STANFORD UNIVERSITY 2005 ANNUAL REPORT

THINKING FORWARD

CONTENTS

THINKING FORWARD,
by President John L. Hennessy **1**

CAMPAIGN FOR UNDERGRADUATE EDUCATION
SURPASSES $1 BILLION GOAL **3**

PURSUING MULTIDISCIPLINARY RESEARCH
AND EDUCATION **6**

GRADUATE EDUCATION
IS NEXT CHALLENGE **11**

STANFORD UNIVERSITY
RESEARCH HIGHLIGHTS **12**

A WISE INVESTMENT,
by Board Chair Burton J. McMurtry **16**

2005 FINANCIAL REVIEW **17**

REPORT FROM THE STANFORD
MANAGEMENT COMPANY **55**

STANFORD FACTS

ENROLLMENT (October 2005):
- Undergraduate Students: **6,705**
- Graduate Students: **8,176**

DEGREES AWARDED (2004-2005):
- Bachelor's: **1,790**
- Master's: **2,041**
- Doctoral: **904**

THE STANFORD PROFESSORIATE
(October 2005): **1,771**

NOBEL LAUREATES: **15**

PULITZER PRIZE WINNERS: **4**

MACARTHUR FELLOWS: **23**

NATIONAL MEDAL OF SCIENCE RECIPIENTS: **21**

NATIONAL MEDAL
OF TECHNOLOGY RECIPIENTS: **3**

AMERICAN ACADEMY OF
ARTS AND SCIENCES MEMBERS: **224**

NATIONAL ACADEMY OF
SCIENCES MEMBERS: **135**

NATIONAL ACADEMY OF
ENGINEERING MEMBERS: **82**

AMERICAN PHILOSOPHICAL
SOCIETY MEMBERS: **41**

NATIONAL ACADEMY OF
EDUCATION MEMBERS: **26**

WOLF FOUNDATION PRIZE WINNERS: **7**

KORET FOUNDATION PRIZE WINNERS: **7**

PRESIDENTIAL MEDAL OF
FREEDOM RECIPIENTS: **3**

On the cover: Lane History Corner is home to the Bill Lane Center for the Study of the North American West. The center is one of the university's premier interdisciplinary centers, dedicated to facilitating interaction among a variety of disciplines to enrich scholarship on the West. The center was enhanced in 2005 with a $5 million gift from Bill Lane, matched with $4 million from the William and Flora Hewlett Foundation's gift to the School of Humanities and Sciences.
Photo by Linda A. Cicero, Stanford News Service

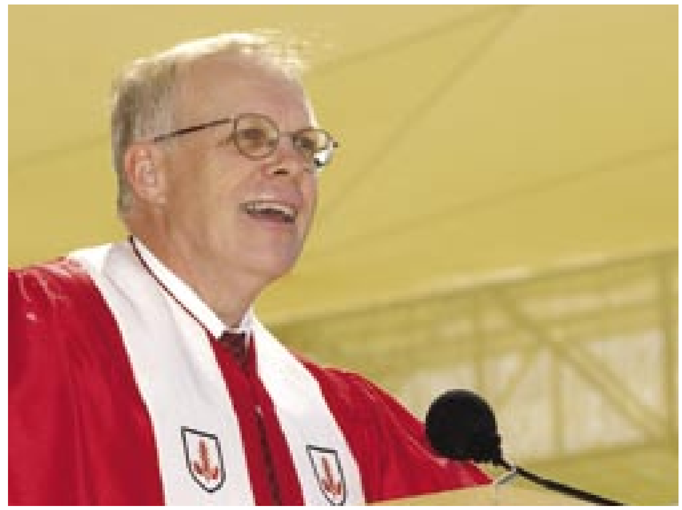
THINKING FORWARD

A MESSAGE FROM THE PRESIDENT

At my inauguration in the fall of 2000, I noted that throughout Stanford's history the university has overcome challenges and created new possibilities when none previously existed. I asked: What does Stanford stand for? How do we ensure that future generations will have the same opportunities that we have had?

From its founding, Stanford has been a pioneer in higher education. Jane and Leland Stanford directed the university to exercise "an influence on behalf of humanity and civilization" and to produce "cultured and useful citizens." Stanford's graduate programs grew significantly in its first century, and by its centennial the university had become one of the leading research institutions in the world. Over the past five years, we have met some difficult challenges, achieved remarkable success and identified many new opportunities.

We have transformed the Stanford undergraduate experience. Since the Commission on Undergraduate Education issued its landmark report in 1994, we have introduced numerous innovative programs that have encompassed all disciplines and spanned the undergraduate years. Recognizing the need for long-term support of these enhancements, at my inauguration we launched a five-year, $1 billion Campaign for Undergraduate Education (CUE). CUE officially concluded on Dec. 31, 2005. Thanks to the extraordinary generosity and support of our alumni, parents and friends, we have realized great success. "Campaign for Undergraduate Education Surpasses $1 Billion Goal" in this



report details the progress of our undergraduate initiatives and the remarkable achievements of the campaign.

Today, our knowledge in many fields is advancing at an unprecedented rate. At the same time, people and countries around the globe face enormous challenges. The world's great universities are among our most important sources for developing new knowledge and understanding, and Stanford is committed to pursuing new opportunities to understand and find solutions for humanity's large and complicated problems. If we are to do so, we must identify and implement new ways to train our graduates so that they will be lifelong contributors and leaders in the 21st century.

Five years ago, we launched a university-wide planning and needs assessment. Three high-priority opportunities for multidisciplinary initiatives were identified: human health, with a focus on biosciences, engineering and medicine; environmental science, engineering and policy; and international affairs. This year, the international initiative was launched. Despite their youth, these initiatives already have had some remarkable accomplishments.

*By thinking forward . . .
we can continue to make even
greater contributions to the world.*

Although our plans are a work-in-progress, we are developing several strategies that focus on preparing students to be creative leaders in the 21st century. "Pursuing Multidisciplinary Research and Education" describes the progress we have made on our new university-wide initiatives.

The success of our enhancements to the undergraduate program and the changing needs of our graduate students have prompted us to re-think the graduate experience at Stanford. We have not undertaken a comprehensive look at graduate education for nearly four decades, and in the budget reductions of the early 1990s, we further reduced centralized support for graduate studies. In September 2004, I established the Commission on Graduate Education to determine how Stanford can employ the broad excellence of the university to prepare our graduate students for the challenges of this century. The depth and strength of many of our departments are unparalleled, and we are committed to improving and renewing graduate education as we go forward. The commission's recommendations are outlined in "Graduate Education Is Next Challenge."

The success of our endeavors will continue to depend on the efforts of many individuals in the university community—students, alumni, staff, faculty and academic leaders—but I have no doubt that we will meet the challenges of this century.

Stanford University always has been willing to strike out in bold new directions, to advance the frontiers of knowledge and put that knowledge to work for the benefit of future generations. It is my belief that we will continue to be a leader in multidisciplinary and interdisciplinary research and an incubator of solutions to some of humanity's greatest challenges. By thinking forward—as pioneers—we can continue to make even greater contributions to the world.

John L. Hennessy

CAMPAIGN FOR UNDERGRADUATE EDUCATION SURPASSES $1 BILLION GOAL

UNDERGRADUATE EDUCATION ENHANCED AT STANFORD

Dec. 31, 2005, marked the successful completion of the $1 billion Campaign for Undergraduate Education (CUE), the largest fund-raising effort dedicated to undergraduate education among research universities nationwide. At the end of December, the campaign total exceeded $1.1 billion, or more than 10 percent above the goal.

Our fundraising results included:

- The Stanford Endowment for Undergraduate Education raised more than $301 million, compared with its $300 million goal.
- More than $302 million was raised toward the $300 million goal for endowed scholarships.
- The Stanford Fund surpassed its $100 million goal with a total of $107 million in gifts and pledges during CUE. In 2004-05, The Stanford Fund raised a record $19.5 million in gifts.
- Other undergraduate programs across the university attracted $380 million in commitments against a $300 million goal.

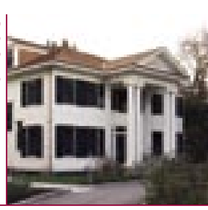
Walter Hewlett accepts thanks for the Hewlett Foundation's historic $400 million gift.

President John Hennessy launched the five-year campaign in his inauguration speech in 2000. CUE's success can be attributed to the excellence of the university's undergraduate education initiatives and the pride, loyalty and confidence of Stanford's alumni and friends.

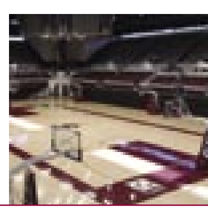
The campaign was significantly bolstered by $100 million in matching funds given by the William and Flora Hewlett Foundation as part of a historic $400 million gift to Stanford. The remaining $300 million was designated for matching funds for the School of Humanities and Sciences, of which about $56 million has matched gifts for professorships and other purposes that contribute to CUE.

A LOOK BACK AT SELECTED STANFORD EVENTS DURING THE CALENDAR YEAR 2005:

01/05

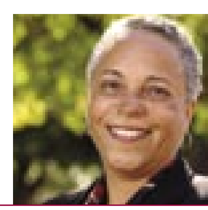


THE HAROLD AND LIBBY ZIFF CENTER FOR JEWISH LIFE OPENS ON MAYFIELD AVENUE AS THE NEW HOME OF HILLEL.



THE CARDINAL BASKETBALL TEAMS RETURN TO MAPLES PAVILION, WHICH UNDERWENT A $30 MILLION RENOVATION IN JUST 10 MONTHS.

GRADUATE ALEX GRENINGER AND SENIOR MIKE SOLOMON ARE TWO OF THE 12 GEORGE J. MITCHELL SCHOLARS CHOSEN NATIONWIDE TO PURSUE POSTGRADUATE STUDIES AT UNIVERSITIES IN IRELAND AND NORTHERN IRELAND.



SALLY DICKSON, ASSOCIATE VICE PROVOST FOR FACULTY DEVELOPMENT, DELIVERS A REPORT TO THE FACULTY SENATE SHOWING SLOW BUT STEADY PROGRESS IN BOOSTING THE RANKS OF MINORITY FACULTY.

RICHARD ZARE, THE MARGUERITE BLAKE WILBUR PROFESSOR IN NATURAL SCIENCE, WINS THE 2005 WOLF PRIZE IN CHEMISTRY IN RECOGNITION OF "INGENIOUS APPLICATIONS OF LASER TECHNIQUES FOR IDENTIFYING COMPLEX MECHANISMS IN MOLECULES AND THEIR USE IN ANALYTICAL CHEMISTRY."

SWEEPING UNDERGRADUATE ENHANCEMENTS

Provost John Etchemendy

The campaign has created permanent funding for the sweeping changes in undergraduate education envisioned by the Commission on Undergraduate Education more than 10 years ago. Its recommendations included stimulating broader and deeper intellectual engagement by Stanford undergraduates with faculty. Today the results of this investment are visible throughout the undergraduate experience. Freshmen and sophomores, for example, are offered more than 200 small-group seminars every year and benefit from a vibrant new humanities core and courses in writing and rhetoric.

In addition, Stanford has invested heavily in supporting undergraduate student involvement in research and independent learning. In 2004-05, the university granted more than $4 million to various research-related projects and programs involving about 1,300 students.

"During their first two years of college, our undergraduates can have an experience as educationally intimate and personal as any student attending a high-quality liberal arts college," says Provost John Etchemendy. "We offer many small classes stressing direct dialogue with some of the university's most esteemed faculty members. Then, as those students progress and begin to focus their studies, they are given the opportunity to pursue research, again in close collaboration with faculty. Learning to conduct research—in other words, learning to analyze, think critically and discover new knowledge—is an exciting opportunity that only a research university can offer. So CUE gives us the best of both worlds: the intimacy of a liberal arts college and the research experience of a major university. I believe no one does it better."

The Bass University Fellows in Undergraduate Education Program is also among the new programs created by CUE. The program honors faculty members who have made distinguished contributions to undergraduate education in the classroom or the laboratory, or as advisers and mentors. Forty-one faculty members have been named University Fellows, creating an important new Stanford tradition.

ENHANCEMENTS IN FINANCIAL AID

The university strengthened its ability to continue need-blind admission by significantly increasing the university's endowment for need-based scholarships through CUE. For U.S. students, Stanford reduced the burden for low- and middle-income families without increasing student debt, and moved closer toward its goal of eliminating tuition contributions from families with incomes below $45,000. Stanford also made progress toward the goal of extending need-blind admission to international students.

Another key goal for CUE was to increase the number of endowed athletic scholarships. By campaign end, CUE donors had established 300 new endowed funds for need-based scholarships and 103 funds for athletic scholarships.

02/05

FORMER WHITE HOUSE COMMUNICATIONS DIRECTOR DAVID DEMAREST IS APPOINTED VICE PRESIDENT FOR PUBLIC AFFAIRS.

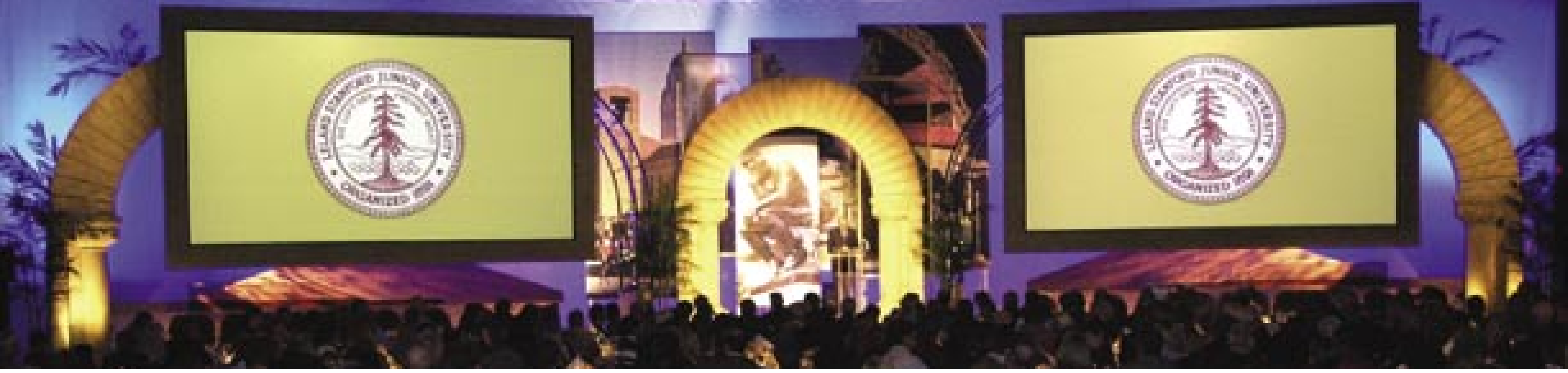
SARAH DONALDSON, THE CATHERINE AND HOWARD AVERY PROFESSOR OF RADIATION ONCOLOGY, WINS THE AMERICAN MEDICAL WOMEN'S ASSOCIATION'S ELIZABETH BLACKWELL AWARD, THE MOST PRESTIGIOUS AWARD FOR A FEMALE PHYSICIAN FOR CONTRIBUTIONS TO WOMEN'S HEALTH.

ASSISTANT PROFESSOR OF COMPUTER SCIENCE RON FEDKIW RECEIVES THE 2005 NATIONAL ACADEMY OF SCIENCES AWARD FOR INITIATIVES IN RESEARCH, GIVEN TO A YOUNG SCIENTIST WITH RESEARCH LIKELY TO LEAD TO NEW CAPABILITIES FOR HUMAN BENEFIT.

STANFORD DAILY EDITOR WILL OREMUS IS CHOSEN THE 2005 DANIEL PEARL MEMORIAL JOURNALISM INTERN AT *THE WALL STREET JOURNAL*; THE PRIZE COMMEMORATES THE WORK OF PEARL, A STANFORD GRADUATE AND *JOURNAL* REPORTER MURDERED IN PAKISTAN IN 2002.

LUCY SHAPIRO, THE VIRGINIA AND D. K. LUDWIG PROFESSOR IN CANCER RESEARCH, WINS THE 2005 SELMAN A. WAKSMAN AWARD IN MICROBIOLOGY, GIVEN BY THE NATIONAL ACADEMY OF SCIENCES FOR PIONEERING WORK ON BACTERIAL CELLS.

PRESIDENT HENNESSY ACCEPTS MOST OF THE RECOMMENDATIONS OF HIS PRESIDENTIAL ADVISORY COMMITTEE ON WORKPLACE POLICIES, INCLUDING PAYING STANFORD'S LIVING WAGE TO TEMPORARY AND CASUAL EMPLOYEES WORKING MORE THAN 20 HOURS WEEKLY.



The "Think Again" series showcased Stanford's advances in undergraduate education.

NEW UNDERGRADUATE PROGRAMS

Besides Freshman and Sophomore Seminars and Undergraduate Research Programs, CUE also supported other programs organized under the auspices of John Bravman, the Freeman-Thornton Vice Provost for Undergraduate Education (VPUE). These programs have received a significant boost, largely through endowment gifts. The portion of the VPUE budget that comes from endowment increased from 11 percent in 2001-02 to 42 percent in 2004-05.

CUE also has raised more than $380 million for a variety of academic initiatives throughout the university, including the Bing Overseas Studies Program, the Haas Center for Public Service, the Earth Systems Program, undergraduate programs in the Schools of Engineering, Earth Sciences and Humanities and Sciences, and athletics. In the Bing Overseas Studies Program, for example, the campaign helped to add new centers in Australia and China, the new three-week Overseas Seminars and an annual conference that brings together students from different overseas centers.

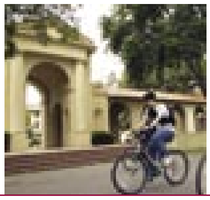
A LASTING LEGACY: THE STANFORD FUND

The campaign has generated another form of long-term support as well—a dramatic increase in annual giving to The Stanford Fund for Undergraduate Education. In each year of CUE, donors have lifted the fund to record heights, contributing $19.5 million in 2004-05 and a total of $107 million in gifts and pledges during the campaign.

Elizabeth Bernhardt, professor of German studies, and Russell Fernald, the Benjamin Scott Crocker Professor of Human Biology, were among the first faculty members appointed Bass University Fellows in Undergraduate Education.

Seed money from The Stanford Fund originally helped jump-start new undergraduate programs such as Freshman and Sophomore Seminars. Today, annual gifts continue to supplement endowed funds, providing support for academics, scholarships and approximately 100 student organizations, ranging from the student radio station KZSU to public service groups housed at the Haas Center.

With CUE's conclusion, The Stanford Fund continues. Increased participation in annual giving from alumni, parents and friends—sometimes referred to as a university's "living endowment"—will be one of CUE's most important legacies.



THE BOARD OF TRUSTEES APPROVES A CONCEPT FOR THE NEW SCIENCE AND ENGINEERING QUADRANGLE 2 (SEQ2), WHICH WILL INCLUDE FOUR BUILDINGS NEXT TO THE CURRENT SCIENCE AND ENGINEERING QUAD.

STANFORD IS CHOSEN TO CREATE THE FIRST REGIONAL VISUALIZATION AND ANALYTICS CENTER TO PERFORM BASIC SCIENCE AND TECHNOLOGY RESEARCH THAT WILL ASSIST THE DEPARTMENT OF HOMELAND SECURITY IN IDENTIFYING AND THWARTING TERRORIST THREATS.

FIVE FACULTY MEMBERS ARE ELECTED TO THE NATIONAL ACADEMY OF ENGINEERING: PER ENGE (ABOVE, AERONAUTICS AND ASTRONAUTICS), GERALD FULLER (CHEMICAL ENGINEERING), ILAN KROO (AERONAUTICS AND ASTRONAUTICS), JAMES LECKIE (CIVIL AND ENVIRONMENTAL ENGINEERING) AND JENNIFER WIDOM (COMPUTER SCIENCE AND ELECTRICAL ENGINEERING).

THE BOARD OF TRUSTEES APPROVES PLANS TO GIVE THE OLD UNION COMPLEX A $24 MILLION FACELIFT AND RETURN IT TO ITS ORIGINAL USE AS A STUDENT CENTER.

THE 12TH ANNUAL STANFORD HUMANITIES CENTER BOOK CELEBRATION RECOGNIZES 82 NEW BOOKS AND EIGHT CDS PUBLISHED IN 2004.

ALUMNUS L. W. "BILL" LANE JR. GIVES $5 MILLION—MATCHED WITH $4 MILLION FROM THE WILLIAM AND FLORA HEWLETT FOUNDATION—FOR THE CENTER FOR THE STUDY OF THE NORTH AMERICAN WEST.

PURSUING MULTIDISCIPLINARY RESEARCH AND EDUCATION

STANFORD LAUNCHES BOLD INITIATIVES TO ADDRESS COMPLEX CHALLENGES

Stanford University, bolstered by its entrepreneurial culture, the contiguity of its seven distinguished schools, the breadth and depth of its academic excellence and its historic ability to transfer research into practice, seeks to become a national leader in the pursuit of multidisciplinary research and education to address worldwide problems. Stanford has historically transformed higher education by being willing to strike out in bold new directions, and it is preparing to do so again.

The university has identified three high-priority areas involving crucial world issues on which to focus its strengths in multidisciplinary research and education:

• The Initiative on Human Health, which brings together faculty from biology, engineering, medicine and the basic sciences to translate research advances to clinical treatments;

• The Initiative on Environmental Sustainability, which addresses the issue of creating a sustainable environment; and

• The International Initiative, which seeks to advance research and education on international peace and security, governance at all levels and human well-being.

Stanford also has identified a fourth initiative focusing on the ability of education to transform lives. Two major elements of that initiative are:

• The Arts Initiative, to be launched in 2006, which seeks to build a stronger presence for the arts at Stanford by increasing the opportunity for all students to study, experience and create artistic work and to develop creative thinking skills; and

• Enhancing graduate education by drawing on institutional multidisciplinary capabilities in a manner that no major research university has attempted. (For a description of this effort, see page 11.)

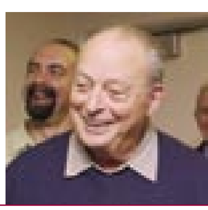
THREE RESEARCH INITIATIVES

The three research initiatives represent critical worldwide challenges and are areas in which Stanford has superb scholarly depth. Stanford recognizes its responsibility to contribute solutions to the challenges the world faces—from advancing the state of human health care to sustaining the environment for future generations to preserving peace and improving the human condition.

Stanford's multidisciplinary initiatives allow faculty in different academic areas to come together in a structured way to attack specific problems. The concept of multidisciplinary education and research is not new. What is new is the deliberateness and the institutional breadth with which the approach is being pursued at Stanford, and the sheer

03/05

GOVERNOR ARNOLD SCHWARZENEGGER IS INTERVIEWED IN MEMORIAL AUDITORIUM BY CHRIS MATTHEWS BEFORE A LIVE AUDIENCE DURING FILMING OF THE TELEVISION SHOW "HARDBALL."

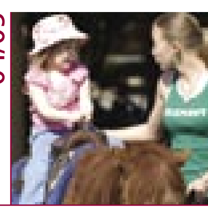


CHARLES YANOFSKY, THE DR. MORRIS HERZSTEIN PROFESSOR OF BIOLOGY, EMERITUS, IS AWARDED THE NATIONAL MEDAL OF SCIENCE BY PRESIDENT GEORGE BUSH.

STANFORD LAUNCHES A NONPROFIT CORPORATION THAT WILL ASSUME OPERATIONS OF EAST PALO ALTO HIGH SCHOOL AND WILL ADD ELEMENTARY AND MIDDLE SCHOOL GRADES STARTING IN FALL 2006.

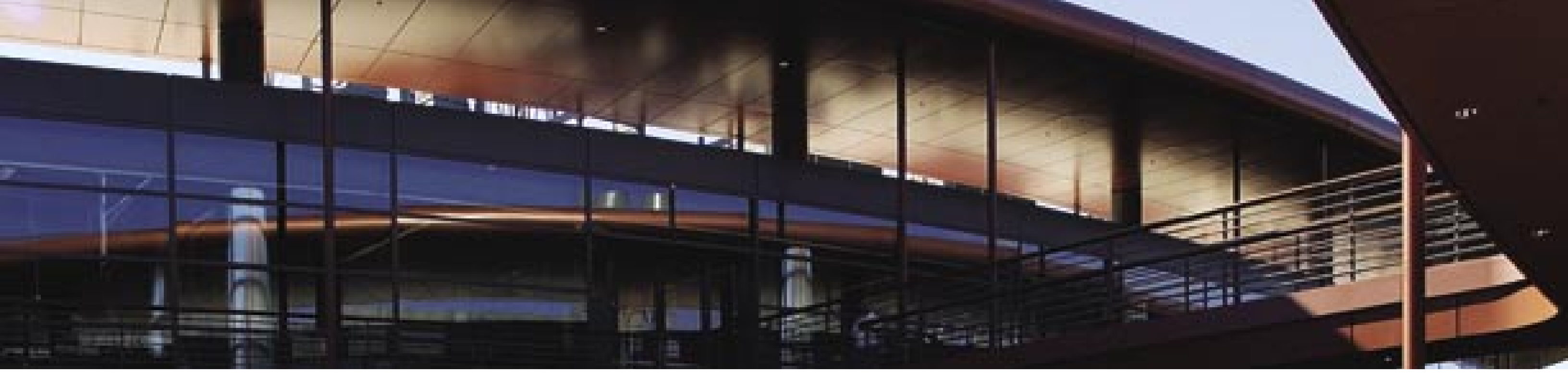
THE WEEKLONG RESIDENCY OF CHOREOGRAPHER MERCE CUNNINGHAM AND HIS DANCE COMPANY CULMINATES IN AN INTERDISCIPLINARY COLLABORATION AMONG 16 SCHOOLS, DEPARTMENTS AND CENTERS.

04/05



ABOUT 10,000 PEOPLE ATTEND THE FOURTH AND BIGGEST COMMUNITY DAY, A UNIVERSITY OPEN HOUSE FOR STANFORD'S NEIGHBORS.

THE NATIONAL CANCER INSTITUTE AWARDS $10 MILLION TO CREATE THE MOLECULAR IMAGING PROGRAM, DIRECTED BY RADIOLOGY PROFESSOR SANJIV SAM GAMBHIR, TO FACILITATE INTERDISCIPLINARY INTERACTION AMONG INVESTIGATORS WORKING TO DETECT AND STUDY CANCER.



The James H. Clark Center is home to Bio-X and the Department of Bioengineering.

size and complexity of the problems that must be addressed with this research. Universities that successfully pursue their missions of research and teaching in the 21st century will be characterized by an ability to cross disciplinary lines.

Stanford has an advantage in pursuing multidisciplinary research and teaching based on:

- Broad academic excellence across disciplines;
- A contiguous campus that places scholars in all seven schools in close proximity, facilitating collaboration;
- A mission, envisioned by Leland and Jane Stanford in their 1885 Founding Grant, that commits Stanford to service "on behalf of humanity and civilization"; and
- A history of success in collaborative work.

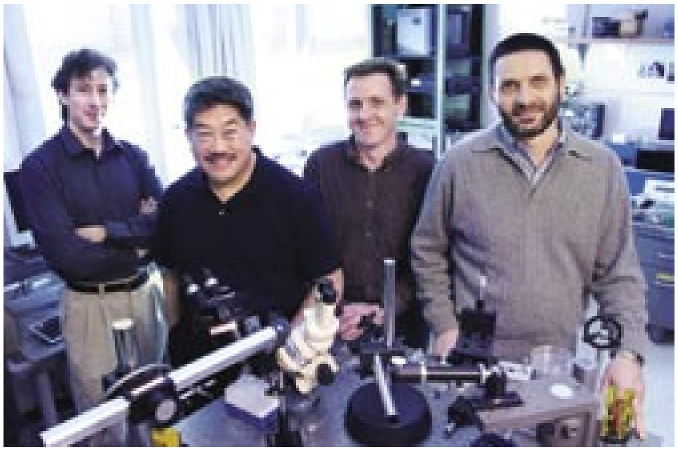
THE INITIATIVE ON HUMAN HEALTH

The Initiative on Human Health includes the Bio-X research program and the new Bioengineering Department, which bring together faculty and students to speed the development and application of biomedical research.

Since its creation in 1999, Bio-X, under the leadership of Matthew Scott, professor of developmental biology and genetics and bioengineering, has experienced growth and success:

- More than 300 faculty members in more than 50 departments are affiliated with Bio-X, headquartered in the innovative new Clark Center.
- Bio-X made its first 40 seed grants worth $6 million under its Interdisciplinary Initiatives Program. Those grants were leveraged into $69.5 million in subsequent research funding.
- The Bio-X Graduate Fellowships have been key in recruiting the best graduate students in the world.

Among the research projects inspired through Bio-X, for instance, is a "bionic eye" created by a neurobiologist, biologist, physicist and ophthalmologist. This research, reported in 2005 in the *Journal of Neural Engineering*, may someday bring vision to those blinded by retinal degeneration. Daniel Palanker, Alexander Vankov and Phil Huie of the Department of Ophthalmology and the Hansen Experimental Physics Laboratory, and Stephen Baccus of the Department of Neurobiology designed an optoelectronic retinal prosthesis system that can stimulate the retina with



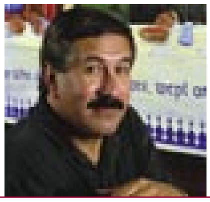
Stephen Baccus, Phil Huie, Alexander Vankov and Daniel Palanker designed a retinal prosthesis system under the auspices of the Bio-X program.

05/05

STANFORD JUNIOR ALBERT CHANG, A POLITICAL SCIENCE AND EAST ASIAN STUDIES MAJOR, IS ONE OF 75 NATIONAL RECIPIENTS OF A 2005 TRUMAN SCHOLARSHIP.

L. PAUL BREMER, WHO HEADED THE AMERICAN-LED OCCUPATION AUTHORITY IN IRAQ, DISCUSSES HIS EXPERIENCES BEFORE A FULL HOUSE IN MEMORIAL AUDITORIUM.

COMMUNITY PARTNERSHIP AWARDS GO TO THE COMMUNITY WORKING GROUP, THE YOUTH ENGAGED IN LEADERSHIP AND LEARNING PROGRAM AND THE UNITED STUDENTS FOR VETERANS' HEALTH.



THE HAAS CENTER HONORS FACULTY MEMBERS AL CAMARILLO AND MARILYN WINKLEBY WITH MIRIAM AARON ROLAND VOLUNTEER SERVICE PRIZES.

EXPERIMENTAL PHYSICIST FRANCIS EVERITT IS AWARDED A NASA DISTINGUISHED PUBLIC SERVICE MEDAL FOR HIS WORK WITH GRAVITY PROBE B.

STEPHEN ORGEL, THE JACKSON ELI REYNOLDS PROFESSOR OF HUMANITIES, RECEIVES THE 2005 AWARD IN LITERATURE FROM THE AMERICAN ACADEMY OF ARTS AND LETTERS.

Key to the environmental initiative are, from left, Pamela Matson, the Chester Naramore Dean of Earth Sciences; Jeff Koseff, professor of civil and environmental engineering; and Buzz Thompson, the Robert E. Paradise Professor of Natural Resources Law.

resolution corresponding to a visual acuity of 20/80. "This is basic research," said Palanker. "It's the essence of Bio-X."

Stanford's Bioengineering Department, chaired by Scott Delp, co-chaired by Paul Yock and housed with Bio-X in the Clark Center, brings the talents of the Schools of Engineering and Medicine to provide research to translate discoveries in the basic biosciences into clinical advances in human health. As evidence of its success, the department attracted more than 300 applicants during its initial faculty search, resulting in three outstanding appointments: Jennifer Cochran, who studies protein engineering; Karl Deisseroth, who studies brain circuitry and regeneration; and Steve Quake, who studies large-scale integration of biological processes. Deisseroth and Quake are both recipients of the National Institutes of Health Director's Pioneer Award, making Stanford the only institution with two winners in one department.

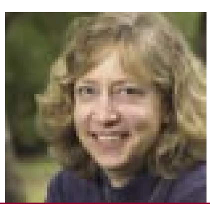
THE INITIATIVE ON ENVIRONMENTAL SUSTAINABILITY

The Stanford Institute for the Environment (SIE), created in 2004, has become the focus for the Initiative on Environmental Sustainability and an interdisciplinary hub for environmental research and education throughout Stanford. In 2006, SIE will be renamed the Ward W. and Priscilla B. Woods Institute for the Environment at Stanford in recognition of their $30 million gift.

Under the leadership of Jeff Koseff, professor of civil and environmental engineering, and Barton "Buzz" Thompson, the Robert E. Paradise Professor of Natural Resources Law, the Woods Institute promotes interdisciplinary research and teaching across all seven Stanford schools focused on creating an environmentally sound and sustainable world. The institute's objectives are to strengthen environmental infrastructure, foster collaborative technology transfer and promote economic opportunities. Four areas of specific interest are energy and climate systems, freshwater, land use and conservation, and oceans and estuaries. Also key to the initiative is the School of Earth Sciences, headed by Pamela Matson, the school's Chester Naramore Dean and the Richard and Rhoda Goldman Professor in Environmental Studies.

Faculty members work at the intersection of science, technology, policy, health, law, business and the humanities to find creative solutions to environmental challenges, to educate the next generation of leaders and to facilitate dialogue with policymakers and the broader community.

In 2005, the institute became home to the Aldo Leopold Leadership Program, which provides leadership training to academic environmental scientists from across North America and facilitates collaboration with decision makers. Also in 2005, planning began for the new Environment and Energy Building, which will house the Woods Institute and related programs.



SOME 200 SCHOLARS GATHER TO CELEBRATE THE 50TH ANNIVERSARY OF THE HONORS COOPERATIVE PROGRAM, WHICH HAS GIVEN AREA ENGINEERS ACCESS TO STANFORD CLASSES AND ALLOWED THEM TO PURSUE DEGREES PART TIME.

THE AMERICAN ACADEMY OF ARTS AND SCIENCES ELECTS FIVE NEW FELLOWS: JOHN FELSTINER (ENGLISH), JEROME FRIEDMAN (STATISTICS), DAVID KINGSLEY (DEVELOPMENTAL BIOLOGY), ROBERT MALENKA (PSYCHIATRY AND BEHAVIORAL SCIENCES) AND D. JOHN ROBERTS (ECONOMICS).

THE DEPARTMENTS OF RADIOLOGY AND RADIATION ONCOLOGY CELEBRATE A CENTURY OF RESEARCH AND TREATMENT, INCLUDING DEVELOPMENT OF THE FIRST U.S. MEDICAL LINEAR ACCELERATOR FOR USE IN TREATING HODGKIN'S LYMPHOMA.

A SYNCHROTRON X-RAY BEAM AT THE STANFORD LINEAR ACCELERATOR CENTER IS FOCUSED ON AN ANCIENT PARCHMENT TO HELP REVEAL THE WORKS OF THIRD-CENTURY MATHEMATICIAN ARCHIMEDES.

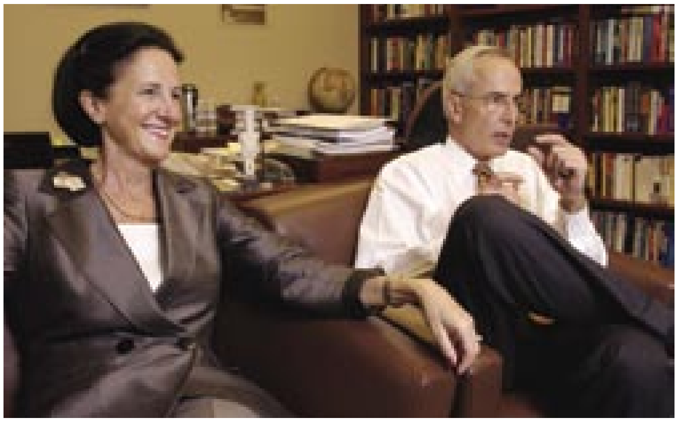
SIX STANFORD FACULTY MEMBERS ARE ELECTED TO THE NATIONAL ACADEMY OF SCIENCES: ROGER BLANDFORD (PHYSICS), AXEL BRUNGER (MOLECULAR AND CELLULAR PHYSIOLOGY), GRETCHEN DAILY (ABOVE, BIOLOGICAL SCIENCES), IAIN JOHNSTONE (STATISTICS), ROBERT KEOHANE (CENTER FOR ADVANCED STUDY IN THE BEHAVIORAL SCIENCES) AND EDWARD SOLOMON (CHEMISTRY).

The institute has awarded grants under the Environmental Venture Projects program to encourage collaborative research in environmental ethics and risk analysis, energy and global change, conservation science and policy, sustainable land use, and marine and freshwater ecology. Among the proposals funded in 2005, for instance, is a study that will lead to an economic model designed to clarify the complex issues involved in freshwater allocation in California. The study, "An Economic Incentives Model for California Water Markets," will use tools from finance, economics and operations management to identify the driving factors in state water markets. The researchers involved are Thomas Weber, assistant professor of management science and engineering; David Freyberg, associate professor of civil and environmental engineering; James Sweeney, professor of management science and engineering; and institute director and legal scholar Buzz Thompson.

THE INTERNATIONAL INITIATIVE

The Freeman Spogli Institute for International Studies at Stanford (FSI), rededicated in 2005, has become the center of Stanford's International Initiative. The initiative is led by Coit Blacker, director of FSI and the Olivier Nomellini University Fellow in Undergraduate Education, and Elisabeth Paté-Cornell, the Burton J. and DeeDee McMurtry Professor in the School of Engineering, chair of management science and engineering and an FSI senior fellow by courtesy. The initiative focuses on three research areas: peace and security, governance at all levels and human well-being.

Through the International Initiative, Stanford will confront global problems that have human dimensions, but whose solutions require the integration of experts in science and technology. "If there's anything we've learned over the last 50 years about the area of international studies, it's that one cannot approach these problems in isolation," said President John Hennessy in announcing the initiative.



International Initiative co-directors Elisabeth Paté-Cornell, the Burton J. and DeeDee McMurtry Professor in Engineering, and Coit Blacker, director of the Freeman Spogli Institute for International Studies

Nearly $100 million has been raised to fund the initiative, including a $50 million gift from Stanford alumni Bradford Freeman and Ronald Spogli. That gift creates up to 10 interdisciplinary professorships and establishes a $3 million intellectual venture capital fund to support interdisciplinary research and teaching in international studies. In addition, the gift supports the work of the institute's centers and programs and stimulates collaborations with Stanford's seven schools and the Hoover Institution.

FOUR COLLEGE STUDENTS BECOME THE FIRST IRAQI STUDENTS TO VISIT A U.S. UNIVERSITY WHEN THEY COME TO STANFORD FOR 10 DAYS AS PART OF A STUDENT-INITIATED EXCHANGE DESIGNED TO IMPROVE UNDERSTANDING BETWEEN THE TWO COUNTRIES.

HUMAN BIOLOGY MAJOR KENNETH GUNDLE IS NAMED A 2005-06 FULBRIGHT SCHOLAR.

HARVARD PRESIDENT AND ECONOMIST LARRY SUMMERS TALKS ABOUT THE DANGERS OF THE U.S. DEFICIT AT A STANFORD INSTITUTE FOR ECONOMIC POLICY RESEARCH SEMINAR.

JUNIOR SUSANNA RINARD IS ONE OF 18 UNDERGRADUATES NATIONWIDE WINNING A 2005 BEINECKE SCHOLARSHIP; JUNIORS PHILLIP DUMESIC, DEVARATI MITRA, ARVIND RAVI AND PHILIP TANEDO RECEIVE GOLDWATER SCHOLARSHIPS.

06/05

THE BOARD OF TRUSTEES APPROVES PLANS TO RENOVATE, UPDATE AND IMPROVE STANFORD STADIUM.

APPLE AND PIXAR CEO AND CO-FOUNDER STEVE JOBS DELIVERS THE COMMENCEMENT ADDRESS BEFORE 1,782 BACHELOR'S DEGREE RECIPIENTS, 2,026 MASTER'S DEGREE RECIPIENTS AND 904 DOCTORAL DEGREE RECIPIENTS.

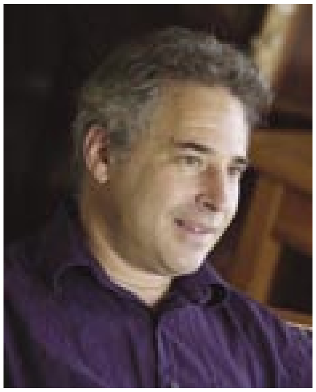
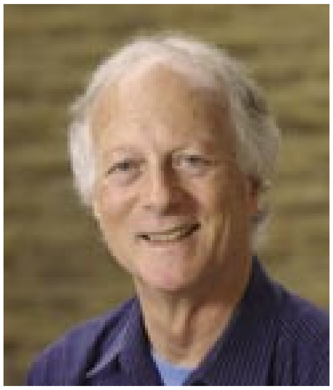
An additional $44 million was contributed to meet important objectives of the International Initiative:

- Alumni Craig McCaw and Susan Rasinski McCaw provided need-based scholarship support for international undergraduate students.
- An anonymous donor has supported the Center for Global Business and the Economy at the Graduate School of Business.
- Susan Ford Dorsey made a gift enhancing the International Policy Studies master's program.
- Walter Shorenstein endowed FSI's Walter Shorenstein Asia Pacific Research Center.

THE ARTS INITIATIVE

Creativity will be at the center of a new arts-related interdisciplinary initiative still in the planning process. This initiative will be officially launched in fall of 2006. Co-directors Bryan Wolf, the Jeanette and William Hayden Jones Professor in American Art and Culture, and Jonathan Berger, a composer and associate professor of music, are heading the planning effort, which incorporates visual, literary and performing arts.

At the core of the initiative is creating a systemic, university-wide "culture of creativity" linking the arts with every area of study, from science and engineering to business and medicine. This exposure to the arts will help students see problems from new perspectives and reach solutions in unexpected ways. The initiative seeks to demonstrate the

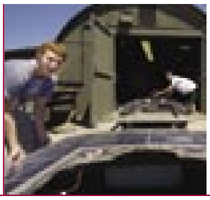
Jonathan Berger, associate professor of music, and Bryan Wolf, the Jeanette and William Hayden Jones Professor in American Art and Culture, co-direct the Arts Initiative.

transformative role of the arts in a 21st-century education. There will be three areas of concentration: creativity and the arts; the arts, sciences and technologies; and the arts in a global society.

The initiative, which will bring artists and ensembles to campus for extended residencies, will also:
- Create arts programming throughout the curriculum,
- Enrich the arts within student residences,
- Explore the role of creative thinking in all fields, and
- Pioneer new research at the boundaries of art and science.

Through a new film studies program, an expanded theater arts program, a new Institute for Creativity and the Arts, a new arts-technology forum and coordinated campus-wide arts events, the initiative will reshape undergraduate and graduate education at Stanford.

07/05



AS A RESULT OF A RECOMMENDATION BY THE ADVISORY PANEL ON INVESTMENT RESPONSIBILITY, THE BOARD OF TRUSTEES VOTES TO DIVEST ALL DIRECTLY HELD INVESTMENTS IN FOUR COMPANIES SUPPORTING THE SUDANESE GOVERNMENT THROUGH BUSINESS OPERATIONS.

THE NEW EAST PALO ALTO HIGH SCHOOL, OPERATED BY THE STANFORD SCHOOL OF EDUCATION, ASPIRE PUBLIC SCHOOLS AND THE RAVENSWOOD SCHOOL DISTRICT, GRADUATES ITS FIRST SENIOR CLASS IN MEMORIAL AUDITORIUM.

ROGER KORNBERG, THE MRS. GEORGE A. WINZER PROFESSOR IN MEDICINE, WINS THE $250,000 GENERAL MOTORS SLOAN PRIZE FOR A BASIC SCIENCE CONTRIBUTION THAT HELPS EXPLAIN CANCER.

FOR THE 11TH CONSECUTIVE TIME, STANFORD WINS THE NCAA DIVISION I SPORTS ACADEMY DIRECTORS' CUP, WHICH RECOGNIZES THE NATION'S BEST OVERALL COLLEGIATE ATHLETICS PROGRAM.

STANFORD AND SUN MICROSYSTEMS ESTABLISH THE CENTER FOR COMPUTATIONAL EARTH AND ENVIRONMENTAL SCIENCES, AN INTERDISCIPLINARY RESEARCH EFFORT DESIGNED TO TACKLE QUESTIONS ABOUT EARTH PROCESSES, NATURAL RESOURCES AND THE ENVIRONMENT.

THE STANFORD SOLAR CAR TEAM WINS THE NORTH AMERICAN SOLAR CHALLENGE, RACING 2,500 MILES FROM AUSTIN, TEXAS, TO CALGARY, CANADA.

GRADUATE EDUCATION IS NEXT CHALLENGE

STRENGTHENING STANFORD GRADUATE EDUCATION FOCUS OF REPORT

With undergraduate education significantly strengthened through the successfully completed Campaign for Undergraduate Education, Stanford is now turning its attention to enhancing the graduate experience.

This effort will, once again, draw from the university's mission, history and traditions. More than 50 years ago, the university enhanced its graduate offerings during a time at which government funding for graduate study and research was increasing. Those efforts bolstered the quality of the faculty and improved the university's facilities. Stanford rapidly rose to the top rank of universities in the world.

Today, Stanford's graduate programs cover a wide range of disciplines and attract an unparalleled student body. To prepare its graduate students for an increasingly global and complex society, Stanford remains committed to providing strong disciplinary expertise, as well as broad access to the excellence of the university as a whole.

President John Hennessy appointed Charles Holloway, the Kleiner, Perkins, Caufield and Byers Professor in Management, Emeritus, in the Graduate School of Business, and Mark Horowitz, the Yahoo! Founders Professor in Engineering, to chair the Commission on Graduate Education in conjunction with Associate Vice President for Strategic Planning Roberta Katz.

The charge to the commission stated the challenge of preparing graduate students "to be leaders in finding solutions for the large-scale, complex problems of the 21st-century." It noted that new issues and contexts call for new approaches that are not only creative but also collaborative. The charge also noted the need to address the changing nature of students' professional and academic career paths.

The commission embraced a bold vision of Stanford's future as a top international university. Among its proposals:

- Foster intellectual innovation: Stanford should create and support new cross-disciplinary and collaborative opportunities for students and faculty, remove barriers to broad course access, adopt a university-wide academic calendar, and increase fellowships for interdisciplinary study.

- Maximize the graduate experience: Stanford should offer new courses to prepare students for leadership roles, enhance efforts to recruit and support a diverse student body and faculty, improve advising processes, change graduate housing and strengthen various other support services.

- Improve organizational flexibility: Stanford should create a vice provost for graduate education, who would represent graduate education at the highest levels of the university and serve as a catalyst for the implementation of proposed changes.

The commission's report discusses innovative approaches, including incentives for the development of cross-department, cross-school courses and workshops to increase students' exposure to other disciplines and ways of thinking. It also suggests the creation of an Innovation Enhancement Fund to support interdisciplinary collaboration, as well as a faculty academy to help faculty members interact with colleagues from other disciplines. It encourages development of a leadership curriculum offered to all graduate students as a complement to discipline-based studies.

With these changes, Stanford will stand ready and committed to take graduate programs to the next level. Such a transformation will benefit graduate students—and, through their contributions, the world.

Stanford scholars and researchers continued their contributions to the creation of new knowledge during 2005—many through multidisciplinary initiatives. Following are examples.

BIOSCIENCES

STEVEN ARTANDI, assistant professor of medicine, is senior author of a paper in *Nature* that describes a new method to turn on certain adult stem cells at will.

BRUCE BAKER, the Dr. Morris Herzstein Professor in Biology, is co-author of a study published in *Nature* that shows that a change in a single male-specific gene produces a female fruit fly that displays male courtship behaviors.

Biological sciences professor **DEBORAH GORDON** and her colleagues report in *Nature* that they have identified for the first time an ant species that produces its own natural herbicide to poison unwanted plants.

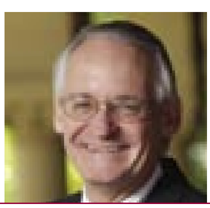
MILDRED CHO, associate professor of pediatrics, and **DAVID MAGNUS**, associate professor of pediatrics and director of the Center for Biomedical Ethics, write in *Science* that ethical protections should be devised to ensure that women who donate their eggs for human embryonic stem cell research are adequately informed of the risks.

A study in *Nature Neuroscience* by **ERIC KNUDSEN**, the Edward C. and Amy H. Sewall Professor and chair of neurobiology, shows how owls' early experiences forever change their brain structure.

AARON HSUEH, professor of obstetrics and gynecology, reports in *Science* the discovery of a new appetite-regulating hormone, called obestatin, that offers a key to researchers developing treatments for obesity and anorexia.

Stem cells from the brain can be coaxed into forming insulin-producing cells that mimic those missing in people with diabetes, according to a study led by **SEUNG KIM**, assistant professor of developmental biology, and published in the *Public Library of Science Medicine*.

ERIC KOOL, professor of chemistry, is co-author of an article in *Proceedings of the National Academy of Sciences* that



08/05

YALE'S UNDERGRADUATE ADMISSION DEAN RICHARD SHAW IS APPOINTED STANFORD DEAN OF ADMISSION AND FINANCIAL AID.

SCIENTISTS AT THE SAN ANDREAS FAULT OBSERVATORY AT DEPTH REACH A SIGNIFICANT GOAL WHEN THEY DRILL INTO A SEISMICALLY ACTIVE SECTION OF THE FAULT APPROXIMATELY TWO MILES BELOW THE SURFACE OF THE EARTH.

STANFORD AND FIVE OTHER INSTITUTIONS ARE AWARDED A FIVE-YEAR, $7.5 MILLION FEDERAL GRANT TO ESTABLISH A NATIONAL RESEARCH CENTER DEDICATED TO DESIGNING MORE TRUSTWORTHY VOTING SYSTEMS.

09/05

PRESIDENT JOHN HENNESSY JOINS PALO ALTO OFFICIALS IN BREAKING GROUND FOR THE NEW COMMUNITY SOCCER FIELDS ON STANFORD LAND AT THE CORNER OF EL CAMINO REAL AND PAGE MILL ROAD.

STANFORD ENROLLS MORE THAN 30 STUDENTS DISPLACED BY HURRICANE KATRINA, WHICH DEVASTATES THE GULF COAST REGION.

THE STANFORD INSTITUTE FOR INTERNATIONAL STUDIES IS RENAMED THE FREEMAN SPOGLI INSTITUTE FOR INTERNATIONAL STUDIES AT STANFORD IN RECOGNITION OF A $50 MILLION GIFT FROM ALUMNI BRADFORD FREEMAN AND RONALD SPOGLI.

reports his laboratory has created a larger-than-normal DNA molecule that copies itself, making it possible to better understand mistakes that occur during DNA replication.

LIQUN LUO, professor of biological sciences, and his colleagues announce in *Cell* a streamlined method for creating a "genetic mosaic mouse"—a rodent genetically engineered to produce small clusters of cells with mutated genes.

A study in *Proceedings of the National Academy of Sciences* by **SEAN MACKEY**, assistant professor of anesthesia, discusses new technology that allows chronic pain patients to use their brains to control and change their pain.

BUSINESS

Improved systems to share medical histories, create interdisciplinary medical teams and update doctors on the latest medical research findings could trim health care costs while improving patient care, argues **ALAIN ENTHOVEN**, the Marriner S. Eccles Professor of Public and Private Management, Emeritus, at the Graduate School of Business, in *Health Affairs*.

Forgiving debt to the world's poorest nations may win political support but is unlikely to help these countries because they lack the infrastructure that would provide the foundation for cost-effective debt relief, argues **PETER HENRY**, Graduate School of Business associate professor of economics, in research funded by the National Science Foundation.

States that adopted malpractice law reforms, such as caps on non-economic damages, saw their supply of physicians increase, according to research in the *Journal of the American Medical Association,* co-authored by **DANIEL KESSLER**, professor of economics, law and policy at the Graduate School of Business.

EDUCATION

Research co-authored by **SUSANNA LOEB**, associate professor in the School of Education, and appearing in the *Journal of Policy Analysis and Management*, shows that teachers seeking their first jobs overwhelmingly choose to teach in school districts near where they grew up.

THOMAS ROBINSON, associate professor of pediatrics, and his colleagues at Johns Hopkins report in the *Archives of Pediatric and Adolescent Medicine* that third-graders with televisions in their bedrooms perform significantly worse on standardized tests than peers without TVs.

ENGINEERING AND COMPUTER SCIENCE

DAN BONEH, associate professor of computer science and of electrical engineering, and **JOHN MITCHELL**, the Mary and Gordon Crary Professor in the School of Engineering, develop an extension to popular Web browsers to thwart "phishing," which can be used to fool users into providing their passwords and other information.

DAVID MILLER, the W.M. Keck Foundation Professor of Electrical Engineering, and **JAMES HARRIS**, the James and Ellenor Cheesebrough Professor in the School of Engineering, head a research team that announces an invention in *Nature* that could help chips output data at a much higher rate.

FRITZ PRINZ, chair of mechanical engineering and the Rodney H. Adams Professor in Engineering, and his students announce at the Electrochemical Society confer-

DAVID KENNEDY, THE DONALD J. MCLACHLAN PROFESSOR OF HISTORY, IS SELECTED BY STUDENTS TO WIN THE HOAGLAND PRIZE, THE HIGHEST AWARD FOR UNDERGRADUATE TEACHING.

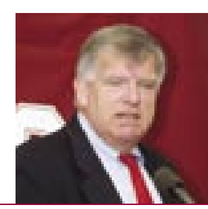
PEHR HARBURY, ASSOCIATE PROFESSOR OF BIOCHEMISTRY, IS NAMED A 2005 MACARTHUR FELLOW.

THE NATIONAL INSTITUTES OF HEALTH AWARDS THE SCHOOL OF MEDICINE $18.8 MILLION TO DEVELOP A NATIONAL CENTER FOR BIOMEDICAL ONTOLOGY.

SCHOOL OF MEDICINE FACULTY MEMBERS KARL DEISSEROTH (BIOENGINEERING), PEHR HARBURY (BIOCHEMISTRY) AND THOMAS RANDO (NEUROLOGY) ARE AMONG 13 WINNERS NATIONWIDE OF THE NATIONAL INSTITUTES OF HEALTH DIRECTOR'S PIONEER AWARDS.

10/05

COMPUTER SCIENTIST SEBASTIAN THRUN HEADS THE STANFORD RACING TEAM, WHOSE AUTONOMOUS ROBOTIC CAR, STANLEY, TRAVELS A 132-MILE COURSE IN LESS THAN SEVEN HOURS TO WIN $2 MILLION IN A CONTEST SPONSORED BY THE DEFENSE ADVANCED RESEARCH PROJECTS AGENCY.



ATHLETIC DIRECTOR TED LELAND ANNOUNCES HE WILL LEAVE STANFORD AFTER 14 YEARS.

MARK SCHNITZER, assistant professor of biological sciences and of applied physics, and his graduate students report in *Optics Letters* that they have developed a miniature microscope that will allow researchers to observe nerve cells and capillaries deep inside living subjects.

ence that they have reduced the operating temperature of a promising type of fuel cell.

ENVIRONMENT

Researchers from Stanford and the Monterey Bay Aquarium led by **BARBARA BLOCK**, the Charles and Elizabeth Prothro Professor in Marine Sciences, map the undersea journeys of Atlantic bluefin tuna and conclude in *Nature* that tighter restrictions should be placed on fishing to protect their feeding and breeding grounds.

Air quality, health and climate would improve if all vehicles now on U.S. roads were powered by hydrogen fuel cells, according to a study in *Science* by **MARK JACOBSON**, associate professor of civil and environmental engineering, and his colleagues.

TERRY ROOT, senior fellow at the Center for Environmental Science and Policy, is lead author of a study in the *Proceedings of the National Academy of Sciences* that shows that humans, through increased emissions of atmospheric greenhouse gases and aerosols, are causing regional climate change, which in turn is linked to changes in the springtime activity of animals and plants.

Ten percent of all bird species are likely to disappear by 2100 and another 15 percent could be on the brink of extinction, according to a study published in the *Proceedings of the National Academy of Sciences* by **CAGAN SEKERCIOGLU** of the Center for Conservation Biology and professors of biological sciences **GRETCHEN DAILY** and **PAUL EHRLICH**, the Bing Professor of Population Studies.

PETER VITOUSEK, the Clifford G. Morrison Professor in Population and Resource Studies, is co-author of an article in the *Proceedings of the National Academy of Sciences* describing a remote-sensing technique that identifies invasive plant species before they dominate a landscape.

Dean **PAMELA MATSON** is among the School of Earth Sciences authors of a *Nature* article that, for the first time, links large-scale coastal farming to massive algal blooms at sea. With her are Kevin Arrigo, left, associate professor of geophysics, and Mike Berman, a doctoral student in geological and environmental sciences.

11/05

THE SCHOOL OF ENGINEERING LAUNCHES THE HASSO PLATTNER INSTITUTE OF DESIGN, THANKS TO A $35 MILLION GIFT FROM THE PHILANTHROPIST AND CO-FOUNDER OF SOFTWARE GIANT SAP.

THE UNIVERSITY'S OVERSEAS STUDIES PROGRAM IS ENDOWED WITH A $25 MILLION GIFT CONTRIBUTED BY PETER AND HELEN BING WITH MATCHING FUNDS FROM THE WILLIAM AND FLORA HEWLETT FOUNDATION.

REUNION HOMECOMING DRAWS A RECORD 8,000 ALUMNI BACK TO THE FARM.

HIGHWIRE PRESS, A DIVISION OF THE UNIVERSITY LIBRARIES AND ACADEMIC INFORMATION RESOURCES, RELEASES ITS MILLIONTH FREE SCHOLARLY JOURNAL.

TIBET'S EXILED LEADER, THE DALAI LAMA, VISITS CAMPUS.

A LONG-LOST WATCH BOUGHT FOR JANE STANFORD BY HER HUSBAND RETURNS TO CAMPUS THANKS TO THE GENEROSITY OF PIERRE SCHWOB.

LEGAL CONTRIBUTIONS

The U.S. Supreme Court favorably decides four cases submitted by students in the Law School Supreme Court Litigation Clinic, taught by Professor **PAM KARLAN** and Lecturer **THOMAS GOLDSTEIN**: The court ruled in *Tum v. Barber Foods* that workers are entitled to wages for the time it takes them to walk to their work stations from where they obtain clothing and tools; in *Spector v. Norwegian Cruise Lines* that Title III of the Americans with Disabilities Act applies to foreign-flag cruise ships; in *Rousey v. Jacoway* that bankruptcy exemptions are applicable to money held in IRAs; and in *Smith v. City of Jackson* that the Age Discrimination in Employment Act recognizes disparate impact claims.

MEDICINE

HONGJIE DAI, associate professor of chemistry, is co-author of a study in *Proceedings of the National Academy of Sciences* that describes a laser therapy that can destroy cancer cells but leaves healthy cells unharmed.

The use of statins to reduce the risk of heart disease has increased, but a study in the *Public Library of Science Medicine* by **RANDALL STAFFORD**, associate professor of medicine, shows that doctors are prescribing them in only half of their visits with patients who would benefit most from them.

Infants born at night in California have a greater risk of dying within their first four weeks than do infants born during the day, according to a study published in *Obstetrics and Gynecology* and written by neonatologist **JEFFREY GOULD**, the Robert L. Hess Professor in Pediatrics.

YVONNE MALDONADO, associate professor of pediatrics, and her colleagues report in the *Journal of the American Medical Association* that HIV-infected infants treated with one or two antiretroviral drugs within two months of birth were less likely to develop AIDS by their third birthdays than were infants whose treatment was initiated later.

PHYSICAL SCIENCES

AARON LINDENBERG, staff scientist at the Stanford Linear Accelerator Center, is lead author of an article in *Science* that reports observations about the fast first steps of a solid melting into a liquid using ultra-fast bursts of X-ray light.

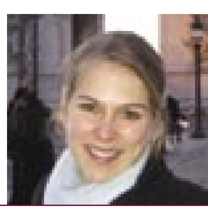
STANFORD LINEAR ACCELERATOR CENTER RESEARCHERS report in *Physical Review Letters* that they have made new observations that illuminate the nature of the weak force, reporting that the strength of the weak force acting on two electrons lessens when the electrons are far apart.

W.E. MOERNER, the Harry S. Mosher Professor of Chemistry, reports in the *Physical Review Letters* that he and his colleagues have created a "bowtie nanoantenna" that may allow researchers to produce detailed images of proteins, DNA molecules and synthetic nano-objects.

PSYCHOLOGY

IAN H. GOTLIB, professor of psychology, and his students report at the Society for Research in Psychopathology that they have identified brain anomalies in young girls who are at high risk for developing depression.

BRIAN KNUTSON, assistant professor of psychology, and **CAMELIA KUHNEN**, a doctoral candidate in finance, report in *Neuron* that activation of two parts of the brain linked to excitement and anxiety influence rational and irrational financial decisions, a finding that could help economic institutions help investors make better choices.



12/05

ANNE R. AND ROBERT M. BASS GIVE $30 MILLION TO THE STANFORD GRADUATE SCHOOL OF BUSINESS, THE SINGLE LARGEST GIFT IN THE SCHOOL'S 80-YEAR HISTORY.

TWO STUDENTS, ELIZABETH MAYNE AND TANYA ALI HAJ-HASSAN (ABOVE), ARE NAMED RHODES SCHOLARS, AND TWO CURRENT AND TWO FORMER STUDENTS ARE NAMED MARSHALL SCHOLARS: PHILIP TANEDO, MARK OTUTEYE, TREVOR SUTTON AND RAJAIE BATNIJI.

KENNETH ARROW, PROFESSOR EMERITUS OF ECONOMICS AND OF OPERATIONS RESEARCH, IS SELECTED AS ONE OF EIGHT RECIPIENTS OF THE 2004 NATIONAL MEDAL OF SCIENCE.

SIX FACULTY ARE ELECTED FELLOWS OF THE AMERICAN ASSOCIATION FOR THE ADVANCEMENT OF SCIENCE: DANIEL HERSCHLAG (BIOCHEMISTRY), AREND SIDOW (PATHOLOGY, GENETICS), ERIC ROBERTS (COMPUTER SCIENCE), LINDA CORK (COMPARATIVE MEDICINE), C. W. FRANCIS EVERITT (HANSEN LABS) AND PAUL SNIDERMAN (POLITICAL SCIENCE).

THE $1 BILLION CAMPAIGN FOR UNDERGRADUATE EDUCATION IS COMPLETED, RAISING MORE THAN $100 MILLION ABOVE ITS GOAL.

A WISE INVESTMENT

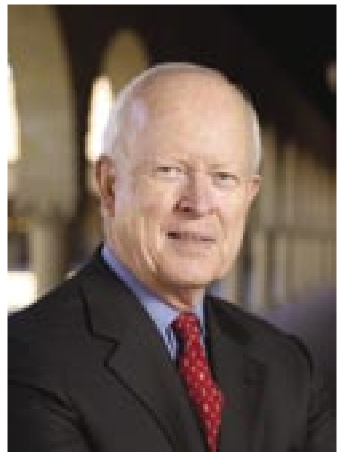
A MESSAGE FROM THE CHAIR OF THE BOARD OF TRUSTEES

By any measure, 2004-05 was a strong year for Stanford financially, with endowment investments producing impressive returns and total gifts to the university reaching record-breaking levels. Stanford also made excellent progress translating these financial gains into research and teaching that will have lasting benefits to society.

Because of the substantial talents of our management company, Stanford remained a wise investment for philanthropic dollars this year, with endowment returns totaling a remarkable 19.5 percent. These results constitute a third consecutive year of increasing yields. In fact, our three-year rate of return was 15.3 percent. Our returns are consistently among the best reported by the 20 largest university endowments nationwide, with our 2004-05 percentage gains surpassing those of all but one of those endowments.

Giving to Stanford was likewise impressive this year, with gifts from 72,000 alumni, parents, friends, companies and foundations adding up to $603.6 million—the highest level of giving in the university's history. Included in the year's fundraising total were gifts to the Campaign for Undergraduate Education (CUE), a five-year effort that was completed on Dec. 31, 2005. As this report goes to press, CUE has raised a remarkable $1.1 billion, enabling Stanford to offer its undergraduates the benefits of both an intimate learning environment, similar to that of a small liberal arts college, and the research experience and world-class faculty of a major university. CUE has changed the opportunities students find at Stanford, and those opportunities can change their lives.

Over the past several years, as the CUE effort moved toward a successful close, Stanford has unveiled a series of initiatives designed to leverage the university's vast intel-



lectual resources to address some of the world's most intractable problems and seize vital opportunities. The collaborative research and teaching made possible through these initiatives—which focus on human health, environmental sustainability and international affairs—are already under way in laboratories and classrooms throughout the campus. As students and faculty work together in new ways, the resulting discoveries and highly trained professionals will have their greatest impact off campus. In this sense, I expect the return on everything we invest in Stanford people to continue growing dramatically.

As a Stanford alumnus and chair of the Board of Trustees, I am tremendously gratified by the support alumni and friends have shown this year. These gifts helped continue the transformation of the school's undergraduate programs, supported the bold new initiatives Stanford has launched and fostered the foundational programs that have made this a great university. I hope that in the coming year you will be inspired to join with Stanford—both as a financial contributor and a volunteer in the Stanford community—as the university strives to find solutions to global challenges and educate 21st-century leaders. And to those of you who supported Stanford in 2004-05, thank you.

Sincerely,

Burton J. McMurtry, M.S. '59, Ph.D. '62

2005 FINANCIAL REVIEW

STANFORD UNIVERSITY

DISCUSSION OF FINANCIAL RESULTS, PAGE 19

SELECTED FINANCIAL DATA, PAGE 26

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION, PAGE 27

CONSOLIDATED STATEMENTS OF ACTIVITIES, PAGE 28

CONSOLIDATED STATEMENTS OF CASH FLOWS, PAGE 30

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, PAGE 31

REPORT OF INDEPENDENT AUDITORS, PAGE 53

MANAGEMENT RESPONSIBILITY FOR FINANCIAL STATEMENTS, PAGE 54

REPORT FROM THE STANFORD MANAGEMENT COMPANY, PAGE 55

DISCUSSION OF FINANCIAL RESULTS

Stanford's consolidated net assets increased $2.9 billion in the 2004-2005 fiscal year (FY05) to end the year at $16.9 billion. See Figure 1. The increase was due primarily to strong investment performance, substantial new gifts and solid operating results for both the Hospitals and the University.

In FY05, Stanford's consolidated operating revenues exceeded expenses by $321 million, compared with $155 million in the 2003-2004 fiscal year (FY04). The University, excluding the Hospitals, reported a surplus from operations of $130 million in FY05 versus $7 million in FY04. The Hospitals reported a surplus of $191 million in FY05, compared with $148 million in FY04.

UNIVERSITY

The University ended the year with a surplus from operations of $130 million. Total revenues increased by 12% with growth in each revenue category, while expenses increased only 6%.

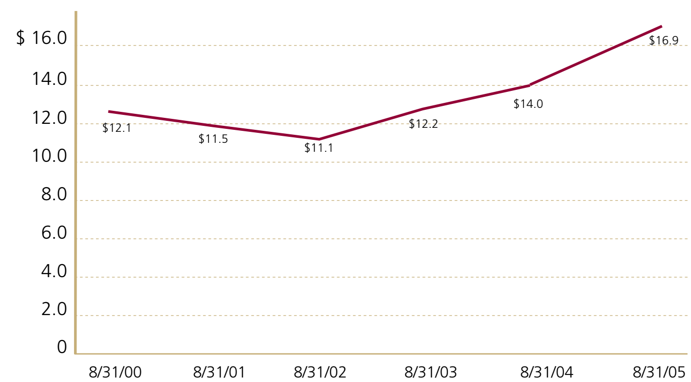
Some of the highlights of FY05 included:

EXCEPTIONAL INVESTMENT PERFORMANCE. The University had another year of strong investment performance in FY05 with total investment returns of $2.7 billion. This followed a return of $1.7 billion in FY04. 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. Giving from alumni, parents and friends reached its highest level in Stanford history. The

FIGURE 1

CONSOLIDATED NET ASSETS (IN BILLIONS)



University's Office of Development reported gifts of $604 million, on a cash basis, a 15% increase over the $524 million received in FY04. Highlights of gift activity included the following:

> The Campaign for Undergraduate Education (CUE) surpassed its overall goal of $1 billion with new commitments of $95 million during FY05. Total gifts and pledges to CUE were nearly $1.1 billion as of August 31, 2005. The campaign ended on December 31, 2005.

> The Stanford International Initiative attracted gifts and pledges totaling $94 million, including $50 million from alumni Brad Freeman and Ron Spogli.

> Hasso Plattner pledged $35 million to the School of Engineering for the creation of a design center. The University has named the center the Hasso Plattner Institute of Design.

> Alumnus and parents Anne and Robert M. Bass committed $30 million to the Graduate School of Business to

create the Bass Seminars program and provide matching funds for faculty support and annual giving.

> A pledge from Helen and Peter Bing, with matching funds from The William and Flora Hewlett Foundation, will provide $25 million for the Bing Overseas Studies Program.

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 $2.6 billion in FY05 compared with a $1.5 billion increase in FY04. 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.

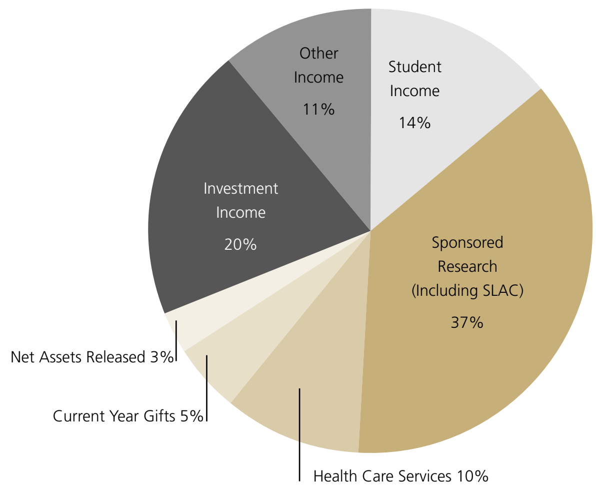
The components of the University's $2.6 billion in operating revenues are shown in Figure 2. Sponsored research support accounts for 37% of total revenues with an additional 28% coming from investment income distributed for operations and gifts and pledges in support of operations. Highlights of the University's operating activities are summarized below:

> Consistent with prior years, student income represented 14% of University operating revenues, increasing to $356 million in FY05 from $332 million in FY04. The tuition rate for undergraduates increased 4.5% in FY05, the lowest increase in five years. Increases in graduate student tuition in the School of Medicine and Graduate School of Business were slightly higher. The room and board rate increased 4.7% in FY05. Offsetting tuition and room and board revenues is financial aid. Consistent with prior years, financial aid was 28% of total student income.

> Sponsored research support increased $50 million, or 5%, to $973 million in FY05, representing 37% of University operating revenue. Direct costs, excluding SLAC, increased 7% while indirect cost recovery was up only 5% due to a reduction in the indirect cost recovery rate from 60% in FY04 to 57% in FY05.

FIGURE 2

UNIVERSITY OPERATING REVENUES FY05 ($2.6 BILLION)



> Health care services revenue for the University increased $37 million or 16% in FY05 to $267 million, representing 10% of University revenue. The increase is due primarily to a change in the method of calculating professional services revenue paid by the Hospitals to the School of Medicine, resulting in a one time adjustment to current year revenue of approximately $22 million.

Health care services revenue consists primarily of payments made by the Hospitals to the University, including $237 million to the School of Medicine for faculty physicians' services, the blood center and other essential services. An additional $23 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. These amounts are eliminated in consolidation.

Faculty physicians also generated $7 million in revenue for services provided to external parties, including the Santa Clara Valley Medical Center and the Palo Alto Veterans Administration Hospital.

> The increases in both current year gifts and net assets released from restrictions are a reflection of the University's fund raising efforts in FY05.

> Current year gifts in support of operations increased to $144 million in FY05, from $105 million in FY04. 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 $82 million compared to $46 million in FY04.

> Total investment income included in operations represented 20% of University revenue.

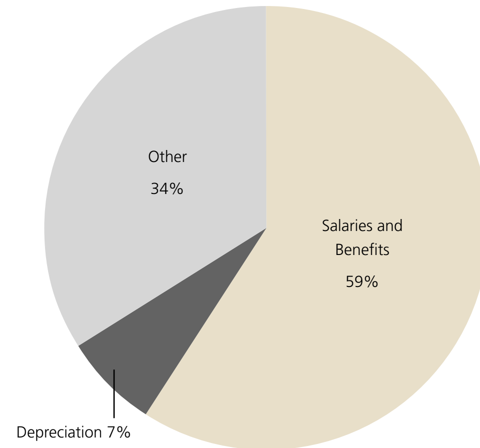
> Endowment income distributed for operations was $452 million in FY05, up from $400 million in FY04. The University's endowment increased 23% to $12.2 billion at August 31, 2005 due to strong investment performance, new gifts and transfers of expendable funds. The endowment, which represents approximately 78% of the University's net assets, is a significant source of revenue for the University. Payout from the endowment covered approximately 18% of expenses in FY05 compared to 17% in FY04. Distributions in both years were approximately 4.6% of total endowment value at the beginning of the respective year.

> Other investment income was $62 million in FY05 compared to $60 million in FY04. This category includes the payout to operations from the Expendable Funds Pool (EFP) and the Endowment Income Funds Pool (EIFP) and the faculty and staff mortgage loan program income. The EFP payout policy seeks to achieve a minimum payout to operations, while also providing that amounts in excess of the guidelines be invested in the endowment. The combined EFP and EIFP payout was approximately $51 million in FY05, compared to $42 million in FY04.

> Special program fees and other income totaled $291 million in FY05, a 13% increase over FY04. 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 revenues from the operations of residential housing and dining (other than room and board revenues from students), catering services, revenues from the Stanford West Apartments and from intercollegiate athletic activities. Increases were primarily in royalty revenues and corporate affiliate, summer and other program revenues.

FIGURE 3

UNIVERSITY OPERATING EXPENSES FY05 ($2.5 BILLION)



Total expenses increased $150 million, or 6%, to $2.5 billion in FY05. As depicted in Figure 3, salaries and benefits comprised approximately 59% of the University's total expenses, depreciation expense was 7% and other operating expenses represented approximately 34%.

> Salaries and benefits increased 4% in FY05 to $1.5 billion. During FY04, the University had a salary freeze in effect. In FY05, salary increases were reinstated, accounting for the majority of the increase. In addition, staff headcount increased by approximately 2% during the year.

> Depreciation expense decreased 3% to $192 million in FY05 from $197 million in FY04. Purchases of capital equipment have declined over the past five years resulting in a lower depreciation expense. Additionally, depreciation

in FY04 was accelerated on certain assets that were retired in that year.

> Other operating expenses increased 14% to $839 million in FY05 compared to $736 million in FY04. The increase reflects higher levels of activity across the University.

OTHER CHANGES IN UNRESTRICTED NET ASSETS

In total, unrestricted net assets of the University increased $2.2 billion, due primarily to increases of approximately $2 billion in the market value of investments that were reinvested in the endowment. This is net of the $452 million of endowment 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 invested in the endowment. In FY05, total investment return of the EFP was $257 million, of which $206 million was invested in the endowment.

TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets increased $86 million to $560 million in FY05. 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 $214 million of new temporarily restricted gifts and pledges in FY05, net of discounts and allowances. During the year, $82 million of temporarily restricted net assets were released from their restrictions and utilized to fund operating activities. In addition, $33 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.

PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets increased by $406 million to $3.6 billion during FY05. The principal value of these funds must be invested in perpetuity to generate endowment income to be used only for the purpose designated by the donor. The increase was due primarily to the receipt of $243 million in new gifts and pledges to the endowment, net of discounts and allowances, and $133 million in gains on investments held in the endowment.

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 FY05, total University assets increased $2.9 billion to $19 billion, while total University liabilities increased $299 million to $3.3 billion.

Highlights of the Statement of Financial Position are as follows:

> Cash and cash equivalents increased $30 million in FY05. The increase was due almost entirely to an increase in the EIFP. Funds invested in the EIFP are required to be maintained in money market funds that are considered cash equivalents. The balance in the EIFP was $266 million at August 31, 2005 compared to $236 million at August 31, 2004. During FY05, the University changed its policy related to accounting for cash and cash equivalents. Under the revised policy, cash and cash equivalents held as collateral for securities loaned are included in investments rather than cash and cash equivalents. University management believes that such collateral is received as a result of investing activities rather than from operating activities. The effect of the change was to reduce cash and cash equivalents and increase investments by $581 million in FY05 and $392 million in FY04.

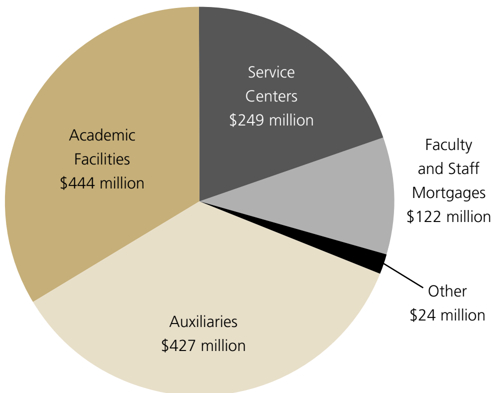
> Net pledges receivable increased approximately $61 million to $473 million in FY05, another reflection of the strong year for giving. Valuation allowances were recorded for pledges that may not be collectible or where the pledge terms may be extended.

> Total investments, consisting primarily of endowment assets and expendable funds, increased by $2.8 billion, or 23%, to $15.1 billion.

> Plant facilities, net of accumulated depreciation, increased $9 million to $2.4 billion in FY05. Net additions to plant facilities in FY05 totaled $169 million, bringing gross plant facilities before accumulated depreciation to $4.2 billion. Additions to the University's plant facilities in FY05 included renovation of the Maples Pavilion sports facility and the Blood Center.

FIGURE 4

USES OF DEBT FY05 ($1.3 BILLION)



> Deferred rental income, consisting of prepaid rents on properties leased by the University, was $362 million at August 31, 2005. These amounts will be recognized as revenue ratably over the terms of the associated leases. Of this amount, $319 million relates to the Stanford Shopping Center lease.

> Notes and bonds payable were $1.3 billion at August 31, 2005, a decrease of $22 million from FY04. As of August 31, 2005, $444 million in debt has been allocated to academic facilities; $427 million to auxiliaries, primarily residential housing and dining facilities; $249 million to service centers, primarily for utility infrastructure projects, information technology and communications purposes; $122 million for faculty and staff mortgage loans; and $24 million for other miscellaneous projects and funds raised through bond offerings that were unexpended at year end. See Figure 4. The University's debt ratios are within the guidelines of the debt policy approved by the Board of Trustees. The debt policy governs the amount and type of debt Stanford may incur and is intended to preserve the University's long-term debt capacity, financial flexibility and access to capital markets at competitive rates.

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 corporate member of each of the Hospitals.

The Hospitals continued their trend of improved financial performance during FY05. For the year, they had a combined operating surplus of $191 million, up 29% from $148 million in FY04. At August 31, 2005, the Hospitals' net assets were $1.1 billion versus $895 million at August 31, 2004, an increase of $247 million or 28%. The Hospitals continue to undertake new initiatives to enhance the quality of care and improve financial performance. The following summarizes the individual financial results of SHC and LPCH.

STANFORD HOSPITAL AND CLINICS

SHC experienced another year of strong financial performance during FY05, reporting an excess of revenues over expenses of $140 million, up from $101 million in FY04. The net income margin, including investment income and gifts from donors, was 10% in FY05, compared to 8% in FY04.

Other financial highlights for SHC:

> Net assets increased $110 million to $455 million at August 31, 2005.

> SHC's cash position and liquidity improved by 24% in FY05. Cash, cash equivalents and investments, less restricted assets, were $642 million at August 31, 2005 versus $518 million at August 31, 2004.

> Net patient revenues grew 17% to $1.3 billion in FY05, compared to $1.1 billion in FY04. This increase is primarily due to increased patient acuity and volumes.

> Total patient days increased 3%, and patient discharges were up 2% over the prior year.

> Inpatient surgeries increased by 11% and emergency room visits were 3% higher than in FY04. Inpatient revenue grew 18% from FY04 and now represents 54% of net patient revenues.

> Outpatient revenue was up 15% over the prior year and comprises 46% of net patient revenues.

> Investment income increased by 88% from $9.3 million to $17.5 million for FY05.

> Days cash on hand increased to 198 days in FY05 from 184 days in FY04.

> Inpatient cancer discharges grew 5% over the prior year as the cancer center, which opened in March 2004, was operating for all of FY05.

LUCILE PACKARD CHILDREN'S HOSPITAL

LPCH reported an excess of revenues over expenses of $52 million, compared with $46 million in FY04. LPCH's net assets increased $137 million to $687 million at August 31, 2005. Net patient revenues grew 17% to $444 million in FY05, compared with $380 million in FY04.

Other financial highlights for LPCH:

> Inpatient gross patient revenues increased by 24% compared to FY04 and represent 85% of total net patient revenues. This increase is the result of the continued high acuity level of patients treated at LPCH and a 13% increase in the number of inpatient surgeries performed during FY05 compared to FY04. Services experiencing the greatest growth in FY05 at LPCH included Neurosurgery, the Heart Center, the Transplant Center, and other Surgical Subspecialties. At the same time, LPCH is sustaining its leadership position as a regional referral center with approximately 18% of total inpatient days in FY05 represented by patients from outside the Bay Area.

> Outpatient visits increased by 2% as compared to FY04 and resulted in increased gross patient charges of 23%.

> 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 $78 million in FY05 compared with $54 million in FY04. LPCH also invests in improving the health of the children of San Mateo and Santa Clara counties through a range of programs.

> LPCH also improved its cash position and liquidity by 38% in FY05. Cash, cash equivalents and investments, less restricted assets, were $279 million at August 31, 2005 versus $203 million at August 31, 2004.

OPPORTUNITIES AND CHALLENGES

The University and Hospitals continue to perform well financially despite instability in the economy. As we look to the future, however, we need to continue to be prudent in our spending and management of funds. Future initiatives and challenges include:

> There are a number of new construction projects planned over the next several years. For the University, these include:

> > Construction of eight new science, engineering and medicine buildings during the next decade, several of which will replace existing facilities. The first of these buildings is currently under construction.

> > Construction of a 600-bed residential complex that will house graduate students is targeted for completion in 2007.

> > Demolition of the current football stadium and construction of a new stadium in the same location is expected to be completed by fall 2006.

> > Construction of a 1,227-space underground parking facility will allow for additional growth in academic facilities.

> > Both SHC and LPCH are planning major facility renovations and additions over the next several years.

> Both the University and the Hospitals have announced plans to move certain functions off campus over the next several years. In September 2005, the University purchased eight buildings in a nearby technology park that will allow for off campus growth. The Hospitals are also planning to acquire four buildings for outpatient care clinics in the same technology park.

These projects will require the use of both debt and donor financial support. Funding for infrastructure and administrative expenses to support the growth will also be required. Careful management of the University and Hospitals' assets and liabilities will be necessary to fund these projects and maintain required financial ratios.

> There continues to be concern regarding the level of federally sponsored research funding available for American universities over the next several years. Stanford expects its sponsored research activities to grow more slowly over the next few years. In addition, this is an area where the University will need to invest in its infrastructure in order to remain competitive.

> Despite strong investment performance over the last few years, financial markets remain volatile.

The University and Hospitals have demonstrated solid fiscal management in the past fiscal year, increasing consolidated net assets to record high levels. As we embark on the many initiatives aimed at enhancing teaching, research and health care over the next several years, we will remain diligent in working to protect and increase Stanford's resources. We are grateful 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 and we look forward to their continued support as we move forward.

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

M. SUZANNE CALANDRA
Controller
Stanford University

ROY T. SANTARELLA
Chief Financial Officer
Stanford Hospital and Clinics

KEITH S. GRUNDY
Chief Financial Officer
Lucile Salter Packard Children's Hospital

SELECTED FINANCIAL DATA

Fiscal Years Ended August 31

	2005	2004	2003	2002	2001
			(in millions of dollars)		
STATEMENT OF ACTIVITIES DATA:					
Student income (A)	$ 356	$ 332	$ 318	$ 305	$ 300
Sponsored research support	973	924	860	802	727
Health care services	1,699	1,501	1,277	1,181	1,010
Current year gifts in support of operations	144	105	113	104	111
Net assets released from restrictions	103	64	72	51	64
Investment income distributed for operations	537	472	501	443	436
Special program fees and other income	350	329	320	292	275
Total Revenues	4,162	3,727	3,461	3,178	2,923
Total Expenses	3,841	3,572	3,319	3,145	2,877
Excess of revenues over expenses	321	155	142	33	46
Other changes in net assets	2,576	1,584	1,022	(494)	(637)
Total Net Assets, beginning of year	13,976	12,237	11,033	11,534	12,125
TOTAL NET ASSETS, END OF YEAR	**$ 16,873**	**$ 13,976**	**$ 12,197**	**$ 11,073**	**$ 11,534**
FINANCIAL POSITION HIGHLIGHTS:					
Cash and cash equivalents	$ 629	$ 638	$ 602	$ 522	$ 444
Pledges receivable, net	467	414	475	513	527
Investments at fair value	16,351	13,318	11,806	9,520	10,514
Plant facilities, net of accumulated depreciation	2,800	2,743	2,723	2,527	2,365
Notes and bonds payable:					
University	1,266	1,288	1,275	1,246	1,218
Hospitals	582	587	591	224	228
University endowment	12,205	9,922	8,614	7,613	8,250

STUDENTS:					
ENROLLMENT: (B)					
Undergraduate	6,705	6,753	6,654	6,731	6,637
Graduate	8,176	8,093	7,800	7,608	7,536
DEGREES CONFERRED:					
Bachelor degrees	1,789	1,713	1,788	1,692	1,676
Advanced degrees	2,945	2,931	2,855	2,777	2,936
FACULTY:					
MEMBERS OF THE ACADEMIC COUNCIL	1,400	1,410	1,396	1,377	1,384
ANNUAL UNDERGRADUATE TUITION RATE (IN DOLLARS)	$ 29,847	$ 28,563	$ 27,204	$ 25,917	$ 24,441

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

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

At August 31, 2005 and 2004 (in thousands of dollars)

	2005			2004
	UNIVERSITY	HOSPITALS	CONSOLIDATED	CONSOLIDATED
ASSETS				
Cash and cash equivalents	$ 434,498	$ 194,717	$ 629,215	$ 638,477
Accounts receivable, net	191,238	275,611	466,849	414,306
Receivables (payables) from SHC and LPCH, net	61,692	(61,692)	-	-
Inventories, prepaid expenses, and other assets	54,000	56,933	110,933	86,379
Pledges receivable, net	472,861	34,011	506,872	454,211
Student loans receivable, net	63,148	-	63,148	61,952
Faculty and staff mortgages and other loans receivable, net	268,928	-	268,928	253,498
Investments at fair value, including securities pledged or on loan of $555,025 and $378,301 for 2005 and 2004, respectively	15,131,630	1,219,754	16,351,384	13,318,262
Plant facilities, net of accumulated depreciation	2,353,718	446,700	2,800,418	2,743,288
Collections of works of art	-	-	-	-
TOTAL ASSETS	**$ 19,031,713**	**$ 2,166,034**	**$ 21,197,747**	**$ 17,970,373**
LIABILITIES AND NET ASSETS				
LIABILITIES:				
Accounts payable and accrued expenses	$ 500,930	$ 441,423	$ 942,353	$ 890,443
Pending trades	183,870	-	183,870	91,893
Liabilities under security agreements	631,955	-	631,955	431,652
Deferred rental income	362,164	-	362,164	370,440
Income beneficiary share of living trust investments	301,896	-	301,896	281,498
Notes and bonds payable	1,266,439	582,453	1,848,892	1,875,191
U.S. government refundable loan funds	54,005	-	54,005	53,527
TOTAL LIABILITIES	**3,301,259**	**1,023,876**	**4,325,135**	**3,994,644**
NET ASSETS:				
Unrestricted	11,547,450	875,940	12,423,390	10,055,940
Temporarily restricted	559,863	94,036	653,899	553,582
Permanently restricted	3,623,141	172,182	3,795,323	3,366,207
TOTAL NET ASSETS	**15,730,454**	**1,142,158**	**16,872,612**	**13,975,729**
TOTAL LIABILITIES AND NET ASSETS	**$ 19,031,713**	**$ 2,166,034**	**$ 21,197,747**	**$ 17,970,373**

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

CONSOLIDATED STATEMENTS OF ACTIVITIES

For the years ended August 31, 2005 and 2004 (in thousands of dollars)

	2005			2004
	UNIVERSITY	HOSPITALS	CONSOLIDATED	CONSOLIDATED
UNRESTRICTED NET ASSETS ACTIVITY				
REVENUES:				
Student income:				
Undergraduate programs	$ 204,287	$ -	$ 204,287	$ 191,708
Graduate programs	197,867	-	197,867	182,254
Room and board	90,936	-	90,936	86,483
Student financial aid	(137,171)	-	(137,171)	(128,055)
TOTAL STUDENT INCOME	**355,919**	**-**	**355,919**	**332,390**
Sponsored research support (primarily federal):				
Direct costs - University	563,968	-	563,968	525,475
Direct costs - Stanford Linear Accelerator Center	237,317	-	237,317	233,874
Indirect costs	172,094	-	172,094	164,159
TOTAL SPONSORED RESEARCH SUPPORT	**973,379**	**-**	**973,379**	**923,508**
Health care services:				
Patient care, net	-	1,692,658	1,692,658	1,493,369
Physicians' services and support - SHC and LPCH, net	260,400	(260,400)	-	-
Physicians' services and support - other facilities, net	6,514	-	6,514	8,180
TOTAL HEALTH CARE SERVICES	**266,914**	**1,432,258**	**1,699,172**	**1,501,549**
CURRENT YEAR GIFTS IN SUPPORT OF OPERATIONS	**144,331**	**-**	**144,331**	**105,222**
Net assets released from restrictions:				
Payments received on prior year pledges	45,169	-	45,169	27,632
Prior year gifts released from donor restrictions	37,289	20,972	58,261	36,036
TOTAL NET ASSETS RELEASED FROM RESTRICTIONS	**82,458**	**20,972**	**103,430**	**63,668**
INVESTMENT INCOME DISTRIBUTED FOR OPERATIONS:				
Endowment	451,959	-	451,959	399,950
Expendable funds pool and other investment income	62,315	22,222	84,537	72,004
TOTAL INVESTMENT INCOME DISTRIBUTED FOR OPERATIONS	**514,274**	**22,222**	**536,496**	**471,954**
SPECIAL PROGRAM FEES AND OTHER INCOME	**291,491**	**58,596**	**350,087**	**328,527**
TOTAL REVENUES	**2,628,766**	**1,534,048**	**4,162,814**	**3,726,818**
EXPENSES:				
Salaries and benefits	1,468,663	740,561	2,209,224	2,087,555
Depreciation	191,593	52,189	243,782	242,105
Other operating expenses	838,549	549,927	1,388,476	1,241,964
TOTAL EXPENSES	**2,498,805**	**1,342,677**	**3,841,482**	**3,571,624**
EXCESS OF REVENUES OVER EXPENSES	**$ 129,961**	**$ 191,371**	**$ 321,332**	**$ 155,194**

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

CONSOLIDATED STATEMENTS OF ACTIVITIES

For the years ended August 31, 2005 and 2004 (in thousands of dollars)

	2005 UNIVERSITY	2005 HOSPITALS	2005 CONSOLIDATED	2004 CONSOLIDATED
UNRESTRICTED NET ASSETS ACTIVITY (CONTINUED)				
EXCESS OF REVENUES OVER EXPENSES	**$ 129,961**	**$ 191,371**	**$ 321,332**	**$ 155,194**
Other changes in unrestricted net assets:				
Expendable gifts invested in the endowment	5,512	-	5,512	9,150
Investment gains not included in operations	2,048,483	52,952	2,101,435	1,194,012
Hospital equity transfers	21,104	(21,104)	-	-
Capital and other gifts released from restrictions	26,066	11,880	37,946	63,834
Capital gifts released from University	-	6,580	6,580	3,627
(Increase) decrease in minimum pension liability	(3,939)	(22,835)	(26,774)	36,226
Net assets released from permanent restrictions	(13,128)	-	(13,128)	-
Transfer to temporarily restricted net assets	(14,503)	-	(14,503)	(19,158)
Swap interest and unrealized losses	(11,019)	-	(11,019)	(6,968)
Other	(31,160)	(8,771)	(39,931)	(50,555)
NET CHANGE IN UNRESTRICTED NET ASSETS	**2,157,377**	**210,073**	**2,367,450**	**1,385,362**
TEMPORARILY RESTRICTED NET ASSETS ACTIVITY				
Gifts and pledges, net	213,902	36,097	249,999	224,143
Investment gains	16,140	12,116	28,256	9,265
Change in value of living trust agreements, net	(15,894)	-	(15,894)	1,906
Net assets released to operations	(82,458)	(20,972)	(103,430)	(63,668)
Capital and other gifts released to unrestricted net assets	(26,066)	(11,880)	(37,946)	(63,834)
Capital gifts released to Hospitals' unrestricted net assets	(6,580)	-	(6,580)	(3,627)
Transfer from unrestricted net assets	14,503	-	14,503	19,158
Transfer to permanently restricted net assets	(32,055)	-	(32,055)	(32,651)
Other	4,564	(1,100)	3,464	4,187
NET CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	**86,056**	**14,261**	**100,317**	**94,879**
PERMANENTLY RESTRICTED NET ASSETS ACTIVITY				
Gifts and pledges, net	243,371	22,707	266,078	190,882
Investment gains	133,427	-	133,427	71,330
Change in value of living trust agreements, net	735	-	735	(33,070)
Net assets released from restriction	13,128	-	13,128	-
Transfer from temporarily restricted net assets	32,055	-	32,055	32,651
Other	(16,307)	-	(16,307)	(2,915)
NET CHANGE IN PERMANENTLY RESTRICTED NET ASSETS	**406,409**	**22,707**	**429,116**	**258,878**
NET CHANGE IN TOTAL NET ASSETS	**2,649,842**	**247,041**	**2,896,883**	**1,739,119**
Total net assets, beginning of year	13,080,612	895,117	13,975,729	12,236,610
TOTAL NET ASSETS, END OF YEAR	**$15,730,454**	**$1,142,158**	**$16,872,612**	**$13,975,729**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended August 31, 2005 and 2004 (in thousands of dollars)

	2005			2004
	UNIVERSITY	HOSPITALS	CONSOLIDATED	CONSOLIDATED
CASH FLOW FROM OPERATING ACTIVITIES:				(as adjusted, Note 1)
Change in net assets	$ 2,649,842	$ 247,041	$ 2,896,883	$ 1,739,119
Adjustments to reconcile change in net assets to net cash provided by operating activities:				
Depreciation, amortization and loss on disposal of fixed assets	192,724	52,309	245,033	248,252
Net realized and unrealized gains on investments and security agreements	(2,487,634)	(56,539)	(2,544,173)	(1,494,591)
Net realized and unrealized losses on derivatives	5,810	-	5,810	2,189
Actuarial change on living trust obligations	492	-	492	7,454
Permanently restricted investment income	(893)	(7,794)	(8,687)	(8,502)
Gifts restricted for long-term investments	(253,616)	(58,804)	(312,420)	(275,318)
Net (increase) decrease in accounts receivable, pledges receivable and receivables from SHC and LPCH	(30,921)	34,357	3,436	(49,392)
Increase (decrease) in U.S. government refundable loan funds	478	-	478	(70)
Increase in inventories, prepaid expenses and other assets	(20,656)	(532)	(21,188)	(5,637)
Increase in accounts payable and accrued expenses	38,962	18,338	57,300	51,427
(Decrease) increase in deferred rental income	(8,276)	-	(8,276)	1,432
NET CASH PROVIDED BY OPERATING ACTIVITIES	**86,312**	**228,376**	**314,688**	**216,363**
CASH FLOW FROM INVESTING ACTIVITIES:				
Land, building and equipment purchases, net	(224,672)	(87,023)	(311,695)	(255,366)
Student, faculty and other loans:				
New loans made	(58,481)	-	(58,481)	(57,396)
Principal collected	41,855	-	41,855	54,103
Purchases of investments	(8,633,232)	(408,722)	(9,041,954)	(7,064,822)
Sales and maturities of investments	8,598,208	160,495	8,758,703	6,767,841
NET CASH USED FOR INVESTING ACTIVITIES	**(276,322)**	**(335,250)**	**(611,572)**	**(555,640)**
CASH FLOW FROM FINANCING ACTIVITIES:				
Gifts and reinvested income of endowment, capital projects and other restricted purposes	235,273	58,804	294,077	349,250
Increase in investment income for restricted purposes	893	6,636	7,529	8,502
Proceeds from borrowing	-	5,932	5,932	202,431
Repayment of notes and bonds payable	(21,803)	(4,190)	(25,993)	(193,199)
Increase in liabilities under security agreements	11,431	-	11,431	7,784
Other financing	(5,354)	-	(5,354)	1,210
NET CASH PROVIDED BY FINANCING ACTIVITIES	**220,440**	**67,182**	**287,622**	**375,978**
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**30,430**	**(39,692)**	**(9,262)**	**36,701**
Cash and cash equivalents, beginning of year, as previously reported	404,068	234,409	638,477	913,566
Adjustment for cumulative effect of change in accounting principle (Note 1)	-	-	-	(311,790)
Cash and cash equivalents, beginning of year, as adjusted	404,068	234,409	638,477	601,776
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 434,498**	**$ 194,717**	**$ 629,215**	**$ 638,477**
SUPPLEMENTAL DATA:				
Gifts of equipment	$ 959	$ 480	$ 1,439	$ 4,389
Interest paid during the year	$ 59,807	$ 22,225	$ 82,032	$ 74,783
Cash collateral received under securities lending agreements	$ 580,789	$ -	$ 580,789	$ 391,917

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.

> 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 1,771 faculty and 14,881 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 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. The Hospitals are California nonprofit, public benefit corporations. The University is the sole member of the Hospitals. The Hospitals operate to 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.

BASIS OF ACCOUNTING The financial statements are prepared in accordance with generally accepted accounting principles. These principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from 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, 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 investments 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 57% are for capital projects and 43% are for other institutional support.

> Permanently Restricted Net Assets

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

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.

STUDENT LOANS RECEIVABLE 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 and equity securities 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 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 cost.

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 years ended August 31, 2005 and 2004 are as follows:

	UNIVERSITY	HOSPITALS
Buildings	20-40 years	7-40 years
Land and building improvements	10-40 years	7-40 years
Equipment, books and software	3-10 years	3-20 years

Under the original endowment from Senator Leland and Mrs. Jane Stanford, a significant portion of University land may not be sold.

COLLECTIONS OF WORKS OF ART Art objects and collections, which are preserved and protected, are not capitalized as the University uses the proceeds from any sales of such items to acquire other art or collection pieces.

SELF-INSURANCE The University self-insures up to $1,000,000 per claim for unemployment, disability, workers' compensation, property losses, certain health care plans and general and professional liability losses. The Hospitals self-insure up to $1,000,000 per claim for 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 revenue 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.

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 difference between the cost of services provided to these indigent persons and the expected reimbursement is included in the estimated cost of charity care. The amount of charity-care services, quantified at established rates, was $20,057,000 and $16,809,000 for the years ended August 31, 2005 and 2004, 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, 2005 and 2004 was $117,616,000 and $90,162,000, 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.

SEPARATE HOSPITAL FINANCIAL STATEMENTS 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 and expenses and inter-entity receivables and payables consistent with categories in the consolidated financial statements.

The University has entered into various operating agreements with the Hospitals for professional services of faculty members of the School of Medicine, telecommunications services and other services and facilities charges. Revenues and expenses related to these agreements are eliminated in consolidation.

CHANGE IN ACCOUNTING POLICY FOR CASH AND CASH EQUIVALENTS In fiscal year 2005, the University changed its policy for accounting for cash and cash equivalents to exclude amounts received as collateral for securities lending activities. This change was made to report cash and cash equivalents received as collateral in investments rather than in operating cash and cash equivalents. University management believes the collateral is received as a result of investing activities rather than operating activities. The effect of the adjustment on cash and cash equivalents as of the beginning of fiscal year 2004 as shown in the statement of cash flows was to reduce that balance from $913,566,000 to $601,776,000. In addition, the increase in liabilities under security agreements for fiscal year 2004 as shown in the statement of cash flows, decreased from $87,911,000 to $7,784,000.

2. ACCOUNTS RECEIVABLE

Accounts receivable at August 31, 2005 and 2004, in thousands of dollars, are as follows:

	2005	2004
UNIVERSITY:		
U.S. Government	$ 38,353	$ 70,134
Non-government sponsors	29,977	26,868
Due from brokers	80,474	52,949
Accrued interest on investments	15,610	11,650
Student	3,328	3,917
Other	25,828	22,482
	193,570	188,000
Less allowances for losses	2,332	2,179
University accounts receivable, net	191,238	185,821
HOSPITALS:		
Gross patient receivables	824,873	615,072
Other	15,639	16,485
	840,512	631,557
Less contractual and bad debt allowances	564,901	403,072
Hospitals accounts receivable, net	275,611	228,485
CONSOLIDATED ACCOUNTS RECEIVABLE, NET	**$ 466,849**	**$ 414,306**

3. PLEDGES RECEIVABLE

Unconditional promises 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. Total combined conditional pledges for the University and Hospitals for August 31, 2005 and 2004 were approximately $72,578,157 and $129,475,750, respectively. Pledges are recorded at the present value of the discounted future cash flows, net of allowances. At August 31, 2005 and 2004, pledges receivable are as follows, in thousands of dollars:

	2005			2004
	UNIVERSITY	HOSPITALS	CONSOLIDATED	CONSOLIDATED
One year or less	$ 21,141	$ 20,785	$ 41,926	$ 112,075
Between one year and five years	517,743	16,231	533,974	418 818
More than five years	83,267	2,586	85,853	73,077
	622,151	39,602	661,753	603,970
Less discount/allowance	149,290	5,591	154,880	149,759
PLEDGES RECEIVABLE, NET	**$ 472,861**	**$ 34,011**	**$ 506,872**	**$ 454,211**

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 $268,344,000 and $252,811,000 at August 31, 2005 and 2004, 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, 2005 and 2004 are reported as follows, in thousands of dollars:

	2005			2004
	UNIVERSITY	HOSPITALS	CONSOLIDATED	CONSOLIDATED
Cash and short-term investments	$ 1,416,347	$ 254,554	$ 1,670,901	$ 1,301,483
Collateral held for securities loaned	580,789	-	580,789	391,917
Bonds and mutual funds	1,010,577	497,223	1,507,800	1,245,719
Public equities and investment funds	6,665,194	9,995	6,675,189	5,410,935
Assets held by other trustees (net of income beneficiary share of $76,440 and $70,225 at August 31,2005 and 2004, respectively)	82,390	14,943	97,333	81,599
Real estate and improvements, including Stanford Shopping Center and Research Park	1,488,174	-	1,488,174	1,213,671
Limited partnership investments	4,256,695	-	4,256,695	3,627,450
Other	74,503	-	74,503	45,488
	15,574,669	776,715	16,351,384	13,318,262
The Hospitals' investment in University's Merged Endowment Pool	(443,039)	443,039	-	-
INVESTMENTS AT FAIR VALUE	**$ 15,131,630**	**$ 1,219,754**	**$ 16,351,384**	**$ 13,318,262**

The University manages a portion of the Hospitals' investments, with a combined market value of $923,338,000 and $632,569,000 at August 31, 2005 and 2004, respectively.

Total investment return reflected in the statement of activities for the years ended August 31, 2005 and 2004, in thousands of dollars, is as follows:

	2005 University	2005 Hospitals	2005 Consolidated	2004 Consolidated
Investment income	$ 236,254	$ 30,751	$ 267,005	$ 259,332
Net realized and unrealized gains	2,487,634	56,539	2,544,173	1,494,591
TOTAL INVESTMENT RETURN	**$ 2,723,888**	**$ 87,290**	**$ 2,811,178**	**$ 1,753,923**

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, 2005 and 2004, total investment returns of $2,249,499,000 and $1,251,408,000, respectively, were reinvested by the University and Hospitals after the distribution 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.

As indicated in the following table, as of August 31, 2005 and 2004, in thousands of dollars, the University's investments are held in various pools or in specific instruments to comply with donor requirements:

	2005	2004
UNIVERSITY:		
Expendable Funds Pool	$ 1,420,809	$ 1,147,139
Merged Endowment Pool	13,334,966	10,615,767
Living trusts	603,978	536,755
Other investments	1,629,563	1,422,505
	16,989,316	13,722,166
Less funds cross-invested in endowment pools (including the Hospitals' investment of $443,039 and $226,595 in 2005 and 2004, respectively, in the University's Merged Endowment Pool)	1,857,686	1,366,516
	15,131,630	12,355,650
HOSPITALS:		
Investments	1,219,754	962,612
INVESTMENTS AT FAIR VALUE	**$16,351,384**	**$ 13,318,262**

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 was established in fiscal year 2004 to segregate 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, 2005 and 2004, the distributions were $4,165,000 and $1,644,000, respectively.

The Board has established a policy for the distribution of the investment returns of the EFP. The policy requires that an amount based upon a range of payout rates be distributed to support current operations. The difference between the actual return of this pool and the required payout is deposited or withdrawn from funds functioning as endowment. For the years ended August 31, 2005 and 2004, the results of the EFP, in thousands of dollars, are as follows:

	2005	2004
Total investment return of the EFP	$ 256,654	$ 162,422
Less payout to operations	50,559	40,143
AMOUNTS INVESTED IN THE ENDOWMENT	**$ 206,095**	**$ 122,279**

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), previously reinvested income, a portion of realized capital gains and funds functioning as endowment, as needed.

To meet the Board-authorized payout rate, income, gains and previously reinvested endowment income were distributed for operations in fiscal years 2005 and 2004, as follows, in thousands of dollars:

	2005	2004
Endowment income	$ 184,102	$ 185,840
Realized gains and previously reinvested income	267,857	214,110
APPROVED PAYOUT	**$ 451,959**	**$ 399,950**

The University utilizes derivatives and other strategies to manage market risks, including interest rate and foreign currency risks, and to achieve efficient exposure to certain asset classes. The University's derivative positions include forward contracts, swaps, options and futures contracts. The net unrealized depreciation on these derivatives was $71,246,000 and $7,389,000 at August 31, 2005 and 2004, respectively.

Foreign currency forward contracts are used primarily for the purpose of minimizing the risk to the University of adverse changes in the relationship between currencies. Interest rate swaps are used to manage the interest rate exposure of the University's variable rate bonds and commercial paper (see Note 7). Options and futures contracts are used for the purpose of reducing the investment risk or serving as a temporary surrogate for investment in stocks and bonds.

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. With respect to securities lending and repurchase agreements, it is the University's policy to require receipt of collateral on each contract equal to a minimum of 102% of the security loaned.

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, 2005, is as follows, in thousands of dollars:

YEAR	RENTAL INCOME
2006	$ 53,003
2007	48,662
2008	45,247
2009	44,957
2010	42,301
Thereafter	925,060
TOTAL	**$ 1,159,230**

6. PLANT FACILITIES

Plant facilities at August 31, 2005 and 2004, in thousands of dollars, are as follows:

	2005 UNIVERSITY	2005 HOSPITALS	2005 CONSOLIDATED	2004 CONSOLIDATED
Land and improvements	$ 245,931	$ 9,571	$ 255,502	$ 247,962
Buildings	2,577,010	592,689	3,169,699	3,072,405
Equipment, books and software	1,272,239	236,041	1,508,280	1,454,249
Construction in progress	144,918	128,140	273,058	168,222
Plant facilities	4,240,098	966,441	5,206,539	4,942,838
Less accumulated depreciation	1,886,380	519,741	2,406,121	2,199,550
PLANT FACILITIES, NET OF ACCUMULATED DEPRECIATION	**$ 2,353,718**	**$ 446,700**	**$ 2,800,418**	**$ 2,743,288**

At August 31, 2005, $837,000,000 of fully depreciated plant facilities were still in use.

7. UNIVERSITY NOTES AND BONDS PAYABLE

Notes and bonds payable at August 31, 2005 and 2004, in thousands of dollars, are as follows:

	YEAR OF MATURITY	EFFECTIVE INTEREST RATE 2005	OUTSTANDING PRINCIPAL 2005	OUTSTANDING PRINCIPAL 2004
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	2.3%	83,818	83,818
Series S	2039-2050	2.1% *	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	9,704	10,319
Variable Notes and Bonds:				
Stanford University Bonds PARS	2032	3.4%	50,000	50,000
Commercial Paper	2005	3.6% *	20,000	40,974
University notes and bonds payable			1,266,482	1,288,071
Premiums/(Discounts)			(43)	171
TOTAL			**$ 1,266,439**	**$ 1,288,242**

*Exclusive of interest rate swaps.

At August 31, 2005 and 2004, 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, 2005, the University had swap agreements expiring November 1, 2039 to pay an interest rate of approximately 3.69% on the $130,000,000 outstanding balance of the CEFA S auction rate bonds and swap agreements expiring through 2011 to pay an interest rate of approximately 6.08% on approximately $65,200,000 of the variable rate commercial paper (see Note 5).

The University incurred interest expense of approximately $59,383,000 and $54,617,000 for fiscal years 2005 and 2004, respectively, which is net of approximately $905,000 and $734,000, 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 $4,998,000 and $4,781,000 for fiscal years 2005 and 2004, 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, 2005, was $20,000,000. The weighted average days to maturity was one and the weighted average effective interest rate was 3.60% as of August 31, 2005.

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, 2005.

The University's School of Law has a $4,000,000 line of credit with the Student Loan Corporation. There was no balance outstanding at August 31, 2005.

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

YEAR	PRINCIPAL
2006 Commercial Paper	$ 20,000
2006 Other	662
2007	715
2008	771
2009	50,833
2010	899
Thereafter	1,192,602
TOTAL	**$ 1,266,482**

8. HOSPITALS NOTES AND BONDS PAYABLE

Bonds and certificates of participation at August 31, 2005 and 2004, in thousands of dollars, are as follows:

	YEAR OF MATURITY	EFFECTIVE INTEREST RATE 2005	OUTSTANDING PRINCIPAL 2005	2004
SHC:				
California Health Facilities Financing Authority (CHFFA) Bonds:				
Series B Fixed Rate Bonds	2031	5.0%	$ 177,430	$ 180,520
Fixed Rate Bonds	2006-2023	2.0%-5.0%	100,000	100,000
Variable Rate Bonds	2036	2.23% *	150,000	150,000
LPCH:				
Variable Rate Certificates of Participation (Certificates)	2023	2.32% *	34,800	35,900
California Health Facilities Financing Authority (CHFFA):				
Auction Rate Revenue Bonds	2027-2033	2.25%	60,000	60,000
Fixed Rate Revenue Bonds	2013-2027	4.88%	55,000	55,000
Hospitals notes and bonds payable			577,230	581,420
Premiums			5,223	5,529
TOTAL			**$ 582,453**	**$ 586,949**

*Exclusive of interest rate swaps.

The estimated fair value of the debt instruments at August 31, 2005 and 2004 approximated their recorded value.

At August 31, 2005, SHC had swap agreements expiring through November 15, 2036 to pay an interest rate of approximately 3.365% based on an amount equal to the outstanding balance of the Variable Rate Bonds.

At August 31, 2005, 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 1993 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.

LPCH and SHC are each subject to separate Master Trust Indentures which 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	PRINCIPAL
2006	$ 4,445
2007	8,300
2008	9,200
2009	9,135
2010	10,060
Thereafter	536.090
TOTAL	**$ 577,230**

9. LIABILITIES UNDER SECURITY AGREEMENTS

At August 31, 2005 and 2004, the University held $580,789,000 and $391,917,000, 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 $51,166,000 and $39,735,000 at August 31, 2005 and 2004, 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, 2005 and 2004, was $555,025,000 and $378,301,000, respectively.

10. UNIVERSITY ENDOWMENT

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

Pure endowment funds are subject to the restrictions of the gift instruments requiring that the principal be invested in perpetuity and the income and an appropriate portion of gains only be spent as provided for under the California Uniform Management of Institutional Funds Act (CUMIFA). In the absence of further donor restrictions, the amount of gains that are to be expended in a given year is determined through the endowment payout policy discussed in Note 5. The University classifies the original endowment gift and any donor-imposed restricted gains as permanently restricted 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 by the Board 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.

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

Changes in the University's endowment, excluding pledges, for the years ended August 31, 2005 and 2004, in thousands of dollars, are as follows:

	2005	2004
ENDOWMENT, BEGINNING OF YEAR	**$ 9,922,041**	**$ 8,613,805**
INVESTMENT RETURNS:		
Earned endowment income	184,829	188,513
Unrealized and realized gains	2,082,917	1,175,843
Total investment returns	2,267,746	1,364,356
Amounts distributed for operations	(451,959)	(399,950)
Gifts	235,598	208,770
Funds invested in endowment	51,989	15,925
EFP returns invested in endowment	206,095	122,279
Actuarial and other adjustments to living trusts	(26,723)	(7,454)
Other	248	4,310
Net increase in endowment	2,282,994	1,308,236
ENDOWMENT, END OF YEAR	**$ 12,205,035**	**$ 9,922,041**

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, 2005 and 2004, per the statement of activities reconciled to the cash basis (as reported by OOD), in thousands of dollars:

	2005	2004
Current year gifts in support of operations	$ 144,331	$ 105,222
Temporarily restricted - general	190,638	165,863
Temporarily restricted - capital	23,264	23,270
Permanently restricted - endowment	243,365	166,535
Permanently restricted - student loans	6	9
TOTAL PER STATEMENT OF ACTIVITIES	**601,604**	**460,899**
ADJUSTMENTS TO GIFT TOTAL AS REPORTED BY OOD:		
New pledges	(300,016)	(121,709)
Payments made on pledges	260,801	185,124
Non-government grants, recorded as sponsored research support when earned	71,415	54,595
Pledge discounts and other adjustments	(29,513)	(57,440)
Other	(705)	2,745
TOTAL AS REPORTED BY OOD	**$ 603,586**	**$ 524,214**

Gifts restricted to particular purposes are used for those purposes subject to the University's restricted fund policy adopted by the Board in 1995. Under the policy, 6% of the expenditure from restricted funds, with exceptions for some categories of funds, is allocated for space and infrastructure charges. 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, 2005 and 2004 are categorized on a functional basis as follows, in thousands of dollars:

	2005	2004
UNIVERSITY:		
Organized research (direct costs)	$ 729,487	$ 710,291
Instruction and departmental research	926,903	869,080
Auxiliary activities	308,783	294,475
Administration and general	316,758	305,552
Libraries	76,477	53,192
Development	54,561	43,947
Student services	57,886	49,749
SLAC construction	27,950	22,500
	2,498,805	2,348,786
HOSPITALS:		
Health care services	1,342,677	1,222,838
TOTAL CONSOLIDATED EXPENSES	**$ 3,841,482**	**$ 3,571,624**

Depreciation, interest and plant operations and maintenance expenses are allocated to program and supporting activities, except for SLAC construction. Auxiliary activities include housing and dining services, intercollegiate athletics, SAA, 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 $78,200,000 and $72,582,000 for the years ended August 31, 2005 and 2004, 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 accumulated benefits exceeds plan assets and accrued pension liabilities. The University's minimum liability increased $3,939,000. This increase is reported in other changes in unrestricted net assets. By definition, the adjustment is not an expense but rather represents an unrealized net periodic pension cost.

POST RETIREMENT MEDICAL BENEFIT PLAN The University's employees may become eligible for post retirement 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 Medicare Prescription Drug Improvement and Modernization Act of 2003 (the Act) was signed into law in December 2003. The change in benefit obligation and costs disclosed include actuarial gains of $26,566,000 and $2,344,000 for 2005 and 2004, respectively, associated with the federal subsidy provided by the Act.

During 2005, the University adopted certain changes to the design of the Post Retirement Medical Benefit Plan that will become effective January 1, 2006. Under the new design, the University will subsidize $100 per year of service for a retiree and $60 per year of service each for a spouse and child/children. These amounts will increase annually at approximately the same rate as compensation and other benefit costs. Current retirees and other active employees meeting certain criteria will continue to receive the benefits as designated under the old design, with the previously existing cap on benefits removed.

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	
	2005	2004	2005	2004
CHANGE IN PLAN ASSETS				
Fair value of plan assets at beginning of year	$ 242,880	$ 221,253	$ 56,624	$ 39,690
Actual return on plan assets	28,739	40,810	5,911	5,489
Employer contributions	9,686	-	17,209	20,014
Plan participants' contributions	-	-	4,332	4,795
Benefits paid	(18,878)	(19,183)	(13,632)	(13,364)
Fair value of plan assets at end of year	$ 262,427	$ 242,880	$ 70,444	$ 56,624
CHANGE IN PROJECTED BENEFIT OBLIGATION				
Benefit obligation at beginning of year	$ 269,218	$ 267,377	$ 225,486	$ 206,297
Service cost	5,306	5,877	6,862	6,876
Interest cost	15,474	15,446	13,155	12,091
Plan participants' contributions	-	-	4,332	4,795
Amendments	-	-	122,184	-
Actuarial loss (gain)	11,366	(299)	(29,540)	8,791
Benefits paid	(18,878)	(19,183)	(13,632)	(13,364)
Benefit obligation at end of year	$ 282,486	$ 269,218	$ 328,847	$ 225,486
AMOUNTS RECOGNIZED IN CONSOLIDATED FINANCIAL STATEMENTS				
Plan assets minus projected benefit obligation	$ (20,059)	$ (26,338)	$ (258,403)	$ (168,862)
Contributions after the measurement date	-	6,000	3,553	4,409
Unrecognized prior service cost (benefit)	5,001	6,026	79,856	(47,619)
Unrecognized net actuarial loss	19,498	17,696	130,479	170,595
NET AMOUNT RECOGNIZED IN THE STATEMENT OF FINANCIAL POSITION	**$ 4,440**	**$ 3,384**	**$ (44,515)**	**$ (41,477)**
Accumulated benefit obligation	$ 276,137	$ 260,732		
Accrued benefit liability	$ 13,710	$ 11,852		
Intangible asset	$ 5,001	$ 6,026		
Minimum pension liability	$ 13,149	$ 9,210		

Net benefit expense related to the Pension and Post Retirement Medical Benefit plans for the years ended August 31, 2005 and 2004, in thousands of dollars, includes the following components:

	PENSION 2005	PENSION 2004	POST RETIREMENT MEDICAL 2005	POST RETIREMENT MEDICAL 2004
Service cost	$ 5,306	$ 5,877	$ 6,862	$ 6,876
Interest cost	15,474	15,446	13,155	12,091
Expected return on plan assets	(19,175)	(16,886)	(4,530)	(3,175)
Amortization of prior service cost	1,025	1,025	(5,291)	(5,291)
Recognized net actuarial loss	-	1,840	9,195	9,440
NET PERIODIC BENEFIT EXPENSE	**$ 2,630**	**$ 7,302**	**$ 19,391**	**$ 19,941**

ACTUARIAL ASSUMPTIONS The weighted average assumptions used in the accounting for the Pension and Post Retirement Medical Benefit plans are shown below:

	PENSION 2005	PENSION 2004	POST RETIREMENT MEDICAL 2005	POST RETIREMENT MEDICAL 2004
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, 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, 2005, an 11% annual rate of increase in the pre-65 per capita costs and a 13% annual rate of increase in the post-65 per capita costs of covered health care was assumed for 2006-2007, declining gradually to 5% by 2015 and remaining at this rate thereafter. For covered dental plans, a 7% annual rate of increase was assumed for 2006-2007, declining to 5% by 2010 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 $53,526,000 and the aggregate annual service and interest cost by $640,000. Decreasing the health care cost trend rate by 1% in each future year would decrease the accumulated post retirement medical benefit obligation by $43,246,000 and the aggregate annual service and interest cost by $531,000.

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

	PENSION 2005	PENSION 2004	POST RETIREMENT MEDICAL 2005	POST RETIREMENT MEDICAL 2004
ASSET CATEGORY				
Domestic equity	54%	54%	69%	73%
International equity	18%	16%	-	-
Real estate	12%	16%	4%	-
Fixed income	15%	12%	23%	23%
Short term	-	1%	-	-
Other	1%	1%	4%	4%
TOTAL PORTFOLIO	**100%**	**100%**	**100%**	**100%**

The weighted-average target asset allocation for the Pension and Post Retirement Medical Benefit plans is 45% domestic equity, 30% fixed income, 15% international equity and 10% real estate. These target asset allocations are meant to result in a favorable long-term rate of return from a diversified portfolio of equity, fixed income and real estate investments.

EXPECTED CONTRIBUTIONS No contributions are expected to be made to the Pension plan for the fiscal year ending August 31, 2006. The University expects to contribute $16,942,000 to its Post Retirement Medical Benefit plan during the fiscal year ending August 31, 2006.

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	
FISCAL YEAR	PENSION PLAN	EXCLUDING MEDICARE SUBSIDY	WITH MEDICARE SUBSIDY
2006	$ 23,015	$ 11,384	$ 10,807
2007	21,348	12,042	10,720
2008	21,285	13,125	11,604
2009	20,974	14,315	12,601
2010	20,812	15,590	13,673
2011 - 2015	102,459	93,431	80,462

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 $33,241,000 and $28,141,000 for the years ended August 31, 2005 and 2004, respectively.

DEFINED BENEFIT PLANS Certain employees of the Hospitals are covered by a noncontributory, defined benefit pension plan (SHC Staff 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 accumulated benefits exceeds plan assets and accrued pension liabilities. The Hospitals' minimum liability adjustment of $23,606,000 is reported in other changes in unrestricted net assets. By definition, the adjustment is not an expense but rather represents an unrealized net periodic pension cost.

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 Medicare Drug Improvement and Modernization Act of 2003 (the Act) was signed into law in December 2003. The change in the benefit obligation and costs disclosed includes actuarial gains of $6,787,000 and $4,555,000 for 2005 and 2004, respectively, associated with the federal subsidy provided by the Act.

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	
	2005	2004	2005	2004
CHANGE IN PLAN ASSETS				
Fair value of plan assets at beginning of year	$ 116,516	$ 99,381	$ -	$ -
Actual return on plan assets	9,956	18,482	-	-
Employer contributions	3,015	3,635	3,803	3,838
Benefits paid	(5,601)	(4,982)	(3,803)	(3,838)
FAIR VALUE OF PLAN ASSETS AT END OF YEAR	**$ 123,886**	**$ 116,516**	**$ -**	**$ -**
CHANGE IN PROJECTED BENEFIT OBLIGATION				
Benefit obligation at beginning of year	$ 151,104	$ 149,437	$ 74,663	$ 81,756
Service cost	1,848	2,064	2,134	2,188
Interest cost	9,286	8,815	4,327	4,790
Plan Amendment	-	-	(6,787)	-
Actuarial (gain) loss	25,160	(4,230)	(2,815)	(10,233)
Benefits paid	(5,601)	(4,982)	(3,803)	(3,838)
Benefit obligation at end of year	$ 181,797	$ 151,104	$ 67,719	$ 74,663
AMOUNTS RECOGNIZED IN CONSOLIDATED FINANCIAL STATEMENTS				
Plan assets minus projected benefit obligation	$ (57,911)	$ (34,588)	$ (67,719)	$ (74,663)
Contributions made after measurement date	618	635	-	-
Estimated net benefit payments	-	-	582	686
Unrecognized prior service cost	-	-	(5,087)	1,418
Unrecognized loss	43,763	19,734	667	4,385
NET AMOUNT RECOGNIZED IN THE STATEMENT OF FINANCIAL POSITION	**$ (13,530)**	**$ (14,219)**	**$ (71,557)**	**$ (68,174)**
Accumulated benefit obligation	$ 169,135	$ 139,849		
Accrued benefit liability	$ 51,203	$ 28,938		
Minimum pension liability	$ 37,055	$ 13,449		
Contributions made after measurement date	$ 618	$ 635		

Net benefit expense related to the plans for the years ended August 31, 2005 and 2004, in thousands of dollars, includes the following components:

	Pension		Post Retirement Medical	
	2005	2004	2005	2004
Service cost	$ 1,848	$ 2,064	$ 2,134	$ 2,188
Interest cost	9,286	8,815	4,327	4,790
Expected return on plan assets	(9,161)	(9,125)	-	-
Amortization of prior service cost	-	-	39	633
Recognized net actuarial loss	335	212	582	1,335
Other	-	-	-	-
NET PERIODIC BENEFIT EXPENSE	**$ 2,308**	**$ 1,966**	**$ 7,082**	**$ 8,946**

ACTUARIAL ASSUMPTIONS The weighted average assumptions used in the accounting for the Pension and Post Retirement Medical plans are shown below:

	Pension		Post Retirement Medical	
	2005	2004	2005	2004
Discount rate	5.25 - 6.25%	6.00 - 6.25%	5.00 - 6.25%	6.00 - 6.25%
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, 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, 2005, an 11% annual rate of increase in the pre-65 per capita costs and a 13% annual rate of increase in the post-65 per capita costs, and an 8% rate of increase in the post-65 over capita cost of all other medical benefits was assumed for 2006-2007, declining gradually to 5% by 2011-2013 and remaining at this rate thereafter.

Assumed health care cost trend rates have a significant effect on the amounts reported for the medical benefit plan. Increasing the health care cost trend rate by 1% in each future year would increase the accumulated post retirement benefit obligation by $1,862,000 and the aggregate service and interest cost by $277,000. Decreasing the health care cost trend rate by 1% in each future year would decrease the accumulated post retirement benefit obligation by $1,931,000 and the aggregate service and interest cost by $287,000.

PLAN ASSETS Asset allocations by asset category at June 30 for the Hospitals' Pension plan are as follows:

	Pension	
	2005	2004
ASSET CATEGORY		
Equity securities	70%	72%
Fixed income	22%	22%
Real estate	8%	6%
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 of equity, debt and real estate investments.

EXPECTED CONTRIBUTIONS The Hospitals expect to contribute $10,072,000 and $3,532,000 to their Staff Pension Plan and Post Retirement Medical Benefit Plan, respectively, during the fiscal year ending August 31, 2006.

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	
FISCAL YEAR	PENSION PLAN	EXCLUDING MEDICARE SUBSIDY	WITH MEDICARE SUBSIDY
2006	$ 6,465	$ 3,739	$ 3,532
2007	6,851	4,126	3,802
2008	7,319	4,496	4,115
2009	7,846	4,854	4,409
2010	8,421	5,207	4,689
2011 - 2015	52,489	34,113	30,565

15. OPERATING LEASES

The University and the Hospitals lease certain equipment and facilities under operating leases expiring at various dates. Total rental expense, included in other operating expenses in the consolidated statements of activities, under these leases for the years ended August 31, 2005 and 2004 was $29,732,000 and $27,000,000, respectively, for the University and $32,173,000 and $21,242,000, respectively, for the Hospitals.

Net minimum future operating lease payments and related present value, assuming a 6% discount rate for periods subsequent to August 31, 2005, in thousands of dollars, are as follows:

	MINIMUM LEASE PAYMENTS		PRESENT VALUE OF MINIMUM LEASE PAYMENTS	
YEAR	UNIVERSITY	HOSPITALS	UNIVERSITY	HOSPITALS
2006	$ 18,222	$ 26,203	$ 17,731	$ 25,498
2007	18,332	21,600	16,829	19,829
2008	13,666	20,498	11,835	17,752
2009	12,985	18,009	10,609	14,714
2010	10,581	14,974	8,156	11,542
Thereafter	61,294	34,051	42,031	23,349
TOTAL	**$ 135,080**	**$ 135,335**	**$ 107,191**	**$ 112,684**

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 also employs a conflict of interest policy that requires annual disclosure by members of the Board of Trustees of any relationship in which the Board member (or an immediate family member) has a material financial interest. When such relationships exist, measures are taken to mitigate any actual or perceived conflict, including recusal of the board member from any decisions involving the company doing business with the University. University policy requires that such transactions are 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.

LABOR AGREEMENTS Approximately 10% of University employees are covered under union contract arrangements. The current union contract expires on August 31, 2006. However, based on certain contractual provisions the union has the right to reopen negotiations on a limited set of benefits issues. The law permits the union to engage in labor stoppages in the event that negotiations are reopened.

Approximately 44% of the Hospitals' employees are covered under union contract arrangements with two unions. Approximately 17% of the Hospitals' employees are represented by the Service Employees International Union (SEIU) and approximately 27%

are represented by the Committee for Recognition of Nursing Achievement (CRONA). Upon expiration of the SEIU contract in November 2005 the Hospitals are subject to potential labor stoppages. The Hospitals have contingency plans to continue operations in such an event. The CRONA contract is in effect through March 31, 2007 and includes a no strike provision.

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, 2005, the University had contractual obligations of approximately $38,848,000 in connection with major construction projects. Remaining expenditures on construction in progress are estimated to be $169,385,000, which will be financed with certain unexpended plant funds, gifts and debt.

At August 31, 2005, the remaining commitment on contracts for the construction and remodeling of the Hospitals' facilities was approximately $23,202,000.

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, 2005, the aggregated amount of such unfunded commitments was $3,701,139,000.

GUARANTEES AND INDEMNIFICATIONS The University (including the Hospitals) indemnifies, in the normal course of business, its officers and directors for certain events or occurrences while they are, or were, serving at the University's request in such capacity. While the maximum potential amount of future payments under these arrangements is unlimited, the University carries insurance that limits its exposure. Management believes that the estimated fair value of these indemnifications is minimal. The University also enters into mutual indemnification agreements in the normal course of its business, the impact of which are not expected to be material. As a result, the University has not recorded any liabilities related to guarantees and indemnities as of August 31, 2005.

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, 2005 and 2004, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the University changed its policy of accounting for cash and cash equivalents, effective September 1, 2003.

PricewaterhouseCoopers LLP

San Francisco, California
January 18, 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

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

M. Suzanne Calandra

M. SUZANNE CALANDRA
Controller
Stanford University

Roy Santarella

ROY T. SANTARELLA
Chief Financial Officer
Stanford Hospital and Clinics

Keith S. Grundy

KEITH S. GRUNDY
Chief Financial Officer
Lucile Salter Packard Children's Hospital

REPORT FROM THE STANFORD MANAGEMENT COMPANY

STANFORD UNIVERSITY 2005

The Stanford Management Company (SMC) was established in 1991 to manage Stanford's financial and real estate assets. SMC is a division of the University with oversight by a Board of Directors appointed by the University Board of Trustees. The SMC board consists of investment and real estate professionals, the University president, chief financial officer, chairman of the Board of Trustees and the CEO of SMC. The board approves SMC asset allocation targets, oversees the hiring of external asset managers and evaluates the performance of SMC investments and professionals. SMC oversees approximately $14.3 billion of endowment and trust assets, temporarily invested expendable funds and commercial real estate investments.

The majority of the University's endowment assets are invested through the Merged Endowment Pool (MEP), which is a diversified portfolio of actively managed financial and real estate assets valued at approximately $12.4 billion as of June 30, 2005. MEP performance measurements are calculated on the 12 months ended June 30, 2005 to be comparable to the results of other endowments and foundations. The following discussion of endowment performance relates solely to investments in the MEP. The MEP generated a 19.5% investment return for the 12 months ended June 30, 2005. Over the past 10 years, the MEP achieved an annualized rate of return of 15.4%, growing from $3.0 billion to $12.4 billion. This investment performance places Stanford in the top 4% of all reporting university and college endowments during this period, according to the consulting firm of Cambridge Associates.

SMC, with assistance from its board, actively manages the endowment, while remaining committed to a consistent long-term investment strategy. The MEP portfolio is constructed on a foundation of modern portfolio theory and strategic asset allocation and is continuously tested through the rigors of state-of-the-art risk management techniques. The portfolio is designed to optimize long-term returns, create consistent annual payout to the University's operating budget and preserve purchasing power for future generations of Stanford faculty and students.

The environment for the 12 months ended June 30, 2005 was marked by a period of relatively modest returns for the U.S. stock and bond markets. Over this period, the S&P 500 Stock Index was up 6.3% and the Lehman Aggregate Bond Index was up 6.8%. The MEP's 19.5% return was driven by a diverse set of high returning assets, including International Equities, Private Equity and Natural Resources. Most pronounced over this period was the substantial run-up in commodity prices. The year began with a barrel of oil costing $37, and it finished with a barrel of oil costing $57—an increase of over 50%. The Natural Resources asset class within the MEP returned 71% for the year. Despite skyrocketing commodity prices, the performance of the U.S. economy and markets marched forward with relative calm; inflation expectations and interest rates remained in check. Over this period, as the Federal Reserve moved its Federal Funds Rate from 1.25% to 3.25%, the yield on longer-duration fixed income instruments remained stable. Rather than effecting a shift of the yield curve, the Fed only managed to flatten the yield curve. In large part, this was due to the volume of international capital flowing into U.S. treasuries. We are left to wonder how long the United States can continue to borrow from abroad at current volumes and at current interest rates.

As a perpetual pool of capital, the MEP's investment strategies are commensurately long-term in nature, and meaningful performance can only be gauged over longer measurement periods. SMC endeavors to invest thoughtfully without being burdened by considerations of short-term performance or volatile market sentiment. The MEP's three-year annualized performance of 15.3% since June 30, 2002 should be regarded as the minimum period upon which a meaningful review of recent endowment results can be conducted. This three-year investment return places Stanford in the top 2% of all reporting university and college endowments during this period, according to Cambridge Associates. Over this three-year period, the financial markets have created challenges for all investors. SMC has responded to this environment by remaining committed to our managers, who have demonstrated consistent strategies and excellent returns over a long period of time. In addition, SMC has invested substantially in increased risk management by hiring additional professionals and implementing new information technology systems. The investment decision process at SMC involves an ongoing review of all portfolio assumptions, a detailed analysis of interim returns and an in-depth dialogue with the board.

STANFORD MEP ASSET ALLOCATION Given the perpetual nature of the University, SMC's investment horizon is very long-term. Our objective is to generate optimal total return relative to an appropriate level of risk for Stanford. SMC reevaluates portfolio asset allocation each June, reviewing with the SMC board expected risk, return and correlation among asset classes in the process of confirming current strategic asset allocation targets or setting new targets. The process takes into consideration an analysis of the historical characteristics of asset classes, as well as a review of current market conditions.

One SMC investment strategy that bears mention came on the heels of the corporate accounting scandals of late 2001 and early 2002, which created significant turmoil in the financial markets. In particular, many corporate debt instruments were downgraded, and the pricing of these securities suffered. A number of corporations ultimately were forced to file Chapter 11 bankruptcy due to the combination of the operating stresses of a recession and acutely tight lending practices that followed these accounting problems. This "credit crunch" exacerbated the already weakening prices of many corporate credit instruments. Over the course of late 2001 and early 2002, SMC came to the conclusion that this credit crunch represented a contrarian buying opportunity. We engaged investment managers to overweight our exposure to corporate credit instruments, such as performing high yield bonds and negotiated purchases of nonperforming corporate bank loans. The markets for corporate credit investments have steadily improved since the summer of 2003, easing—and ultimately resolving—this credit crunch. At this point in the credit cycle, our concern is that the easing of the credit crunch may have gone too far, leading to excessive credit creation at unsustainably low spreads.

The market's current appetite for yield has compelled us to de-emphasize most forms of high yielding investments: REITs, stabilized private real estate, high yield bonds and fixed income more broadly. To us, many of these assets now feel more like momentum plays than value plays. The nominal and real interest rate on capital is low, and the bond market is projecting a low-return and stable inflation rate environment going forward. Many forms of risk premia, in our view, remain thin, and in some cases negative. We have marginally reduced the total level of risk in the portfolio over the last 12 months. Many of the U.S.-based alternative investment strategies that were so productive for the endowment in the 1990s appear to be over-supplied with new capital. At the same time, the U.S. economy is running the largest current account deficit in its history. In the face of this set of issues, SMC has been focusing much of its effort and endowment capital on international opportunities. Although the MEP remains a heavily U.S.-weighted portfolio, we are more internationally tilted than at any previous point in our history.

The strategic asset allocation targets for the MEP as of June 30, 2005 are listed below:

LONG-TERM POLICY TARGETS

ASSET CLASS	STRATEGIC ALLOCATION
Public Equity	40%
Real Estate	16%
Private Equity	10%
Natural Resources	7%
Absolute Return	15%
Fixed Income	12%

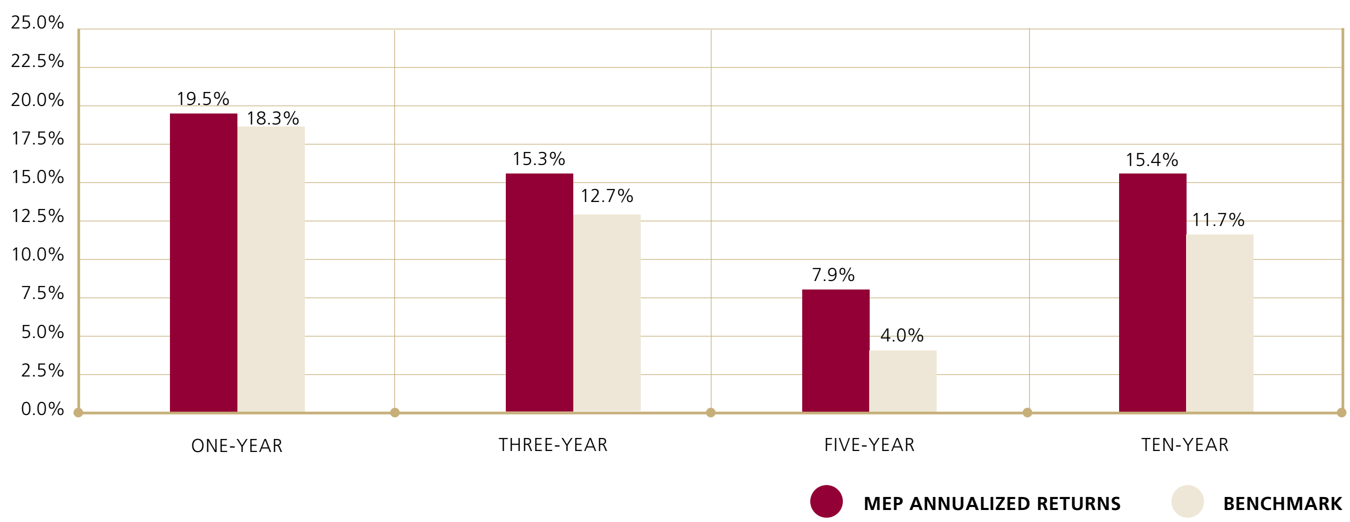
STANFORD MEP PERFORMANCE COMPARED TO INFLATION The table below outlines annualized returns for various periods ending June 30, 2005 and illustrates the performance of the MEP in a long-term context. Stanford's objective is to return a minimum of 6.25% over the rate of inflation. If this real return target is achieved over time, the value of the endowment will be maintained, net of annual payouts to support endowed activities. Over the past one-, three- and 10-year periods, Stanford's annualized real return has substantially exceeded the 6.25% target.

MEP PERFORMANCE COMPARED TO INFLATION

	ONE-YEAR	THREE-YEAR	FIVE-YEAR	TEN-YEAR
Nominal Endowment Return	19.5%	15.3%	7.9%	15.4%
GDP Deflator	2.5%	2.2%	2.1%	1.9%
Real Endowment Return	17.0%	13.1%	5.8%	13.5%

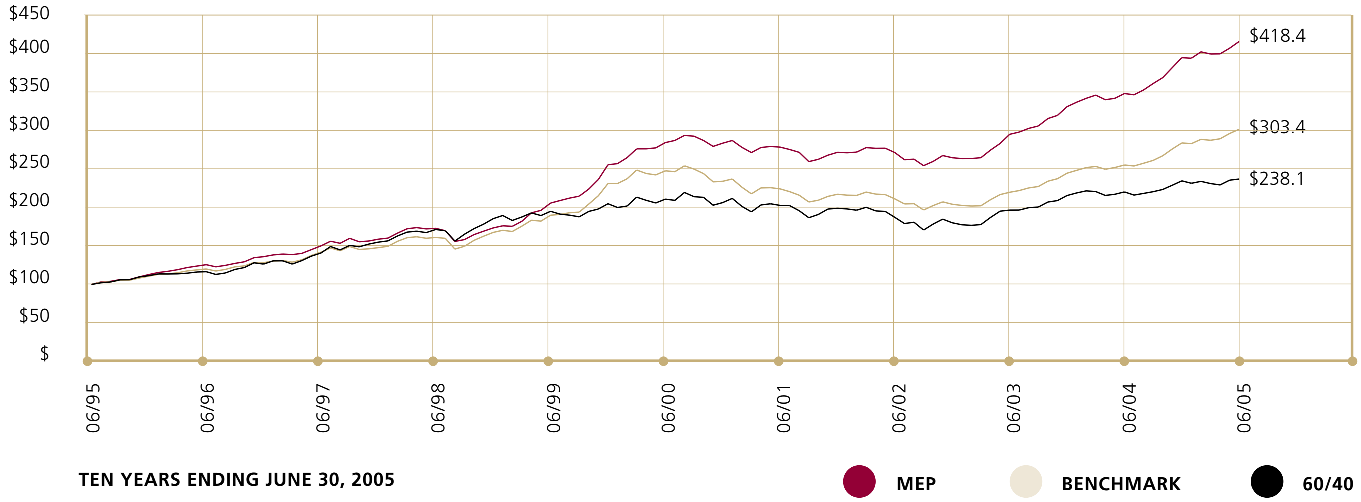
STANFORD MEP PERFORMANCE COMPARED TO BENCHMARKS SMC evaluates the performance of investment managers by comparing their returns to benchmarks that are appropriate for each individual asset class. SMC may alter an asset class benchmark to allow for a change in investment style, a shift in mix within an asset category or to account for the impact of leverage. The SMC board reviews asset class benchmarks on an annual basis to ensure comparability. SMC evaluates overall MEP performance by comparison to a composite benchmark, which represents a blending of the benchmark returns for each asset class weighted by the strategic allocations above. In the table below, actual performance, net of management fees, is compared to the composite benchmark for periods ended June 30, 2005.

STANFORD MEP VS. STANFORD COMPOSITE BENCHMARK



SMC's effectiveness in implementing its investment strategies through superior manager selection has resulted in a consistent and long-term performance advantage over the composite benchmark. The cumulative return chart below compares the growth of $100 in Stanford's endowment with that of the composite benchmark over the past 10 years. The MEP performance advantage (relative to benchmark returns) has added in excess of $3 billion to the value of the endowment over this 10-year period. The chart also compares the growth of this $100 against a "60/40 portfolio" (a portfolio consisting of 60% stocks and 40% bonds), which represents a more traditional passive asset allocation.

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

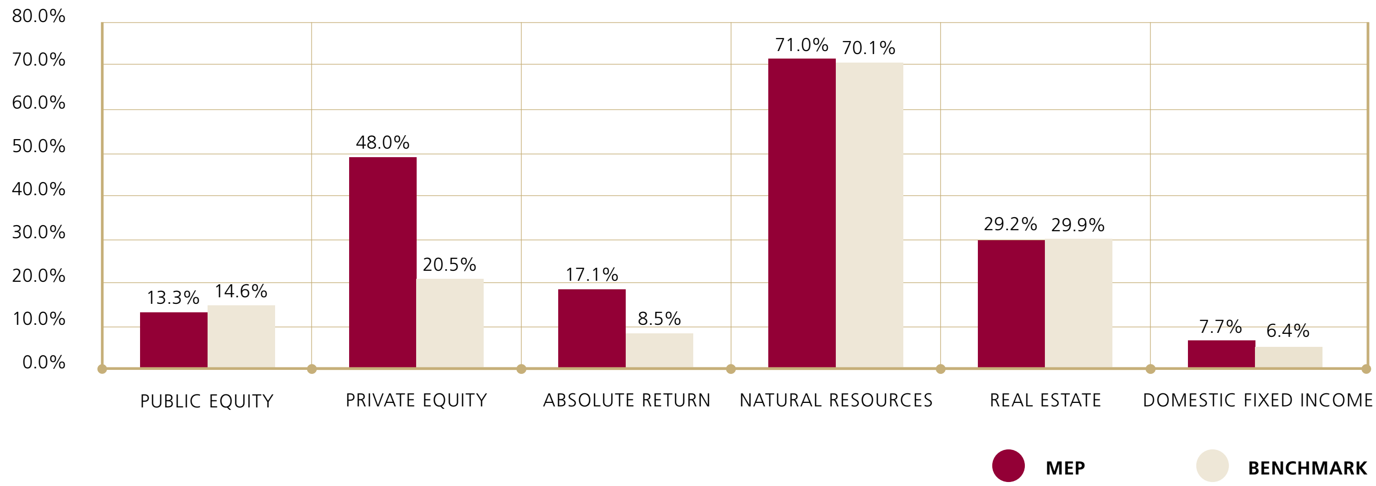


The current performance measurement date of June 30, 2005 affords a convenient end point to reflect back on long-term performance. The last 10 years can be succinctly broken down into the boom times of 1995-2000 and the down market of 2000-2005. A brief review of the MEP return history over these two periods provides an interesting perspective.

Prior to the peak of the market in early-2000, the Stanford portfolio kept pace with the bull market, primarily through the outstanding performance of its private equity portfolio. However, embedded in the background at the time was a highly diversified portfolio that was not overly dependent on the U.S. equity market. As can be seen in the chart above, this latent diversification became readily apparent after the U.S. equity market peaked in early-2000. Since that time, the Stanford portfolio has powered ahead of the U.S. stock market as a result of a variety of different successful return drivers: the overweight to credit described previously (that has since become an underweight), a strong tilt toward value stocks in the public equity portfolio (that has since been neutralized), strong performance in arbitrage hedge fund strategies, a significant shift in exposures out of the United States and into international stocks and currencies and a powerful surge in returns from our real estate assets that backfilled the equity market hole of 2001-2003. After having captured much of the upside of the bull market of the 1990s, the endowment preserved and grew capital during the bear market of the 2000s. While the S&P 500 sustained a peak-to-trough drawdown of 47% during this bear market, the Stanford portfolio only sustained a peak-to-trough drawdown of 13%. Preserving wealth, as investor Warren Buffett is keen to point out, is rule number one toward the goal of increasing wealth. Over the last five years, a dollar invested in the U.S. equity market would be worth only 89 cents, while a dollar invested in the Stanford portfolio would be worth $1.46. The University has realized 64% more value in the actual endowment outcome than the U.S. equity market over this period. While the next five years are sure to bring a new set of challenges and opportunities, we remain focused on the same investment goal: to capture equity market-like returns while diversifying ourselves away from any single, dominant return driver.

INDIVIDUAL ASSET CLASS PERFORMANCE The performance of individual asset classes for the 12 months ended June 30, 2005 relative to each asset class benchmark is illustrated in the graph below:

STANFORD MEP ONE-YEAR ASSET CLASS RETURNS VS. BENCHMARK



Relative performance of the MEP versus its benchmark was strong for the one-year period with an overall portfolio alpha (return over benchmark) of 1.3%. The alpha was driven primarily by outperformance in the Absolute Return and Private Equity asset classes. Total return in most asset classes was strong for the year. However, we have not seen, and do not expect to see, a return of the broad-based bull market of 1982-2000. The last five years provide a stark contrast to the previous bull market period when substantially all financial assets exhibited double-digit annual returns. The bull market was a period of protracted interest rate declines, valuation expansion and seemingly unsustainable economic over-expansion. The 20-year secular decline in interest rates appears to have bottomed out. The view at SMC is that the tailwinds of the bull market may eventually become the headwinds of tomorrow.

Stanford's Public Equity portfolio benefited from its substantial exposure to the international equity markets. In particular, emerging market equities performed the strongest during the last 12 months. The equity portfolio is also tilted toward "quality" stocks—companies with lower leverage, lower interest rate sensitivity and generally a more consistent history of delivering high return on equity to shareholders. Currently, we believe there is better relative value in quality companies versus the broader market. Over the last 12 months, however, this quality tilt underperformed broader equity market benchmarks, as riskier stocks have demonstrated the best relative performance.

Private Equity, a combination of venture capital and leveraged buyout limited partnerships, had its best showing in recent years. This performance was predominantly driven by the exceptional financial performance of Google Inc. Google represents yet another proud link in the Stanford chain of entrepreneurial technology success that can date its roots back to Hewlett's and Packard's famous garage.

SMC remains cautious in the current venture capital environment due to the substantial latent demand for the asset class found in the unfulfilled asset allocations of many new limited partner entrants to this marketplace. Nonetheless, venture capital has been a very successful asset class for Stanford when evaluated over the long-term. Since inception, venture capital investment gains have added more than $2.0 billion to the value of the endowment. SMC intends to continue to allocate capital to this asset sector by maintaining relationships with proven private equity funds and by selectively investing in new funds.

The Absolute Return portfolio is constructed to provide returns that are substantially uncorrelated to the equity and bond markets. The portfolio includes quantitative and fundamental equity hedge fund strategies, distressed debt, fixed income relative value and multi-strategy arbitrage funds. One-year results for the period ended June 30, 2005 demonstrate the successful execution of all of these strategies, with a particular focus on distressed debt investing. SMC remains committed to a well-diversified Absolute Return portfolio but cautious about the current environment due to substantial increases in capital commitments from institutional investors into many hedge fund investment strategies.

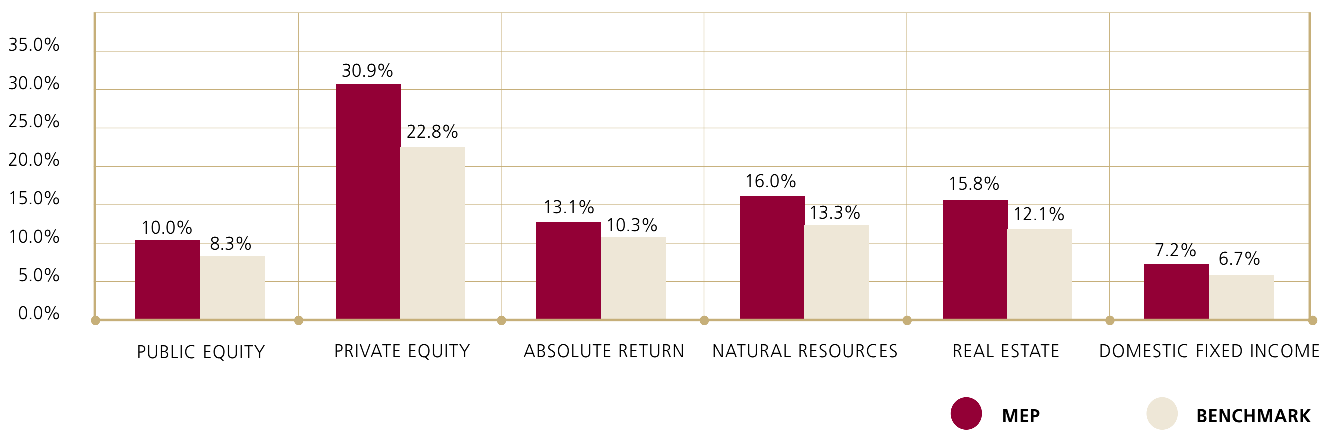
The Natural Resources portfolio is comprised of domestic and international investments in timber, direct oil and gas assets and oil and gas private equity partnerships. The natural resources sector enjoyed tremendous success over the last 12 months, buoyed by higher commodity prices. SMC continues to build a diverse portfolio of outstanding managers in the oil, gas, energy and timber industries.

Stanford's endowment historically has had a substantially larger commitment to Real Estate than our peer institutions. The strategy of overweighting real estate investments is based on SMC's extensive experience in real estate development and management of University lands. SMC's core competency in these areas provides a significant advantage when evaluating real estate investments. The portfolio includes direct investments in commercial and residential real estate development, limited partnership positions in real estate opportunity funds and publicly traded REITs. SMC strives to invest in real estate assets outside of the San Francisco Bay Area and Santa Clara County to provide economic diversification and seismic risk mitigation. The Real Estate portfolio demonstrated strong returns over the past year as a result of a number of successful asset dispositions across the MEP's global Real Estate portfolio.

The Fixed Income asset class continued to face a challenging, low-interest rate environment. With the yield on 10-year Treasury bonds hovering in the 4.0-4.5% range, it is hard to be sanguine about the total return opportunity available in bonds. That said, 10-year Treasury yields fell about 70 bps, contributing greatly to the return on the portfolio.

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

STANFORD MEP TEN-YEAR ANNUALIZED ASSET CLASS RETURNS VS. BENCHMARK



While we are pleased with the portfolio's 19.5% return for the 12 months ending June 30, 2005, we are more focused upon, and encouraged by, the MEP's three-year annualized return of 15.3%. This three-year period was characterized by repeated challenges to the global financial markets. Each new unexpected crisis represents another stress test to a portfolio built to withstand the unexpected. While we remain vigilant for the next crisis, as long-term investors we endeavor to turn short-term challenges into successful investment strategies. As an integral component of one of the world's great universities, the Stanford Management Company remains energetically committed to our mission: the pursuit of optimized risk-adjusted investment strategies that preserve the long-term purchasing power of the endowment for future generations.

Michael G. McCaffery
President and Chief Executive Officer
Stanford Management Company

Michael L. Ross
Chief Investment Officer
Stanford Management Company

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