SUPPLEMENT TO OFFICIAL STATEMENT

This Supplement to the Official Statement (the "Supplement") supplements the Official Statement dated May 22, 2007 (the "Official Statement"). This Supplement provides certain supplemental information regarding the offering of the Series T-3 Bonds (the "Bonds"). The Official Statement provides certain information with respect to the Series T-1 Bonds and the Bonds. Generally, except as otherwise provided in this Supplement, the terms and provisions of the Series T-1 Bonds described in the Official Statement are applicable to the Bonds. **This Supplement is intended to be read in conjunction with the Official Statement, including but not limited to the section "CERTAIN INVESTMENT CONSIDERATIONS" and the Appendices attached thereto.**

NEW ISSUE — BOOK-ENTRY ONLY **Ratings: See "Ratings" herein.**

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. In the further opinion of Bond Counsel, interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings in calculating federal corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other tax consequences relating to the ownership or disposition of or the accrual or receipt of interest on, the Bonds. See "Tax Matters" herein.

$25,360,000
CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY
Revenue Bonds (Stanford University)
Series T-3

Dated: Date of Delivery **Due: March 15, as shown on inside cover**

The Bonds will be issued in book-entry form in denominations of $5,000 or any integral multiple thereof. Interest on the Bonds is payable semiannually on each March 15 and September 15, commencing March 15, 2008. The Bonds are subject to redemption prior to maturity as described herein. The Bonds will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository of the Bonds. Principal of and interest on the Bonds will be payable directly to DTC, as the registered owner of the Bonds, by U.S. Bank National Association, as trustee (the "Trustee"). For so long as DTC or its nominee, Cede & Co., is the registered owner of the Bonds, all notices, including any notice of redemption, will be mailed only to Cede & Co. See Appendix C – "BOOK-ENTRY SYSTEM" in the Official Statement.

The Bonds are being issued by the California Educational Facilities Authority (the "Authority") on behalf of The Board of Trustees of the Leland Stanford Junior University (the "University") pursuant to an Indenture, dated as of June 1, 2007 (the "Indenture"), by and between the Authority and the Trustee. The Bonds are limited obligations of the Authority payable only out of Revenues as defined in the Indenture and other amounts held in the funds established by the Indenture. The Revenues consist primarily of payments to be made by

STANFORD UNIVERSITY

The University intends to use the proceeds of the Bonds, together with certain other available moneys, to refinance the California Educational Facilities Authority Refunding Revenue Bonds (Stanford University) Series M and to pay certain costs of issuance. It is expected that the Series T-1 Bonds will be delivered on or about June 19, 2007 and that the Bonds will be delivered on or about September 6, 2007. See "Plan of Finance" herein.

THE BONDS SHALL NOT BE DEEMED TO CONSTITUTE A DEBT OR LIABILITY OF THE AUTHORITY, THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF OR A PLEDGE OF THE FAITH AND CREDIT OF THE STATE OF CALIFORNIA OR ANY SUCH POLITICAL SUBDIVISION, OTHER THAN THE AUTHORITY, BUT SHALL BE PAYABLE SOLELY FROM THE FUNDS PROVIDED THEREFOR. NEITHER THE STATE OF CALIFORNIA NOR THE AUTHORITY OR ANY POLITICAL SUBDIVISION THEREOF SHALL BE OBLIGATED TO PAY THE PRINCIPAL OF THE BONDS, THE PREMIUM, IF ANY, OR THE INTEREST THEREON, EXCEPT FROM THE FUNDS PROVIDED UNDER THE LOAN AGREEMENT AND INDENTURE, ALL AS DESCRIBED HEREIN. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF, INCLUDING THE AUTHORITY, IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL, OR THE PREMIUM, IF ANY, OR THE INTEREST ON THE BONDS. THE ISSUANCE OF THE BONDS SHALL NOT DIRECTLY, INDIRECTLY OR CONTINGENTLY OBLIGATE THE STATE OF CALIFORNIA, THE AUTHORITY, OR ANY POLITICAL SUBDIVISION THEREOF TO LEVY OR TO PLEDGE ANY FORM OF TAXATION WHATSOEVER OR TO MAKE ANY APPROPRIATION FOR THEIR PAYMENT. THE AUTHORITY HAS NO TAXING POWER.

This cover page contains certain information for quick reference only. It is not a summary of this issue. Capitalized terms used on this cover page not otherwise defined will have the meanings set forth herein or in the Official Statement.

See the Table on the Inside Cover for a Summary of the Terms of the Bonds

The Bonds are offered by the Underwriters when, as and if issued by the Authority and accepted by the Underwriters subject to the approval of legality by Orrick, Herrington & Sutcliffe LLP, Bond Counsel, and subject to certain other conditions. Certain legal matters will be passed upon for the Authority by the Attorney General of the State of California, for the Underwriters by Hawkins Delafield & Wood LLP, and for the University by its General Counsel. It is expected that the Bonds will be available for delivery through the facilities of DTC in New York, New York on or about September 6, 2007.

Honorable Bill Lockyer
Treasurer of the State of California

Morgan Stanley **JPMorgan**

June 5, 2007

Summary of Terms of the Bonds

$25,360,000 5.00% Series T-3 Bonds due March 15, 2026 Yield: 4.30%
CUSIP : 130178JL1
Delivery Date: on or about September 6, 2007

This Supplement does not constitute an offer to sell the Bonds in any jurisdiction in which or to any person to whom it is unlawful to make such an offer. No dealer, salesperson or other person has been authorized by the Authority, the University or the Underwriters to give any information or to make any representations, other than those contained herein, in connection with the offering of the Bonds and, if given or made, such information or representations must not be relied upon.

All information set forth herein has been obtained from the University and other sources which are believed to be current and reliable, but is not to be construed as a representation by the Authority.

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

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

In connection with this offering, the Underwriters may overallot or effect transactions that stabilize or maintain the market price of the Bonds at levels above those which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

$25,360,000
CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY
Revenue Bonds (Stanford University)
Series T-3

General

This Supplement to the Official Statement (the "Supplement") supplements the Official Statement dated May 22, 2007 (the "Official Statement"). This Supplement provides certain supplemental information regarding the offering of the Series T-3 Bonds (the "Bonds"). The Official Statement provides certain information with respect to the Series T-1 Bonds and the Bonds. Generally, except as otherwise provided in this Supplement, the terms and provisions of the Series T-1 Bonds described in the Official Statement are applicable to the Bonds. **This Supplement is intended to be read in conjunction with the Official Statement, including but not limited to the section "CERTAIN INVESTMENT CONSIDERATIONS" and the Appendices attached thereto.**

Plan of Finance

The University intends to use the proceeds of the Bonds, together with certain other available moneys, to (i) refinance the California Educational Facilities Authority Refunding Revenue Bonds (Stanford University) Series M and (ii) pay certain costs of issuance. The University and the Authority have sold Series T-1 Bonds in the principal amount of approximately $111,775,000 on May 22, 2007. It is expected that the Series T-1 Bonds will be available for delivery through the facilities of DTC in New York, New York on or about June 19, 2007 and that the Bonds will be available for delivery through such DTC facilities on or about September 6, 2007.

The Bonds

The Bonds are to be dated as of the date of their initial issuance and delivery. The Bonds are issuable in fully registered, book-entry form, have interest and payment terms and are redeemable as set forth in the Indenture and as described herein. See "Redemption of the Bonds" below and "THE BONDS" in the Official Statement.

The Bonds, when issued, will be registered in the name of Cede & Co., as nominee of DTC. DTC will act as securities depository of the Bonds. Individual purchases of the Bonds will be made in book-entry form only. Principal of, premium, if any, and interest on, the Bonds will be payable by the Trustee directly to DTC, as the registered owner of the Bonds. Upon receipt of payments of principal, premium, if any, and interest, DTC is to remit such principal, premium, if any, and interest to the DTC Participants for subsequent disbursement to the beneficial owners of the Bonds. Purchasers will not receive certificates representing the Bonds purchased by them. See Appendix C - "BOOK-ENTRY SYSTEM" in the Official Statement.

Redemption of the Bonds

Optional Redemption of the Bonds. The Bonds are subject to optional redemption prior to maturity at the option of the Authority at the direction of the University, in whole or in part at any time, at a redemption price equal to the greater of:

- one hundred percent (100%) of the Amortized Value (as described below) of such Bonds to be redeemed, plus accrued and unpaid interest to the date of redemption; or

- an amount equal to the sum of the present values of the remaining unpaid payments of principal and interest to be paid on such Bonds to be redeemed from and including the date of redemption to the stated maturity date of such Bonds, discounted to the date of redemption on a semiannual basis at a discount rate equal to the Applicable Tax-Exempt Municipal Bond Rate (as described below) for such Bonds minus twenty-five basis points (0.25%).

The "Applicable Tax-Exempt Municipal Bond Rate" for such Bonds will be the "Comparable AAA General Obligations" yield curve rate for the stated maturity date of such Bonds as published by Municipal Market Data five business days prior to the date of redemption. If no such yield curve rate is established for the applicable year, the "Comparable AAA General Obligations" yield curve rate for the two published maturities most closely corresponding to the applicable year will be determined, and the "Applicable Tax-Exempt Municipal Bond Rate" will be interpolated or extrapolated from those yield curve rates on a straight-line basis. This rate is made available daily by Municipal Market Data and is available to its subscribers through its internet address: www.tm3.com.

In calculating the Applicable Tax-Exempt Municipal Bond Rate, should Municipal Market Data no longer publish the "Comparable AAA General Obligations" yield curve rate, then the Applicable Tax-Exempt Municipal Bond Rate will equal the Consensus Scale yield curve rate for the applicable year. The Consensus Scale yield curve rate is made available daily by Municipal Market Advisors and is available to its subscribers through its internet address: www.mma-research.com.

In the further event Municipal Market Advisors no longer publishes the Consensus Scale, the Applicable Tax-Exempt Municipal Bond Rate will be determined by Morgan Stanley & Co. Incorporated, as the quotation agent, based upon the rate per annum equal to the semiannual equivalent yield to maturity of those tax-exempt general obligation bonds rated in the highest rating category by Moody's Investors Service and Standard & Poor's Rating Services with a maturity date equal to the stated maturity date of such Bonds having characteristics (other than the ratings) most comparable to those of such Bonds in the judgment of the quotation agent. The quotation agent's determination of the Applicable Tax-Exempt Municipal Bond Rate is final and binding in the absence of manifest error.

The "Amortized Value" will equal the principal amount of the Bonds to be redeemed multiplied by the price of such Bonds expressed as a percentage, calculated based on the industry standard method of calculating bond prices, with a delivery date equal to the date of redemption, a maturity date equal to the stated maturity date of such Bonds and a yield equal to such Bonds' original reoffering yield as set forth on the inside cover of this Supplement.

The redemption price of the Bonds described above will be determined by an independent accounting firm, investment banking firm or financial advisor (which accounting firm or financial advisor shall be retained by the University at the expense of the University) to calculate such redemption price. The Trustee, the Authority and the University may conclusively rely on such accounting firm's, investment banking firm's or financial advisor's determination of such redemption price and shall bear no liability for such reliance.

Notice of Redemption. Notice of redemption will be mailed by the Trustee by first class mail, not less than 15 days nor more than 60 days prior to the date fixed for redemption, to the respective Holders of any Bonds designated for redemption at their addresses appearing on the bond registration books of the Trustee. Failure by the Trustee to mail notice of redemption to any one or more of the respective Holders of any Bonds designated for redemption will not affect the sufficiency of the proceedings for redemption with respect to the Holders to whom such notice was mailed. Any notice of redemption may be rescinded by written notice given to the Trustee by the University no later than 5 Business Days prior to the date fixed for redemption. The Trustee will give notice of such rescission as soon thereafter as practicable in the same manner, and to the same persons, as notice of such redemption was given.

So long as the book-entry system is in effect, the Trustee will send each notice of redemption to Cede & Co., as nominee of DTC, and not to the Beneficial Owners. So long as DTC or its nominee is the sole registered owner of the Bonds under the book-entry system, any failure on the part of DTC or a Direct Participant or Indirect Participant to notify the Beneficial Owner so affected will not affect the validity of the redemption.

Security for the Bonds

The Bonds are payable from loan payments to be paid by the University to the Trustee pursuant to the Loan Agreement. The obligation of the University to make loan payments under the Loan Agreement is an unsecured general obligation of the University. The Loan Agreement contains certain covenants for the protection of the Holders of the Bonds and the Authority. See Appendix B - "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS - Loan Agreement" in the Official Statement. The Bonds are not secured by a reserve fund, or a lien on, or security interests in, any funds, revenues or other assets of the University, except for certain funds and accounts held from time to time by the Trustee for the benefit of the Holders of the Bonds under the Indenture. The hospital affiliates of the University described in Appendix A to the Official Statement are not obligated with respect to the payment of debt service on the Bonds and their assets and revenues are not pledged and are not expected to be available to the University or the Bondholders for such purpose.

The Indenture provides that revenues received by the Trustee are to be held in trust and are exclusively and irrevocably pledged for the security and payment of the principal of, premium, if any, and interest on, the Bonds.

For additional information concerning the provisions of the Indenture and the Loan Agreement, see Appendix B - "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS" in the Official Statement.

Sources and Uses of Funds

Estimated sources and uses of funds related to the Bonds are shown below:

SOURCES	
Principal amount of the Bonds	$25,360,000
Plus Original Issue Premium	2,250,700
University Contribution	1,887,316
Total Sources	$29,498,016
USES	
Refunding Escrow Deposit	$29,346,600
Costs of Issuance [(1)]	151,416
Total Uses	$29,498,016

(1) Includes fees of the Authority, the Rating Agencies, the Trustee, Bond Counsel, Counsel to the University and Underwriters' Discount, as well as certain other costs incurred in connection with the issuance and delivery of the Bonds.

Tax Matters

In the opinion of Orrick, Herrington & Sutcliffe LLP ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code") and is exempt from State of California personal income taxes. Bond Counsel is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings in calculating corporate alternative minimum taxable income. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix E to the Official Statement.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. The Authority and the University have made certain representations and have covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. The opinion of Bond Counsel also assumes that actions of the University, the Authority and other persons taken subsequent to the date of issuance of the Bonds will not cause any of the Bonds to exceed the $150,000,000 limitation on qualified 501(c)(3) bonds that do not finance hospital facilities, as set forth in Section 145(b) of the Code. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the

date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds.

In addition, Bond Counsel will rely on the opinion of the University's General Counsel regarding the qualification of the University as an organization described in Section 501(c)(3) of the Code. Such opinion is subject to a number of qualifications and limitations. Bond Counsel has also relied upon representations of the University concerning the University's "unrelated trade or business" activities as defined in Section 513(a) of the Code. Neither Bond Counsel nor the University's General Counsel has given any opinion or assurance concerning Section 513(a) of the Code and neither Bond Counsel nor the University's General Counsel can give, or has given, any opinion or assurance about the future activities of the University, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the resulting changes in enforcement thereof by the Internal Revenue Service ("IRS"). Failure of the University to be organized and operated in accordance with the IRS's requirements for the maintenance of its status as an organization described in Section 501(c)(3) of the Code, or to operate the facilities financed by the Bonds in a manner that is substantially related to the University's charitable purpose under Section 513(a) of the Code, may result in interest payable with respect to the Bonds being included in federal gross income, possibly from the date of the original issuance of the Bonds.

Although Bond Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may otherwise affect a Bondholder's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Bondholder or the Bondholder's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Future legislative proposals, if enacted into law, or clarification of the Code, or court decisions, may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Holders from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislation or clarification of the Code or court decision may also affect the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisers regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Bonds for federal income tax purposes. It is not binding on the IRS or the courts. Furthermore, Bond Counsel cannot give, and has not given, any opinion or assurance about the future activities of the Authority or the University, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The Authority and the University have covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Bonds ends with the issuance of the Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the Authority,

the University or the Bondholders regarding the tax-exempt status of the Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the Authority, the University and their appointed counsel, including the Bondholders, would have little, if any, right to participate in, the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the Authority or the University legitimately disagrees may not be practicable. Any action of the IRS, including, but not limited to, selection of the Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Bonds, and may cause the Authority, the University or the Bondholders to incur significant expense.

Approval of Legal Proceedings

The validity of the issuance of the Bonds under California law is subject to the approval of Orrick, Herrington & Sutcliffe LLP, acting as Bond Counsel. A proposed form of Bond Counsel's legal opinion is attached to the Official Statement as Appendix E. Certain legal matters will be passed upon for the Underwriters by Hawkins Delafield & Wood LLP, for the Authority by the Attorney General of the State of California and for the University by its General Counsel. None of the counsel mentioned above undertakes any responsibility to Holders of the Bonds for the accuracy, completeness or fairness of this Supplement.

Underwriting

The Treasurer of the State of California, with the approval of the Authority and the University, has entered into a Bond Purchase Agreement with Morgan Stanley & Co. Incorporated as representative of the underwriters (the "Series T-3 Underwriters"), pursuant to which and subject to certain conditions, the Series T-3 Underwriters have agreed to purchase the Bonds from the Authority at a price of $27,507,225.04 (being the principal amount of the Bonds, plus an original issue premium of $2,250,700.00 and less an underwriters' discount of $103,474.96). The Bonds may be offered and sold by the Underwriters to certain dealers and others at prices lower than the public offering prices, and the public offering prices may be changed, from time to time, by the Underwriters.

Ratings

The Bonds have been given an "Aaa" rating by Moody's, an "AAA" rating by S&P and an "AAA" rating by Fitch. An explanation of the significance of the ratings given can be obtained from Moody's at 99 Church Street, New York, New York 10007, from S&P at 55 Water Street, New York, New York 10041 and from Fitch at One State Street Plaza, New York, New York, 10004. Such ratings reflect only the views of Moody's, S&P and Fitch, respectively, and there is no assurance that either or both of the ratings, if received, will continue for any given period of time or that either or both will not be lowered or withdrawn entirely if, in the judgment of Moody's, S&P or Fitch, circumstances so warrant. Neither the Authority, the University nor the Underwriters have undertaken any responsibility either to bring to the attention of the Holders of the Bonds any proposed change in or withdrawal of the ratings received or to oppose any such proposed revision. Any such change in or withdrawal of the ratings received could have an adverse effect on the market price of the Bonds.

Continuing Disclosure

The Authority has determined that no financial or operating data concerning the Authority is material to an evaluation of the offering of the Bonds or to any decision to purchase, hold or sell the Bonds, and the Authority will not provide any such information. The University has undertaken all responsibilities for any continuing disclosure to Holders of the Bonds as described below, and the Authority shall have no liability to the Holders of the Bonds or any other person with respect to the Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Act of 1934, as amended (the "Rule").

In order to assist the Underwriters in complying with the Rule, the University has agreed to undertake in a Continuing Disclosure Agreement between the University and the Trustee, for the benefit of Holders of the Bonds, to provide to the Trustee certain annual information and notices of material events required to be provided by the Rule. The proposed form of that Undertaking is set forth in Appendix D to the Official Statement. The Undertaking may be amended or modified without the consent of the Holders of the Bonds under certain circumstances set forth therein.

Miscellaneous

The Authority has reviewed the information contained herein which relates to it and has approved all such information for use in this Supplement. The delivery of this Supplement has been duly authorized by the Authority.

CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY

June 5, 2007

/s/ Jose Gomez
Executive Director

This Supplement has been reviewed and approved by the Vice President for Business Affairs and Chief Financial Officer of the University.

THE BOARD OF TRUSTEES OF THE LELAND STANFORD JUNIOR UNIVERSITY

June 5, 2007

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

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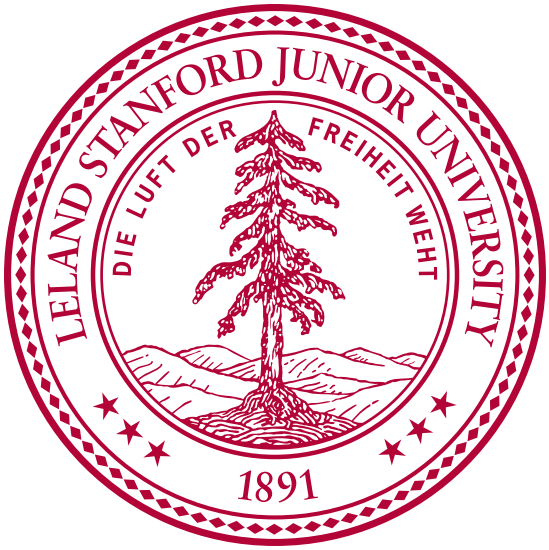

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NEW ISSUE — BOOK-ENTRY ONLY **Ratings: See "RATINGS" herein.**

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. In the further opinion of Bond Counsel, interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings in calculating federal corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other tax consequences relating to the ownership or disposition of or the accrual or receipt of interest on, the Bonds. See "TAX MATTERS" herein.

$111,775,000
CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY
Revenue Bonds (Stanford University)
Series T-1

Dated: Date of Delivery **Due: March 15, as shown on inside cover**

The Series T-1 Bonds (the "Bonds") will be issued in book-entry form in denominations of $5,000 or any integral multiple thereof. Interest on the Bonds is payable semiannually on each March 15 and September 15, commencing March 15, 2008. The Bonds are subject to redemption prior to maturity as described herein. The Bonds will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository of the Bonds. Principal of and interest on the Bonds will be payable directly to DTC, as the registered owner of the Bonds, by U.S. Bank National Association, as trustee (the "Trustee"). For so long as DTC or its nominee, Cede & Co., is the registered owner of the Bonds, all notices, including any notice of redemption, will be mailed only to Cede & Co. See Appendix C – "BOOK-ENTRY SYSTEM" herein.

The Bonds are being issued by the California Educational Facilities Authority (the "Authority") on behalf of The Board of Trustees of the Leland Stanford Junior University (the "University") pursuant to an Indenture, dated as of June 1, 2007 (the "Indenture"), by and between the Authority and the Trustee. The Bonds are limited obligations of the Authority payable only out of Revenues as defined in the Indenture and other amounts held in the funds established by the Indenture. The Revenues consist primarily of payments to be made by

STANFORD UNIVERSITY

The University intends to use the proceeds of the Bonds to finance certain capital expenditures and to pay certain costs of issuance. The University and the Authority may sell Series T-2 Bonds and Series T-3 Bonds within the next 14 days from the date hereof. It is expected that the Bonds and the Series T-2 Bonds (if sold) will be delivered on or about June 19, 2007 and that the Series T-3 Bonds (if sold) will be delivered on or about September 6, 2007. See "PLAN OF FINANCE."

THE BONDS SHALL NOT BE DEEMED TO CONSTITUTE A DEBT OR LIABILITY OF THE AUTHORITY, THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF OR A PLEDGE OF THE FAITH AND CREDIT OF THE STATE OF CALIFORNIA OR ANY SUCH POLITICAL SUBDIVISION, OTHER THAN THE AUTHORITY, BUT SHALL BE PAYABLE SOLELY FROM THE FUNDS PROVIDED THEREFOR. NEITHER THE STATE OF CALIFORNIA NOR THE AUTHORITY OR ANY POLITICAL SUBDIVISION THEREOF SHALL BE OBLIGATED TO PAY THE PRINCIPAL OF THE BONDS, THE PREMIUM, IF ANY, OR THE INTEREST THEREON, EXCEPT FROM THE FUNDS PROVIDED UNDER THE LOAN AGREEMENT AND INDENTURE, ALL AS DESCRIBED HEREIN. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF, INCLUDING THE AUTHORITY, IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL, OR THE PREMIUM, IF ANY, OR THE INTEREST ON THE BONDS. THE ISSUANCE OF THE BONDS SHALL NOT DIRECTLY, INDIRECTLY OR CONTINGENTLY OBLIGATE THE STATE OF CALIFORNIA, THE AUTHORITY, OR ANY POLITICAL SUBDIVISION THEREOF TO LEVY OR TO PLEDGE ANY FORM OF TAXATION WHATSOEVER OR TO MAKE ANY APPROPRIATION FOR THEIR PAYMENT. THE AUTHORITY HAS NO TAXING POWER.

This cover page contains certain information for quick reference only. It is not a summary of this issue. Capitalized terms used on this cover page not otherwise defined will have the meanings set forth herein.

See the Table on the Inside Cover for a Summary of the Terms of the Bonds

The Bonds are offered by the Underwriters when, as and if issued by the Authority and accepted by the Underwriters subject to the approval of legality by Orrick, Herrington & Sutcliffe LLP, Bond Counsel, and subject to certain other conditions. Certain legal matters will be passed upon for the Authority by the Attorney General of the State of California, for the Underwriters by Hawkins Delafield & Wood LLP, and for the University by its General Counsel. It is expected that the Bonds will be available for delivery through the facilities of DTC in New York, New York on or about June 19, 2007.

Honorable Bill Lockyer
Treasurer of the State of California

Morgan Stanley **Goldman, Sachs & Co.**
Prager, Sealy & Co., LLC **Sutter Securities Incorporated**

May 22, 2007

Summary of Terms of the Bonds

$111,775,000 5.00% Series T-1 Bonds due March 15, 2039 Yield: 4.28%
CUSIP : 130178JD9
Delivery Date: on or about June 19, 2007

This Official Statement does not constitute an offer to sell the Bonds in any jurisdiction in which or to any person to whom it is unlawful to make such an offer. No dealer, salesperson or other person has been authorized by the Authority, the University or the Underwriters to give any information or to make any representations, other than those contained herein, in connection with the offering of the Bonds and, if given or made, such information or representations must not be relied upon.

The information set forth herein under the caption "THE AUTHORITY" has been obtained from the Authority. All other information set forth herein has been obtained from the University and other sources which are believed to be current and reliable, but is not to be construed as a representation by the Authority.

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

Estimates and opinions are included and should not be interpreted as statements of fact. Summaries of documents do not purport to be complete statements of their provisions. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority or the University since the date hereof.

In connection with this offering, the Underwriters may overallot or effect transactions that stabilize or maintain the market price of the Bonds at levels above those which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

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$111,775,000
CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY
Revenue Bonds (Stanford University)
Series T-1

INTRODUCTION

This Introduction does not purport to be complete, and reference is made to the remainder of this Official Statement, the Appendices and the documents referred to herein for more complete statements with respect to the matters summarized. Capitalized terms not otherwise defined will have the meanings set forth in Appendix B - "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS - Definitions."

General

This Official Statement, including the cover page and Appendices hereto (this "Official Statement"), provides certain information in connection with the offering of $111,775,000 aggregate principal amount of California Educational Facilities Authority Revenue Bonds (Stanford University) Series T-1 (the "Bonds").

The Bonds will be issued pursuant to the provisions of the California Educational Facilities Authority Act, constituting Chapter 2 (commencing with Section 94100) of Part 59 of Division 10 of Title 3 of the Education Code of the State of California, as amended (the "Act"), and the Indenture (defined below).

The Bonds will be issued pursuant to and secured by an Indenture, dated as of June 1, 2007 (the "Indenture"), between the California Educational Facilities Authority (the "Authority") and U.S. Bank National Association, as trustee (the "Trustee"). The Authority will lend the proceeds of the Bonds to The Board of Trustees of the Leland Stanford Junior University (the "University") pursuant to a Loan Agreement, dated as of June 1, 2007 (the "Loan Agreement"), between the Authority and the University.

Plan of Finance

The Authority will lend the proceeds of the Bonds to the University pursuant to the Loan Agreement in order to (i) finance certain capital expenditures of the University and (ii) pay certain costs of issuance. The University and the Authority may sell Series T-2 Bonds in the principal amount of approximately $165,000,000 and Series T-3 Bonds in the principal amount of approximately $25,000,000 within the next 14 days from the date hereof. It is expected that the Bonds and the Series T-2 Bonds (if sold) will be available for delivery through the facilities of DTC in New York, New York on or about June 19, 2007 and that the Series T-3 Bonds (if sold) will be available for delivery through such DTC facilities on or about September 6, 2007. See "SOURCES AND USES OF FUNDS."

Stanford University

Founded in 1885, Leland Stanford Junior University is one of a select group of universities that has achieved eminence in both undergraduate and graduate education and in a

broad range of academic disciplines. It is internationally recognized for the quality of its teaching and research, its distinguished faculty and its outstanding student body.

For the fiscal year ended August 31, 2006 the University had total revenues of $2.9 billion. At August 31, 2006, total University net assets were $18.4 billion.

For additional information concerning the University, see Appendix A - "STANFORD UNIVERSITY (INCLUDING FINANCIAL STATEMENTS)."

The Bonds

The Bonds are to be dated as of the date of their initial issuance and delivery. The Bonds are issuable in fully registered, book-entry form, have interest and payment terms and are redeemable as set forth in the Indenture and as described herein. See "THE BONDS."

The Bonds, when issued, will be registered in the name of Cede & Co., as nominee of DTC. DTC will act as securities depository of the Bonds. Individual purchases of the Bonds will be made in book-entry form only. Principal of, premium, if any, and interest on, the Bonds will be payable by the Trustee directly to DTC, as the registered owner of the Bonds. Upon receipt of payments of principal, premium, if any, and interest, DTC is to remit such principal, premium, if any, and interest to the DTC Participants for subsequent disbursement to the beneficial owners of the Bonds. Purchasers will not receive certificates representing the Bonds purchased by them. See Appendix C - "BOOK-ENTRY SYSTEM."

Security for the Bonds

The Bonds are payable from loan payments to be paid by the University to the Trustee pursuant to the Loan Agreement. The obligation of the University to make loan payments under the Loan Agreement is an unsecured general obligation of the University. The Loan Agreement contains certain covenants for the protection of the Holders of the Bonds and the Authority. See Appendix B - "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS - Loan Agreement." The Bonds are not secured by a reserve fund, or a lien on, or security interests in, any funds, revenues or other assets of the University, except for certain funds and accounts held from time to time by the Trustee for the benefit of the Holders of the Bonds under the Indenture. The hospital affiliates of the University described in Appendix A hereto are not obligated with respect to the payment of debt service on the Bonds and their assets and revenues are not pledged and are not expected to be available to the University or the Bondholders for such purpose.

The Indenture provides that revenues received by the Trustee are to be held in trust and are exclusively and irrevocably pledged for the security and payment of the principal of, premium, if any, and interest on, the Bonds.

For additional information concerning the provisions of the Indenture and the Loan Agreement, see Appendix B - "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS."

Continuing Disclosure

The University will undertake in a Continuing Disclosure Agreement, for the benefit of the Holders of the Bonds, to provide to the Trustee certain annual information and notices required to be provided by Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended. See "CONTINUING DISCLOSURE."

Miscellaneous

Included in this Official Statement and the Appendices hereto are descriptions of the University, the Bonds, the Indenture and the Loan Agreement. All references herein to the Indenture and the Loan Agreement are qualified in their entirety by reference to such documents, and the description herein of the Bonds is qualified in its entirety by reference to the terms thereof and the information regarding the Bonds included in the Indenture. All descriptions are further qualified in their entirety by reference to laws relating to or effecting the enforcement of creditors' rights. The agreements of the Authority with the Holders of the Bonds are fully set forth in the Indenture, and neither any advertisement of the Bonds nor this Official Statement is to be construed as constituting an agreement with the Holders of the Bonds. Insofar as any statements are made in this Official Statement involving matters of opinion, regardless of whether expressly so stated, they are intended merely as such and not as representations of fact. The information and expressions of opinion herein speak only as of their date and are subject to change without notice. Neither delivery of this Official Statement nor any sale made hereunder nor any future use of this Official Statement shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority or the University.

Additional information regarding this Official Statement and copies of the documents referred to herein may be obtained by contacting the Office of the Vice President for Business Affairs and Chief Financial Officer, Stanford University, Building 170, Room 207, Main Quadrangle, Stanford, California 94305-2060, (650) 723-5660. In addition, certain documents referred to herein may be obtained on-line at http:// bondholder-information.stanford.edu/home.html. The information on the University's website is not a part of this Official Statement.

THE AUTHORITY

The California Educational Facilities Authority is a public instrumentality of the State of California created pursuant to the provisions of the Act. The Authority is authorized to issue the Bonds under the Act, to make the loan contemplated by the Loan Agreement and to secure the Bonds by a pledge of the Revenues derived by the Authority pursuant to the Loan Agreement.

Organization and Membership of the Authority

The Authority consists of the Treasurer, the Controller and the Director of Finance of the State of California and two members appointed by the Governor of the State of California. Of the two appointed members, one must be affiliated with a public institution of higher education and the other must be affiliated with a private institution of higher education.

The members of the Authority serve without compensation but are entitled to reimbursement of actual and necessary expenses incurred in the performance of their duties.

The present members and officers of the Authority and their occupations are as follows:

Bill Lockyer, Chair, Treasurer of the State of California

John Chiang, member, Controller of the State of California

Michael C. Genest, member, Director of Finance of the State of California

Sylvia Scott-Hayes, member, Trustee, Los Angeles Community College District Board

Michael L. Jackson, member, Vice President for Student Affairs, University of Southern California

Jose Gomez is the Executive Director of the Authority and is responsible to the Authority for the management of its affairs. The Attorney General of the State of California is counsel to the Authority.

Outstanding Indebtedness of the Authority

The Authority is empowered under the Act to have outstanding from time to time an unlimited amount of indebtedness. As of March 31, 2007, the Authority had outstanding $3,509,194,935 aggregate principal amount of bonds and notes (excluding certain bonds and notes which have been defeased) issued on behalf of various California independent colleges and universities.

PLAN OF FINANCE

The Authority will lend the proceeds of the Bonds to the University pursuant to the Loan Agreement in order to (i) finance certain capital expenditures of the University, including but not limited to the projects described below and (ii) pay certain costs of issuance. The University and the Authority may sell Series T-2 Bonds in the principal amount of approximately $165,000,000 and Series T-3 Bonds in the principal amount of approximately $25,000,000 within the next 14 days from the date hereof. It is expected that the Bonds and the Series T-2 Bonds (if sold) will be available for delivery through the facilities of DTC in New York, New York on or about June 19, 2007 and that the Series T-3 Bonds (if sold) will be available for delivery through such DTC facilities on or about September 6, 2007. See "PLAN OF FINANCE" and "SOURCES AND USES OF FUNDS."

University projects which may be financed with the proceeds of the Bonds include, but are not limited to: (1) constructing, renovating, retrofitting and enlarging residential facilities for undergraduate, graduate and post-doctoral students and fellows; (2) constructing, renovating, retrofitting, furnishing and equipping new and existing academic and research facilities; and (3) expanding, replacing, retrofitting and upgrading campus water, steam, chilled water and electrical utilities, parking structures, transportation equipment, roadways, safety systems and

systems and network applications. Certain of these projects may be financed on an interim basis with the proceeds of Commercial Paper Notes issued by the Authority on behalf of the University and then will be refinanced with the proceeds of the Bonds.

If the Series T-2 Bonds are sold and issued, the University plans to apply a portion of the proceeds of the Series T-2 Bonds to redeem the principal amount of $180,000,000 of the California Educational Facilities Authority Revenue Bonds (Stanford University) Series N (the "Prior Bonds") on or about December 1, 2007. If the Series T-3 Bonds are sold and issued, the University plans to apply a portion of the proceeds of the Series T-3 Bonds, together with other available amounts, to redeem the principal amount of $28,320,000 of the California Educational Facilities Authority Revenue Bonds (Stanford University) Series M (together with the Prior Bonds, the "Refunded Bonds") on or about December 1, 2007. The proceeds of the Refunded Bonds were used to finance certain projects of the University similar to those described in the preceding paragraph.

The Indenture provides that additional bonds may be issued under the Indenture after satisfying certain conditions. See Appendix B - "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS." The Authority has authorized the issuance of up to $700,000,000 in bonds under the Indenture, including the Bonds. The University may utilize the remaining authorization of unissued bonds under the Indenture to refinance certain outstanding obligations of the University.

SOURCES AND USES OF FUNDS

Estimated sources and uses of funds related to the Bonds are shown below:

SOURCES	
Principal amount of the Bonds	$111,775,000
Plus Original Issue Premium	13,891,397
Total Sources	$125,666,397
USES	
Project Fund	$125,000,000
Costs of Issuance [1]	666,397
Total Uses	$125,666,397

(1) Includes fees of the Authority, the Rating Agencies, the Trustee, Bond Counsel, Counsel to the University and Underwriters' Discount, as well as certain other costs incurred in connection with the issuance and delivery of the Bonds.

THE BONDS

General

The Bonds will be issued in book-entry form in denominations of $5,000 or any integral multiple thereof. The Bonds are being issued in the aggregate principal amount and will mature

on the date as set forth on the inside cover hereof. The Bonds are to be dated as of the date of their initial issuance and delivery and will bear interest from such date at the rate set forth on the inside cover hereof. Interest on the Bonds is payable semiannually on each March 15 and September 15, commencing March 15, 2008 (an "Interest Payment Date"). Interest on the Bonds will be calculated based on a 360-day year of twelve (12) 30-day months. The Bonds are subject to redemption prior to maturity. See "Redemption" below.

The Bonds will be issued only in book-entry form and, when issued, will be registered in the name of Cede & Co. or such other name as may be requested by an authorized representative of The Depository Trust Company ("DTC") as nominee of DTC. DTC will act as securities depository for the Bonds. See Appendix C – "BOOK-ENTRY SYSTEM." Except as described in Appendix C – "BOOK-ENTRY SYSTEM," Beneficial Owners (as defined in Appendix C) of the Bonds will not receive, or have the right to receive, physical delivery of certificates representing their ownership interests in the Bonds. For so long as any purchaser is the Beneficial Owner of a Bond, such purchaser must maintain an account with a broker or dealer who is or acts through a Direct Participant (as defined below) to receive payment of the principal and purchase price of, and interest and premium, if any, on such Bond.

Interest payable on any Interest Payment Date will be payable to the registered owner of the Bonds as of the Record Date for such payment. So long as the Bonds are held in the book-entry system, the principal and purchase price of, and interest and premium, if any, on the Bonds will be paid through the facilities of DTC (or a successor securities depository). Otherwise, the principal and purchase price of or premium, if any, on the Bonds is payable upon presentation and surrender thereof at the corporate trust office of the Trustee, and interest on the Bonds is payable by check mailed on each Interest Payment Date to the Holders of the Bonds at the close of business on the Record Date in respect of such Interest Payment Date at the registered addresses of Holders as appears on the registration books of the Trustee. In the case of any Holder of the Bonds in an aggregate principal amount in excess of $1,000,000 as shown on the registration books of the Trustee who, prior to the Record Date next preceding any Interest Payment Date, has provided the Trustee with wire transfer instructions, interest payable on such Bonds will be paid in accordance with the wire transfer instructions provided by the Holder of such Bond and at the Holder's risk and expense.

Except as provided in the Indenture, the Trustee will not be required to register the transfer or exchange of any Bond during the 15 days before any mailing of a notice of redemption of such Series of Bonds or after such Bond has been called for redemption. The Trustee will require the Bondholder requesting a transfer or exchange of any Bond to pay any tax or other charge required to be paid with respect to such transfer or exchange, and the Trustee also may require the Bondholder requesting a transfer or exchange of any Bond to pay a reasonable sum to cover expenses incurred by the Trustee or the Authority in connection with such transfer or exchange.

Redemption

Optional Redemption of the Bonds. The Bonds are subject to optional redemption prior to maturity at the option of the Authority at the direction of the University, in whole or in part at any time, at a redemption price equal to the greater of:

- one hundred percent (100%) of the Amortized Value (as described below) of such Bonds to be redeemed, plus accrued and unpaid interest to the date of redemption; or

- an amount equal to the sum of the present values of the remaining unpaid payments of principal and interest to be paid on such Bonds to be redeemed from and including the date of redemption to the stated maturity date of such Bonds, discounted to the date of redemption on a semiannual basis at a discount rate equal to the Applicable Tax-Exempt Municipal Bond Rate (as described below) for such Bonds minus twenty-five basis points (0.25%).

The "Applicable Tax-Exempt Municipal Bond Rate" for such Bonds will be the "Comparable AAA General Obligations" yield curve rate for the stated maturity date of such Bonds as published by Municipal Market Data five business days prior to the date of redemption. If no such yield curve rate is established for the applicable year, the "Comparable AAA General Obligations" yield curve rate for the two published maturities most closely corresponding to the applicable year will be determined, and the "Applicable Tax-Exempt Municipal Bond Rate" will be interpolated or extrapolated from those yield curve rates on a straight-line basis. This rate is made available daily by Municipal Market Data and is available to its subscribers through its internet address: www.tm3.com.

In calculating the Applicable Tax-Exempt Municipal Bond Rate, should Municipal Market Data no longer publish the "Comparable AAA General Obligations" yield curve rate, then the Applicable Tax-Exempt Municipal Bond Rate will equal the Consensus Scale yield curve rate for the applicable year. The Consensus Scale yield curve rate is made available daily by Municipal Market Advisors and is available to its subscribers through its internet address: www.mma-research.com.

In the further event Municipal Market Advisors no longer publishes the Consensus Scale, the Applicable Tax-Exempt Municipal Bond Rate will be determined by Morgan Stanley & Co. Incorporated, as the quotation agent, based upon the rate per annum equal to the semiannual equivalent yield to maturity of those tax-exempt general obligation bonds rated in the highest rating category by Moody's Investors Service and Standard & Poor's Rating Services with a maturity date equal to the stated maturity date of such Bonds having characteristics (other than the ratings) most comparable to those of such Bonds in the judgment of the quotation agent. The quotation agent's determination of the Applicable Tax-Exempt Municipal Bond Rate is final and binding in the absence of manifest error.

The "Amortized Value" will equal the principal amount of the Bonds to be redeemed multiplied by the price of such Bonds expressed as a percentage, calculated based on the industry standard method of calculating bond prices, with a delivery date equal to the date of redemption, a maturity date equal to the stated maturity date of such Bonds and a yield equal to such Bonds' original reoffering yield as set forth on the inside cover of this Official Statement.

The redemption price of the Bonds described above will be determined by an independent accounting firm, investment banking firm or financial advisor (which accounting firm or financial advisor shall be retained by the University at the expense of the University) to calculate such redemption price. The Trustee, the Authority and the University may conclusively

rely on such accounting firm's, investment banking firm's or financial advisor's determination of such redemption price and shall bear no liability for such reliance.

Notice of Redemption. Notice of redemption will be mailed by the Trustee by first class mail, not less than 15 days nor more than 60 days prior to the date fixed for redemption, to the respective Holders of any Bonds designated for redemption at their addresses appearing on the bond registration books of the Trustee. Failure by the Trustee to mail notice of redemption to any one or more of the respective Holders of any Bonds designated for redemption will not affect the sufficiency of the proceedings for redemption with respect to the Holders to whom such notice was mailed. Any notice of redemption may be rescinded by written notice given to the Trustee by the University no later than 5 Business Days prior to the date fixed for redemption. The Trustee will give notice of such rescission as soon thereafter as practicable in the same manner, and to the same persons, as notice of such redemption was given.

So long as the book-entry system is in effect, the Trustee will send each notice of redemption to Cede & Co., as nominee of DTC, and not to the Beneficial Owners. So long as DTC or its nominee is the sole registered owner of the Bonds under the book-entry system, any failure on the part of DTC or a Direct Participant or Indirect Participant to notify the Beneficial Owner so affected will not affect the validity of the redemption.

SECURITY FOR THE BONDS

The Bonds are payable from loan payments to be paid by the University to the Trustee pursuant to the Loan Agreement. The obligation of the University to make loan payments under the Loan Agreement is an unsecured general obligation of the University. The Loan Agreement contains certain covenants for the protection of the Holders of the Bonds and the Authority. See Appendix B - "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS - Loan Agreement." The Bonds are not secured by a reserve fund, or a lien on, or security interests in, any funds, revenues or other assets of the University, except for certain funds and accounts held from time to time by the Trustee for the benefit of the Holders of the Bonds under the Indenture. The affiliates of the University described in Appendix A hereto are not obligated with respect to the payment of debt service on the Bonds and their assets and revenues are not pledged and are not expected to be available to the University or the Bondholders for such purpose.

The Indenture provides that revenues received by the Trustee are to be held in trust and are exclusively and irrevocably pledged for the security and payment of the principal of, premium, if any, and interest on, the Bonds.

For additional information concerning the provisions of the Indenture and the Loan Agreement, see Appendix B - "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS."

The Bonds shall not be deemed to constitute a debt or liability of the Authority, the State of California or of any political subdivision thereof or a pledge of the faith and credit of the State of California or any such political subdivision, other than the Authority, but shall be payable solely from the funds provided therefor. Neither the State of California nor the Authority or any political subdivision thereof shall be obligated to pay the principal of the Bonds, the premium, if any, or the interest thereon, except from the funds provided under the Loan Agreement and

Indenture, all as described herein. Neither the faith and credit, nor the taxing power, of the State of California or of any political subdivision thereof, including the authority, is pledged to the payment of the principal of, the premium, if any, or the interest on the Bonds. The issuance of the Bonds shall not directly, indirectly or contingently obligate the State of California, the authority, or any political subdivision thereof to levy or to pledge any form of taxation whatsoever or to make any appropriation for their payment. The Authority has no taxing power.

ENFORCEABILITY OF REMEDIES

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

CERTAIN INVESTMENT CONSIDERATIONS

The following are certain investment considerations that have been identified by the University and should be carefully considered by prospective purchasers of the Bonds. The following list should not be considered to be exhaustive. Investors should read the Official Statement in its entirety. Inclusion of certain factors below is not intended to signify that there are not other investment considerations or risks attendant to the Bonds. See Appendix A for additional information on the University.

Both the University's stature in the educational community and its consolidated revenues, expenses, assets and liabilities may be affected by events, developments and conditions relating generally to, among other things, the ability of the University (a) to provide educational and research services of the types and quality required to maintain its stature; (b) to generate sufficient revenues, while controlling expenses, so that these services can be provided at a cost acceptable to the University's consumers; (c) to attract faculty, staff and management necessary to provide these services and a student body of commensurate quality; and (d) to build and maintain the facilities necessary to provide these services.

In turn, success in these areas depends upon the ability of the University and its management to respond to substantial challenges in a rapidly changing environment including, among others, (i) competition in the provision of educational services particularly through new educational media and distance learning; (ii) developments in the regional, national and

international economies, such as the high regional cost of living, the limited availability of affordable housing within reasonable commuting distance and increases in regional energy costs; (iii) volatility in the financial markets, variations in economic growth, changes in monetary policy and taxation, and the adequacy of the University's investment management policies and the performance of its investments in the face of such challenges, all of which may negatively impact funds available from the University's endowment, other investments and its donors to support University operations and capital needs (see Notes 5, 10 and 11 to the consolidated financial statements of the University for the years ended August 31, 2006 and 2005 included in Appendix A hereto); and (iv) legislation and regulation by governmental authorities, including developments affecting the tax-exempt status of educational institutions like the University, changes in levels of governmental research funding and reimbursement for administrative overhead and infrastructure, regulation of tuition levels, and limitations imposed by the General Use Permit on the University's expansion and use of facilities. The preservation and growth of the University's endowment are affected not only by the factors noted above but by discretionary increases in the annual payout to operations from endowment earnings, transfers of expendable funds and other distributions, all of which are subject to changes in policies and practices made by the Board of Trustees and University management.

A variety of risks, uncertainties and other factors may affect the financial strength and stature of the University. By its nature, the University is an open environment, potentially vulnerable to disruption of operations, injury and damage notwithstanding its security and public safety programs. It is subject to governmental investigations and enforcement action and private suits, and may incur substantial costs of defense, sanctions, penalties and reputational harm for violation of laws applicable to the University in its routine operations. The University is a large landowner; it routinely stores, uses and produces hazardous substances in its operations; it houses several thousand students, faculty and others. The University purchases third-party insurance for losses resulting from fire and related natural hazards to the extent such losses exceed a self-insured loss limit of $2,000,000. The University carries limited third-party insurance for damage to facilities sustained from flooding and no third party insurance for damage to facilities due to seismic events. The University is located in a region that is subject to significant seismic activity. In the event of a significant seismic event, the University could suffer substantial damage to its facilities and disruption to its operations.

Because the financial results of the University are reported on a consolidated basis with those of its hospital affiliates (the "Hospitals"), these consolidated financial results will be affected by the financial results of the Hospitals. The Hospitals' financial results, in turn, will be affected not only by the factors set forth above but specifically by demand for the medical services they provide, inadequate third-party payments, limitations on and inadequate governmental reimbursement for medical services and graduate medical education, increases in medical expenses generally and in particular the cost of providing indigent care. In addition, adverse governmental regulatory developments could negatively impact the Hospitals' results in the current and subsequent fiscal years. Each Hospital has its own separate liabilities, including bond debt obligations. The University and the Hospitals are not obligated to pay the debt of each other, and the University and the Hospitals receive separate ratings from the rating agencies.

For a discussion of certain financial challenges facing the University, see Appendix A - "STANFORD UNIVERSITY (INCLUDING FINANCIAL STATEMENTS) - Part II, Portions

of Stanford University 2006 Financial Review - Discussion of Financial Results - Future Financial Challenges" attached hereto.

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

LITIGATION

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

FORWARD-LOOKING STATEMENTS

This Official Statement, which includes all Appendices hereto, contains forward-looking statements that involve risks and uncertainties. Any statements that express, or involve discussions as to expectations, beliefs, plans, objectives, assumptions, future events or performance (often, but not always, through the use of words or phrases such as "will result," "expects to," "will continue," "anticipates," "plans," "intends," "estimated," "projects" and "outlook") are not historical and may be forward-looking. Forward-looking statements are subject to known and unknown risks, uncertainties and other factors, including, but not limited to, the risks described under the heading "CERTAIN INVESTMENT CONSIDERATIONS" which may cause actual results to be materially different from those expressed or implied by such forward-looking statements. Although the University believes that the expectations reflected in the forward-looking statements are reasonable, the University cannot guarantee future results, levels of activity, performance or achievements. Moreover, neither the University nor any other person assumes responsibility for the accuracy or completeness of these statements. Accordingly, investors should not rely on forward-looking statements in this Official Statement. The University undertakes no obligation to publicly update or revise any forward-looking statements in this Official Statement, whether as a result of new information, future events or otherwise.

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code") and is exempt from State of California personal income taxes. Bond Counsel is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings in calculating corporate alternative minimum taxable income. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix E hereto.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. The Authority and the University have made certain representations and have

covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. The opinion of Bond Counsel also assumes that actions of the University, the Authority and other persons taken subsequent to the date of issuance of the Bonds will not cause any of the Bonds to exceed the $150,000,000 limitation on qualified 501(c)(3) bonds that do not finance hospital facilities, as set forth in Section 145(b) of the Code. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds.

In addition, Bond Counsel will rely on the opinion of the University's General Counsel regarding the qualification of the University as an organization described in Section 501(c)(3) of the Code. Such opinion is subject to a number of qualifications and limitations. Bond Counsel has also relied upon representations of the University concerning the University's "unrelated trade or business" activities as defined in Section 513(a) of the Code. Neither Bond Counsel nor the University's General Counsel has given any opinion or assurance concerning Section 513(a) of the Code and neither Bond Counsel nor the University's General Counsel can give, or has given, any opinion or assurance about the future activities of the University, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the resulting changes in enforcement thereof by the Internal Revenue Service ("IRS"). Failure of the University to be organized and operated in accordance with the IRS's requirements for the maintenance of its status as an organization described in Section 501(c)(3) of the Code, or to operate the facilities financed by the Bonds in a manner that is substantially related to the University's charitable purpose under Section 513(a) of the Code, may result in interest payable with respect to the Bonds being included in federal gross income, possibly from the date of the original issuance of the Bonds.

Although Bond Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may otherwise affect a Bondholder's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Bondholder or the Bondholder's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Future legislative proposals, if enacted into law, or clarification of the Code, or court decisions, may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Holders from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislation or clarification of the Code or court decision may also affect the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisers regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Bonds for federal income tax purposes. It is not binding on the IRS or the courts. Furthermore, Bond Counsel cannot give, and has not given, any opinion or assurance about the future activities of the Authority or the University, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The Authority and the University have covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Bonds ends with the issuance of the Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the Authority, the University or the Bondholders regarding the tax-exempt status of the Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the Authority, the University and their appointed counsel, including the Bondholders, would have little, if any, right to participate in, the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the Authority or the University legitimately disagrees may not be practicable. Any action of the IRS, including, but not limited to, selection of the Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Bonds, and may cause the Authority, the University or the Bondholders to incur significant expense.

APPROVAL OF LEGAL PROCEEDINGS

The validity of the issuance of the Bonds under California law is subject to the approval of Orrick, Herrington & Sutcliffe LLP, acting as Bond Counsel. A proposed form of Bond Counsel's legal opinion is attached hereto as Appendix E. Certain legal matters will be passed upon for the Underwriters by Hawkins Delafield & Wood LLP, for the Authority by the Attorney General of the State of California and for the University by its General Counsel. None of the counsel mentioned above undertakes any responsibility to Holders of the Bonds for the accuracy, completeness or fairness of this Official Statement.

UNDERWRITING

The Treasurer of the State of California, with the approval of the Authority and the University, has entered into a Bond Purchase Agreement with Morgan Stanley & Co. Incorporated as representative of the underwriters (the "Series T-1 Underwriters"), pursuant to which and subject to certain conditions, the Series T-1 Underwriters have agreed to purchase the Bonds from the Authority at a price of $125,207,929.92 (being the principal amount of the Bonds, plus an original issue premium of $13,891,397 and less an underwriters' discount of $458,467.08). The Bonds may be offered and sold by the Underwriters to certain dealers and others at prices lower than the public offering prices, and the public offering prices may be changed, from time to time, by the Underwriters.

INDEPENDENT ACCOUNTANTS

The Consolidated Financial Statements of the University as of August 31, 2006 and 2005 and for the years then ended, attached hereto as part of Appendix A, have been audited by PricewaterhouseCoopers LLP, independent accountants, as stated in their report appearing therein.

RATINGS

The Bonds have been given an "Aaa" rating by Moody's, an "AAA" rating by S&P and an "AAA" rating by Fitch. An explanation of the significance of the ratings given can be obtained from Moody's at 99 Church Street, New York, New York 10007, from S&P at 55 Water Street, New York, New York 10041 and from Fitch at One State Street Plaza, New York, New York, 10004. Such ratings reflect only the views of Moody's, S&P and Fitch, respectively, and there is no assurance that either or both of the ratings, if received, will continue for any given period of time or that either or both will not be lowered or withdrawn entirely if, in the judgment of Moody's, S&P or Fitch, circumstances so warrant. Neither the Authority, the University nor the Underwriters have undertaken any responsibility either to bring to the attention of the Holders of the Bonds any proposed change in or withdrawal of the ratings received or to oppose any such proposed revision. Any such change in or withdrawal of the ratings received could have an adverse effect on the market price of the Bonds.

CONTINUING DISCLOSURE

The Authority has determined that no financial or operating data concerning the Authority is material to an evaluation of the offering of the Bonds or to any decision to purchase, hold or sell the Bonds, and the Authority will not provide any such information. The University has undertaken all responsibilities for any continuing disclosure to Holders of the Bonds as described below, and the Authority shall have no liability to the Holders of the Bonds or any other person with respect to the Rule.

In order to assist the Underwriters in complying with the Rule, the University has agreed to undertake in a Continuing Disclosure Agreement between the University and the Trustee, for the benefit of Holders of the Bonds, to provide to the Trustee certain annual information and notices of material events required to be provided by the Rule. The proposed form of that Undertaking is set forth in Appendix D hereto. The Undertaking may be amended or modified without the consent of the Holders of the Bonds under certain circumstances set forth therein.

MISCELLANEOUS

Appendix A has been prepared by the University. The Consolidated Financial Statements appearing as part of Appendix A were audited by PricewaterhouseCoopers LLP, independent accountants, and were furnished by the University for inclusion herein.

Information relating to DTC and the book-entry system described under the heading "THE BONDS - General" and in Appendix C - "BOOK-ENTRY SYSTEM" is based upon information furnished by DTC and is believed to be reliable, but neither the Authority, the

University nor the Underwriters makes any representations or warranties whatsoever with respect to such information.

All of the Appendices hereto are incorporated as an integral part of this Official Statement. The Authority makes no representations or warranties whatsoever with respect to the information contained in Appendices A through E.

The Authority has reviewed the information contained herein which relates to it and has approved all such information for use in this Official Statement.

The execution and delivery of this Official Statement by the undersigned have been duly authorized by the Authority.

CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY

May 22, 2007

/s/ Jose Gomez
Executive Director

Appendix A has been reviewed and approved by the Vice President for Business Affairs and Chief Financial Officer of the University.

THE BOARD OF TRUSTEES OF THE LELAND STANFORD JUNIOR UNIVERSITY

May 22, 2007

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

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APPENDIX A

STANFORD UNIVERSITY
(INCLUDING FINANCIAL STATEMENTS)

Part I of this Appendix A contains general information with respect to Stanford. Part II consists of portions of the University's 2006 Financial Review, including its audited consolidated financial statements for the years ended August 31, 2006 and 2005 (the "Financial Statements"), selected financial data and management's discussion of financial results for the year ended August 31, 2006.

PART I

GENERAL INFORMATION ABOUT STANFORD UNIVERSITY

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

Academic and Research Programs

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

Stanford's research enterprise extends throughout the University. In addition to research conducted in the Schools, Stanford has a number of interdisciplinary research institutes and departments, which bring together faculty and students from throughout the University to collaborate on research topics that cross traditional boundaries. A representative sample includes the Stanford Linear Accelerator Center, the Bioengineering Department, the W.W. Hansen Experimental Physics Laboratory, the Edward L. Ginzton Laboratory, the Woods Institute for the Environment, the Precourt Institute for Energy Efficiency, the Freeman Spogli Institute for International Studies, the Kavli Institute for Particle Astrophysics, the Michelle R. Clayman Institute for Gender Research, the Stanford Institute for Economic Policy Research, the Hopkins Marine Station, the Global Climate and Energy Project and the five Institutes of Medicine: the Cardiovascular Institute, the Comprehensive Cancer Center, the Immunology, Transplantation, and Infection Institute, the Neuroscience Institute and the Institute for Stem Cell Biology and Regenerative Medicine. Extensive library and archival resources are available through the

Stanford University Libraries and Academic Information Resources and the Hoover Institution on War, Revolution and Peace.

Governance and Management

Board of Trustees. Stanford is a trust with corporate powers under the laws of the State of California. The Internal Revenue Service has determined the University to be a tax-exempt organization under section 501(c)(3) of the Internal Revenue Code. Under the provisions of the founding grant of Senator Leland Stanford and Jane Lathrop Stanford and related organizational documents of the University (the "Founding Grant"), the Board of Trustees is custodian of the endowment and all the properties of the University. The Board administers the invested funds, and has the ultimate authority over the annual budget, and policies for operation and control of the University. The powers and duties of the Board of Trustees derive from a combination of the Founding Grant, amendments to the Founding Grant, and legislation and court decrees specific to Stanford. In addition, the Board operates under its own bylaws and a series of resolutions on major policy. The Founding Grant prescribes that the Board of Trustees appoints the President of the University. The Board conducts its business through standing committees, currently consisting of the Committees on Academic Policy, Planning and Management; Alumni and External Affairs; Audit and Compliance; Development; Finance; Land and Buildings; the Medical Center; and Trusteeship. The maximum membership of the Board is 35, including the President of the University. The Board nominates and selects successor trustees, eight of whom shall be alumni trustees.

The following table lists the members of the Board of Trustees as of May 1, 2007:

Burton J. McMurtry (Chairman)	Leslie P. Hume
William M. Barnum	John P. Levin
Robert M. Bass	Hamid R. Moghadam
Jon E. Blum	John P. Morgridge
Young J. Boozer III	Wendy Munger
Mariann Byerwalter	Ellen Ochoa
James E. Canales	Susan P. Orr
Michael H. Choo	Victoria P. Sant
James G. Coulter	Philip G. Satre
Mary B. Cranston	John Scully
Lauren B. Dachs	V. Joy Simmons
Steven A. Denning	Isaac Stein
Bruce W. Dunlevie	Thomas F. Steyer
Ying-Ying Goh	Ross H. Walker
John L. Hennessy	W. Richard West, Jr.
Walter B. Hewlett	Jerry Yang
Pete Higgins	

Administration. The Board of Trustees delegates the responsibility to the President to prescribe the duties of professors and teachers, to set the course of study and the mode and manner of teaching and to exercise all other necessary powers relating to the educational, financial and business affairs of the University, including the operation of the physical plant.

The President appoints, subject to confirmation by the Board, the Provost and Officers of the University. The Stanford Management Company is the operating division of the University responsible for the management for the University's investment assets.

The following table sets forth in summary form certain members of the principal administration of the University as of May 1, 2007:

University Officers

John L. Hennessy
President

John W. Etchemendy
Provost

David F. Demarest
Vice President for Public Affairs

John B. Ford
Senior Vice President for University Resources

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

Robert Reidy
Vice President for Land, Buildings and Real Estate

Martin W. Shell
Vice President for Development

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

Debra L. Zumwalt
Vice President and General Counsel

Stanford Management Company

John F. Powers
President and Chief Executive Officer

University Cabinet

Ann M. Arvin
Vice Provost and Dean, Research

John C. Bravman
Vice Provost for Undergraduate Education

Jonathan M. Dorfan
Director, Stanford Linear Accelerator Center

Patricia J. Gumport
Vice Provost for Graduate Education

Robert L. Joss
Dean, Graduate School of Business

Larry Kramer
Dean, School of Law

Pamela A. Matson
Dean, School of Earth Sciences

Philip A. Pizzo, M.D.
Dean, School of Medicine

James D. Plummer
Dean, School of Engineering

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

Richard P. Saller
Dean, School of Humanities and Sciences

Deborah J. Stipek
Dean, School of Education

Faculty and Staff

For the 2006 fall quarter, the Stanford professoriate had 1,807 members, including members of the Academic Council, certain Medical Center line faculty, assistant professors who

have been appointed subject to their receipt of the Ph.D. degree and other faculty who are not Academic Council members. Of the 1,807-member professoriate, 55% were tenured professors and associate professors and more than 99% hold the highest degree in their respective fields. The Academic Council comprises the main body of the faculty. Of its 1,418 members, 1,280 professors, associate professors and assistant professors are in the tenure line, and 138 professors, associate professors and assistant professors are in the non-tenure line. The student-Academic Council ratio (excluding graduate students who are completing their dissertations but are not attending classes) is 9.5 to 1.

As of August 31, 2006, the University, including the Stanford Linear Accelerator Center, employed 10,291 non-academic staff members. Of these employees, 1,266 were represented by the United Stanford Workers Local 715, Service Employees International Union, and 34 were sworn Santa Clara County reserve deputy sheriffs represented by the Stanford Deputy Sheriffs' Association. Contracts between the University and those unions expire on August 31, 2009 and July 31, 2007, respectively.

Students

For the 2006 fall quarter, the University enrolled 6,689 undergraduate and 8,205 graduate students. During academic year 2005-2006, 1,756 bachelor degrees and 3,093 advanced degrees were conferred. Both the undergraduate and graduate student bodies are among the most highly qualified in the country. The following tables provide a summary for the last five academic years of undergraduate and graduate applications, admissions, enrollment and selectivity.

Undergraduate Enrollment Statistics [(1)(2)(3)]

Academic Year	Applications	Admissions	Enrollment	Selectivity[(4)]	Yield[(5)]
2002-03	19,963	2,473	1,724	12.39 %	69.71 %
2003-04	19,858	2,444	1,721	12.31	70.42
2004-05	20,517	2,586	1,726	12.60	66.74
2005-06	21,476	2,488	1,683	11.59	67.65
2006-07	23,740	2,516	1,710	10.60	67.97

(1) Includes both freshman and transfer students. Each academic year, the University admits approximately 100 transfer students, entering either the sophomore or junior class.

Graduate Enrollment Statistics [2] [3]

Academic Year	Applications	Admissions	Enrollment	Selectivity[4]	Yield[5]
2002-03	30,778	4,218	2,186	13.70 %	51.83 %
2003-04	32,503	4,443	2,300	13.67	51.77
2004-05	30,630	4,361	2,378	14.24	54.53
2005-06	30,222	4,356	2,405	14.41	55.21
2006-07	31,583	4,323	2,337	13.69	54.06

(2) Fall only.
(3) Certain statistics have been restated to conform to current definitions of applications, admissions and enrollment.
(4) Selectivity is Admissions as a percentage of Applications for each year shown.
(5) Yield is Enrollment as a percentage of Admissions for each year shown.

Tuition, Fees and Financial Aid

Stanford is committed to a policy of "need-blind" admission for eligible U.S. Citizens and permanent resident undergraduate students. For academic year 2005-2006, approximately 77% of undergraduates received some form of financial aid, and approximately 45% of undergraduates were awarded need-based financial aid from Stanford. Student financial aid packages have traditionally included scholarships and grants, student employment, and low-interest student loans. Graduate student financial aid is awarded based on academic merit and the availability of aid and consists of fellowships, stipends, and trainee/assistantships. The following table provides a summary of Stanford's undergraduate tuition, average room and board expenses and average financial aid package for the last five academic years:

Academic Year	Tuition and Fees	Room and Board	Total	Average Financial Aid Package [1]
2002-03	$ 27,204	$ 8,680	$ 35,884	$ 7,889
2003-04	28,563	9,073	37,636	8,423
2004-05	30,103	9,503	39,606	8,717
2005-06	31,200	9,932	41,132	9,078
2006-07	32,994	9,932	42,926	9,897[2]

(1) Includes only Stanford-funded scholarship aid (general funds, gifts, endowment and athletics), averaged over the total number of undergraduate students.
(2) Financial Aid Package data for 2006-07 is an estimate until the close of the 2007 fiscal year.

Stanford participates in the Federal Perkins student loan program, available to undergraduate, graduate and professional students. Stanford also provides an institutional loan program funded by donors. Student loan receivables, net of allowances for doubtful accounts, were $63.4 million and $63.1 million as of August 31, 2006 and 2005, respectively.

The Stanford Campus and Other Real Property

Stanford's campus consists of approximately 8,200 acres of land owned by the University near Palo Alto, California, much of which was given to the University under the Founding Grant on the condition that the lands subject to the grant may not be sold. The main campus is in six different governmental jurisdictions. Approximately 5,200 acres are in Santa Clara County, including the municipality of Palo Alto, and approximately 3,000 acres are in San Mateo County, including the municipalities of Woodside, Menlo Park and Portola Valley. The principal academic, research and residential facilities of the University occupy approximately 1,300 acres. Approximately 950 acres have been commercially developed to produce rental income for the University. Income-generating properties include the Stanford Research Park, the Stanford Shopping Center, the Welch Road professional office buildings, the Hyatt Senior Residences, and buildings along El Camino Real and Sand Hill Road occupied by venture capital firms, investment banks, law firms, other service-oriented entities and retailers. Much of the University's other land remains undeveloped and is used primarily for agricultural purposes.

Stanford also owns substantial real property elsewhere. Some of this property has been acquired for expansion or relocation of programs including approximately 29 acres in Redwood City, California and a library storage facility in Livermore, California. The University also owns facilities for use in study programs in Pacific Grove, California, in the District of Columbia and in other countries. Other holdings have been acquired by gift or purchase, and are widely dispersed throughout the United States and abroad.

Capital Improvement Programs

The University makes a significant investment in its facilities for teaching, research and related activities. The University's Capital Plan is based on a projection of the major capital projects that the University intends to pursue relating to its academic mission. The Capital Plan is reviewed annually by the Board of Trustees, and the result is a rolling, three-year plan which includes projects that are in progress or are expected to commence during that three-year period. The fiscal year 2007 three-year Capital Plan, presented to the Board of Trustees in June 2006, included a list of planned capital projects with estimated total costs of $2.2 billion. Expected funding sources for this three-year plan included $1.1 billion of gifts, $714 million of long-term debt and $410 million of reserves and other funds. In addition, short and medium-term debt may be required to bridge timing differences between the capital expenditures and the receipt of gifts. The Capital Plan is subject to change based on funding availability and University priorities. The fiscal year 2007 capital budget was approved by the Board of Trustees at $358 million and the expected funding sources included approximately $218 million of gifts, $75 million of debt and $64 million of reserves and other funds.

In 2000, the Santa Clara County Board of Supervisors approved a General Use Permit (the "2000 GUP") and the Stanford University Community Plan (the "Community Plan"), updating and extending the general use permit and plan previously in force since 1989. These documents govern the use and development of University lands within the County for at least ten years from their approval in 2000. Any change to either document is subject to the approval of the Santa Clara County Board of Supervisors. The 2000 GUP permits Stanford to develop approximately 2,000,000 gross square feet of new academic facilities and approximately 3,000

new housing units for students, faculty and staff. The 2000 GUP contains a number of significant restrictions and conditions governing and limiting such developments. Through August 31, 2006, projects using 303,728 gross square feet of the GUP allotment were completed or under construction and 424 housing units were added.

Hospitals

The University is the sole member of Stanford Hospital and Clinics and Lucile Salter Packard Children's Hospital (collectively, the "Hospitals"). Stanford Hospital and Clinics and Lucile Salter Packard Children's Hospital are each separate not-for-profit public benefit corporations operating the adult and pediatric hospitals and clinics, respectively, that, together with the University's School of Medicine, comprise the Stanford University Medical Center. Each Hospital corporation has its own management with responsibility for its own financial reporting (see Appendix A, Part II "Stanford University 2006 Financial Review – Management Responsibility for Financial Statements"). The management of each Hospital reports to the chief executive officer of that Hospital, and the chief executive officer reports to the board of directors appointed for that Hospital. Management of the Hospitals does not report to management of the University. Each Hospital has its own separate liabilities, including bond debt. The University and the Hospitals are not obligated to pay the debt of one another, and the University and the Hospitals receive separate ratings from the rating agencies.

Distribution of Investment Returns

As described in more detail in Part II of this Appendix A, the Board of the University sets policy governing the payout of returns on the University's investments, an important source of revenue for the support for operations. The Board is expected to consider raising the rate of payout at its meeting in June 2007 in order to increase the portion of current operating expenditures funded by investment earnings. For further information regarding returns distributed for operations, see Part II of this Appendix A under the heading "Discussion of Financial Results – University - The University's Endowment" and Footnote 5, "Investments," to the financial statements contained in Part II of this Appendix A.

Regulatory Matters and Litigation

The Office of Federal Contract Compliance Programs in the U.S. Department of Labor (the "OFCCP") is conducting an audit of the University's affirmative action programs. Complaints have been filed with the OFCCP alleging discrimination against faculty and staff on the basis of gender and race. The University is cooperating fully with the OFCCP in connection with the compliance review and investigation of complaints.

On May 31, 2007, the University received notice from the Internal Revenue Service (the "Service") that the Service has initiated an examination of the University's information and unrelated business income tax returns (Forms 990 and 990T respectively) for the fiscal year ended 2004, and in connection with that examination the Service requested financial records, the University's conflict of interest policy and practices and related information regarding transactions with certain firms associated with specified past and current trustees and senior management disclosed in the University's Form 990, and other information pertaining to the University's tax exempt status.

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

PART II

PORTIONS OF STANFORD UNIVERSITY 2006 FINANCIAL REVIEW

Discussion of Financial Results

Stanford has experienced substantial growth in its consolidated net assets over the past several years. In the 2005-2006 fiscal year (FY06) consolidated net assets increased $3 billion to end the year at $19.9 billion. See Figure 1. Strong investment performance, substantial new gifts and solid operating results for both the Hospitals and the University were responsible for the increase.

In FY06, Stanford's consolidated operating revenues exceeded expenses by $299 million, about the same as in the 2004-2005 fiscal year (FY05). The University, excluding the Hospitals, reported a surplus from operations of $141 million in FY06 versus $130 million in FY05. The Hospitals reported a surplus of $158 million in FY06, compared with $169 million in FY05.

UNIVERSITY

The University ended the year with a surplus from operations of $141 million. Total revenues and expenses each were 9% higher than in FY05.

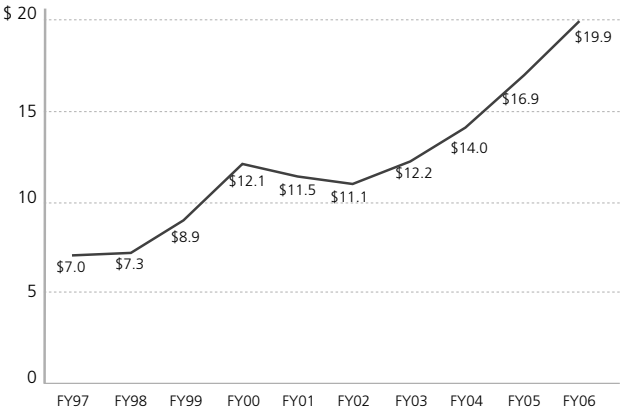
Some of the highlights of FY06 included:

Outstanding Investment Performance. The University had another year of strong investment performance in FY06 with total investment returns of $2.5 billion, down slightly from $2.7 billion in FY05. See the report from the Stanford Management Company on page 55 for an in-depth analysis of University investment strategies and performance.

Record Donor Support. The University was fortunate to experience unprecedented levels of giving in FY06. During the year, the University received over 115,000 gifts from more than 72,000 donors with record support to The Stanford Fund, the Graduate School of Business, the Schools of Earth Sciences, Engineering, and Humanities and Sciences, as well as the Department of Athletics and the Hoover Institution. Highlights of gift activity included:

> Alumnus John Arrillaga gave $100 million to support various programs and capital projects at the University, including the new Stanford Stadium.

FIGURE 1
CONSOLIDATED NET ASSETS (IN BILLIONS)



> Alumnus Philip H. Knight pledged $100 million for the construction of the Knight Management Center, a new Graduate School of Business campus.

> Two $30 million commitments were received for the Initiative on the Environment and Sustainability: one from Priscilla B. and Ward W. Woods, alumnus and trustee, to fund the Woods Institute for the Environment, where environmental programs and collaborative research will be undertaken, and one from alumnus Jay A. Precourt to establish the Precourt Institute for Energy Efficiency.

> Arthur and Toni Rembe Rock gave $10 million to create the Rock Center for Corporate Governance at the Law School.

In October 2006, President Hennessy announced The Stanford Challenge, a $4.3 billion fund raising campaign, the funds from which will be used in seeking solutions to today's complex global problems and educating students

to become tomorrow's leaders. Many of the gifts received by the University in FY06 were in anticipation of this campaign.

STATEMENT OF ACTIVITIES

The Statement of Activities details operating revenues and expenses and other non-operating changes in net assets during the year. University total net assets increased $2.7 billion in FY06 compared with a $2.6 billion increase in FY05. The increase resulted primarily from significant increases in the value of the University's investments and new gifts and pledges.

Unrestricted Net Assets – Results of Operations
Operating activities include all revenues and expenses that support current year teaching and research efforts and other University priorities.

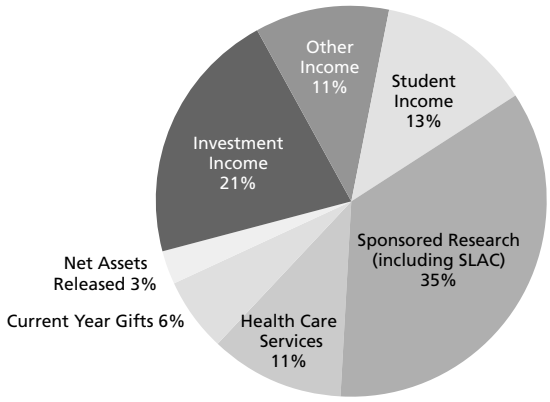
The components of the University's $2.9 billion in operating revenues are shown in Figure 2. Sponsored research support accounts for 35% of total revenues with an additional 21% resulting from investment income distributed for operations and 9% from gifts and pledges in support of operations and net assets released from donor restrictions. Highlights of the University's operating activities are summarized below:

> Student income increased 6% to $376 million in FY06. As a percentage of total revenues, student income represented 13% of University operating revenues, compared to 14% in the prior year. Undergraduate tuition increased by 4% and graduate tuition increased by 6%. Offsetting tuition and room and board revenues is financial aid. Consistent with prior years, financial aid was 28% of gross student income.

> Sponsored research support increased $21 million, or 2%, to $994 million in FY06, representing 35% of University operating revenues. Direct costs, excluding SLAC, decreased $40 million or 7% from FY05, as some large, multi-year research projects such as Gravity Probe B began winding down. Revenues generated from SLAC activities increased $61 million, due mostly to increased construction expenditures for the Linac Coherent Light Source, which will be the world's first x-ray free electron laser when it becomes operational in 2009. Indirect cost recovery was flat at $172 million in FY06.

> Health care services revenues for the University increased $49 million or 18% in FY06 to $316 million, representing 11% of University revenues. Health care services revenues consist primarily of payments made by the Hospitals to the University, including $274 million to the School of Medicine for faculty physicians' services, the blood center and other essential services. An additional $26 million includes other services provided by the School of Medicine and other University departments to the Hospitals, reduced by the value of certain services provided by the Hospitals to the School of Medicine and University. The increase is due primarily to higher professional services revenues being paid by the Hospitals to the School of Medicine. These amounts are eliminated in consolidation. Faculty physicians also generated $16 million in revenues from services provided to external parties, including the Santa Clara Valley Medical Center and the Palo Alto Veterans Administration Hospital.

FIGURE 2
FY06 UNIVERSITY OPERATING REVENUES ($2.9 BILLION)



> The increases in both current year gifts and net assets released from restrictions are a reflection of the University's record setting fund raising efforts in FY06:

- Current year gifts in support of operations increased to $168 million in FY06, from $144 million in FY05. These gifts are immediately expendable for purposes described by the donor.

- Net assets released from restrictions, which consist of payments on prior year pledges and prior year gifts released from donor restrictions, totaled $94 million compared to $82 million in FY05.

> Total investment income included in operations represented 21% of University revenues.

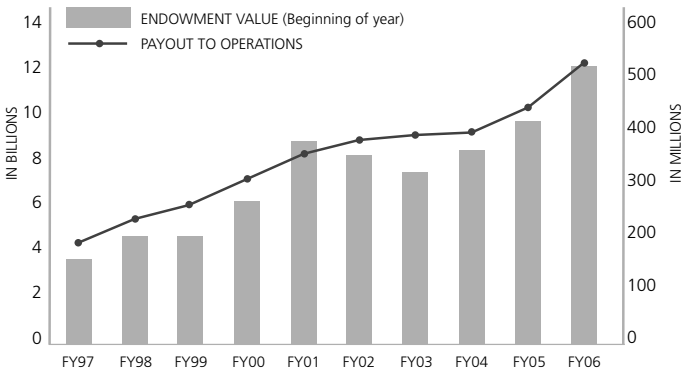
THE UNIVERSITY'S ENDOWMENT

The University's Endowment is a collection of gift funds and reserves that are set aside and invested to support the University's teaching and research missions. The Endowment grew to $14.1 billion as of August 31, 2006, representing approximately 77% of the University's net assets. The Endowment includes pure endowment funds, endowed lands, term endowment funds and funds functioning as endowment.

During FY06, the University determined that living trust agreements, which do not provide current income for operations, should be excluded from the reported Endowment balance. Had funds subject to living trust agreements been excluded from the Endowment in FY05, the balance at the end of the year would have been $11.9 billion instead of the $12.2 billion previously reported.

The increase in the Endowment of approximately $2.2 billion in FY06, after payout to operations of $535 million, resulted from $2.2 billion of investment returns, $253 million in new gifts and transfers of $285 million of expendable funds into the Endowment. Payout to operations from the Endowment is a significant source of operating revenue for the University, covering approximately 19.6% of expenses in FY06 compared to 18.1% in FY05. Distributions in FY06 and FY05 were approximately 4.5% and 4.6%, respectively, of the beginning of year Endowment value.

FIGURE 3
ENDOWMENT VALUE vs PAYOUT TO OPERATIONS



- Endowment income distributed for operations was $535 million in FY06, up from $452 million in FY05. The University's Endowment (see insert at left) is intended to generate investment income that can be used to support operating activities of the University. The largest component of endowment income is the payout from Endowment funds invested in the University's Merged Endowment Pool (MEP). In FY06, the MEP payout was $459 million, up from $385 million in FY05. Over the last ten years, the payout amount has grown appreciably due primarily to strong investment returns, substantial new gifts and transfers of expendable funds into the Endowment. Also included in endowment income is rental income from ground leases of the University's endowed lands including the Stanford Research Park and the Hyatt Senior Living facility, which opened in July 2005. The remainder results mostly from income on funds functioning as endowment that are invested on behalf of the Graduate School of Business and the Hoover Institution. See Figure 3 for a comparison of payout to Endowment value.

- Other investment income was $74 million in FY06 compared to $62 million in FY05. This category includes the payout to operations from the Expendable Funds Pool (EFP), the Endowment Income Funds Pool (EIFP) and the faculty and staff mortgage loan program income. The EFP payout policy seeks to achieve a stable payout to operations, while also providing that amounts in excess of the guidelines be added to the Endowment. EIFP fund holders receive total return. The combined EFP and EIFP payout was approximately $57 million in FY06, compared to $46 million in FY05.

> Special program fees and other income totaled $318 million in FY06, a 9% increase over FY05. This revenue category consists of the external revenues generated by auxiliary enterprises and service centers, executive education, corporate affiliate programs, technology licensing and other programs. Also included are the operations of residential housing and dining (other than room and board revenues from students), catering services, and revenues from the Stanford West Apartments and from intercollegiate athletic activities. Increases were primarily in patent and royalty revenues and corporate affiliate, summer conferences and other program revenues.

Total expenses increased $236 million, or 9%, to $2.7 billion in FY06. As depicted in Figure 4, salaries and benefits comprise approximately 60% of the University's total expenses, depreciation expense was 7% and other operating expenses represented approximately 33%.

> Salaries and benefits increased 11% in FY06 to $1.6 billion. Increases in salaries were related to the University's merit program and certain targeted increases to address equity and retention. In addition, staff headcount increased by approximately 3% during the year. Benefits expense increased due to increases in health care insurance costs and to changes in the University's post retirement medical benefit plan in January 2006.

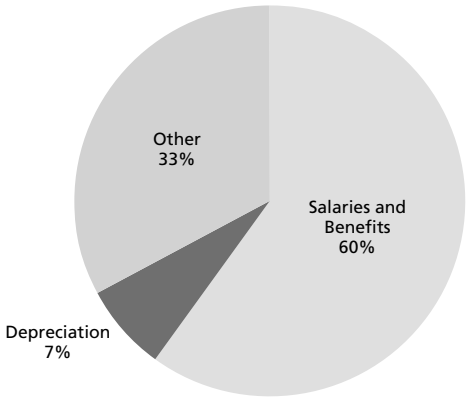
> Depreciation expense increased 3% to $198 million in FY06 from $192 million in FY05 as a number of new projects were placed in service during the year.

> Other operating expenses increased 7% to $900 million in FY06 compared to $839 million in FY05. The majority of the increase is the result of the increased construction activities at SLAC.

Other Changes in Unrestricted Net Assets

In total, unrestricted net assets of the University, including $141 million from operations, increased $1.9 billion. The increase in other changes in unrestricted net assets was due primarily to a $1.8 billion increase in the market value of investments, net of $535 million of endowment income and $74 million of EFP and other investment income distributed for operations. In years with strong investment performance, the University's investment returns exceed the amount of the predetermined payout to operations and the excess is added to the Endowment. In FY06, total investment return of the EFP was $241 million, of which $180 million was added to the Endowment.

FIGURE 4
FY06 UNIVERSITY OPERATING EXPENSES ($2.7 BILLION)



Temporarily Restricted Net Assets

Temporarily restricted net assets increased $441 million to $1.0 billion in FY06. Included in this category are pledges that will become expendable upon payment, gifts pending designation by the donor and gifts for capital construction and certain other purposes. The University recorded $591 million of new temporarily restricted gifts and pledges in FY06, net of discounts and allowances. During the year, $94 million of temporarily restricted net assets were released from their restrictions and utilized to fund operating activities. Another $50 million of capital and other gifts for use by the University and Hospitals were released to unrestricted net assets to fund capital and other non-operating activities. Finally, $55 million of pending funds were moved into permanently restricted endowed funds, following donor instructions.

Permanently Restricted Net Assets

Permanently restricted net assets increased by $328 million to almost $4 billion during FY06. The principal value of these funds must be invested in perpetuity to generate endowment income to be used only for purposes designated by donors. The increase was due primarily to the receipt of $205 million in new gifts and pledges to the Endowment, net of discounts and allowances, and $61 million in gains on investments held in the Endowment that were reinvested per the donor's instruction. In addition, $55 million in funds previously pending designation was transferred from temporarily restricted net assets and $31 million of previously unrestricted funds were transferred to permanently restricted net assets, in order to satisfy matching gift conditions.

FINANCIAL POSITION

The University's Statement of Financial Position reflects the strong investment returns, increased giving and the solid operating results experienced during its current fiscal year. In FY06, total University assets increased $2.8 billion to $21.8 billion, while total University liabilities increased only $106 million to $3.4 billion.

Highlights of the Statement of Financial Position are as follows:

> Cash and cash equivalents increased $25 million in FY06. The University closely manages its cash balances to maximize returns on its funds through short term investments.

> Net pledges receivable increased approximately $110 million to $583 million in FY06, another reflection of the strong year for giving. Valuation allowances were recorded for pledges that may not be collectible or where the pledge terms may be extended.

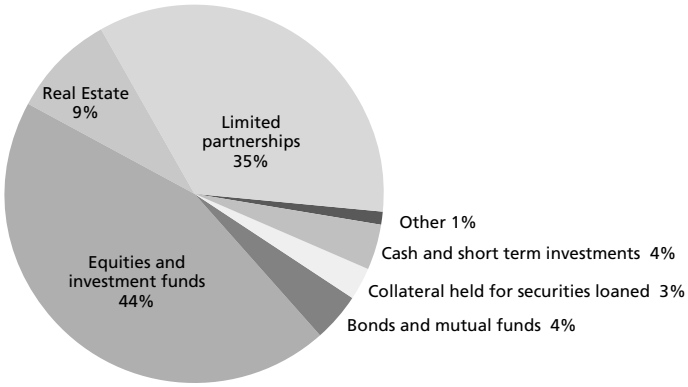
> Total investments increased by $2.4 billion, or 16%, to $17.5 billion. See Figure 5 for investment asset allocation as of August 31, 2006.

> Plant facilities, net of accumulated depreciation, increased $193 million to $2.5 billion in FY06. Net additions to plant facilities in FY06 totaled $337 million, bringing gross plant facilities before accumulated depreciation to $4.6 billion. Additions to the University's plant facilities in FY06 included the newly renovated Stanford Stadium, the Arrillaga Family Recreation Center, the Kavli Institute for Particle Astrophysics and Cosmology at SLAC and the purchase of a 35-acre technology park in Redwood City to be developed to allow for off campus growth.

> Deferred rental income, consisting of prepaid rents on properties leased by the University, was $368 million at August 31, 2006. These amounts are recognized as revenue ratably over the terms of the associated leases. Of this amount, $312 million relates to the Stanford Shopping Center 51-year ground lease, which the University entered into in 2003.

> Notes and bonds payable were $1.3 billion at August 31, 2006, up slightly from FY05 due to increased use of commercial paper during FY06. 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 a number of projects, including academic facilities, residential housing and dining facilities, faculty and staff mortgage loans and other miscellaneous projects.

FIGURE 5
INVESTMENT ASSET ALLOCATION



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.

In 2006, management of the University revised the operating measure for the Hospitals to exclude all investment returns. All unrestricted investment returns that were previously included in operations have been reclassified to other changes in unrestricted net assets.

The Hospitals had a combined operating surplus of $158 million, down 7% from $169 million in FY05. At August 31, 2006, the Hospitals' net assets were $1.5 billion versus $1.1 billion at August 31, 2005, an increase of $337 million or 30%. The following discussion summarizes the individual financial results of SHC and LPCH as shown in the consolidated financial statements.

STANFORD HOSPITAL AND CLINICS

SHC continued to strengthen its financial position in FY06, generating income from operations of $115 million, down 6% from $122 million in FY05.

STATEMENT OF ACTIVITIES

Revenues increased by 10% to $1.5 billion.

> Patient revenues increased by 9%, to $1.4 billion. Inpatient revenues, which make up 55% of the total, grew by 11% on continuing increases in patient volume. Despite significant capacity limitations, total patient days were up by 6%. Outpatient revenues increased by 8%, accounting for 45% of the total.

> Other income, which includes the results of the outreach laboratory and various related entities, was up by 36% to $67 million.

> Net assets released from restrictions were virtually unchanged from FY05 at $4 million.

Expenses increased by 12% to $1.4 billion.

> Salaries and benefits grew by 13% to $596 million. The number of employees was up 6% in response to growth in patient volumes, while salaries were increased to maintain SHC's position in the competitive market for health care professionals.

> Physician services and support increased by 16% to $267 million. This category includes all payments to the University for services, the majority of which are payments to the School of Medicine for physician services. Payments for physician services increased significantly in FY06.

> Depreciation remained essentially unchanged from FY05 at $39 million.

> Other Expense includes such categories as supplies, purchased and professional services, and bad debt expense. These expenses were up 10% to $469 million as a result of both increases in patient volumes and increases in prices.

Total net assets increased $195 million to $650 million.

> Unrestricted net assets increased by $187 million to $624 million. Most of this growth came from SHC's income from operations of $115 million and from investment income and gains of $54 million.

> Temporarily restricted net assets increased by $7 million to $23 million and permanently restricted net assets increased by $1 million to $4 million in FY06.

FINANCIAL POSITION

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

Net assets increased to $650 million in FY06 as SHC continued to strengthen its financial position to support the expansion of services to the community and to support the shared missions of the Hospital and the School of Medicine. Some highlights for the year were:

> Unrestricted cash and investments were $749 million at the end of FY06, an increase of $107 million. As a result, days cash on hand increased from 198 to 205.

> Assets held by a trustee, included in investments in the consolidated financial statements, increased by $291 million to $403 million. The increase represents the unexpended proceeds of the 2006 bond issue, which will be spent on new outpatient facilities, a new electronic clinical information system, and other facilities and systems projects.

> Property and equipment, net of depreciation, increased $133 million to $404 million during FY06. The largest elements of the increase were the purchase of facilities in Redwood City that will be developed to expand the availability of outpatient care, and initial expenditures on the new clinical information system.

> Bonds payable increased to $855 million with the issuance of $428 million in new debt in March 2006. The proceeds of this issue are being used to fund improved and expanded facilities, and new and improved equipment and information systems.

LUCILE PACKARD CHILDREN'S HOSPITAL

LPCH continued its strong financial performance in FY06, generating income from operations of $43 million, down slightly from $47 million in FY05. Net assets increased $142 million to $829 million at August 31, 2006, while net patient revenues grew 6% to $470 million. LPCH has been able to stem the rise in medical inflation through continuous management focus on costs and operational improvements.

Other financial highlights for LPCH:

> Inpatient net revenues, which make up approximately 83% of total net patient revenues, grew by less than 4% as a result of an increase in services provided to Medi-Cal beneficiaries, as well as the Hospital's continued capacity limitations, which have limited its ability to expand inpatient services. The Medi-Cal program reimburses LPCH significantly less than commercial payers. Medi-Cal patients represented 39% of gross patient revenues in FY06 and 33% in FY05.

> Outpatient visits increased by 2% from FY05 and resulted in increased net revenues of $12 million.

> LPCH's community benefits, including services to patients under Medi-Cal and other publicly sponsored programs that reimburse at amounts less than the cost of services provided to the recipients, were $105 million in FY06 compared with $78 million in FY05. LPCH also invests in improving the health of the children of San Mateo and Santa Clara counties through a range of community based programs.

> Unrestricted cash and investments increased by $15 million to $304 million at August 31, 2006. Though this represents a slight decrease in days cash on hand from 252 to 249, this is a direct result of an acquisition of ground leases for future expansion, which will be reimbursed through a release of bond proceeds in FY07. It is anticipated that these sites will be used for future expansion to meet the continued high demand for complex children's and obstetrics services.

LPCH continues to struggle with inpatient capacity issues. These issues are being addressed by current and planned expansions of bed and operating room capacity, as well as adding additional LPCH managed satellite operations throughout the greater community. Construction of additional beds and new outpatient centers for heart, dialysis and cancer, as well as surgical suites and enhancements to diagnostic laboratory and radiology services, are scheduled to be completed by the summer of 2008.

FUTURE FINANCIAL CHALLENGES

Notwithstanding the excellent financial performance of the past several years, the University and the Hospitals face several financial challenges:

> **Federal Research Funding.** Federal funding for research is expected to decline over the next several years as government resources are allocated to other initiatives. This continues to be an area of concern for the University, whose largest source of operating revenues is federally funded research. As funding for research from the federal government declines, the University will need to seek other funding sources for the important research being performed. Such funding could come from non-federal sponsors, University funds and gifts.

> **Affordable Housing.** The residential area surrounding Stanford has some of the highest housing costs in the country, creating a significant obstacle in recruiting and retaining faculty and senior staff. In response to this challenge, the University provides housing assistance salary subsidies, and low-current-interest and deferred-interest mortgages. Housing assistance subsidies were $10 million in FY06 and $9.2 million in FY05. Faculty and staff mortgages increased to $297 million in FY06 from $268 million in FY05.

> **Health Care Services Costs.** Nursing and other hospital personnel compensation, as well as pharmaceutical and equipment costs, are increasing as fast, or faster than, medical reimbursement rates. Due to inpatient capacity constraints, the Hospitals have limited ability to absorb these increased costs through greater volume. As a result, the Hospitals may be challenged to sustain operating margins at FY06 levels.

> **State Reimbursement of Health Care Services Costs.** Low Medi-Cal reimbursement is a statewide issue that has a significant impact on the Hospitals, especially at LPCH, where Medi-Cal volumes have increased substantially over the past year. The Hospitals' estimated cost in excess of reimbursements for Medi-Cal and county services was $154 million in FY06, up from $118 million in FY05. The Hospitals continually interface with their state representatives, as well as with the local Medi-Cal managed care plans, in a long-term effort to bring reimbursement for these patients closer to cost.

> **Commute Trip Limitations.** The number of automobiles entering and departing the campus during peak commute hours is limited under an agreement with the county in which the University is located. As a result, the University is exploring various means of reducing traffic to and from the main campus. In early FY06, the University purchased a nearby technology park to facilitate off campus growth. In addition, the University funds programs to encourage the use of public transportation. These programs cost approximately $5 million in FY06 and the costs are expected to increase in the future.

> **Seismic Risk.** The University is located in a region that is subject to seismic activity. The 1906 San Francisco and 1989 Loma Prieta earthquakes inflicted substantial damage to University facilities. Despite investments in seismic upgrades and retrofits over the past several years, in the event of a significant future earthquake, the University could suffer substantial damage to its facilities and disruption to its operations. The University carries no third-party insurance for facilities damage sustained from a seismic event.

> **Data and Network Security.** Stanford's computer network and enterprise applications are essential to its academic, research and business operations. The network is constantly under attack by individuals outside the University in an attempt to gain access to restricted data or to cause damage to the network in a variety of ways. In response to these threats, the University expends millions of dollars annually in network security services. This type of activity is expected to continue to evolve over time and the cost of preventing these attacks is likely to continue to increase along with the sophistication of those perpetrating the attacks.

The University and Hospitals continued to demonstrate solid fiscal management, further strengthening our financial position. Despite several years of solid performance, we remain mindful of our responsibility to protect and increase Stanford's resources. The University's success is due in large part to the many faculty, staff, students, trustees, alumni, parents and others who have helped to support us in our endeavors to remain a leading edge research university. We look forward to their continued support, which will allow us to build on the past years' financial successes and sustain the University's future.

RANDALL S. LIVINGSTON
Vice President for Business Affairs and
Chief Financial Officer, Stanford University

M. SUZANNE CALANDRA
Controller
Stanford University

DAVID R. EBEL
Interim Chief Financial Officer
Stanford Hospital and Clinics

TIMOTHY W. CARMACK
Chief Financial Officer
Lucile Salter Packard Children's Hospital

Selected Financial Data

FISCAL YEARS ENDED AUGUST 31

	2006	2005	2004	2003	2002	2001
			(in millions of dollars)			
STATEMENT OF ACTIVITIES DATA:						
Student income (A)	$ 376	$ 356	$ 332	$ 318	$ 305	$ 300
Sponsored research support	994	973	924	860	802	727
Health care services	1,851	1,699	1,501	1,277	1,181	1,010
Current year gifts in support of operations	168	144	105	113	104	111
Net assets released from restrictions	117	104	64	72	51	64
Investment income distributed for operations	609	514	460	495	436	411
Special program fees and other income	396	351	329	320	292	275
Total Revenues	4,511	4,141	3,715	3,455	3,171	2,898
Total Expenses	4,212	3,842	3,572	3,319	3,145	2,877
Excess of revenues over expenses	299	299	143	136	26	21
Other changes in net assets	2,709	2,598	1,596	1,028	(487)	(612)
Net change in total net assets	$ 3,008	$ 2,897	$ 1,739	$ 1,164	$ (461)	$ (591)
FINANCIAL POSITION HIGHLIGHTS:						
Cash and cash equivalents	$ 579	$ 629	$ 638	$ 602	$ 522	$ 444
Pledges receivable, net	619	507	454	475	513	527
Investments at fair value	19,263	16,351	13,318	11,806	9,520	10,514
Plant facilities, net of accumulated depreciation	3,164	2,800	2,743	2,723	2,527	2,365
Notes and bonds payable:						
University	1,309	1,266	1,288	1,275	1,246	1,218
Hospitals	1,006	582	587	591	224	228
Total net assets, end of year	19,881	16,873	13,976	12,237	11,073	11,534
University endowment	14,085	12,205	9,922	8,614	7,613	8,250
STUDENTS:						
ENROLLMENT: (B)						
Undergraduate	6,689	6,705	6,753	6,654	6,731	6,637
Graduate	8,201	8,176	8,093	7,800	7,608	7,536
DEGREES CONFERRED:						
Bachelor degrees	1,756	1,790	1,713	1,788	1,692	1,676
Advanced degrees	3,093	2,945	2,931	2,855	2,777	2,936
FACULTY:						
MEMBERS OF THE ACADEMIC COUNCIL	1,418	1,400	1,410	1,396	1,377	1,384
ANNUAL UNDERGRADUATE TUITION RATE (IN DOLLARS)	$ 31,200	$ 29,847	$ 28,563	$ 27,204	$ 25,917	$ 24,441

(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.

Consolidated Statements of Financial Position

AT AUGUST 31, 2006 AND 2005 (in thousands of dollars)

	2006			2005
	UNIVERSITY	HOSPITALS	CONSOLIDATED	CONSOLIDATED
ASSETS				
Cash and cash equivalents	$ 459,871	$ 119,213	$ 579,084	$ 629,215
Accounts receivable, net	257,015	309,701	566,716	466,849
Receivables (payables) from SHC and LPCH, net	41,704	(41,704)	-	-
Inventories, prepaid expenses and other assets	34,173	128,758	162,931	110,933
Pledges receivable, net	583,171	35,634	618,805	506,872
Student loans receivable, net	63,374	-	63,374	63,148
Faculty and staff mortgages and other loans receivable, net	297,956	-	297,956	268,928
Investments at fair value, including securities pledged or on loan of $573,229 and $555,025 for 2006 and 2005, respectively	17,524,666	1,738,545	19,263,211	16,351,384
Plant facilities, net of accumulated depreciation	2,546,480	617,450	3,163,930	2,800,418
Works of art and special collections	-	-	-	-
TOTAL ASSETS	**$ 21,808,410**	**$ 2,907,597**	**$ 24,716,007**	**$ 21,197,747**
LIABILITIES AND NET ASSETS				
LIABILITIES:				
Accounts payable and accrued expenses	$ 570,128	$ 422,082	$ 992,210	$ 942,353
Pending trades	105,796	-	105,796	183,870
Liabilities under security agreements	658,196	-	658,196	631,955
Deferred rental income	367,565	-	367,565	362,164
Income beneficiary share of living trust investments	344,921	-	344,921	301,896
Notes and bonds payable	1,308,562	1,006,202	2,314,764	1,848,892
U.S. government refundable loan funds	52,394	-	52,394	54,005
TOTAL LIABILITIES	**3,407,562**	**1,428,284**	**4,835,846**	**4,325,135**
NET ASSETS:				
Unrestricted	13,448,790	1,174,473	14,623,263	12,423,390
Temporarily restricted	1,001,137	114,079	1,115,216	653,899
Permanently restricted	3,950,921	190,761	4,141,682	3,795,323
TOTAL NET ASSETS	**18,400,848**	**1,479,313**	**19,880,161**	**16,872,612**
TOTAL LIABILITIES AND NET ASSETS	**$ 21,808,410**	**$ 2,907,597**	**$ 24,716,007**	**$ 21,197,747**

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

Consolidated Statements of Activities

FOR THE YEARS ENDED AUGUST 31, 2006 AND 2005 (in thousands of dollars)

	2006			2005
	UNIVERSITY	HOSPITALS	CONSOLIDATED	CONSOLIDATED
UNRESTRICTED NET ASSETS ACTIVITY				
REVENUES:				
Student income:				
Undergraduate programs	$ 213,352	$ -	$ 213,352	$ 204,287
Graduate programs	210,380	-	210,380	197,867
Room and board	95,327	-	95,327	90,936
Student financial aid	(142,898)	-	(142,898)	(137,171)
TOTAL STUDENT INCOME	**376,161**	**-**	**376,161**	**355,919**
Sponsored research support:				
Direct costs - University	523,886	-	523,886	563,968
Direct costs - Stanford Linear Accelerator Center	297,979	-	297,979	237,317
Indirect costs	172,249	-	172,249	172,094
TOTAL SPONSORED RESEARCH SUPPORT	**994,114**	**-**	**994,114**	**973,379**
Health care services:				
Patient care, net	-	1,835,058	1,835,058	1,692,658
Physicians' services and support - SHC and LPCH, net	300,176	(300,176)	-	-
Physicians' services and support - other facilities, net	16,098	-	16,098	6,514
TOTAL HEALTH CARE SERVICES	**316,274**	**1,534,882**	**1,851,156**	**1,699,172**
CURRENT YEAR GIFTS IN SUPPORT OF OPERATIONS	**167,700**	**-**	**167,700**	**144,331**
Net assets released from restrictions:				
Payments received on prior year pledges	60,098	-	60,098	45,169
Prior year gifts released from donor restrictions	34,003	22,943	56,946	58,261
TOTAL NET ASSETS RELEASED FROM RESTRICTIONS	**94,101**	**22,943**	**117,044**	**103,430**
Investment income distributed for operations:				
Endowment	534,734	-	534,734	451,959
Expendable funds pool and other investment income	74,149	-	74,149	62,315
TOTAL INVESTMENT INCOME DISTRIBUTED FOR OPERATIONS	**608,883**	**-**	**608,883**	**514,274**
SPECIAL PROGRAM FEES AND OTHER INCOME	**318,490**	**77,868**	**396,358**	**350,087**
TOTAL REVENUES	**2,875,723**	**1,635,693**	**4,511,416**	**4,140,592**
EXPENSES:				
Salaries and benefits	1,636,697	822,741	2,459,438	2,209,224
Depreciation	198,005	56,329	254,334	243,782
Other operating expenses	900,284	598,467	1,498,751	1,388,476
TOTAL EXPENSES	**2,734,986**	**1,477,537**	**4,212,523**	**3,841,482**
EXCESS OF REVENUES OVER EXPENSES	**$ 140,737**	**$ 158,156**	**$ 298,893**	**$ 299,110**

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

Consolidated Statements of Activities

FOR THE YEARS ENDED AUGUST 31, 2006 AND 2005 (in thousands of dollars)

	2006			2005
	UNIVERSITY	HOSPITALS	CONSOLIDATED	CONSOLIDATED
UNRESTRICTED NET ASSETS ACTIVITY (continued)				
EXCESS OF REVENUES OVER EXPENSES	**$ 140,737**	**$ 158,156**	**$ 298,893**	**$ 299,110**
Other changes in unrestricted net assets:				
Expendable gifts invested in the endowment	3,215	-	3,215	5,512
Investment returns not included in operations	1,753,061	108,663	1,861,724	2,123,657
Hospital equity transfers	22,364	(22,364)	-	-
Capital and other gifts released from restrictions	49,588	11,824	61,412	37,946
Capital gifts released from University	-	764	764	6,580
(Increase) decrease in minimum pension liability	13,149	33,462	46,611	(26,774)
Transfer to permanently restricted net assets	(30,917)	-	(30,917)	(13,128)
Transfer to temporarily restricted net assets	(6,726)	-	(6,726)	(14,503)
Swap interest and unrealized losses	(12,965)	-	(12,965)	(11,019)
Cumulative effect of change in accounting principle for asset retirement obligations	(13,021)	(4,876)	(17,897)	-
Other	(17,145)	12,904	(4,241)	(39,931)
NET CHANGE IN UNRESTRICTED NET ASSETS	**1,901,340**	**298,533**	**2,199,873**	**2,367,450**
TEMPORARILY RESTRICTED NET ASSETS ACTIVITY				
Gifts and pledges, net	590,633	43,141	633,774	249,999
Investment gains	49,408	11,849	61,257	28,256
Change in value of living trust agreements, net	(3,085)	-	(3,085)	(15,894)
Net assets released to operations	(94,101)	(22,943)	(117,044)	(103,430)
Capital and other gifts released to unrestricted net assets	(49,588)	(11,824)	(61,412)	(37,946)
Capital gifts released to Hospitals unrestricted net assets	(764)	-	(764)	(6,580)
Transfer from unrestricted net assets	6,726	-	6,726	14,503
Transfer to permanently restricted net assets	(55,169)	-	(55,169)	(32,055)
Other	(2,786)	(180)	(2,966)	3,464
NET CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	**441,274**	**20,043**	**461,317**	**100,317**
PERMANENTLY RESTRICTED NET ASSETS ACTIVITY				
Gifts and pledges, net	204,993	18,579	223,572	266,078
Investment gains	61,225	-	61,225	133,427
Change in value of living trust agreements, net	(28,273)	-	(28,273)	735
Transfer from unrestricted net assets	30,917	-	30,917	13,128
Transfer from temporarily restricted net assets	55,169	-	55,169	32,055
Other	3,749	-	3,749	(16,307)
NET CHANGE IN PERMANENTLY RESTRICTED NET ASSETS	**327,780**	**18,579**	**346,359**	**429,116**
NET CHANGE IN TOTAL NET ASSETS	**2,670,394**	**337,155**	**3,007,549**	**2,896,883**
Total net assets, beginning of year	15,730,454	1,142,158	16,872,612	13,975,729
TOTAL NET ASSETS, END OF YEAR	**$ 18,400,848**	**$ 1,479,313**	**$ 19,880,161**	**$ 16,872,612**

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

Consolidated Statements of Cash Flows

FOR THE YEARS ENDED AUGUST 31, 2006 AND 2005 (in thousands of dollars)

	2006			2005
	UNIVERSITY	HOSPITALS	CONSOLIDATED	CONSOLIDATED
CASH FLOW FROM OPERATING ACTIVITIES:				
Change in net assets	$ 2,670,394	$ 337,155	$ 3,007,549	$ 2,896,883
Adjustments to reconcile change in net assets to net cash provided by operating activities:				
Cumulative effect of change in accounting principle for asset retirement obligations	13,021	4,876	17,897	-
Depreciation, amortization and loss on disposal of fixed assets	202,346	56,709	259,055	245,033
Net realized and unrealized (gains) losses on investments and security agreements	(2,126,785)	(70,678)	(2,197,463)	(2,544,173)
Net realized and unrealized losses on derivatives	(12,965)	(11,594)	(24,559)	5,810
Actuarial change on living trust obligations	18,493	-	18,493	492
Permanently restricted investment loss (income)	36	(9,463)	(9,427)	(8,687)
Gifts restricted for long term investments	(64,188)	(61,720)	(125,908)	(312,420)
Net (increase) decrease in accounts receivable, pledges receivable and receivables from SHC and LPCH	(54,933)	(343,870)	(398,803)	3,436
Decrease (increase) in inventories, prepaid expenses and other assets	19,827	(49,036)	(29,209)	(21,188)
Increase (decrease) in accounts payable and accrued expenses	75,142	(33,607)	41,535	57,300
Increase (decrease) in deferred rental income	5,401	-	5,401	(8,276)
(Decrease) increase in U.S. government refundable loan funds	(1,611)	-	(1,611)	478
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	**744,178**	**(181,228)**	**562,950**	**314,688**
CASH FLOW FROM INVESTING ACTIVITIES:				
Land, building and equipment purchases	(395,108)	(210,568)	(605,676)	(311,695)
Student, faculty and other loans:				
New loans made	(69,691)	-	(69,691)	(58,481)
Principal collected	40,437	-	40,437	41,855
Purchases of investments	(9,852,862)	(232,348)	(10,085,210)	(9,041,954)
Sales and maturities of investments	9,489,338	72,324	9,561,662	8,758,703
NET CASH USED FOR INVESTING ACTIVITIES	**(787,886)**	**(370,592)**	**(1,158,478)**	**(611,572)**
CASH FLOW FROM FINANCING ACTIVITIES:				
Gifts and reinvested income of endowment, capital projects and other restricted purposes	6,753	61,720	68,473	294,077
(Decrease) increase in investment income for restricted purposes	(36)	9,528	9,492	7,529
Proceeds from borrowing	63,000	428,500	491,500	5,932
Bond issuance costs	-	(18,987)	(18,987)	-
Repayment of notes and bonds payable	(20,877)	(4,445)	(25,322)	(25,993)
Increase in liabilities under security agreements	26,241	-	26,241	11,431
Other financing	(6,000)	-	(6,000)	(5,354)
NET CASH PROVIDED BY FINANCING ACTIVITIES	**69,081**	**476,316**	**545,397**	**287,622**
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**25,373**	**(75,504)**	**(50,131)**	**(9,262)**
Cash and cash equivalents, beginning of year	434,498	194,717	629,215	638,477
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 459,871**	**$ 119,213**	**$ 579,084**	**$ 629,215**
SUPPLEMENTAL DATA:				
Gifts of equipment	$ 16,550	$ 77	$ 16,627	$ 1,439
Interest paid during the year	$ 65,480	$ 31,466	$ 96,946	$ 82,032
Cash collateral received under securities lending agreements	$ 599,191	$ -	$ 599,191	$ 580,789

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

Notes to the Consolidated Financial Statements

1. Basis of Presentation and Significant Accounting Policies

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

University

The University is a private, not-for-profit educational institution, founded in 1885 by Senator Leland and Mrs. Jane Stanford in memory of their son, Leland Stanford Jr. A Board of Trustees (the Board) governs the University, which is organized into seven schools with 1,807 faculty and 14,890 graduate and undergraduate students. The "University" category presented in the financial statements comprises all of the accounts of the University, including the Stanford Alumni Association (SAA), the Hoover Institution and other institutes and research centers and the Stanford Linear Accelerator Center (SLAC).

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

Hospitals

The health care activities of SHC and LPCH (the Hospitals), including revenues, expenses, assets and liabilities, are consolidated in 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.

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. 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. All expenses are recorded as a reduction of unrestricted net assets. Unrestricted net assets include funds designated for operations, plant facilities, endowment gains and funds functioning as endowment.

Management considers all revenues and expenses to be related to operations except investment gains not included in operations, capital and other gifts released from restrictions, expendable gifts invested in the endowment, hospital equity transfers, minimum pension liability and certain other non-operating changes, which are reported in other changes in unrestricted net assets.

Temporarily Restricted Net Assets
Temporarily restricted net assets include gifts and pledges that are subject to donor-imposed restrictions that expire with the passage of time, payment of pledges or specific actions to be undertaken by the University or the Hospitals, at which time they are released and reclassified to unrestricted support. Of the amounts included in temporarily restricted net assets, approximately 45% are for capital projects and 55% are for other institutional support.

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, bankers' acceptances, commercial paper, certificates of deposit, money market funds and all other short-term investments with remaining maturities of 90 days or less at the time of purchase. These amounts are carried at cost, which approximates market. Cash and cash equivalent amounts held in the merged endowment pool, 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. 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. Securities transactions are reported on a trade-date basis. The values of publicly traded fixed income, equity securities and mutual funds are based on quoted market prices and exchange rates, if applicable.

Assets held by other trustees, limited partnerships, real estate and improvements and other investments are recorded based on estimated fair values. Methods for determining estimated fair values include discounted cash flows and estimates provided by trustees and general partners. The estimated fair value of certain of the limited partnership and hedge fund investments is based on valuations provided by the external investment managers as of June 30, adjusted for cash receipts, cash disbursements, significant known valuation changes in market values of publicly held securities contained in the portfolio and securities distributions through August 31. The University believes the carrying amounts of these investments are a reasonable estimate of fair value. Because the limited partnership investments are not readily marketable, their

estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for such investments existed. Such differences could be material.

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

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

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

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

The useful lives used in calculating depreciation for the years ended August 31, 2006 and 2005 are as follows:

	UNIVERSITY	HOSPITALS
Land and building improvements	10-40 years	10-40 years
Buildings	20-40 years	7-40 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 medical malpractice losses. Third-party insurance is purchased to cover liabilities above the self-insurance limits. Estimates of retained exposures are accrued.

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 in 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. Amounts determined to qualify as charity care are not reported as net patient-service revenue. The amount of charity care services, quantified at established rates, was $37,988,000 and $20,057,000 for the years ended August 31, 2006 and 2005, 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 cost in excess of reimbursements for Medi-Cal and county services for the years ended August 31, 2006 and 2005 was $153,975,000 and $117,616,000, respectively.

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.

ASSET RETIREMENT OBLIGATIONS In 2006, the University and the Hospitals adopted Financial Accounting Standards Board Interpretation No. 47 (FIN 47), Accounting for Conditional Asset Retirement Obligations. FIN 47 requires recognition of a liability for the fair value of a legal obligation to perform asset retirement activities that are conditional on a future event if the amount can be reasonably estimated. Asset retirement obligations arise primarily from regulations that specify how to dispose of asbestos if facilities are demolished or undergo major renovations or repairs. The obligation to remove asbestos was estimated using a per square foot estimate.

As a result of an evaluation of available asbestos remediation estimates, the University and the Hospitals recorded liabilities of $13,021,000 and $6,254,000, respectively, for their asset retirement obligations. Accumulated depreciation was measured from 1977, the date the liabilities and capitalized assets would have been recognized if FIN 47 were in effect when the liabilities were incurred. The capitalized assets associated with these asset retirement obligations are considered to be fully depreciated. The cumulative effect of this change in accounting principle was recorded as a reduction of other changes in unrestricted net assets.

CHANGE IN PRESENTATION OF OPERATING RESULTS FOR THE HOSPITALS In 2006, management revised the presentation of operating revenues for the Hospitals to exclude all investment returns. Accordingly, the consolidated statement of activities for the year ending August 31, 2006 reflects all unrestricted investment returns as other changes in unrestricted net assets. For purposes of comparability, the consolidated statement of activities for the year ended August 31, 2005 has been revised to conform its presentation to the current year. This change in presentation had no impact on the total change in unrestricted net assets or the total change in net assets as previously reported. The effects of this change in presentation on the accompanying 2005 consolidated financial statements are as follows, in thousands of dollars:

	AS PREVIOUSLY REPORTED	ADJUSTMENT	AS REPORTED
Investment income distributed for operations	$ 84,537	$ (22,222)	$ 62,315
Total revenues	4,162,814	(22,222)	4,140,592
Excess of revenues over expenses	321,332	(22,222)	299,110
Other changes in unrestricted net assets -			
Investment returns not included in operations	2,101,435	22,222	2,123,657
Net change in unrestricted net assets	2,367,450	-	2,367,450
Net change in total net assets	2,896,883	-	2,896,883

RECENT PRONOUNCEMENTS In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 158 (FAS 158), Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132(R). FAS 158 requires organizations to recognize a net liability or asset to report the funded status of their defined benefit pension and other post retirement benefit plans in their statement of financial position. It also requires that plan assets and benefit obligations be measured as of the date of an employer's statement of financial position. The recognition and disclosure provisions of FAS 158 are effective for the University and the Hospitals for their fiscal year ending August 31, 2007. The provision to measure plan assets and benefit obligations as of the end of the fiscal year is effective for the University and the Hospitals for the fiscal year ending August 31, 2009. Adoption of FAS 158 will reduce unrestricted net assets.

2. Accounts Receivable

Accounts receivable at August 31, 2006 and 2005, in thousands of dollars, are as follows:

	2006	2005
UNIVERSITY:		
U.S. government	$ 79,555	$ 38,353
Non-government sponsors	27,896	29,977
Due from brokers	99,673	80,474
Accrued interest on investments	16,385	15,610
Student	5,689	3,328
Other	29,744	25,828
	258,942	193,570
Less allowances for losses	(1,927)	(2,332)
University accounts receivable, net	257,015	191,238
HOSPITALS:		
Patient receivables	400,759	346,232
Other	14,718	15,639
	415,477	361,871
Less bad debt allowances	(105,776)	(86,260)
Hospitals accounts receivable, net	309,701	275,611
CONSOLIDATED ACCOUNTS RECEIVABLE, NET	**$ 566,716**	**$ 466,849**

3. Pledges Receivable

Pledges are recorded at the present value of the discounted future cash flows, net of allowances. At August 31, 2006 and 2005, pledges receivable are as follows, in thousands of dollars:

	2006			2005
	UNIVERSITY	HOSPITALS	CONSOLIDATED	CONSOLIDATED
One year or less	$ 6,690	$ 22,224	$ 28,914	$ 41,926
Between one year and five years	377,320	17,318	394,638	533,974
More than five years	444,544	1,760	446,304	85,853
	828,554	41,302	869,856	661,753
Less discount/allowance	(245,383)	(5,668)	(251,051)	(154,881)
PLEDGES RECEIVABLE, NET	**$ 583,171**	**$ 35,634**	**$ 618,805**	**$ 506,872**

Conditional pledges for the University, which depend on the occurrence of a specified future and uncertain event, were $43,545,157 and $72,578,157 at August 31, 2006 and 2005, respectively. The Hospitals do not have any conditional pledges.

4. Faculty and Staff Mortgages

In a program to attract and retain excellent faculty and senior staff, the University provides home mortgage financing assistance. Notes amounting to $296,851,000 and $268,344,000 at August 31, 2006 and 2005, 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, 2006 and 2005 are as follows, in thousands of dollars:

	2006 UNIVERSITY	2006 HOSPITALS	2006 CONSOLIDATED	2005 CONSOLIDATED
Cash, short-term investments and derivatives	$ 680,887	$ 695,060	$ 1,375,947	$ 1,670,901
Collateral held for securities loaned	599,191	-	599,191	580,789
Bonds and mutual funds	671,925	306,116	978,041	1,507,800
Public equities and investment funds	8,164,650	10,585	8,175,235	6,675,189
Assets held by other trustees (net of income beneficiary share of $78,667 and $76,440 at August 31, 2006 and 2005, respectively)	89,912	15,021	104,933	97,333
Real estate and improvements, including Stanford Shopping Center and Research Park	1,542,698	-	1,542,698	1,488,174
Limited partnership investments	6,417,208	-	6,417,208	4,256,695
Other	69,958	-	69,958	74,503
	18,236,429	1,026,782	19,263,211	16,351,384
The Hospitals' investment in University's Merged Endowment Pool	(711,763)	711,763	-	-
INVESTMENTS AT FAIR VALUE	**$ 17,524,666**	**$ 1,738,545**	**$ 19,263,211**	**$ 16,351,384**

The University manages a portion of the Hospitals' investments, with a combined market value of $1,171,472,000 and $923,338,000 at August 31, 2006 and 2005, respectively.

Total investment returns reflected in the statements of activities for the years ended August 31, 2006 and 2005, in thousands of dollars, are as follows:

	2006 UNIVERSITY	2006 HOSPITALS	2006 CONSOLIDATED	2005 CONSOLIDATED
Investment income	$ 344,629	$ 50,126	$ 394,755	$ 267,005
Net realized and unrealized gains	2,126,785	70,386	2,197,171	2,544,173
TOTAL INVESTMENT RETURN	**$ 2,471,414**	**$ 120,512**	**$ 2,591,926**	**$ 2,811,178**

Investment returns are net of investment management expenses, including both internal University salaries, benefits and operating expenses and external management fees. For the years ended August 31, 2006 and 2005, total investment returns of $1,952,849,000 and $2,271,721,000, respectively, were reinvested by the University and Hospitals after the distributions to operations and living trust beneficiaries. These amounts are reported in other changes in unrestricted net assets and changes in temporarily and permanently restricted net assets.

The University's investments are held in various pools or in specific instruments to comply with donor requirements as indicated in the following table, as of August 31, 2006 and 2005, in thousands of dollars:

	2006	2005
UNIVERSITY:		
Expendable Funds Pool	$ 1,516,479	$ 1,420,809
Merged Endowment Pool	15,848,335	13,334,966
Living trusts	666,394	603,978
Other investments	1,716,507	1,629,563
	19,747,715	16,989,316
Less funds cross-invested in investment pools (including the Hospitals' investment of $711,763 and $443,039 in 2006 and 2005, respectively, in the University's Merged Endowment Pool)	(2,223,049)	(1,857,686)
	17,524,666	15,131,630
HOSPITALS:		
Investments	1,738,545	1,219,754
INVESTMENTS AT FAIR VALUE	**$ 19,263,211**	**$ 16,351,384**

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 Merged Endowment Pool (MEP). The EIFP segregates income to be distributed to holders of permanently restricted endowment funds. The EIFP is invested in money market instruments and is included in the statement of position as cash and cash equivalents. The payout policy for the EIFP is to distribute total return to fund holders. For the years ended August 31, 2006 and 2005, the distributions were $7,896,000 and $4,165,000, respectively.

The Board has established a policy for the distribution of the investment returns of the EFP. The difference between the actual return of this pool and the required payout is deposited in or withdrawn from funds functioning as endowment. For the years ended August 31, 2006 and 2005, the results of the EFP, in thousands of dollars, are as follows:

	2006	2005
Total investment return of the EFP	$ 240,958	$ 256,654
Less distributions to fund holders and operations	(61,202)	(50,559)
AMOUNTS ADDED TO THE ENDOWMENT	**$ 179,756**	**$ 206,095**

The University's Endowment (see Note 10) is invested with the objective of maximizing long-term total return. The University's policy governing the amounts paid annually from the Endowment to support current operations is designed to protect the value of the Endowment against the expected impact of inflation and to provide real growth of the Endowment, while also funding a relatively constant portion of the University's current operating expenditures. The sources of the payout are earned income on the endowment assets (interest, dividends, rents and royalties), a portion of realized capital gains and funds functioning as endowment, as needed.

To meet the Board-authorized payout rate, earned income and realized gains were distributed for operations in fiscal years 2006 and 2005, as follows, in thousands of dollars:

	2006	2005
Endowment income	$ 258,093	$ 184,102
Realized gains	276,641	267,857
APPROVED PAYOUT	**$ 534,734**	**$ 451,959**

The University utilizes derivatives and other strategies to reduce investment risk, to serve as a temporary surrogate for investment in stocks and bonds, 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 $52,820,000 and $71,246,000 at August 31, 2006 and 2005, respectively.

Foreign currency forward contracts, interest rate swaps, 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 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 noncancelable leases in effect with tenants at August 31, 2006 is as follows, in thousands of dollars:

YEAR	RENTAL INCOME
2007	$ 52,625
2008	47,420
2009	47,000
2010	44,556
2011	38,815
Thereafter	1,137,522
TOTAL	**$ 1,367,938**

6. Plant Facilities

Plant facilities at August 31, 2006 and 2005, in thousands of dollars, are as follows:

	2006			2005
	UNIVERSITY	HOSPITALS	CONSOLIDATED	CONSOLIDATED
Land and improvements	$ 268,951	$ 30,102	$ 299,053	$ 255,502
Buildings	2,771,609	634,785	3,406,394	3,169,699
Equipment, books and software	1,345,267	302,630	1,647,897	1,508,280
Construction in progress	191,499	225,644	417,143	273,058
Plant facilities	4,577,326	1,193,161	5,770,487	5,206,539
Less accumulated depreciation	(2,030,846)	(575,711)	(2,606,557)	(2,406,121)
PLANT FACILITIES, NET OF ACCUMULATED DEPRECIATION	**$ 2,546,480**	**$ 617,450**	**$ 3,163,930**	**$ 2,800,418**

At August 31, 2006, $905,000,000 of fully depreciated plant facilities were still in use.

7. Liabilities Under Security Agreements

At August 31, 2006 and 2005, the University held $599,191,000 and $580,789,000, 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 $59,005,000 and $51,166,000 at August 31, 2006 and 2005, respectively. These amounts are included as investments and liabilities in the University's financial statements. The estimated market value of securities on loan at August 31, 2006 and 2005, was $573,229,000 and $555,025,000, respectively. It is the University's policy to require receipt of collateral on securities lending contracts and repurchase agreements equal to a minimum of 102% of the fair market value of the security loaned.

8. University Notes and Bonds Payable

Notes and bonds payable at August 31, 2006 and 2005, in thousands of dollars, are as follows:

	YEAR OF MATURITY	EFFECTIVE INTEREST RATE 2006	OUTSTANDING PRINCIPAL 2006	OUTSTANDING PRINCIPAL 2005
TAX-EXEMPT:				
California Educational Facilities Authority (CEFA)				
Fixed Rate Revenue Bonds:				
Series M	2026	5.3%	$ 28,320	$ 28,320
Series N	2027	5.2%	180,000	180,000
Series O	2031	5.1%	89,555	89,555
Series P	2013-2023	5.1%	110,440	110,440
Series Q	2032	5.3%	101,860	101,860
Series R	2011-2021	4.9%	111,585	111,585
CEFA Variable Rate Revenue Notes and Bonds:				
Series L	2014-2022	3.3%	83,818	83,818
Series S	2039-2050	3.2% *	181,200	181,200
TAXABLE:				
Fixed Rate Notes and Bonds:				
Stanford University Bonds	2024	6.9%	150,000	150,000
Medium Term Notes	2009-2026	6.6%	150,000	150,000
Other	2015-2016	various	9,042	9,704
Variable Notes and Bonds:				
Stanford University Bonds PARS	2032	5.2%	50,000	50,000
Commercial Paper	2006	5.3% *	63,000	20,000
University notes and bonds payable			1,308,820	1,266,482
Discounts			(258)	(43)
TOTAL			**$ 1,308,562**	**$ 1,266,439**

*Exclusive of interest rate swaps.

At August 31, 2006 and 2005, the fair value of these debt instruments approximated their recorded value.

The University uses interest rate swaps to manage the interest rate exposure of its variable rate debt portfolio. Under the terms of these agreements, the University pays a fixed interest rate, determined at inception, and receives a variable rate on the underlying notional principal amount. At August 31, 2006, the University had swap agreements expiring November 1, 2039 to pay an interest rate of approximately 3.69% on $130,000,000 of the outstanding balance of the CEFA S auction rate bonds and swap agreements expiring through 2011 to pay an interest rate of approximately 6.04% on approximately $53,563,000 of the variable rate commercial paper.

The University incurred interest expense of approximately $65,352,000 and $59,383,000 for fiscal years 2006 and 2005, respectively, which is net of approximately $804,000 and $905,000, respectively, in interest capitalized as a cost of construction. Interest payments on swap agreements, which are included in other changes in unrestricted net assets, totaled $1,624,000 and $4,998,000 for fiscal years 2006 and 2005, respectively.

The University has a taxable commercial paper credit facility that provides for borrowings up to $200,000,000 outstanding at any time. The outstanding balance at August 31, 2006 was $63,000,000. The weighted average days to maturity were 31.7 and the weighted average effective interest rate was 5.3% as of August 31, 2006.

The University also has a tax-exempt commercial paper credit facility that allows for borrowings up to $150,000,000 through CEFA. There was no balance outstanding at August 31, 2006.

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

YEAR ENDING AUGUST 31	PRINCIPAL
2007 Commercial Paper	$ 63,000
2007 Other	715
2008	771
2009	50,833
2010	899
2011	50,972
Thereafter	1,141,630
TOTAL	**$ 1,308,820**

9. Hospitals Notes and Bonds Payable

Bonds and certificates of participation at August 31, 2006 and 2005, in thousands of dollars, are as follows:

	YEAR OF MATURITY	EFFECTIVE INTEREST RATE 2006	OUTSTANDING PRINCIPAL 2006	OUTSTANDING PRINCIPAL 2005
SHC:				
California Health Facilities Financing Authority (CHFFA) Bonds:				
1998 Series B Fixed Rate Bonds	2031	5.0%	$ 174,185	$ 177,430
2003 Series A Fixed Rate Bonds	2007-2023	2.0%-5.0%	100,000	100,000
2003 Series B, C and D Variable Rate Bonds	2036	3.20% *	150,000	150,000
2006 Series A Variable Rate Bonds	2040	3.23% *	260,300	-
2006 Series B Variable Rate Bonds	2045	3.33% *	168,200	-
LPCH:				
Variable Rate Certificates of Participation (Certificates)	2023	3.45% *	33,600	34,800
California Health Facilities Financing Authority (CHFFA):				
Auction Rate Revenue Bonds	2027-2033	2.93%	60,000	60,000
Fixed Rate Revenue Bonds	2013-2027	4.88%	55,000	55,000
Hospitals notes and bonds payable			1,001,285	577,230
Premiums			4,917	5,223
TOTAL			**$ 1,006,202**	**$ 582,453**

*Exclusive of interest rate swaps.

At August 31, 2006 and 2005 the fair value of these debt instruments approximated their recorded value.

In March 2006, the California Health Facilities Financing Authority (CHFFA) issued, on behalf of SHC, bonds in the aggregate principal amount of $428,500,000. The 2006 bonds were comprised of $260,300,000 of 2006 Series A Variable Rate Bonds that were issued as Series A-1, Series A-2 and Series A-3; and $168,200,000 of 2006 Series B Variable Rate Bonds that were issued as Series B-1 and Series B-2.

At August 31, 2006, SHC had swap agreements expiring through November 15, 2040 to pay an interest rate of approximately 3.365% on the 2003 Variable Rate Bonds, 3.73% on the 2006 Series A Variable Rate Bonds and 3.63% on the 2006 Series B Variable Rate Bonds based on an amount equal to the outstanding balance of the bonds.

At August 31, 2006, LPCH had swap agreements expiring through 2023 to pay a fixed interest rate of 6.22% on an amount equal to the outstanding balance of the Certificates.

Payments of principal and interest on the Hospitals' bonds are collateralized by a pledge against the revenues of the respective hospital. Certain of the bonds and certificates of participation are insured by municipal bond guaranty policies.

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

Holders of the Certificates have the option to tender the Certificates weekly. In order to ensure the availability of funds to purchase any Certificates tendered that the remarketing agent is unable to remarket, LPCH has obtained a standby bond purchase agreement that expires in September 2015. LPCH may redeem the Certificates, in whole or in part, prior to the stated maturities at par value. LPCH has the option to convert the Certificates to a fixed rate.

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 and certificates, in thousands of dollars, are summarized below:

YEAR ENDING AUGUST 31	PRINCIPAL
2007	$ 8,300
2008	9,200
2009	9,135
2010	10,060
2011	10,450
Thereafter	954,140
TOTAL	**$ 1,001,285**

10. University Endowment

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

Pure endowment funds and endowed lands are subject to the restrictions of the gift instruments requiring that the principal be invested in perpetuity and the income and an appropriate portion of gains only be spent as provided for under the California Uniform Management of Institutional Funds Act (CUMIFA). In the absence of further donor restrictions, the amount of gains that are to be expended in a given year is determined through the endowment payout policy discussed in Note 5. The University classifies the original endowment gift and any donor-imposed restricted gains as permanently restricted net assets and reports all remaining reinvested gains as unrestricted net assets. The University recognizes the limitations on expending such gains that are specified in CUMIFA.

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

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

The University's Endowment is intended to generate investment income that can be used to support the current operations of the University. During 2006, management reviewed the components of the Endowment and determined that funds subject to living trust agreements should be excluded from the Endowment, as they do not currently generate revenue that can be distributed for operations.

Changes in the University's Endowment, excluding pledges, for the years ended August 31, 2006 and 2005, in thousands of dollars, are as follows:

	2006	2005
ENDOWMENT, BEGINNING OF YEAR	$ 12,205,035	$ 9,922,041
Less living trust agreements	(321,500)	-
Endowment, beginning of year, as adjusted	11,883,535	9,922,041
INVESTMENT RETURNS:		
Earned endowment income	257,702	184,829
Unrealized and realized gains	1,940,801	2,082,917
Total investment returns	2,198,503	2,267,746
Amounts distributed for operations	(534,734)	(451,959)
Gifts	252,572	235,598
Funds invested in endowment	105,989	51,989
EFP returns invested in endowment	179,756	206,095
Other	(945)	(26,475)
Net increase in endowment	2,201,141	2,282,994
ENDOWMENT, END OF YEAR	**$ 14,084,676**	**$ 12,205,035**

11. University Gifts and Pledges

The University's Office of Development (OOD) reports total gifts based on contributions received in cash or property during the fiscal year. Gifts and pledges reported for financial statement purposes are recorded on the accrual basis. The following summarizes gifts and pledges received for the years ended August 31, 2006 and 2005, per the statement of activities reconciled to the cash basis (as reported by OOD), in thousands of dollars:

	2006	2005
Current year gifts in support of operations	$ 167,700	$ 144,331
Expendable gifts invested in the endowment	3,215	5,512
Temporarily restricted - general	573,092	190,639
Temporarily restricted - capital	17,541	23,264
Permanently restricted - endowment	204,847	243,365
Permanently restricted - student loans	146	6
TOTAL PER STATEMENT OF ACTIVITIES	**966,541**	**607,117**
Adjustments to gift total as reported by OOD:		
New pledges	(542,319)	(300,016)
Payments made on pledges	286,447	203,903
Non-government grants, recorded as sponsored research support when earned	58,870	71,415
Pledge discounts and other adjustments	141,569	29,513
Other	55	(8,346)
TOTAL AS REPORTED BY OOD	**$ 911,163**	**$ 603,586**

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. The policy also provides that no interest is credited to gifts that are fully expendable.

12. Functional Expenses

Expenses for each of the years ended August 31, 2006 and 2005 are categorized on a functional basis as follows, in thousands of dollars:

	2006	2005
UNIVERSITY:		
Organized research (direct costs)	$ 814,231	$ 809,781
Instruction and departmental research	878,124	811,341
Auxiliary activities	499,222	418,798
Administration and general	192,221	182,660
Libraries	137,514	126,281
Development	55,572	45,975
Student services	83,742	76,019
SLAC construction	74,360	27,950
	2,734,986	2,498,805
HOSPITALS:		
Health care services	1,477,537	1,342,677
TOTAL CONSOLIDATED EXPENSES	**$ 4,212,523**	**$ 3,841,482**

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

13. University Retirement Plans

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

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, amounted to approximately $83,000,000 and $78,200,000 for the years ended August 31, 2006 and 2005, respectively.

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

A minimum liability adjustment is required when the actuarial present value of the accumulated benefit obligation exceeds plan assets and accrued pension liabilities. The University had no minimum liability for 2006. For 2005, the University had a minimum liability of $13,149,000. The increase or decrease in the minimum liability is reported in other changes in unrestricted net assets.

POST RETIREMENT MEDICAL BENEFIT PLAN The University's employees may become eligible for post retirement medical benefits upon retirement. Retiree health plans are paid for in part by retiree contributions, which are adjusted annually. Benefits are provided through various health care payers or health maintenance organizations, whose charges are based on either the benefits paid during the year or annual premiums. Health benefits are provided to retirees and their covered dependents. The University recognizes the current cost of post retirement medical benefits over the periods that employees render service and the prior service obligation over 20 years.

The University uses June 30 as the measurement date to value the plan assets and the benefit obligation of the Pension and Post Retirement Medical Benefit plans.

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

	PENSION		POST RETIREMENT MEDICAL	
	2006	2005	2006	2005
CHANGE IN PLAN ASSETS				
Fair value of plan assets at beginning of year	$ 262,427	$ 242,880	$ 70,444	$ 56,624
Actual return on plan assets	30,963	28,739	4,102	5,911
Employer contributions	-	9,686	16,313	17,209
Plan participants' contributions	-	-	5,000	4,332
Benefits paid	(18,956)	(18,878)	(14,670)	(13,632)
FAIR VALUE OF PLAN ASSETS AT END OF YEAR	**$ 274,434**	**$ 262,427**	**$ 81,189**	**$ 70,444**
CHANGE IN PROJECTED BENEFIT OBLIGATION				
Benefit obligation at beginning of year	$ 282,486	$ 269,218	$ 328,847	$ 225,486
Service cost	5,425	5,306	10,257	6,862
Interest cost	14,288	15,474	16,966	13,155
Plan participants' contributions	-	-	5,000	4,332
Amendments	5,029	-	-	122,184
Actuarial (gain) loss	(20,494)	11,366	(83,347)	(29,540)
Benefits paid	(18,956)	(18,878)	(14,670)	(13,632)
BENEFIT OBLIGATION AT END OF YEAR	**$ 267,778**	**$ 282,486**	**$ 263,053**	**$ 328,847**
AMOUNTS RECOGNIZED IN CONSOLIDATED FINANCIAL STATEMENTS				
Plan assets minus projected benefit obligation	$ 6,656	$ (20,059)	$ (181,864)	$ (258,403)
Contributions after the measurement date	-	-	3,035	3,553
Unrecognized prior service cost	9,005	5,001	72,251	79,856
Unrecognized net actuarial (gain) loss	(11,809)	19,498	42,528	130,479
NET AMOUNT RECOGNIZED IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION	**$ 3,852**	**$ 4,440**	**$ (64,050)**	**$ (44,515)**
Prepaid (accrued) benefit liability	$ 3,852	$ (13,710)		
Intangible asset	-	5,001		
Minimum pension liability	-	13,149		
NET AMOUNT RECOGNIZED	**$ 3,852**	**$ 4,440**		
ACCUMULATED BENEFIT OBLIGATION	**$ 260,560**	**$ 276,137**		

Net benefit expense related to the Pension and Post Retirement Medical Benefit plans for the years ended August 31, 2006 and 2005, in thousands of dollars, includes the following components:

	PENSION		POST RETIREMENT MEDICAL	
	2006	2005	2006	2005
Service cost	$ 5,425	$ 5,306	$ 10,257	$ 6,862
Interest cost	14,288	15,474	16,966	13,155
Expected return on plan assets	(20,150)	(19,175)	(5,636)	(4,530)
Amortization of prior service cost	1,025	1,025	7,605	(5,291)
Recognized net actuarial losses	-	-	6,138	9,195
NET PERIODIC BENEFIT EXPENSE	**$ 588**	**$ 2,630**	**$ 35,330**	**$ 19,391**

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	
	2006	2005	2006	2005
Discount rate	6.25%	5.25%	6.25%	5.25%
Covered payroll growth rate	5.52%	5.52%	N/A	N/A

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

	PENSION		POST RETIREMENT MEDICAL	
	2006	2005	2006	2005
Discount rate	5.25%	6.00%	5.25%	6.00%
Expected return on plan assets	8.00%	8.00%	8.00%	8.00%
Covered payroll growth rate	5.52%	5.52%	N/A	N/A

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

To determine the accumulated post retirement medical benefit obligation as of June 30, 2006, a 10% annual rate of increase in the per capita costs of covered health care was assumed for 2007-2008, declining gradually to 5% by 2012 and remaining at this rate thereafter. For covered dental plans, a 6.5% annual rate of increase was assumed for 2007-2008, declining to 5% by 2009 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 $39,866,000 and the aggregate annual service and interest cost by $5,072,000. Decreasing the health care cost trend rate by 1% in each future year would decrease the accumulated post retirement medical benefit obligation by $32,490,000 and the aggregate annual service and interest cost by $4,015,000.

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

	PENSION		POST RETIREMENT MEDICAL	
	2006	2005	2006	2005
ASSET CATEGORY				
Domestic equity	29%	54%	-	69%
International equity	9%	18%	-	-
Fixed income	26%	15%	85.7%	23%
Short term investments	20%	-	-	-
Real estate	15%	12%	14.3%	4%
Other	1%	1%	-	4%
TOTAL PORTFOLIO	100%	100%	100%	100%

The weighted-average target asset allocation for the Pension plan is 45% equity and 55% fixed income. For the Post Retirement Medical Benefit plan the weighted-average target asset allocation is 38% domestic equity, 37% international equity and 25% fixed income. These target asset allocations are meant to result in a favorable long-term rate of return from a diversified portfolio. The Pension and Post Retirement Medical Benefit plans moved their assets to a new investment manager on September 1, 2006. In preparation for the transition, certain investments were liquidated, causing actual asset allocations to differ significantly from target allocations at June 30, 2006.

EXPECTED CONTRIBUTIONS No contributions are expected to be made to the Pension plan for the fiscal year ending August 31, 2007. The University expects to contribute $17,240,000 to its Post Retirement Medical Benefit plan during the fiscal year ending August 31, 2007.

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

		POST RETIREMENT MEDICAL	
FISCAL YEAR	PENSION PLAN	EXCLUDING MEDICARE SUBSIDY	WITH MEDICARE SUBSIDY
2007	$ 21,990	$ 11,673	$ 10,543
2008	19,923	12,762	11,472
2009	19,804	13,969	12,539
2010	20,672	15,251	13,680
2011	21,421	16,415	14,691
2012 - 2016	98,444	98,820	93,156

14. Hospitals Retirement Plans

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

DEFINED CONTRIBUTION PLAN Employer contributions to the defined contribution retirement plan are based on a percentage of participant annual compensation. Employer contributions to this plan amounted to approximately $38,013,000 and $33,241,000 for the years ended August 31, 2006 and 2005, 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.

A minimum liability adjustment is required when the actuarial present value of the accumulated benefit obligation exceeds plan assets and accrued pension liabilities. The Hospitals had a minimum liability of $3,593,000 and $37,055,000 for 2006 and 2005, respectively. The increase or decrease in the minimum liability is reported in other changes in unrestricted net assets.

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

The Hospitals use June 30 as a measurement date to value the plan assets and the benefit obligation of their Pension and Post Retirement Medical Benefit plans.

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

	PENSION		POST RETIREMENT MEDICAL	
	2006	2005	2006	2005
CHANGE IN PLAN ASSETS				
Fair value of plan assets at beginning of year	$ 123,886	$ 116,516	$ -	$ -
Actual return on plan assets	13,469	9,956	-	-
Employer contributions	10,690	3,015	3,982	3,803
Benefits paid	(7,321)	(5,601)	(3,982)	(3,803)
FAIR VALUE OF PLAN ASSETS AT END OF YEAR	**$ 140,724**	**$ 123,886**	**$ -**	**$ -**
CHANGE IN PROJECTED BENEFIT OBLIGATION				
Benefit obligation at beginning of year	$ 181,797	$ 151,104	$ 67,719	$ 74,663
Service cost	2,144	1,848	1,954	2,134
Interest cost	9,374	9,286	3,298	4,327
Amendments	-	-	-	(6,787)
Actuarial (gain) loss	(28,432)	25,160	(492)	(2,815)
Benefits paid	(7,321)	(5,601)	(3,982)	(3,803)
BENEFIT OBLIGATION AT END OF YEAR	**$ 157,562**	**$ 181,797**	**$ 68,497**	**$ 67,719**
AMOUNTS RECOGNIZED IN CONSOLIDATED FINANCIAL STATEMENTS				
Plan assets minus projected benefit obligation	$ (16,838)	$ (57,911)	$ (68,497)	$ (67,719)
Contributions made after measurement date	-	618	-	-
Estimated net benefit payments	-	-	705	582
Unrecognized prior service cost	-	-	(4,253)	(5,087)
Unrecognized net actuarial loss	9,188	43,763	115	667
NET AMOUNT RECOGNIZED IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION	**$ (7,650)**	**$ (13,530)**	**$ (71,930)**	**$ (71,557)**
Accrued benefit liability	$ (12,092)	$ (51,203)		
Prepaid benefit liability	849	-		
Contributions after the measurement date	-	618		
Minimum pension liability	3,593	37,055		
NET AMOUNT RECOGNIZED	**$ (7,650)**	**$ (13,530)**		
ACCUMULATED BENEFIT OBLIGATION	**$ 152,503**	**$ 175,089**		

Net benefit expense related to the plans for the years ended August 31, 2006 and 2005, in thousands of dollars, includes the following components:

	PENSION		POST RETIREMENT MEDICAL	
	2006	2005	2006	2005
Service cost	$ 2,144	$ 1,848	$ 1,954	$ 2,134
Interest cost	9,374	9,286	3,298	4,327
Expected return on plan assets	(9,729)	(9,161)	-	-
Amortization of prior service cost	-	-	(834)	39
Recognized net actuarial losses	2,403	335	60	582
NET PERIODIC BENEFIT EXPENSE	**$ 4,192**	**$ 2,308**	**$ 4,478**	**$ 7,082**

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	
	2006	2005	2006	2005
Discount rate	6.49 - 6.53%	5.25%	6.42%	5.00%
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	
	2006	2005	2006	2005
Discount rate	5.25%	6.25%	5.00%	5.75%
Expected return on plan assets	3.00 - 8.00%	3.00 - 8.00%	N/A	N/A
Covered payroll growth rate	5.50%	5.50%	N/A	N/A

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

To determine the accumulated post retirement medical benefit obligation as of June 30, 2006, an 11.3% annual rate of increase in the pre-65 per capita costs, a 12.5% annual rate of increase in the post-65 prescription drug per capita costs and a 10% rate of increase in the post-65 per capita cost of all other medical benefits were assumed for 2006-2007, declining gradually to 5% by 2011-2014 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 $2,338,000 and the aggregate annual service and interest cost by $205,000. Decreasing the health care cost trend rate by 1% in each future year would decrease the accumulated post retirement medical benefit obligation by $2,107,000 and the aggregate annual service and interest cost by $186,000.

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

	PENSION	
ASSET CATEGORY	2006	2005
Equity securities	67%	70%
Fixed income	22%	22%
Real estate	11%	8%
TOTAL PORTFOLIO	100%	100%

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

EXPECTED CONTRIBUTIONS The Hospitals expect to contribute $1,152,000 and $4,379,000 to their Pension plan and Post Retirement Medical Benefit plan, respectively, during the fiscal year ending August 31, 2007.

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

		POST RETIREMENT MEDICAL	
FISCAL YEAR	PENSION PLAN	EXCLUDING MEDICARE SUBSIDY	WITH MEDICARE SUBSIDY
2007	$ 6,884	$ 4,672	$ 4,379
2008	7,339	5,088	4,743
2009	7,858	5,452	5,046
2010	8,427	5,825	5,351
2011	9,024	6,241	5,701
2012 - 2016	55,988	36,378	32,651

15. Operating Leases

The University and the Hospitals lease certain equipment and facilities under operating leases expiring at various dates. Total rental expense under these leases for the years ended August 31, 2006 and 2005 was $29,760,000 and $29,732,000, respectively, for the University and $35,990,000 and $32,173,000, respectively, for the Hospitals.

Net minimum future operating lease payments and related present value assuming a 5.25% discount rate for periods subsequent to August 31, 2006, in thousands of dollars, are as follows:

	MINIMUM LEASE PAYMENTS		PRESENT VALUE OF MINIMUM LEASE PAYMENTS	
YEAR ENDING AUGUST 31	UNIVERSITY	HOSPITALS	UNIVERSITY	HOSPITALS
2007	$ 18,807	$ 28,751	$ 18,363	$ 28,072
2008	14,646	24,231	13,587	22,479
2009	14,688	20,974	12,947	18,487
2010	12,312	17,698	10,311	14,821
2011	9,825	15,002	7,817	11,937
Thereafter	56,055	58,394	40,250	41,930
TOTAL	**$ 126,333**	**$ 165,050**	**$ 103,275**	**$ 137,726**

16. Related Party Transactions

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

17. Commitments and Contingencies

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

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

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

The health care industry is subject to numerous laws and regulations of federal, state and local governments. Compliance with these laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time. Recently, government activity has increased with respect to investigations and allegations concerning possible violations by health care providers. 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.

Approximately 40% 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 currently no expired agreements.

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, 2006, the University had contractual obligations of approximately $55,822,000 in connection with major construction projects. Remaining expenditures on construction in progress are estimated to be $188,167,000, which will be financed with certain unexpended plant funds, gifts and debt. At August 31, 2006, the remaining commitment on contracts for the construction and remodeling of Hospital facilities was approximately $65,769,000.

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, 2006, the aggregated amount of such unfunded commitments was $5,727,143,000.

GUARANTEES AND INDEMNIFICATIONS The University (including the Hospitals) enters into mutual indemnification agreements in the normal course of its 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, 2006.

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, which appear on pages 27 through 52, present fairly, in all material respects, the financial position of Stanford University (the University) at August 31, 2006 and 2005, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

San Francisco, California
December 15, 2006

Management Responsibility for Financial Statements

The University is the sole member of Stanford Hospitals 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 are 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 their financial information, the consolidated financial statements on the preceding pages have been prepared in conformity with generally accepted accounting principles.

In accumulating and controlling financial data, management of the University and the Hospitals maintain separate systems of internal accounting controls. Management of the respective entities believe 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 make extensive tests of procedures and controls, it is neither practical nor necessary for them to scrutinize a large portion of transactions.

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

RANDALL S. LIVINGSTON
Vice President for Business Affairs and
Chief Financial Officer, Stanford University

M. SUZANNE CALANDRA
Controller
Stanford University

DAVID R. EBEL
Interim Chief Financial Officer
Stanford Hospital and Clinics

TIMOTHY W. CARMACK
Chief Financial Officer
Lucile Salter Packard Children's Hospital

APPENDIX B

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

The following is a summary of certain provisions of the Indenture and the Loan Agreement, that are not described elsewhere in this Official Statement. The Bonds are issued and secured pursuant to the Indenture and the Loan Agreement. References to the Indenture, the Loan Agreement, or a fund or account refer to the related document, entity, fund or account with respect to the Bonds, as described in this Official Statement. Unless otherwise specified to the contrary in this Appendix B, all definitions and provisions summarized refer to the Indenture and the Loan Agreement. These summaries do not purport to be comprehensive and reference should be made to the Indenture and the Loan Agreement for a full and complete statement of their provisions.

DEFINITIONS OF CERTAIN TERMS

Unless the context otherwise requires, the terms defined in this summary shall, for all purposes of this summary, have the meanings herein specified, to be equally applicable to both singular and plural forms of any of the terms herein defined. Unless otherwise defined in this summary, all terms used herein or elsewhere in the Official Statement shall have the meanings assigned to such terms in the Indenture or the Act, as applicable.

"Act" means the California Educational Facilities Authority Act, constituting Chapter 2 (commencing with Section 94100) of Part 59 of Division 10 of Title 3 of the Education Code of the State, as now in effect and as it may from time to time hereafter be amended or supplemented.

"Act of Bankruptcy" of the Authority or the Borrower means any of the following with respect to such party:

(1) the commencement by such party of a voluntary case under the federal bankruptcy laws, as now in effect or hereafter amended, or any other applicable federal or state bankruptcy, insolvency or similar laws;

(2) the filing of a petition with a court having jurisdiction over such party to commence an involuntary case against such party under the federal bankruptcy laws, as now in effect or hereafter amended, or any other applicable federal or state bankruptcy, insolvency or similar laws, which shall not have been stayed or dismissed within 60 days;

(3) such party shall admit in writing its inability to pay its debts generally as they become due;

(4) a receiver, trustee or liquidator of such party shall be appointed in any proceeding brought against such party;

(5) the making of a general assignment by such party for the benefit of its creditors; or

(6) the entry by such party into an agreement of composition with its creditors.

"Additional Payments" means the payments to be made by the Borrower to the Trustee or the Authority in accordance with the Loan Agreement.

"Administrative Fees and Expenses" means any application, commitment, financing or similar fee charged, or reimbursement for administrative or other expenses incurred, by the Authority or the Trustee.

"Authority" means the California Educational Facilities Authority, a public instrumentality of the State established by the Act.

"Authorized Representative" means with respect to the Borrower its chief financial officer, its controller, the chief executive officer of the Stanford Management Company or such other person as may be designated to sign for the Borrower by a Certificate of the Borrower signed by its chief financial officer, its controller or the chief executive officer of the Stanford Management Company and filed with the Trustee.

"Base Loan Payments" means the payments required to be made by the Borrower to the Trustee for the account of the Authority in accordance with the Loan Agreement for the payment of the principal (whether at maturity or upon prior redemption) of and interest to the date fixed for redemption or maturity and premium, if any, on the Bonds.

"Bonds" means the California Educational Facilities Authority Revenue Bonds (Stanford University), issued in one or more Series, authorized by, and at any time Outstanding pursuant to, the Indenture.

"Borrower" means The Board of Trustees of the Leland Stanford Junior University, a body having corporate powers under the Constitution and laws of the State, and its successors or assigns or any co-obligor permitted pursuant to the Loan Agreement.

"Certificate," "Statement," "Request," "Order" or "Requisition" of the Authority or the Borrower mean, respectively, a written certificate, statement, request, order or requisition signed in the name of the Authority by its Chairman or a deputy thereto, its Executive Director, or its Deputy Executive Director or by any other person who is specifically authorized by a resolution of the Authority to execute such a document on its behalf, or in the name of the Borrower by an Authorized Representative of the Borrower. Any such instrument and supporting opinions or representations, if any, may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined shall be read and construed as a single instrument. If and to the extent required by the Indenture, each such instrument shall include the statements provided for in the Indenture.

"Code" means the Internal Revenue Code of 1986, as amended, or any successor code or law and any regulations in effect or promulgated thereunder.

"Continuing Disclosure Agreement" means that certain Continuing Disclosure Agreement, dated the date of issuance and delivery of the Bonds, between the Borrower and the Trustee, as originally executed and as it may be amended in accordance with its terms.

"Depository" means any securities depository that is a clearing agency under federal law operating and maintaining, with its participants or otherwise, a book entry-system to record ownership of book-entry interests in Bonds, and to effect transfers of book-entry interests in Bonds in book-entry form, and includes, and means initially, The Depository Trust Company, New York, New York.

"Favorable Opinion of Bond Counsel" means an Opinion of Counsel by a nationally recognized bond counsel firm experienced in matters relating to the exclusion from gross income for federal income tax purposes of interest payable on obligations of state and political subdivisions.

"Fitch" means Fitch, Inc., doing business as Fitch Ratings, a corporation organized and existing under the laws of the State of Delaware, its successors and their assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a nationally recognized statistical rating organization, "Fitch" shall be deemed to refer to any other nationally recognized statistical rating organization designated by the Authority following receipt of a Request of the Borrower.

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

"Indenture" means the Indenture, as originally executed or as it may from time to time be supplemented, modified or amended by any Supplemental Indenture entered into pursuant to the provisions thereof.

"Initial Series T Bonds" means the California Educational Facilities Authority Revenue Bonds (Stanford University), Series T-1 and, if issued concurrently with such Series T-1 Bonds, the California Educational Facilities Authority Revenue Bonds (Stanford University), Series T-2 and Series T-3.

"Interest Payment Date" means, with respect to the Initial Series T Bonds, March 15 and September 15 in each year, commencing March 15, 2008, and, with respect to any additional Series of Bonds, the date or dates so indicated in the Supplemental Indenture for such Series.

"Investment Securities" means any of the following obligations as and to the extent that such obligations are at the time legal investments under the Act for moneys held under the Indenture and then proposed to be invested (the Trustee is entitled to rely upon any investment direction from the Borrower as a certification that such investment constitutes an Investment Security):

(1) direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury, and

CATS and TIGRS) or obligations the principal of and interest on which are unconditionally guaranteed by the United States of America;

(2) bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself): (a) U.S. Export-Import Bank ("Eximbank"), (b) Farmers Home Administration ("FmHA"), (c) Federal Financing Bank, (d) Federal Housing Administration Debentures ("FHA"), (e) General Services Administration, (f) Government National Mortgage Association ("GNMA" or "Ginnie Mae"), (g) U.S. Maritime Administration, and (h) U.S. Department of Housing and Urban Development ("HUD");

(3) bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies (stripped securities are only permitted if they have been stripped by the agency itself): (a) Federal Home Loan Bank System, (b) Federal Home Loan Mortgage Corporation ("FHLMC" or "Freddie Mac"), (c) Federal National Mortgage Association ("FNMA" or "Fannie Mae"), (d) Student Loan Marketing Association ("SLMA or "Sallie Mae"), (e) Resolution Funding Corp. ("REFCORP") obligations, and (f) Farm Credit System;

(4) money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by S&P of "AAAm-G," "AAA-m" or "AA-m" and if rated by Moody's rated "Aaa," "Aal" or "Aa2;"

(5) certificates of deposit secured at all times by collateral described in (1) and/or (2) above. Such certificates must be issued by commercial banks, savings and loan associations or mutual savings banks. The collateral must be held by a third party and the Trustee on behalf of the Bondholders must have a perfected first security interest in collateral;

(6) certificates of deposit, savings accounts, deposit accounts or money market deposits which are fully insured by FDIC, including BIF and SAIF;

(7) investment agreements, including GIC's, Forward Purchase Agreements and Reserve Fund Put Agreements;

(8) commercial paper rated, at the time of purchase, "Prime – 1" by Moody's and "A-1" or better by S&P;

(9) bonds or notes issued by any state or municipality which are rated by Moody's and S&P in one of the two highest rating categories assigned by such agencies;

(10) federal funds or bankers acceptances with a maximum term of one year of any bank which has an unsecured, uninsured and unguaranteed obligation rating of "Prime-1" or "A3" or better by Moody's and "A-1" or "A" or better by S&P;

(11) repurchase agreements ("repos"), which must meet the following criteria:

(a) repos must be between the Trustee and a dealer bank or securities firm that is: (i) a primary dealer on the Federal Reserve reporting dealer list which is rated "A" or better by S&P and Moody's, or (ii) a bank rated "A" or above by S&P and Moody's;

(b) the written repo contract must include the following: (i) securities which are acceptable for transfer are direct U.S. governments, or federal agencies backed by the full faith and credit of the U.S. government (and FNMA & FHLMC), (ii) the term of the repo may be up to 30 days, (iii) the collateral must be delivered to the Trustee (if the Trustee is supplying the collateral) before/simultaneous with payment (perfection by possession of certificated securities), (iv) the securities must be valued weekly, marked-to-market at current market price plus accrued interest. The value of collateral must be equal to 104% of the amount of cash transferred by the Trustee to the dealer bank or security firm under the repo plus accrued interest. If the value of securities held as collateral slips below 104% of the value of the cash transferred by municipality, then additional cash and/or acceptable securities must be transferred. If, however, the securities used as collateral are BNMA or FHLMC, then the value of collateral must equal 105%; and

(12) any other investment approved in writing by the Authority.

"Loan Agreement" means that certain loan agreement, between the Authority and the Borrower, as originally executed and as it may from time to time be supplemented, modified or amended in accordance with the terms thereof and of the Indenture.

"Loan Default Event" means any of the events of default specified in the provisions of the Agreement summarized below under "LOAN AGREEMENT – Events of Default; Remedies on Default."

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

"Notice by Mail" or "notice" of any action or condition "by Mail" means a written notice meeting the requirements of the Indenture mailed by first-class mail to the Holders of specified registered Bonds, at the addresses shown on the registration books maintained pursuant to the Indenture.

"Opinion of Counsel" means a written opinion of counsel (who may be counsel for the Authority) selected by the Authority and reasonably acceptable to the Borrower. If and to the extent required by the provisions of the Indenture, each Opinion of Counsel shall include the statements provided for in the Indenture.

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

authenticated and delivered by the Trustee under the Indenture except (1) Bonds theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation; (2) on or after any Purchase Date for Variable Rate Bonds pursuant to the Indenture, all Variable Rate Bonds (or portions of Variable Rate Bonds) which have been purchased on such date, but which have not been delivered to the tender agent, provided that funds sufficient for such purchase are on deposit with the tender agent in accordance with the provisions of the Indenture; (3) Bonds with respect to which all liability of the Authority shall have been discharged in accordance with the Indenture; and (4) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Trustee pursuant to the Indenture.

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

"Principal Payment Date" means any date on which principal on the Bonds of any Series is due and payable, whether by reason of maturity or of redemption from mandatory sinking account payments, if any, established in connection with such Series of Bonds.

"Prior Bonds" means the bonds of the California Educational Facilities Authority refunded with proceeds of a Series of the Bonds.

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

"Redemption Price" means, with respect to any Bond (or portion thereof), the principal amount of such Bond (or portion) plus the applicable premium, if any, payable upon the date fixed for redemption thereof pursuant to the provisions of such Bond and the Indenture.

"Revenues" means all payments received by the Authority or the Trustee from the Borrower pursuant or with respect to the Loan Agreement (except Additional Payments paid by the Borrower pursuant to the Loan Agreement, any amounts paid by the Borrower pursuant to the Loan Agreement and amounts received for or on deposit in the Rebate Fund), including, without limiting the generality of the foregoing, Base Loan Payments (including both timely and delinquent payments), prepayments and all income derived from the investment of any money in any fund or account held by the Trustee and established pursuant to the Indenture.

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

"Tax Agreement" means that certain tax agreement entered into between the Authority and the Borrower at the time of issuance and delivery of the Bonds, as the same may be amended or supplemented in accordance with its terms.

"*Variable Rate Bonds*" means Bonds that bear interest at a variable rate or rates.

INDENTURE

The Indenture sets forth the terms of the Bonds, the nature and extent of the security, various rights of the Bondholders, rights, duties and immunities of the Trustee and the rights and obligations of the Authority. Certain provisions of the Indenture are summarized in this Official Statement under the captions "THE BONDS" and "SECURITY FOR THE BONDS." Other provisions are summarized below. This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the Indenture.

Pledge and Assignment of Revenues

The Authority transfers in trust, grants a security interest in and assigns to the Trustee, for the benefit of the Holders from time to time of the Bonds, all of the Revenues and other assets pledged under the Indenture, including proceeds of the sale of the Bonds, held in any fund or account established under the Indenture and held by the Trustee (except for the Rebate Fund and the Purchase Fund); all of the right, title and interest of the Authority in the Loan Agreement (except for (i) the right to receive any Administrative Fees and Expenses to the extent payable to the Authority, (ii) any rights of the Authority or its officers, directors, agents or employees to reimbursement or indemnification, and (iii) as otherwise expressly set forth in the Loan Agreement. The Trustee shall be entitled to, and shall, subject to the provisions of the Indenture, collect and receive all of the Revenues and any Revenues collected or received by the Authority shall be deemed to be held and to have been collected or received, by the Authority as the agent of the Trustee and shall forthwith be paid by the Authority to the Trustee. The Trustee also shall be entitled to, and shall, take all steps, actions and proceedings reasonably necessary in its judgment to enforce all of the rights of the Authority and all of the obligations of the Borrower under the Loan Agreement.

Establishment of Funds and Accounts

The Indenture creates a Stanford University Series T Project Construction Fund, an Escrow Fund, a Stanford University TECP Repayment Fund, a Bond Fund (and an Interest Account and a Principal Account therein), a Redemption Fund (and an Optional Redemption Account therein) and a Rebate Fund, all of which are to be held by the Trustee.

Stanford University Series T Project Construction Fund. The moneys in the Stanford University Series T Project Construction Fund shall be transferred by the Trustee to the Borrower pursuant to the Indenture and applied by the Borrower in accordance with the Loan Agreement to pay Costs of Issuance and Costs of the Series T Project.

Stanford University TECP Repayment Fund. The moneys in the Stanford University TECP Repayment Fund shall be transferred by the Trustee to the Borrower pursuant to the Indenture and applied by the Borrower in accordance with the Loan Agreement to repay tax exempt commercial paper notes.

Escrow Fund. The moneys in the Escrow Fund and the accounts therein shall be disbursed to redeem the Prior Bonds as provided in a Written Certificate of the Borrower.

Bond Fund. The moneys in the Bond Fund shall be used, withdrawn and disbursed by the Trustee pursuant to the Indenture.

Interest Account. Moneys in the Interest Account shall be held, disbursed, allocated and applied by the Trustee only as provided in the Indenture. The Trustee shall deposit the following Revenues in the Interest Account when and as such Revenues are received: (1) the interest component of all Base Loan Payments, including the interest component of all cash prepayments of Base Loan Payments made pursuant to the Loan Agreement; (2) all interest, profits and other income received from the investment of moneys in the Interest Account; and (3) any other Revenues not required to be deposited in any other fund or account established pursuant to the Indenture.

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

Principal Account. The Trustee shall deposit the following Revenues in the Principal Account when and as such Revenues are received: (1) the principal component of all Base Loan Payments, but excluding the principal component of all cash prepayments of Base Loan Payments made pursuant to the Loan Agreement, which shall be deposited in the Redemption Fund; and (2) all interest, profits and other income received from the investment of moneys in the Principal Account.

Redemption Fund. The Trustee shall deposit the following Revenues in the Optional Redemption Account when and as such Revenues are received: (1) except as provided in the following paragraph, the principal component of all cash prepayments of Base Loan Payments made pursuant to the Loan Agreement; and (2) all interest, profits and other income received from the investment of moneys in the Optional Redemption Account.

All amounts deposited in the Optional Redemption Account shall be used and withdrawn by the Trustee solely for the purpose of redeeming Bonds, in the manner and upon the terms and conditions specified in the Indenture, at the next succeeding date of redemption for which notice has not been given and at the Redemption Prices then applicable to redemptions from the Optional Redemption Account; provided, however that, at any time prior to giving of such notice of redemption, the Trustee shall, upon direction of the Borrower, apply such amounts to the purchase of Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as the Borrower may direct, except that the purchase price (exclusive of accrued interest) may not exceed the Redemption Price then applicable to the Bonds (or, if the Bonds are not then subject to redemption, the par value of such Bonds); and provided further that, in the case of the Optional Redemption Account, in lieu of redemption at such next succeeding date of redemption, or in combination therewith, amounts in such account may be transferred to the Bond Fund and credited against Base Loan Payments in order of their due date as set forth in a Request of the Borrower. All Bonds purchased or redeemed from the Redemption Fund shall be allocated first to the next succeeding Mandatory Sinking Account Payment, then as a credit against such future Mandatory Sinking Account Payments as the Borrower may specify.

Rebate Fund. Subject to the transfer provisions provided in the Indenture, all money at any time deposited in the Rebate Fund shall be held by the Trustee in trust, to the extent required to satisfy the Rebate Amount (as defined in the Tax Agreement), for payment to the federal government of the United States of America. Neither the Authority, the Borrower nor the Holder of any Bonds shall have any rights in or claim to such money. All amounts deposited into or on deposit in the Rebate Fund shall be governed by the Indenture and by the Tax Agreement (which is incorporated in the Loan Agreement by reference). The Trustee shall be deemed conclusively to have complied with such provisions if it follows the directions of the Borrower including supplying all necessary information in the manner provided in the Tax Agreement, and shall have no liability or responsibility to enforce compliance by the Borrower or the Authority with the terms of the Tax Agreement.

Issuance of Additional Series of Bonds

The Authority may issue additional Series of Bonds under the Indenture at any time at the request of the Borrower. Each such additional Series of Bonds shall be executed by the Authority for issuance and delivery to the Trustee and thereupon shall be authenticated by the Trustee and delivered to the Authority upon its order, but only upon receipt by the Trustee of the following:

(1) An original executed copy of the Supplemental Indenture authorizing such Series of Bonds, which Supplemental Indenture shall specify (a) the purpose for which such Series of Bonds is being issued, provided, that such Series of Bonds shall be approved solely for financing or refinancing the Series T Project; (b) the authorized principal amount and denominations of such Series of Bonds; (c) whether such Bonds shall bear interest at a fixed rate or shall be Variable Rate Bonds and the interest rate mode, including, but not limited to, an interest rate determined pursuant to an auction procedure; and, if such Bonds are to be Variable Rate bonds, the terms of the initial and subsequent interest periods for such Series; (d) whether the interest on such Bonds shall be federally taxable or tax-exempt; (e) the Series designation of such Bonds, the date or dates, the Interest Payment Dates, the Principal Payment Dates and the maturity date or dates of such Bonds; (f) the manner of dating and numbering such Bonds; (g) the place or places of payment of the principal or redemption, tender or purchase price, and the manner of payment of interest on, such Bonds; (h) any redemption, tender or purchase provisions for such Bonds; (i) the amount and due date of each mandatory sinking account payment, if any, for such Bonds; (j) the amounts to be deposited in the funds and accounts created and established by the Indenture and the Supplemental Indenture authorizing such Bonds; (k) the form of such Bond and whether it is a replacement Bond or a newly issued, additional Bond; and (l) any other provisions deemed advisable by the Authority or the Borrower that are not in conflict with the provisions of the Indenture;

(2) An original executed copy of the Supplemental Loan Agreement with respect to such Series of Bonds;

(3) An original executed copy of the bond purchase contract, or supplement thereto, with respect to such Series of Bonds;

(4) An official statement, or supplement thereto, with respect to such Series of Bonds;

(5) A Written Request of the Authority to the Trustee (i) requesting that the Trustee authenticate such Bonds, (ii) stating that the Authority is not in default in the performance of any of the covenants, conditions, agreements or provisions contained in the Indenture and (iii) stating that the resolution of the Authority authorizing the issuance of such Bonds was duly adopted and is in full force and effect as of the date of issuance of such Bonds;

(6) A Certificate, Request and Consent of the Borrower with respect to such Bonds;

(7) A continuing disclosure agreement, or supplement thereto, for such Bonds, if required by law;

(8) A tax certificate, or supplement thereto, relating to such Bonds;

(9) Agreements with any liquidity provider or any agents for remarketing or conducting auctions with respect to Variable Rate Bonds;

(10) An opinion of counsel to the Authority with respect to such Bonds in substantially the form delivered by counsel to the Authority in connection with the issuance of the Initial Series T Bonds under the Indenture;

(11) An opinion of Bond Counsel with respect to such Bonds in substantially the form delivered by Bond Counsel in connection with the issuance of the Initial Series T Bonds under the Indenture;

(12) An opinion of Borrower's counsel with respect to such Bonds in substantially the form delivered by Borrower's counsel in connection with the issuance of the Initial Series T Bonds under the Indenture;

(13) An opinion of counsel to the purchaser of such Bonds with respect to such Bonds in substantially the form delivered by counsel to the purchaser of the initial Bonds in connection with the issuance of the Initial Series T Bonds under the Indenture.

Proceeds of each Series of Bonds shall be applied as specified in the Supplemental Indenture establishing the terms and provisions of such Series of Bonds.

Redemption

Redemption provisions applicable to the Bonds are described in the front part of this Official Statement under the heading "THE BONDS – Redemption."

Selection of Bonds for Redemption; Partial Redemption of Bonds

Whenever provision is made in the Indenture for the redemption of less than all of the Bonds of a particular Series, the Trustee shall select the Bonds to be redeemed, from all Bonds for such Series subject to redemption or such given portion thereof not previously called for redemption, in such order as shall be specified in a Request of the Borrower or, if there is no such Request, in the order of maturity, and by lot within a maturity. The Trustee shall promptly notify the Authority in writing of the numbers of the Bonds so selected for redemption.

Events of Default; Remedies on Default

The following events are Events of Default under the Indenture: (a) default in the due and punctual payment of the principal or Redemption Price of any Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by declaration of acceleration, by proceedings for redemption, or otherwise; (b) default in the due and punctual payment of any installment of interest on any Bond when and as such interest installment shall become due and payable; (c) failure to pay the purchase price of any Variable Rate Bond required to be purchased pursuant to the Indenture when due and payable if a liquidity facility is not in effect; (d) default by the Authority in the observance of any of the other covenants, agreements or conditions on its part contained in the Indenture or in the Bonds, if such default shall have continued for a period of 30 days after written notice thereof, specifying such default and requiring the same to be remedied, shall have been given to the Authority and the Borrower by the Trustee, or to the Authority, the Borrower and the Trustee by the Holders of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding or (e) a Loan Default Event.

Upon actual knowledge of the existence of any Event of Default, the Trustee shall notify the Borrower, the Authority, and each notice party designated pursuant to the Indenture in writing as soon as practicable; provided, however, that the Trustee need not provide notice of any Loan Default Event if the Borrower has expressly acknowledged the existence of such Loan Default Event in a writing delivered to the Trustee, the Borrower, the Authority and each notice party designated pursuant to the Indenture.

Whenever any Event of Default shall have occurred and be continuing, the Trustee may take the following remedial steps:

(a) In each and every such case during the continuance of such an Event of Default, unless the principal of all the Bonds has already become due and payable, the Trustee, by notice in writing to the Authority, may, and, upon the written request of the Holders of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding, shall, declare the principal of all the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same will become and will be immediately due and payable, anything in the Indenture or in the Bonds contained to the contrary notwithstanding;

(b) In the case of any Event of Default described in (d) of the first paragraph of this section, the Trustee may take whatever action at law or in equity is necessary or desirable to enforce the performance, observance or compliance by the Authority with any covenant, condition or agreement by the Authority under the Indenture; and

(c) In the case of an Event of Default described in (e) of the first paragraph of this section, the Trustee may take whatever action the Authority would be entitled to take, and shall take whatever action the Authority would be required to take, pursuant to the Loan Agreement in order to remedy the Loan Default Event.

The Trustee shall give notice of any declaration described in subsection (a) above to each Rating Agency then rating the Bonds; provided that failure to give any such Notice shall not affect the sufficiency of the proceedings for such declaration. Any such declaration, however, is subject to the condition that if, at any time after such declaration and before any judgment or decree for the payment of the moneys due shall have been obtained or entered, the Authority or the Borrower shall deposit with the Trustee a sum sufficient to pay all the principal or redemption price of and installments of interest on the Bonds payment of which is overdue, with interest on such overdue principal at the rate borne by the respective Bonds, and the reasonable charges and expenses of the Trustee, and any and all other defaults known to the Trustee (other than in the payment of principal of and interest on the Bonds due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor, then, and in every such case, the Trustee shall, on behalf of the Holders of all of the Bonds, rescind and annul such declaration and its consequences and waive such default; but no such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon.

If one or more Events of Default shall happen and be continuing, the Trustee in its discretion may, and upon the written request of the Holders of a majority in aggregate principal amount of the Bonds then Outstanding, and upon being indemnified to its reasonable satisfaction therefor, shall proceed to protect or enforce its rights or the rights of the Holders of Bonds under the Act or under the Loan Agreement or the Indenture by a suit in equity or action at law, either for the specific performance of any covenant or agreement contained in the Indenture, or in aid of the execution of any power therein granted, or by mandamus or other appropriate proceeding for the enforcement of any other legal or equitable remedy as the Trustee shall deem most effectual in support of any of its rights or duties under the Indenture.

Limitation on Bondholder's Right to Sue

No Holder of any Bond shall have the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under the Indenture, the Loan Agreement, the Act or any other applicable law with respect to such Bond; provided, however, the Holders of at least a majority in aggregate principal amount of the Bonds then Outstanding may institute such a suit, action or proceeding at law or in equity, for the protection or enforcement of a right or remedy under the Indenture, the Loan Agreement, the Act or any other applicable law with respect to the Bonds, if (1) such Holder or said Holders shall have given to the Trustee written notice of the occurrence of an Event of Default; (2) such Holder or said Holders shall have made written request upon the Trustee to exercise the powers granted in the Indenture or to institute such suit, action or proceeding in its own name; (3) such Holder or said Holders shall have tendered to the Trustee indemnity satisfactory to it against the costs, expenses and liabilities to be incurred in compliance with such request; and (4) the Trustee shall have refused or omitted to comply with such request for a period of 60 days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee.

Amendment of Indenture and Loan Agreement

The Indenture and the rights and obligations of the Authority and of the Holders of the Bonds and of the Trustee may be modified or amended from time to time by an indenture or indentures supplemental to the Indenture, which the Authority and the Trustee may enter into when the written consent of the Holders of a majority in aggregate principal amount of the Bonds then Outstanding shall have been filed with the Trustee. No such modification or amendment shall (1) extend the fixed maturity of any Bond, or reduce the amount of principal thereof, or reduce the rate of interest thereon, or extend the time of payment of interest thereon, or reduce any premium payable upon the redemption thereof (except as permitted with respect to Variable Rate Bonds in the Indenture), without the consent of the Holder of each Bond so affected, or (2) reduce the percentage of Bonds the consent of the Holders of which is required to effect any such modification or amendment, or permit the creation of any lien on the Revenues and other assets pledged under the Indenture prior to or on a parity with the lien created by the Indenture, or deprive the Holders of the Bonds of the lien created by the Indenture on such Revenues and other assets (except as expressly provided in the Indenture), without the consent of the Holders of all Bonds then Outstanding.

The Indenture may also be modified or amended but without the necessity of obtaining the consent of any Bondholders, for one or more of the following purposes: (1) to add to the covenants and agreements of the Authority contained in the Indenture other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power reserved to or conferred upon the Authority, provided, that no such covenant, agreement, pledge, assignment or surrender shall materially adversely affect the interests of the Holders of the Bonds; (2) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in the Indenture, or in regard to matters or questions arising under the Indenture, as the Authority or the Trustee may deem necessary or desirable and not inconsistent with the Indenture, and which shall not materially adversely affect the interests of the Holders of the Bonds; (3) to modify, amend or supplement the Indenture in such manner as to permit the qualification thereof under the Trust Indenture Act of 1939, as amended; (4) to provide any additional procedures, covenants or agreements to maintain the exclusion from gross income for federal income tax purposes of interest on the Bonds; (5) to facilitate (i) the transfer of Bonds from one Securities Depository to another in the succession of Securities Depositories, or (ii) the withdrawal from a Securities Depository of Bonds held in a Book-Entry System and the issuance of replacement Bonds in fully registered form to Persons other than a Securities Depository; (6) to authorize different authorized denominations of the Bonds and to make correlative amendments and modifications to the Bond Indenture regarding exchangeability of Bonds of different authorized denominations, redemptions of portions of Bonds of particular authorized denominations and similar amendments and modifications of a technical nature (7) to make any amendments appropriate or necessary to provide for any liquidity facility or any insurance policy, letter of credit, guaranty, surety bond, line of credit, revolving credit agreement, standby bond purchase agreement or other agreement or security device delivered to the Trustee and providing for (i) payment of the principal, interest and redemption premium on the Bonds or a portion thereof, (ii) payment of the purchase price of Variable Bonds or (iii) both (i) and (ii), including without limitation modification of the maximum liquidity facility rate with respect to Variable Rate Bonds; (8) to make any changes required by a Rating Agency in order to

obtain or maintain a rating for the Bonds; (9) to provide for the issuance of an additional Series of Bonds pursuant to the Indenture, including any amendments appropriate or necessary to the provisions of the Indenture to provide for issuance of Variable Rate Bonds; provided, that no such amendment shall materially adversely affect the interests of the Holders of the Bonds; or (10) to modify, alter, amend or supplement the Indenture in any other respect which is not materially adverse to the Bondholders.

Except as provided in the Indenture, the Authority shall not supplement, amend, modify or terminate any of the terms of the Loan Agreement, or consent to any such amendment, modification or termination, without the prior written consent of the Trustee. The Trustee shall give such written consent if but only if (1) it has received a Certificate of the Authority to the effect that such amendment, modification or termination will not materially and adversely affect the interests of the Holders of the Bonds (which Certificate of the Authority may be based on certifications, opinions or representations of other parties in accordance with the provisions of the Indenture); provided that, if an Event of Default has occurred and is continuing, the Trustee rather than the Authority shall make a determination that such amendment or modification will not materially and adversely affect the interests of the Holders of the Bonds (provided that, in making such determination, the Trustee may conclusively rely on written representations of financial consultants or advisors or the opinion or advice of counsel), or (2) the Holders of a majority in aggregate principal amount of the Bonds then Outstanding consent in writing to such amendment, modification or termination, provided that no such amendment, modification or termination shall reduce the amount of Base Loan Payments to be made to the Authority or the Trustee by the Borrower pursuant to the Loan Agreement, or extend the time for making such payments, without the written consent of all of the Holders of the Bonds then Outstanding.

The Loan Agreement may also be supplemented, modified or amended from time to time and at any time by the Authority without the necessity of obtaining the consent of any Bondholders, only to the extent permitted by law and only for any one or more of the following purposes: (1) to add to the covenants and agreements of the Authority or the Borrower contained in the Loan Agreement other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power therein reserved to or conferred upon the Authority or the Borrower, provided, that no such covenant, agreement, pledge, assignment or surrender shall materially adversely affect the interests of the Holders of the Bonds; (2) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in the Loan Agreement, or in regard to matters or questions arising under the Loan Agreement, as the Authority may deem necessary or desirable and not inconsistent with the Loan Agreement or the Indenture, and which shall not materially adversely affect the interests of the Holders of the Bonds; (3) in connection with the issuance of an additional Series of Bonds pursuant to the Indenture; or (4) to maintain the exclusion from gross income for federal income tax purposes of interest payable with respect to the Bonds.

Defeasance

The Bonds may be paid by the Authority or the Trustee on behalf of the Authority in any of the following ways: (a) by paying or causing to be paid the principal or Redemption Price of and interest on all Bonds Outstanding, as and when the same become due and payable;

(b) by depositing with the Trustee in trust, at or before maturity, moneys or securities in the necessary amount (as provided in the Indenture) to pay when due or redeem all Bonds then Outstanding; or (c) by delivering to the Trustee, for cancellation by it, all Bonds then Outstanding. If the Authority shall also pay or cause to be paid all other sums payable under the Indenture by the Authority and the Borrower shall have paid all Administrative Fees and Expenses payable to the Authority pursuant to the Loan Agreement, then and in that case at the election of the Authority and notwithstanding that any Bonds shall not have been surrendered for payment, the Indenture and the pledge of Revenues and other assets made under the Indenture and all covenants, agreements and other obligations of the Authority under the Indenture shall cease, terminate, become void and be completely discharged and satisfied.

LOAN AGREEMENT

The Loan Agreement provides the terms of the loan of proceeds of the Bonds to the Borrower and the repayment of and security for such loan provided by the Borrower. Certain of the provisions of the Loan Agreement are summarized below. This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the Loan Agreement.

Payment of the Bonds and Certain Other Expenses

Pursuant to the Loan Agreement, the Borrower agrees that it will pay to the Trustee all sums necessary for the payment of the debt service on the Outstanding Bonds ("Base Loan Payments"). The Borrower shall make such Base Loan Payments (i) on each Interest Payment Date the full amount of the interest becoming due and payable on such Interest Payment Date on all Outstanding Bonds; and (ii) on each Principal Payment Date the aggregate amount of principal becoming due and payable on the Outstanding Bonds of each Series, plus the aggregate amount of mandatory sinking account payments, if any, required to be paid into the sinking accounts in connection with such Series of Bonds, in each case on such Principal Payment Date. The Trustee is required under the Indenture to notify the Authority and the Borrower immediately if it has not received payment by the due date. The Borrower shall also make additional payments for expenses of the Trustee and the Authority, such additional payments to be billed to the Borrower by the Authority or the Trustee from time to time.

Any amounts held in the Interest Account within the Bond Fund for the payment of interest on the Bonds (including any investment income credited to the Interest Account pursuant to the Indenture) shall be credited against the Base Loan Payments of interest then required to be met by the Borrower to the extent such amounts are in excess of the amount required for the payment of interest accrued to the date fixed for redemption or maturity, where the Bonds have not been presented for payment. Any amounts held in the Principal Account within the Bond Fund for the payment of principal on the Bonds (including any investment income credited to the Principal Account pursuant to the Indenture) shall be credited against the Base Loan Payments of principal then required to be met by the Borrower to the extent such amounts are in excess of the amount required for the payment of Principal accrued to the date fixed for redemption or maturity, where the Bonds have not been presented for payment.

The Loan Agreement also provides that if on any Interest Payment Date or Principal Payment Date, the balance in the Interest Account or Principal Account within the

Bond Fund is insufficient or unavailable to make required payments of principal of (whether at maturity, by redemption or by acceleration as provided in the Indenture), premium, if any, and interest due on the Bonds on such date, the Borrower shall forthwith pay any such deficiency to the Trustee for deposit in the appropriate account within the Bond Fund. The Borrower acknowledges that the Trustee shall give notice: (1) to the Borrower in accordance with the Indenture at least five (5) Business Days before each Interest Payment Date of the amount, if any, credited or to be credited to the Interest Account by such next Interest Payment Date and the amount of the Base Loan Payment then due from the Borrower; and (2) to the Borrower and the Authority in accordance with the Indenture if the Borrower fails to make any required payment by the due date, such notice to be given by telephone, telecopy or electronic means followed by written notice.

Certain Covenants of the Borrower

The Borrower covenants in the Loan Agreement that, so long as any Bonds remain Outstanding:

(a) it will maintain its existence as a body duly exercising corporate powers and privileges under the Constitution and laws of the State of California and will not dissolve, sell or otherwise dispose of all or substantially all of its assets or consolidate with or merge into another entity or permit one or more other entities to consolidate with or merge into it, except under certain circumstances described in the Loan Agreement.

(b) it will maintain or cause to be maintained insurance of such type, against such risks and in such amounts, with insurance companies or by means of self-insurance, as are customarily carried by organizations of a nature similar to that of the Borrower, which insurance shall include property damage, fire and extended coverage, public liability and property damage liability insurance in amounts estimated to indemnify the reasonably anticipated damage, loss or liability;

(c) it will furnish to the Authority and the Trustee within 180 days after the end of each of its fiscal years certain financial information as of the end of such year; and,

(d) it will not take any action or fail to take any action, if such action or failure to take such action would result in the interest on the Bonds not being excluded from gross income for federal income tax purposes under Section 103 of the Code.

Prepayment

The Borrower shall have the right, so long as all amounts which have become due under the Loan Agreement have been paid, at any time or from time to time to prepay all or any part of the Base Loan Payments and the Authority agrees that the Bond Trustee shall accept such prepayments when the same are tendered. Prepayments may be made by payments of cash, deposit of Investment Securities or surrender of Bonds, as contemplated by the Loan Agreement.

All such prepayments (and the additional payment of any amount necessary to pay the applicable premium, if any, payable upon the redemption of Bonds) shall be deposited upon receipt in the Redemption Fund and, at the request of, and as determined by, the Borrower, credited against the Base Loan Payments in the order of their due date or used for the redemption or purchase of Outstanding Bonds in the manner and subject to the terms and conditions set forth in the Indenture.

Amendment

The Loan Agreement may not be amended, changed, modified, altered or terminated without the concurring written consent of the Trustee, which consent shall be given in accordance with the provisions of the Indenture. See "INDENTURE – Amendment of Indenture and Loan Agreement."

Events of Default; Remedies on Default

Events of default under the Loan Agreement include:

(a) failure by the Borrower to make any of the payments required by the Loan Agreement by their due date:

(b) failure by the Borrower to observe or perform any covenant, condition or agreement contained in the Loan Agreement other than paragraph (a) above, on its part to be observed or performed, for a period of 45 days after written notice thereof has been given to the Borrower by the Authority or the Trustee; provided, however, if the failure stated in the notice is correctable but cannot be corrected within 45 days, the Authority will not unreasonably withhold its consent to an extension of such time if corrective action is instituted by the Borrower within the applicable period and diligently pursued until the default is corrected;

(c) the representations or warranties of the Borrower made in the Loan Agreement or in any other document, certificate or writing furnished by the Borrower to the Authority in connection with the application for or the negotiation of the Loan Agreement or the issuance of the Bonds being false or incorrect in any material respect; and

(d) an Act of Bankruptcy of the Borrower.

The Authority or the Trustee, in the case of any event of default, may take any one or more of the following remedial steps:

(a) declare immediately due and payable all Base Loan Payments due under the Loan Agreement for the remainder of its term; or

(b) take whatever action at law or in equity may appear necessary or desirable to collect the payments then due and thereafter to become due under the Loan Agreement or to enforce the performance and observance of any obligation, condition or covenant of the Borrower under the Loan Agreement.

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APPENDIX C

BOOK-ENTRY SYSTEM

The information in this Appendix C concerning The Depository Trust Company ("DTC"), New York, New York, and DTC's book entry system has been obtained from DTC and the Authority, the University, the Underwriters and the Trustee takes no responsibility for the completeness or accuracy thereof. The Authority, the University, the Underwriters and the Trustee cannot, and do not, give any assurances that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC.

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

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation, (respectively, "NSCC," "FICC," and "EMCC," also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More

information about DTC can be found at www.dtcc.com and www.dtc.org; nothing contained in such websites is incorporated into this Official Statement.

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

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of the Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

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

Payments of principal, premium, if any, and interest evidenced by the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), the Trustee, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium, if any, and interest evidenced by the Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

THE AUTHORITY, THE UNIVERSITY, THE UNDERWRITERS OR THE TRUSTEE WILL NOT HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS WITH RESPECT TO THE PAYMENTS OR THE PROVIDING OF NOTICE TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS OR THE SELECTION OF BONDS FOR REDEMPTION.

None of the Authority, the University, the Underwriters or the Trustee can give any assurances that DTC, DTC Participants, Indirect Participants or others will distribute payments of principal, premium, if any, and interest on the Bonds paid to DTC or its nominee, as the registered Owner, or any redemption or other notice, to the Beneficial Owners or that they will do so on a timely basis or that DTC will serve and act in a manner described in this Official Statement.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

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

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Authority, the University, the Underwriters and the Trustee believe to be reliable, but the Authority, the University, the Underwriters and the Trustee take no responsibility for the accuracy thereof.

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APPENDIX D

FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the "Agreement") dated as of June 1, 2007, by and between The Board of Trustees of the Leland Stanford Junior University (the "University") and U.S. Bank National Association, bond trustee (the "Trustee") under an Indenture dated as of June 1, 2007 ("Indenture") between the California Educational Facilities Authority (the "Authority") and the Trustee, the Trustee executing this Agreement both in its capacity as Trustee and in its capacity as Dissemination Agent hereunder, is executed and delivered in connection with the issuance of the Authority's California Educational Facilities Authority Revenue Bonds (Stanford University) Series T-__ (the "Bonds"). The proceeds of the Bonds are to be loaned by the Authority to the University pursuant to a Loan Agreement dated as of June 1, 2007 between the Authority and the University (the "Loan Agreement"). Capitalized terms used in this Agreement which are not otherwise defined in the Indenture shall have the respective meanings specified in Article IV hereof. The parties agree as follows:

ARTICLE I

The Undertaking

Section 1.1. Purpose; No Authority Responsibility or Liability. This Agreement shall constitute a written undertaking for the benefit of the holders of the Bonds and is being executed and delivered solely to assist the Underwriters in complying with subsection (b)(5) of the Rule. The University, the Dissemination Agent and the Trustee acknowledge that the Authority has undertaken no responsibility, and shall not be required to undertake any responsibility, with respect to any reports, notices or disclosures required by or provided pursuant to this Agreement, and shall have no liability to any person, including any holder of the Bonds, with respect to any such reports, notices or disclosures.

Section 1.2. Annual Financial Information. (a) The University shall provide Annual Financial Information to the Dissemination Agent with respect to each fiscal year of the University, commencing with fiscal year ended August 31, 2007 by no later than one hundred and eighty (180) days after the end of the respective fiscal year. The Dissemination Agent shall provide such Annual Financial Information to (i) each NRMSIR, (ii) the SID, and (iii) the Authority, in each case within two Business Days after receipt by the Dissemination Agent, or as soon as reasonably practicable thereafter.

(b) The Dissemination Agent shall provide, in a timely manner, notice of any failure of the University or the Dissemination Agent to provide the Annual Financial Information by the date specified in subsection (a) above, in each case to (i) either the MSRB or each NRMSIR, (ii) the SID, (iii) the Authority and (iv) if such failure is of the University, the University.

Section 1.3. Audited Financial Statements. If not provided as part of Annual Financial Information by the date required by Section 1.2 hereof, the University shall provide Audited

Financial Statements, when and if available, to the Dissemination Agent. The Dissemination Agent shall provide any such Audited Financial Statements to (i) each NRMSIR, (ii) the SID, and (iii) the Authority, in each case within two Business Days after receipt by the Dissemination Agent, or as soon as reasonably practicable thereafter.

Section 1.4. Material Event Notices. (a) If a Material Event occurs, the University shall provide, in a timely manner, notice of such Material Event to the Dissemination Agent. The Dissemination Agent shall provide notice of each such Material Event to (i) either the MSRB or each NRMSIR and (ii) the SID, in each case within one Business Day after receipt by the Dissemination Agent, or as soon as reasonably practicable thereafter.

(b) Any such notice of a defeasance of the Bonds shall state whether the Bonds have been escrowed to maturity or to an earlier redemption date and the timing of such maturity or redemption.

(c) The Trustee shall promptly advise the University and the Authority whenever, in the course of performing its duties as Trustee under the Indenture, the Trustee has actual notice of an occurrence of an event described herein as a "Material Event"; provided, however, that the failure of the Trustee so to advise the University or the Authority shall not constitute a breach by the Trustee of any of its duties and responsibilities under this Agreement or the Indenture and the Trustee shall not be required to make any determination regarding materiality of any such event.

Section 1.5. Additional Disclosure Obligations. The University acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933, as amended, and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, as amended, may apply to the University and that, under some circumstances, additional disclosures or other action may be required to enable the University to fully discharge all of its duties and obligations under such laws.

Section 1.6. Additional Information. Nothing in this Agreement shall be deemed to prevent the University from disseminating any other information, using the means of dissemination set forth in this Agreement or any other means of communication, or including any other information in any Annual Financial Information or notice of Material Event hereunder, in addition to that which is required by this Agreement. If the University chooses to do so, the University shall have no obligation under this Agreement to update such additional information or include it in any future Annual Financial Information or notice of a Material Event hereunder.

Section 1.7. No Previous Non-Compliance. The University represents that since June 1, 2002, it has not failed to comply in any material respect with any previous undertaking in a written contract or agreement specified in paragraph (b)(5)(i) of the Rule.

ARTICLE II

Operating Rules

Section 2.1. Reference to Other Documents. It shall be sufficient for purposes of Section 1.2 hereof if the University provides Annual Financial Information by specific reference to documents (i) either (1) provided to each NRMSIR existing at the time of such reference and the SID or (2) filed with the SEC, or (ii) if such document is an Official Statement, available from the MSRB.

Section 2.2. Submission of Information. Annual Financial Information may be provided in one document or multiple documents and at one time or in part from time to time.

Section 2.3. Material Event Notices. Each notice of a Material Event hereunder shall be captioned "Notice of Material Event" and shall prominently state the title, date and CUSIP numbers of the Bonds.

Section 2.4. Transmission of Information and Notices. Unless otherwise required by law and, in the Dissemination Agent's sole determination, subject to technical and economic feasibility, the Dissemination Agent shall employ such methods of information and notice transmission as shall be requested or recommended by the herein-designated recipients of the University's information and notices.

Section 2.5. Fiscal Year. (a) The University's current fiscal year is September 1 to August 31, and the University shall promptly notify the Dissemination Agent in writing of each change in its fiscal year. The Trustee shall provide such notice to (i) each NRMSIR, (ii) the SID, and (iii) the Authority, in each case within two Business Days after receipt by the Dissemination Agent, or as soon as reasonably practicable thereafter.

(b) Annual Financial Information shall be provided at least annually notwithstanding any fiscal year longer than 12 calendar months.

ARTICLE III

Effective Date, Termination, Amendment and Enforcement

Section 3.1. Effective Date, Termination. (a) This Agreement shall be effective upon the issuance of the Bonds.

(b) The University's and the Dissemination Agent's obligations under this Agreement shall terminate upon a legal defeasance, prior redemption or payment in full of all of the Bonds.

(c) If the University's obligations under the Loan Agreement are assumed in full by some other entity, such person shall be responsible for compliance with this Agreement in the same manner as if it were the University, and thereupon the original University shall have no further responsibility hereunder.

(d) This Agreement, or any provision hereof, shall be null and void in the event that (1) the University delivers to the Dissemination Agent and the Trustee an opinion of Counsel, addressed to the University, the Authority and the Trustee, to the effect that those portions of the Rule which require this Agreement, or such provision, as the case may be, do not or no longer apply to the Bonds, whether because such portions of the Rule are invalid, have been repealed, or otherwise, as shall be specified in such opinion, and (2) the Dissemination Agent delivers copies of such opinion to (i) each NRMSIR, (ii) the SID, and (iii) the Authority. The Dissemination Agent shall so deliver such opinion within one Business Day after receipt by the Dissemination Agent, or as soon as reasonably practicable thereafter.

Section 3.2. Amendment. (a) This Agreement may be amended, by written agreement of the parties, without the consent of the holders of the Bonds (except to the extent required under clause (4)(ii) below), if all of the following conditions are satisfied: (1) such amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, or a change in the identity, nature or status of the University or the type of business conducted thereby, (2) this Agreement as so amended would have complied with the requirements of the Rule as of the date of this Agreement, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, (3) the University shall have delivered to the Dissemination Agent and the Trustee an opinion of Counsel, addressed to the University, the Authority and the Trustee, to the same effect as set forth in clause (2) above, (4) either (i) the University shall have delivered to the Dissemination Agent and the Trustee an opinion of Counsel or a determination by a person, in each case unaffiliated with the Authority or the University (such as bond counsel or Dissemination Agent) and acceptable to the University, addressed to the University, the Authority and the Trustee, to the effect that the amendment does not materially impair the interests of the holders of the Bonds or (ii) the holders of the Bonds consent to the amendment to this Agreement pursuant to the same procedures as are required for amendments to the Indenture with consent of holders of the Bonds pursuant to Section 9.01 of the Indenture as in effect on the date of this Agreement, and (5) the Dissemination Agent shall have delivered copies of such opinion(s) and amendment to (i) each NRMSIR, (ii) the SID, and (iii) the Authority. The Dissemination Agent shall so deliver such opinion(s) and amendment within one Business Day after receipt by the Dissemination Agent.

(b) In addition to subsection (a) above, this Agreement may be amended by written agreement of the parties, without the consent of the holders of the Bonds, if all of the following conditions are satisfied: (1) an amendment to the Rule is adopted, or a new or modified official interpretation of the Rule is issued, after the effective date of this Agreement which is applicable to this Agreement, (2) the University shall have delivered to the Dissemination Agent and the Trustee an opinion of Counsel, addressed to the University, the Authority and the Trustee, to the effect that performance by the University and the Trustee under this Agreement as so amended will not result in a violation of the Rule and (3) the Dissemination Agent shall have delivered copies of such opinion and amendment to (i) each NRMSIR, (ii) the SID and (iii) the Authority. The Dissemination Agent shall so deliver such opinion and amendment within one Business Day after receipt by the Dissemination Agent or as soon as reasonably practicable thereafter.

(c) To the extent any amendment to this Agreement results in a change in the type of financial information or operating data provided pursuant to this Agreement, the first Annual Financial Information provided thereafter shall include a narrative explanation of the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

(d) If an amendment is made pursuant to Section 3.2(a) hereof to the accounting principles to be followed by the University in preparing its financial statements, the Annual Financial Information for the fiscal year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. Such comparison shall include a qualitative and, to the extent reasonably feasible, quantitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information.

Section 3.3. Benefit; Third-Party Beneficiaries; Enforcement. (a) The provisions of this Agreement shall constitute a contract with and inure solely to the benefit of the holders from time to time of the Bonds, except that Beneficial Owners of the Bonds shall be third-party beneficiaries of this Agreement and shall be deemed to be holders of the Bonds for purposes of Section 3.3(b) hereof. The provisions of this Agreement shall create no rights in any person or entity except as provided in this subsection (a).

(b) The obligations of the University to comply with the provisions of this Agreement shall be enforceable (i) in the case of enforcement of obligations to provide financial statements, financial information, operating data and notices, by any holder of the Outstanding Bonds or by the Trustee on behalf of the holders of the Outstanding Bonds, or (ii) in the case of challenges to the adequacy of the financial statements, financial information and operating data so provided, by the Trustee on behalf of the holders of the Outstanding Bonds; provided, however, that the Trustee shall not be required to take any enforcement action except at the direction of the holders of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding, who shall have provided the Trustee with adequate security and indemnity. The holders' and Trustee's rights to enforce the provisions of this Agreement shall be limited solely to a right, by action in mandamus or for specific performance, to compel performance of the University's obligations under this Agreement.

(c) Any failure by the University, the Dissemination Agent or the Trustee to perform in accordance with this Agreement shall not constitute a default or an Event of Default under the Indenture, and the rights and remedies provided by the Indenture upon the occurrence of a default or an Event of Default shall not apply to any such failure.

(d) This Agreement shall be construed and interpreted in accordance with the laws of the State, and any suits and actions arising out of this Agreement shall be instituted in a court of competent jurisdiction in the State; provided, however, that to the extent this Agreement addresses matters of federal securities laws, including the Rule, this Agreement shall be construed in accordance with such federal securities laws and official interpretations thereof.

ARTICLE IV

Definitions

Section 4.1. Definitions. The following terms used in this Agreement shall have the following respective meanings:

(1) "Annual Financial Information" means, collectively, (i) the financial information and operating data with respect to the University for each fiscal year of the University ended after August 31, 2006 to be provided in any reasonable manner and containing, in substance, such information and data as is set forth in Appendix A to the Authority's Official Statement regarding the Bonds under the headings "PART I – GENERAL INFORMATION ABOUT STANFORD UNIVERSITY – Faculty and Staff", "– Students", "– Capital Improvement Programs" and (ii) the information regarding amendments to this Agreement required pursuant to Sections 3.2(c) and (d) of this Agreement. Annual Financial Information shall include Audited Financial Statements, if available, or Unaudited Financial Statements.

The descriptions contained in clause (i) above of financial information and operating data constituting Annual Financial Information are of general categories of financial information and operating data. When such descriptions include information that no longer can be generated because the operations to which it related have been materially changed or discontinued, a statement to that effect shall be provided in lieu of such information.

(2) "Audited Financial Statements" means the annual financial statements for each fiscal year ended after August 31, 2006, if any, of the University, audited by such auditor as shall then be required or permitted by State law or the Indenture. Audited Financial Statements shall be prepared in accordance with GAAP.

(3) "Counsel" means any nationally recognized bond counsel or counsel expert in federal securities laws.

(4) "Dissemination Agent" means U.S. Bank National Association, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the University and which has filed with the Trustee and the University a written acceptance of such designation.

(5) "GAAP" means generally accepted accounting principles as prescribed from time to time by the Financial Accounting Standards Board or any successor to the duties or responsibilities thereof.

(6) "Material Events" means any of the following events with respect to the Bonds, whether relating to the University or otherwise, if material:

(i) principal and interest payment delinquencies;

(ii) non-payment related defaults;

(iii) unscheduled draws on debt service reserves reflecting financial difficulties;

(iv) unscheduled draws on credit enhancements reflecting financial difficulties;

(v) substitution of credit or liquidity providers, or their failure to perform;

(vi) adverse tax opinions or events affecting the tax-exempt status of the security;

(vii) modifications to rights of security holders;

(viii) bond calls;

(ix) defeasances;

(x) release, substitution, or sale of property securing repayment of the securities; and

(xi) rating changes.

(7) "MSRB" means the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(l) of the Securities Exchange Act of 1934.

(8) "NRMSIR" means, at any time, a then-existing, nationally recognized municipal securities information repository, as recognized from time to time by the SEC for the purposes referred to in the Rule. The NRMSIRs as of the date of this Agreement are set forth, on the date hereof, at the following internet address: http://www.sec.gov/info/municipal/nrmsir.htm.

(9) "Official Statement" means a "final official statement", as defined in paragraph (f)(3) of the Rule.

(10) "Rule" means Rule 15c2-12 promulgated by the SEC under the Securities Exchange Act of 1934 (17 CFR Part 240, §240.15c2-12), as in effect on the date of this Agreement, including any official interpretations thereof issued either before or after the effective date of this Agreement which are applicable to this Agreement.

(11) "SEC" means the United States Securities and Exchange Commission.

(12) "SID" means, at any time, a then-existing, state information depository, if any, as operated or designated as such by or on behalf of the State for the purposes referred to in the Rule. As of the date of this Agreement, there is no SID.

(13) "Unaudited Financial Statements" means the same as Audited Financial Statements, except that they shall not have been audited.

(14) "Underwriters" means Morgan Stanley & Co. Incorporated, Goldman, Sachs & Co. and J.P. Morgan Securities Inc.

ARTICLE V

Miscellaneous

Section 5.1. Duties, Immunities and Liabilities of Dissemination Agent and Trustee. The Dissemination Agent and the Trustee shall have only such duties under this Agreement as are specifically set forth in this Agreement, and the University agrees to indemnify and save the Dissemination Agent and the Trustee, their officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's or the Trustee's negligence or willful misconduct in the performance of its duties hereunder. Such indemnity shall be separate from, and in addition to, that provided to the Trustee under the Indenture. The Dissemination Agent shall be paid compensation by the University for its services provided hereunder in accordance with its schedule of fees as amended from time to time and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent shall have no duty or obligation to review any information provided to it hereunder and shall not be deemed to be acting in any fiduciary capacity for the Issuer, the University, the holders of the Bonds, or any other party. The obligations of the University under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

Section 5.2. Counterparts. This Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Section 5.3. Dissemination Agent. The University may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent, upon notice to the University and the Dissemination Agent. The Dissemination Agent may resign at any time by providing 30 days' written notice to the Trustee and the University. The initial Dissemination Agent shall be U.S. Bank National Association.

Section 5.4. Electronic Filing. Submission of Annual Financial Information and notices of Material Events to DisclosureUSA or another "Central Post Office" designated and accepted by the Securities and Exchange Commission shall constitute compliance with the requirement of filing such reports and notices with each repository hereunder; and the University may satisfy its obligations hereunder to file any notice, document or information with a repository by filing the same with any dissemination agent or conduit, including DisclosureUSA or another "Central Post Office" or similar entity, assuming or charged with responsibility for accepting notices, documents or information for transmission to such repository, to the extent permitted by the Securities and Exchange Commission or Securities and Exchange Commission staff or required by the Securities and Exchange Commission. For this purpose, permission shall be deemed to have been granted by the Securities and Exchange Commission staff if and to the

extent the agent or conduit has received an interpretive letter, which has not been revoked, from the Securities and Exchange Commission staff to the effect that using the agent or conduit to transmit information to the repository will be treated for purposes of the Rule as if such information were transmitted directly to the repository.

IN WITNESS WHEREOF, the parties have each caused this Agreement to be executed by their duly authorized representatives as of the date first above written.

THE BOARD OF TRUSTEES OF THE LELAND
STANFORD JUNIOR UNIVERSITY

By: _____
Authorized Representative

U.S. BANK NATIONAL ASSOCIATION,
as Trustee and as Dissemination Agent

By: _____
Authorized Representative

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APPENDIX E

FORM OF BOND COUNSEL OPINION

[closing date]

California Educational Facilities Authority
915 Capitol Mall, Room 590
Sacramento, California 95814

California Educational Facilities Authority
Revenue Bonds (Stanford University)
Series T-__
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the California Educational Facilities Authority (the "Authority") in connection with the issuance of $_____ aggregate principal amount of California Educational Facilities Authority Revenue Bonds (Stanford University) Series T-__ (the "Bonds"), issued pursuant to the provisions of the California Educational Facilities Authority Act of the State of California (constituting Chapter 2 of Part 59 of Division 10 of Title 3 of the Education Code of the State of California), and an indenture, dated as of June 1, 2007 (the "Indenture"), between the Authority and U.S. Bank National Association, as trustee (the "Trustee"). The Indenture provides that the Bonds are issued for the purpose of making a loan of the proceeds thereof to The Board of Trustees of the Leland Stanford Junior University (the "Borrower") pursuant to a loan agreement, dated as of June 1, 2007 (the "Loan Agreement"), between the Authority and the Borrower. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Indenture.

In such connection, we have reviewed the Indenture, the Loan Agreement, the Tax Agreement, dated the date hereof (the "Tax Agreement"), between the Authority and the Borrower, opinions of counsel to the Authority, the Borrower and the Trustee, certificates of the Authority, the Borrower, the Trustee and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

We have relied on the opinion of the Office of the General Counsel for Stanford University, counsel to the Borrower, regarding, among other matters, the current qualification of the Borrower as an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "Code"). We note that such opinion is subject to a number of qualifications and limitations. Failure of the Borrower to be organized and operated in accordance with the Internal Revenue Service's requirements for the maintenance of its status as an organization described in Section 501(c)(3) of the Code may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of issuance of the Bonds.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this opinion is not intended to, and may not, be relied upon in connection with any such actions, events or matters. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Authority. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second and third paragraphs hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Indenture, the Loan Agreement and the Tax Agreement, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the Indenture, the Loan Agreement and the Tax Agreement and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles and to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against public instrumentalities and agencies of the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any of the real or personal property described in or as subject to the lien of the Indenture or the Loan Agreement or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such property. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute the valid and binding limited obligations of the Authority.

2. The Indenture has been duly executed and delivered by, and constitutes the valid and binding obligation of, the Authority. The Indenture creates a valid pledge, to secure the payment of the principal of and interest on the Bonds, of the Revenues and any other amounts (including proceeds of the sale of the Bonds) held by the Trustee in any fund or account established pursuant to the Indenture, except the Rebate Fund, subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture. The Indenture also creates a valid assignment to the Trustee, for the benefit of the holders from time to time of the Bonds, of the right, title and interest of the Authority in the Loan Agreement (to the extent more particularly described in the Indenture).

3. The Loan Agreement has been duly executed and delivered by, and constitutes a valid and binding agreement of, the Authority.

4. The Bonds are not a lien or charge upon the funds or property of the Authority except to the extent of the aforementioned pledge and assignment. Neither the faith and credit nor the taxing power of the State of California or of any political subdivision thereof is pledged to the payment of the principal of or interest on the Bonds. The Bonds are not a debt of the State of California, and said State is not liable for the payment thereof.

5. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Code and is exempt from State of California personal income taxes. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that it is included in adjusted current earnings when calculating corporate alternative minimum taxable income. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

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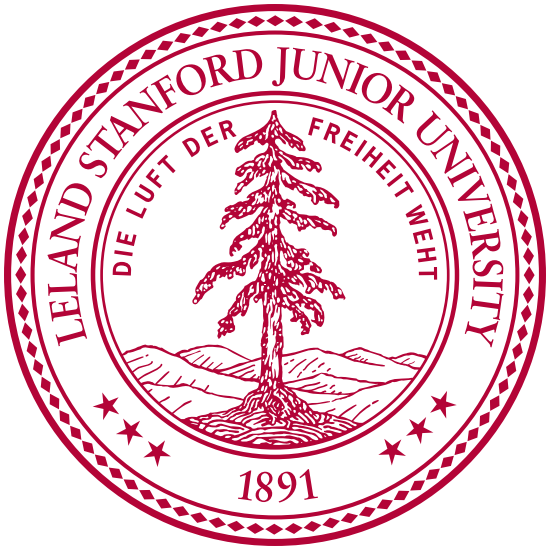

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