242,198,000 as of June 30, 2008. The accumulated benefit obligation of the FRIP plan was \$135,961,000 as of August 31, 2009.

Net periodic benefit expense (income) and other changes in net assets related to the Pension and Post Retirement Medical and Other Benefit plans for the years ended August 31, 2009 and 2008, in thousands of dollars, includes the following components:

	PENSION		POST RETIREMENT MEDICAL AND OTHER	
	2009	2008	2009	2008
Service cost	\$ 3,493	\$ 3,950	\$ 11,104	\$ 10,810
Interest cost	15,670	15,016	21,990	19,895
Expected return on plan assets	(17,803)	(19,535)	(8,509)	(8,287)
Amortization of prior service cost	1,501	1,654	7,605	7,605
Recognized net actuarial (gains) losses	(63)	(2,126)	2,570	2,184
NET PERIODIC BENEFIT EXPENSE (INCOME)	\$ 2,798	\$ (1,041)	\$ 34,760	\$ 32,207
Prior service cost during period	\$ -	\$ -	\$ -	\$ -
Net actuarial loss (gain) during period	50,574	17,182	(9,648)	2,723
Amortization of:				
Prior service cost	(1,501)	(1,654)	(7,605)	(7,605)
Actuarial gain (loss)	63	2,126	(2,570)	(2,184)
TOTAL AMOUNTS RECOGNIZED IN UNRESTRICTED NET ASSETS	\$ 49,136	\$ 17,654	\$ (19,823)	\$ (7,066)
TOTAL AMOUNT RECOGNIZED IN NET PERIODIC BENEFIT EXPENSE AND UNRESTRICTED NET ASSETS	\$ 51,934	\$ 16,613	\$ 14,937	\$ 25,141

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

	PENSION	POST RETIREMENT MEDICAL AND OTHER
Net actuarial loss	\$ -	\$ 1,317
Prior service cost	\$ 1,501	\$ 7,605

ACTUARIAL ASSUMPTIONS

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

	PENSION		POST RETIREMENT MEDICAL AND OTHER	
	2009	2008	2009	2008
Discount rate	5.75%	6.75%	5.75% - 6.00%	6.50%
Covered payroll growth rate	4.21%	4.29%	3.50%	N/A

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

	PENSION		POST RETIREMENT MEDICAL AND OTHER	
	2009	2008	2009	2008
Discount rate	6.75%	6.25%	5.75% - 6.50%	6.25%
Expected return on plan assets	7.00%	7.00%	8.00%	8.00%
Covered payroll growth rate	4.29%	5.52%	3.50%	N/A

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

To determine the accumulated post retirement medical benefit obligation as of August 31, 2009, an 8.5% annual rate of increase in the per capita costs of covered health care was assumed for 2009-2010, declining gradually to 5% by 2017 and remaining at this rate thereafter. For covered dental plans, a 5% annual rate of increase was assumed for 2009-2010 and remains at this rate thereafter.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. Increasing the health care cost trend rate by 1% in each future year would increase the accumulated post retirement medical benefit obligation by \$43,822,000 and the aggregate annual service and interest cost by \$5,039,000. Decreasing the health care cost trend rate by 1% in each future year would decrease the accumulated post retirement medical benefit obligation by \$36,306,000 and the aggregate annual service and interest cost by \$4,059,000.

PLAN ASSETS

Asset allocations by asset category at August 31, 2009 and June 30, 2008 are as follows:

ASSET CATEGORY	PENSION		POST RETIREMENT MEDICAL AND OTHER	
	2009	2008	2009	2008
Domestic equity	34%	33%	38%	38%
International equity	11%	11%	37%	37%
Fixed income	54%	55%	25%	25%
Cash and cash equivalents	1%	1%	-	-
TOTAL PORTFOLIO	100%	100%	100%	100%

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

EXPECTED CONTRIBUTIONS

No contributions are expected to be made to the Pension plan for the fiscal year ending August 31, 2010. The University expects to contribute \$11,596,000 to its Post Retirement Medical and Other Benefit plans during the fiscal year ending August 31, 2010.

EXPECTED BENEFIT PAYMENTS

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

FISCAL YEAR	PENSION PLAN	POST RETIREMENT MEDICAL AND OTHER	
		EXCLUDING MEDICARE SUBSIDY	WITH MEDICARE SUBSIDY
2010	\$ 24,984	\$ 60,105	\$ 57,919
2011	21,411	27,672	25,186
2012	21,468	29,637	26,828
2013	21,163	31,165	27,992
2014	20,779	33,355	29,797
2015 - 2019	102,550	197,133	172,212

16. Hospitals' Retirement Plans

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

For fiscal year 2008, the Hospitals used June 30 as the measurement date to value the plan assets and the benefit obligation of the Pension and Post Retirement Medical Benefit plans. Beginning with fiscal year 2009, the Hospitals are required to use August 31 as their measurement date in accordance with the provisions of FAS 158. The impact of the change in measurement date during fiscal year 2009 was a net decrease to unrestricted net assets of \$694,000.

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 \$55,581,000 and \$50,342,000 for the years ended August 31, 2009 and 2008, respectively.

DEFINED BENEFIT PLANS

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

POST RETIREMENT MEDICAL BENEFIT PLAN

The Hospitals currently provide health insurance coverage for certain of its employees upon retirement as early as age 55, with years of service as defined by specific criteria. The health insurance coverage for retirees who are under age 65 is the same as that provided to active employees. A Medicare supplement option is provided for retirees over age 65. The obligation for these benefits has been recorded in the statement of financial position. Effective January 2009, the Hospitals implemented a change to their postretirement medical plan to add retiree health reimbursement accounts for certain participants, which resulted in an increase to the benefit obligation of \$3,632,000 for the year ended August 31, 2009.

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

	PENSION		POST RETIREMENT MEDICAL	
	2009	2008	2009	2008
CHANGE IN PLAN ASSETS				
Fair value of plan assets, beginning of year	\$ 145,724	\$ 157,456	\$ -	\$ -
Actual return on plan assets	(23,078)	(11,516)	-	-
Plan participants' contributions	-	-	665	682
Employer contributions	3,075	6,898	4,490	3,657
Benefits paid	(7,763)	(7,114)	(4,580)	(4,339)
Adjustments due to adoption of FAS 158 measurement date provisions	(1,179)	-	(575)	-
FAIR VALUE OF PLAN ASSETS, END OF YEAR	\$ 116,779	\$ 145,724	\$ -	\$ -
CHANGE IN PROJECTED BENEFIT OBLIGATION				
Benefit obligation, beginning of year	\$ 151,941	\$ 162,628	\$ 63,543	\$ 66,339
Service cost	1,747	1,720	1,665	1,583
Interest cost	12,664	10,270	5,067	4,071
Plan participants' contributions	-	-	665	682
Actuarial (gain) loss	25,787	(15,563)	9,411	(4,793)
Benefits paid	(7,763)	(7,114)	(4,580)	(4,339)
Plan amendment	-	-	3,632	-
Adjustments due to adoption of FAS 158 measurement date provisions	(1,120)	-	(575)	-
BENEFIT OBLIGATION, END OF YEAR	\$ 183,256	\$ 151,941	\$ 78,828	\$ 63,543
AMOUNTS RECOGNIZED IN FINANCIAL STATEMENTS				
Plan assets minus projected benefit obligation	\$ (66,477)	\$ (6,217)	\$ (78,828)	\$ (63,543)
Contributions made after measurement date	-	-	-	725
NET LIABILITY RECOGNIZED IN THE STATEMENT OF FINANCIAL POSITION	\$ (66,477)	\$ (6,217)	\$ (78,828)	\$ (62,818)
Prior service cost (credit)	\$ -	\$ -	\$ 2,020	\$ (2,585)
Net actuarial loss (gain)	67,292	4,295	1,495	(8,972)
PENSION AND OTHER POST EMPLOYMENT BENEFIT RELATED CHANGES OTHER THAN NET PERIODIC BENEFIT EXPENSE	\$ 67,292	\$ 4,295	\$ 3,515	\$ (11,557)

The accumulated benefit obligation for the Pension plan was \$179,184,000 as of August 31, 2009 and \$147,989,000 as of June 30, 2008.

Net periodic benefit expense and other changes in net assets related to the plans for the years ended August 31, 2009 and 2008, in thousands of dollars, includes the following components:

	PENSION		POST RETIREMENT MEDICAL	
	2009	2008	2009	2008
Service cost	\$ 1,747	\$ 1,720	\$ 1,665	\$ 1,583
Interest cost	12,664	10,270	5,067	4,071
Expected return on plan assets	(14,195)	(11,386)	-	-
Amortization of prior service cost	-	-	(973)	(834)
Recognized net actuarial losses (gains)	97	36	(1,056)	(448)
NET PERIODIC BENEFIT EXPENSE	\$ 313	\$ 640	\$ 4,703	\$ 4,372
Prior service cost during period	\$ -	\$ -	\$ 3,632	\$ -
Net actuarial loss (gain) during period	63,109	7,338	9,411	(4,793)
Amortization of:				
Prior service credit	-	-	973	834
Actuarial (loss) gain	(97)	(36)	1,056	448
TOTAL AMOUNTS RECOGNIZED IN UNRESTRICTED NET ASSETS	\$ 63,012	\$ 7,302	\$ 15,072	\$ (3,511)
TOTAL AMOUNT RECOGNIZED IN NET PERIODIC BENEFIT EXPENSE AND UNRESTRICTED NET ASSETS	\$ 63,325	\$ 7,942	\$ 19,775	\$ 861

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

	PENSION	POST RETIREMENT MEDICAL
Net actuarial loss	\$ 1,508	\$ 105
Prior service cost	\$ -	\$ 574

ACTUARIAL ASSUMPTIONS

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

	PENSION		POST RETIREMENT MEDICAL	
	2009	2008	2009	2008
Discount rate	5.93 - 6.10%	7.31 - 7.38%	5.83%	7.12%
Covered payroll growth rate	5.50%	5.50%	N/A	N/A

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

	PENSION		POST RETIREMENT MEDICAL	
	2009	2008	2009	2008
Discount rate	7.31 - 7.38%	6.43 - 6.47%	7.12%	6.35%
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 post retirement medical benefit obligation as of August 31, 2009, a 9.5% annual rate of increase in the pre-65 per capita costs, a 10% annual rate of increase in the post-65 prescription drug per capita costs, and a 7% rate of increase in the post-65 per capita cost of all other medical benefits was assumed for 2009-2010, declining gradually to 5% by 2014 for pre-65 per capita costs, 2014 for the post-65 prescription drug per capita cost and 2011 for the post-65 per capita costs of all other medical benefits and remaining at this rate thereafter.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. Increasing the health care cost trend rate by 1% in each future year would increase the accumulated post retirement medical benefit obligation by \$2,764,000 and the aggregate annual service and interest cost by \$251,000. Decreasing the health care cost trend rate by 1% in each future year would decrease the accumulated post retirement medical benefit obligation by \$2,509,000 and the aggregate annual service and interest cost by \$227,000.

PLAN ASSETS

Asset allocations by asset category at August 31, 2009 and June 30, 2008 are as follows:

ASSET CATEGORY	PENSION	
	2009	2008
Cash equivalents	9%	1%
Equity securities	42%	66%
Fixed income	42%	21%
Real estate	7%	12%
TOTAL PORTFOLIO	100%	100%

The weighted-average target asset allocation of 46% equity securities, 44% fixed income, 10% real estate and less than 1% cash and cash equivalents is selected to result in a favorable long-term rate of return from a diversified portfolio.

EXPECTED CONTRIBUTIONS

The Hospitals expect to contribute \$14,446,000 to their Pension plan and \$4,739,000 to their Post Retirement Medical Benefit plan during the fiscal year ending August 31, 2010.

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:

FISCAL YEAR	PENSION PLAN	POST RETIREMENT MEDICAL	
		EXCLUDING MEDICARE SUBSIDY	WITH MEDICARE SUBSIDY
2010	\$ 9,004	\$ 5,202	\$ 4,739
2011	9,707	5,763	5,232
2012	10,353	6,284	5,682
2013	10,993	6,816	6,143
2014	11,729	7,227	6,485
2015 - 2019	67,972	38,040	33,310

17. 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, 2009 and 2008 was \$32,172,000 and \$29,612,000, respectively, for the University and \$51,084,000 and \$47,264,000, respectively, for the Hospitals.

Net minimum future operating lease payments and related present value, assuming a 5.75% discount rate for periods subsequent to August 31, 2009, in thousands of dollars, are as follows:

YEAR ENDED AUGUST 31	MINIMUM LEASE PAYMENTS		PRESENT VALUE OF MINIMUM LEASE PAYMENTS	
	UNIVERSITY	HOSPITALS	UNIVERSITY	HOSPITALS
2010	\$ 23,949	\$ 37,288	\$ 23,220	\$ 36,325
2011	21,936	28,801	20,111	26,532
2012	19,369	25,616	16,793	22,315
2013	16,583	24,591	13,595	20,257
2014	16,146	19,461	12,517	15,159
Thereafter	96,427	114,285	58,756	79,578
TOTAL	\$ 194,410	\$ 250,042	\$ 144,992	\$ 200,166

18. Related Party Transactions

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

19. Commitments and Contingencies

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

SPONSORED PROJECTS

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

HEALTH CARE

Cost reports filed under the Medicare program for services based upon cost reimbursement for fiscal years 2001 through 2009 are subject to audit. The estimated amounts due to or from the program are reviewed and adjusted annually based upon the status of such audits and subsequent appeals. The health care industry is subject to numerous laws and regulations of federal, state and local governments. Compliance with these laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time. Recently, government activity has increased with respect to investigations and allegations concerning possible violations by health care providers. These investigations could result in the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. The Hospitals are subject to similar regulatory reviews, and while such reviews may result in repayments and/or civil remedies that could have a material effect on the Hospitals' results of operations in a given period, management believes that such repayments and/or civil remedies would not have a material adverse effect on the Hospitals' financial position.

The State of California has classified a substantial portion of SHC's facilities as compliant with seismic safety structural standards until 2030 and beyond. However, some acute care activities are located in facilities that current law requires to be made compliant or to be taken out of service by 2013 or, under prescribed circumstances, by 2015. SHC plans to construct a new hospital facility to address seismic safety requirements and other needs. Applications for state and local approvals are pending. SHC also is seeking passage of legislation to extend deadlines and requirements. In light of uncertainties in the timing of approvals and in the duration of construction of the new hospital, and considering economic conditions and other factors that will likely extend completion of replacement facilities beyond currently applicable deadlines, SHC has also developed preliminary contingency plans to retrofit portions of noncompliant facilities in order to reduce the duration of service disruptions and closures of bed units should such action be required. If undertaken, the preliminary estimated construction cost of such retrofitting currently ranges between \$200,000,000 and \$300,000,000.

LABOR AGREEMENTS

Approximately 9% of the University's, 38% of SHC's and 51% of LPCH's employees are covered under union contract arrangements and are, therefore, subject to labor stoppages when contracts expire. There are no expired agreements at August 31, 2009.

LITIGATION

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

CONTRACTUAL COMMITMENTS

At August 31, 2009, the University had contractual obligations of approximately \$507,288,000 in connection with major construction projects. Remaining expenditures on construction in progress are estimated to be \$819,272,000, which will be financed with certain unexpended plant funds, gifts and debt.

Commitments on contracts for the construction and remodeling of Hospital facilities were approximately \$141,031,000 at August 31, 2009.

The University has committed to invest in numerous investment partnerships over a period of years pursuant to provisions of the individual partnership agreements. As of August 31, 2009, the aggregated amount of such unfunded commitments was \$5,068,997,000.

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 as of August 31, 2009.

The University guarantees certain recourse loans in connection with its partnership investments. At August 31, 2009, these guarantees totaled \$58,000,000. As of August 31, 2009, it is not likely that the University will be required to provide funding for these loans.

20. Subsequent Events

The University and the Hospitals have evaluated subsequent events for the period from August 31, 2009 through December 14, 2009, the date the financial statements were available to be issued.

MANAGEMENT RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

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

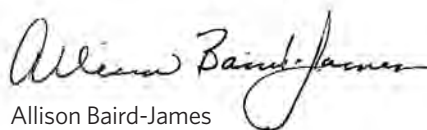
In accumulating and controlling financial data, management of the University and the Hospitals maintains separate systems of internal accounting controls. Management of the respective entities believes that effective internal controls are maintained and communication of accounting and business policies,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

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

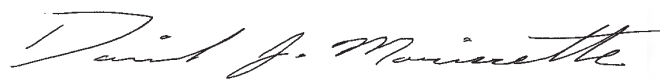
The Board of Trustees of the University and the separate Boards of Directors of the Hospitals, through their respective Audit Committees, comprised of trustees and directors not employed by the University or the Hospitals, are responsible for engaging the independent auditors and meeting with management,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



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



Allison Baird-James
Controller
Stanford University



Daniel J. Morissette
Chief Financial Officer
Stanford Hospital and Clinics



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

REPORT FROM THE STANFORD MANAGEMENT COMPANY

The Stanford Management Company (SMC) was established in 1991 to manage Stanford's financial assets. SMC is a division of the University with oversight by a Board of Directors appointed by the University Board of Trustees. The SMC Board consists of investment and real estate professionals, the University president, the University chief financial officer, the chairman of the Board of Trustees and the CEO of SMC. The Board approves SMC asset allocation targets, oversees the hiring of external asset managers and evaluates the performance of SMC investments and professionals. SMC oversees approximately \$15.0 billion of endowment and trust assets, which are temporarily invested expendable funds.

The majority of the University's endowment assets is invested through the Merged Pool (MP), which is a diversified portfolio of actively managed financial and real estate assets valued at approximately \$14.5 billion as of June 30, 2009. To facilitate the comparison of returns with results of other endowments and foundations, MP performance measurements are calculated on the 12 months ending June 30, 2009. The following discussion of endowment performance relates solely to investments in the MP. The MP suffered a 25.9% investment loss for the 12 months ending June 30, 2009. Over the past 10 years, the MP achieved an annualized rate of return of 8.9%, growing from \$5.8 billion to \$14.5 billion. This investment performance places Stanford in the top 5% of all reporting university and college endowments during this period, according to the consulting firm Cambridge Associates.

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

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

STANFORD MP ASSET ALLOCATION Given the perpetual nature of the University, SMC's investment horizon is long-term. Our objective is to generate optimal total return relative to an appropriate level of risk for Stanford. Each June, SMC and the Board reevaluate portfolio asset allocation targets, as well as expected risk, return and correlation among asset classes. This annual review takes into account current market conditions and historical characteristics of each asset class. The strategic asset allocation targets for the MP as of June 30, 2009, are listed below:

LONG-TERM POLICY TARGETS

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

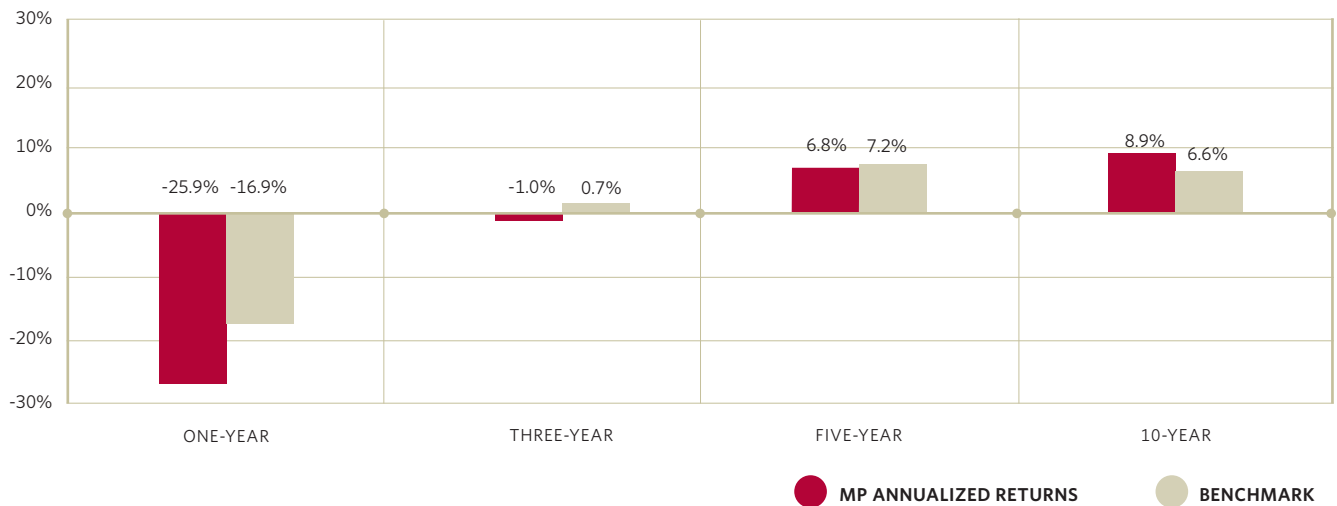
STANFORD MP PERFORMANCE COMPARED TO INFLATION The table below outlines annualized returns for various periods ending June 30, 2009.

MP PERFORMANCE COMPARED TO INFLATION

	ONE-YEAR	THREE-YEAR	FIVE-YEAR	10-YEAR
Nominal MP Return	-25.9%	-1.0%	6.8%	8.9%
GDP Deflator	1.5%	2.1%	2.6%	2.4%
Real Endowment Return	-27.4%	-3.1%	4.2%	6.5%

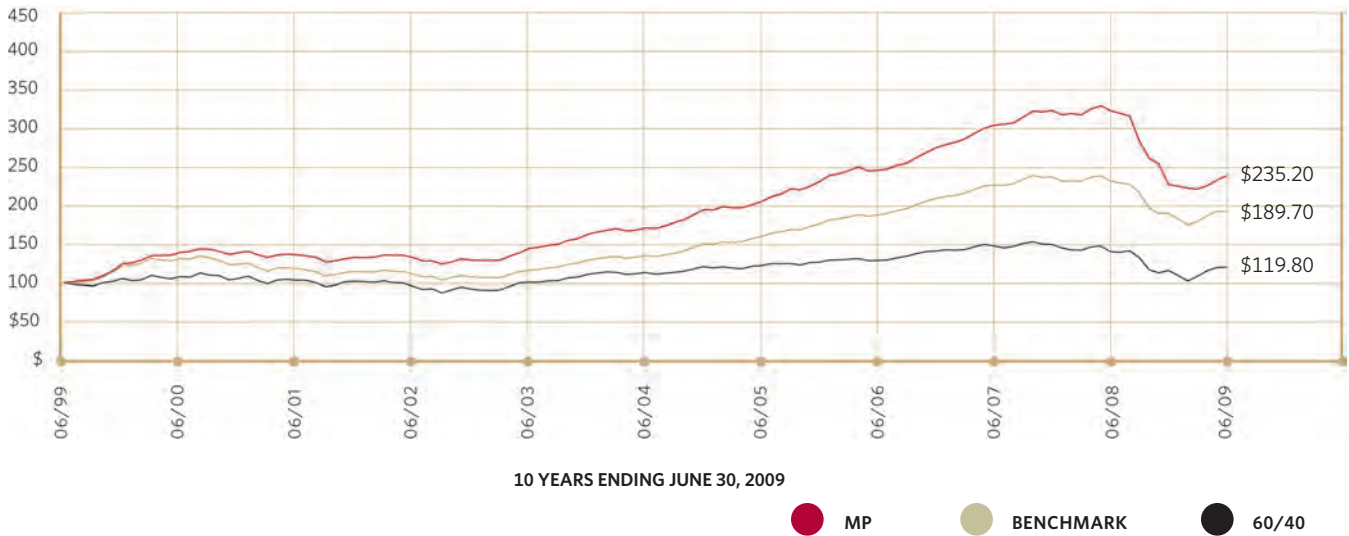
STANFORD MP PERFORMANCE COMPARED TO BENCHMARKS SMC evaluates the performance of investment managers by comparing their returns to benchmarks that are appropriate for each individual asset class. The SMC Board reviews asset class benchmarks on an annual basis to ensure comparability. SMC compares overall MP performance to the composite benchmark return, which represents a blend of the benchmark returns for each asset class weighted by the strategic allocations above. In the table below, actual performance, net of management fees, is compared to the composite benchmark for periods ended June 30, 2009.

STANFORD MP VS. STANFORD COMPOSITE BENCHMARK



SMC’s effectiveness in implementing its investment strategies through top-level manager selection has resulted in consistent and long-term outperformance over the composite benchmark. This has added an excess of \$2.6 billion to the value of the MP over this 10-year period. The cumulative return chart below compares the growth of \$100 in Stanford’s MP, a composite benchmark portfolio, and a 60% stock/40% bond portfolio over the past 10 years:

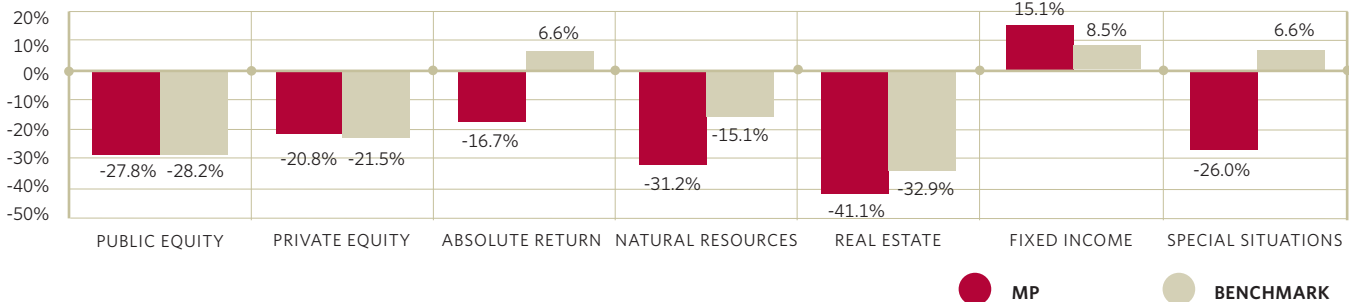
STANFORD MP VS. STANFORD BENCHMARK AND PASSIVE 60% EQUITY/40% BOND COMPOSITE



The relative one-year performance of the MP versus the benchmark was -9.0%.

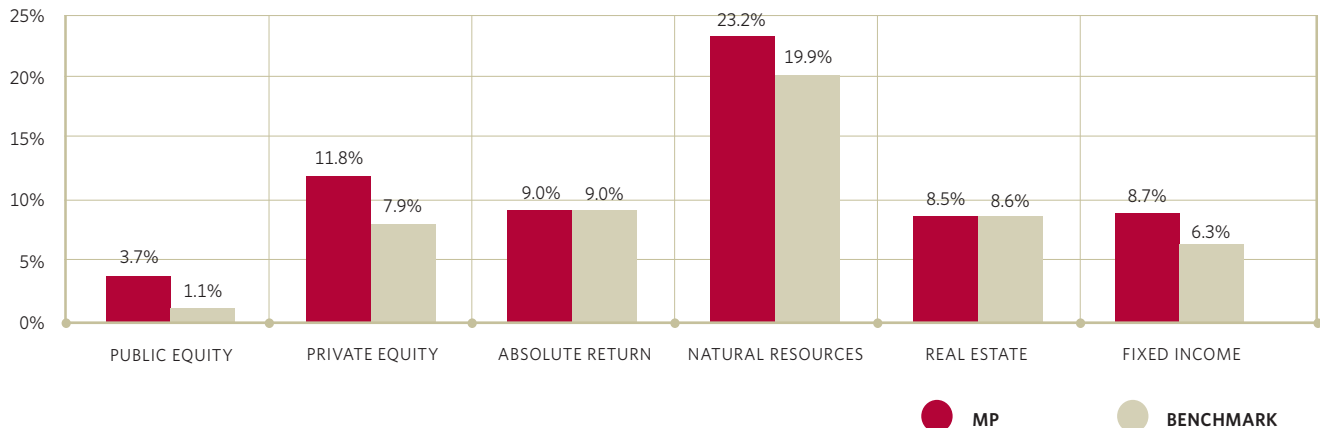
INDIVIDUAL ASSET CLASS PERFORMANCE The performance of individual asset classes for the 12 months ended June 30, 2009, relative to each asset class benchmark, is illustrated in the graph below:

STANFORD MP ONE-YEAR ASSET CLASS RETURNS VS. BENCHMARK



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

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

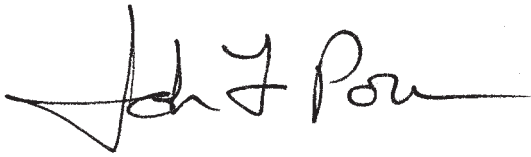


In the 12 months through June 30, 2009, the Merged Pool returns were in line with those of our peers among the very largest endowments. During the same period, the S&P 500 Total Return Index declined 26.2%, the Barclays Aggregate returned 6.1%, and a 60/40 equity/fixed income mix would have returned -13.3%. The market environment going forward presents us with a unique opportunity set but remains uncertain.

As the global economy faced the worst economic and financial crisis since World War II, the MP experienced its most difficult year. In the period from September 2008 through March 2009, diversification failed to protect the portfolio as correlations rose dramatically across all asset classes.

During this time, we continued to meet our University obligations and investment commitments from the liquid portions of the portfolio. This reduced portfolio flexibility at a time when significant opportunities arose in the market. Planning, careful management and a sharp market rally since March 2009 have resulted in an improved liquidity profile for the MP. We remain confident in our ability to meet the ongoing operational and investment needs of the University.

We recognize that many challenges lie ahead for the global economy. In this environment, we are working to understand and limit risks, while still positioning the MP to take advantage of opportunities as we move toward recovery. Finally, we are also revisiting the events of the last 18 months in an effort to improve our ability to manage the portfolio in a time of crisis as well as in more benign markets. In the wake of events like those of 2008 and 2009, it is imperative to ask what lessons we have learned, while avoiding the inevitable tendency to overcorrect and overreact.

A handwritten signature in black ink that reads "John F. Powers". The signature is written in a cursive, flowing style with a long horizontal line extending to the right.

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