

SECTION 2

FINANCIAL OVERVIEW AND PLANNING ASSUMPTIONS

INTRODUCTION

The purpose of this section is to review the principal *financial components* of the Budget Plan. (The *programmatic elements* are addressed in the next section.) Specifically, we will discuss the numbers and the results of:

- The Consolidated Budget for Operations
- The Capital Plan and Budget
- The Projected Statement of Operations

CONSOLIDATED BUDGET FOR OPERATIONS

The Consolidated Budget for Operations includes all non-capital revenues and expenditures. It is based on forecasts from the schools and the administrative areas. These forecasts are then merged with the unrestricted budget forecast and adjusted by the University Budget Office for consistency. The table on the next page shows the projected consolidated revenues and expenditures for 1996/97 as well as the actuals for 1994/95 and

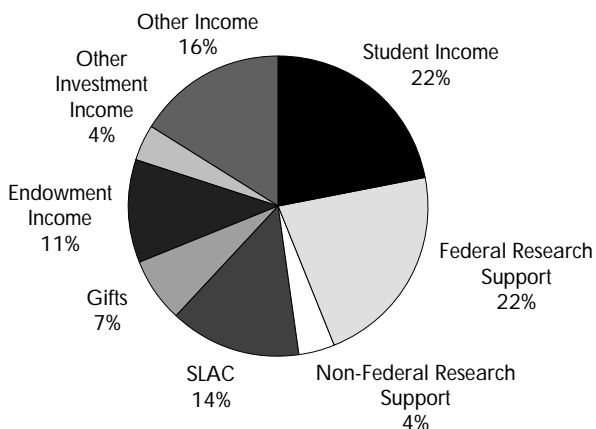
the estimated year-end projections for the current fiscal year, 1995/96. In addition, definitions of the sources of funds are provided to help the reader understand some key budgetary terms.

The 1996/97 Consolidated Budget for Operations projection shows Revenues and Transfers of \$1.408 billion and Expenditures of \$1.386 billion. As indicated, the Consolidated Budget for Operations is comprised of different types of revenues and expenditures. It can also be viewed in the context of organizational units—schools and administrative offices as described later in this section—as well as by fund type. In the following analysis we will discuss results from both perspectives.

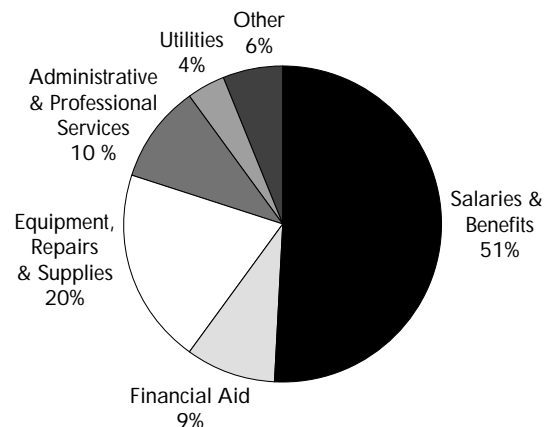
University-wide Overview

The Consolidated Budget for Operations projects a bottom line surplus of \$21.4 million, or 1.5% of total expenditures. This is largely due to the \$12.7 million unrestricted university reserve, with the remainder projected in restricted funds. Grants

1996/97 Consolidated Revenues: \$1,450M*



1996/97 Consolidated Expenditures: \$1,386M



*After subtracting the transfers to plant and endowment, the Total Revenues and Transfers amount is \$1,408M

Projected Consolidated Budget for Operations, 1996/97
(in millions of dollars)

1994/95 Actuals	1995/96 Forecast	Unrestricted	Unrestricted Designated	Restricted	Grants and Contracts	Auxiliaries	Total Current Funds
Revenues							
Student Income:							
123.9	129.8	135.7					135.7
121.9	129.5	135.6					135.6
47.9	49.9					52.0	52.0
293.7	309.2	271.3				52.0	323.3
Sponsored Research Support:							
276.5	286.0				293.8		293.8
87.2	89.1	91.8					91.8
175.8	200.0				205.0		205.0
539.5	575.1	91.8			498.8		590.6
100.3	98.3	6.7		91.6			98.3
Investment Income:							
155.0	144.5	34.7		121.1			155.8
41.2	42.1	25.9	24.6	4.5			55.0
19.8							
216.0	186.6	60.6	24.6	125.6			210.8
Other Income:							
90.9	96.8		102.4				102.4
95.3	98.2					101.2	101.2
16.0	16.8	20.6	3.2				23.8
202.2	211.8	20.6	105.6			101.2	227.4
1,351.7	1,381.0	451.0	130.2	217.2	498.8	153.2	1,450.4
Transfers							
Transfer to Unrestricted University Reserves (12.7)							
(34.0)	(15.0)		12.7	(20.0)			(20.0)
(28.4)	(25.0)	(7.8)		(15.0)			(22.8)
1,289.3	1,341.0	430.5	142.9	182.2	498.8	153.2	1,407.6
Expenditures							
260.0	272.2	98.6	25.3	51.5	55.7	53.4	284.5
302.5	310.0	160.8	27.1	27.5	60.2	42.2	317.8
104.0	112.0	30.7	6.7	43.4	39.2		120.0
417.1	438.1	140.4	68.7	53.3	138.7	57.8	458.9
175.8	200.0				205.0		205.0
1,259.4	1,332.3	430.5	127.8	175.7	498.8	153.4	1,386.2
29.9	8.7		15.1	6.5		(0.2)	21.4
516.3	546.2	3.2	194.3	303.7	16.2	37.5	554.9
546.2	554.9	3.2	209.4	310.2	16.2	37.3	576.3

NOTE: The Consolidated Budget for Operations does not include plant and student loan activities. These are added in to create the Statement of Operations shown on page 15.

Definition of Columns

Unrestricted Funds: Funds which can be used for any university purpose, the largest sources of which are tuition, unrestricted endowment income, and indirect cost recovery.

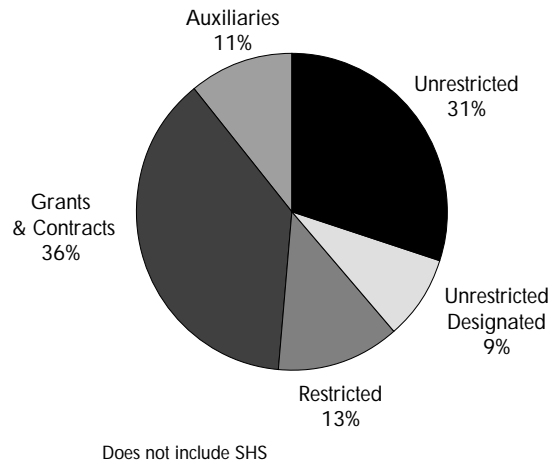
Unrestricted Designated Funds: Funds which come to the university as unrestricted but are dedicated to specific purposes by the Trustees or the administration.

Restricted Funds: Includes expendable and endowed funds which can only be spent in accordance with donor restrictions.

Grants and Contracts: The direct cost of sponsored research, both federal and non-federal.

Auxiliaries/Other: Self-contained entities, such as Housing and Dining Services or the Athletics Department, that charge directly for their services.

1996/97 Consolidated Expenditures by Fund Type



and contracts are expected to be in balance, and the auxiliaries anticipate a slight deficit and use of operating equity. The 1996/97 projections represent a 5.0% growth in total revenues and transfers, and a 4.0% growth in expenditures over the estimated year-end results for 1995/96.

It is important to note that the past several years have seen the increased practice of transferring surpluses in designated and restricted funds to funds functioning as endowment (FFE). We have assumed that this practice will continue and that \$20 million will be transferred to FFE.

Unrestricted Budget

The Unrestricted Budget is an important subset of the Consolidated Budget because its funds can be used for any university purpose. The main sources of unrestricted revenues are Tuition and Fees, Indirect Cost Recovery, Unrestricted Endowment Income, Other Investment Income, and Unrestricted Gifts. As shown in the Consolidated Budget for Operations, the Unrestricted Budget is expected to realize a base surplus of \$12.7 million in 1996/97. Our ability to produce a surplus of this magnitude is, in part, dependent upon the following points:

- The proposed Unrestricted Budget assumes the Trustees again will approve an additional 0.5% in the endowment payout rate to help defray infrastructure costs, including the costs of earthquake repair, deferred maintenance, and administrative systems. The increase in the payout rate in 1996/97 will generate approximately \$7.5 million in unrestricted funds relief. In agreeing to the supplement, and in order to maintain the purchasing power of the endowment, the Board required that the overall cost increases in the Unrestricted Budget not exceed 1% in real terms. The Budget for 1996/97 will not exceed that threshold.
- We have achieved a \$3.2 million expense reduction, explained in more detail below.
- Endowment income is projected to increase substantially, adding an additional \$5 million to the budget. This is due to two factors. The first is that endowment income was projected to be flat in 1995/96, a projection that was significantly off. The actual market value was nearly 14% higher than projected for the year. The second is that the first six months of the current year, on which we base next year's forecast,

**Summary of General Funds
Reductions and Additions**
(in thousands)

	Reductions		Additions	
School of Earth Sciences	(\$52)	1.8%	\$0	0.0%
School of Education	(76)	1.1%	61	0.9%
School of Engineering	(320)	1.1%	257	0.9%
School of Humanities & Sciences	(574)	0.8%	268	0.4%
School of Law	(246)	2.4%	0	0.0%
Dean of Research	(189)	2.8%	70	1.0%
Hoover Institution	(163)	4.0%	0	0.0%
Academic Subtotal	(\$1,620)	1.2%	\$656	0.5%
Development	(\$132)	1.3%	\$230	2.2%
Faculty/Staff Services	(29)	0.4%	0	0.0%
Environmental Health & Safety	0	0.0%	500	9.7%
Facilities	(531)	1.4%	0	0.0%
Finance	(128)	1.0%	240	1.8%
ITSS	(156)	0.7%	0	0.0%
Libraries	(104)	0.4%	0	0.0%
Student Affairs	(226)	0.6%	228	0.6%
Infrastructure	0	0.0%	6,422	
Other Administrative Units	(274)	0.7%	83	0.2%
Administrative Subtotal	(\$1,580)	0.8%	\$7,703	3.9%
Total	(\$3,200)	1.0%	\$8,359	2.5%

resulted again in much higher growth in the endowment than originally anticipated.

- The proposed Unrestricted Budget includes \$6 million in additional expendable funds pool income generated as a result of the change in restricted funds policy approved by the Trustees last June. Under the new policy, expendable funds pool interest will no longer be paid to designated funds nor to most restricted funds, thereby increasing the amount available for use by the Unrestricted Budget. Endowment income funds will receive the total return earned on unspent balances.
- The budget process and the resulting allocation of unrestricted funds to academic and administrative units has been based on available revenue.

1996/97 Budget Reductions and Additions

In 1993/94 the Provost announced a plan to

reduce the unrestricted budget by \$18 million over three years. In the 1996/97 budget we will complete the plan with reductions of \$3.2 million.

The table above shows specifically where the budget reductions and additions are occurring. The impact of these changes for some units is highlighted below.

Reductions: The \$3.2 million in reductions were assigned to the units after determining how large a reserve to create and how much revenue would be available to allocate to the units. The Provost discussed the feasibility of the proposed reductions with each unit and made adjustments to the final numbers accordingly. Detailed plans for reducing general funds have not been finalized in all areas and, as is often the case, will vary significantly from one unit to another.

- In Engineering, the reductions will be passed along to the departments as part of the School's

allocation process. Each department will evaluate the impact and plan accordingly. It is likely that funds generated from the Stanford Instructional Television Network (SITN) will be substituted for the lost general funds in many cases. Dean's Office support for graduate aid and precollegiate community programs is likely to be reduced.

- While the School of Humanities and Sciences will sustain a reduction of just under \$600,000, the Provost has committed to a one-time allocation of \$500,000 in 1996/97, thereby providing the School more time to evaluate the best way to close their gap. As part of that process, the School plans to develop a strategic policy on the appropriate amount and use of reserves at the School, department, and faculty levels.
- The Law School plans to meet its reduction in general funds by substituting funds generated from the successful executive education program. In addition, some savings will be realized by the elimination of the Aspiring Law Teachers Program.
- The Office of Development continues to look for opportunities to make cuts or streamline its operation. The facilities manager position was recently eliminated, and responsibilities for space management were transferred to another staff member. In a more strategic move, H&S Development will be consolidated with University Development. There will still be an Associate Dean for Development for H&S, but that person and the H&S stewardship positions will work more closely with staff in Encina. The two field staff positions in H&S will be eliminated and those resources redirected to better serve H&S.
- Reductions in Facilities will be achieved primarily in operations and maintenance due to a slowing in the growth of contract services. In addition, many of the expenses in this budget will be held to the 1995/96 levels.
- Student Affairs will meet the majority of its budget cut by withholding all or a portion of the inflationary increases from most non-salary line

items. In addition, University support for Tresidder Union is again being reduced and will be offset primarily by increased rents from new retail operations in the building.

Additions: As has been the case over the years, we will make allocations of incremental funds even when budgets are being reduced. The University needs to recognize and support important opportunities as well as specific deficiencies. The proposed 1996/97 Unrestricted Budget includes \$8.4 million in incremental funds for a variety of purposes as highlighted below.

- The School of Engineering will receive incremental funds for local health and safety costs and to fund two faculty billets, one in Systems Engineering and one in Computational Prototyping.
- An allocation of \$70,000 is being made to the office of the Dean of Research to hire an additional administrator to staff a second Human Subjects panel. This need is due to the significant increase in required reviews for the federal Food and Drug Administration.
- The Office of Development will receive the first of two base allocations to cover the University's share of the cost of the Reunion Program. The remainder of the cost is funded by the Alumni Association. A second allocation is being made to Development for half the cost of a new optical imaging system that will allow for electronic storage of critical Development documents.
- Environmental Health & Safety will receive a sizable allocation for a combination of programs. The first is the conversion of the radioactive waste cost center to a general funded activity due both to the importance of the activity and the liabilities associated with recovering the costs directly from program users. The second portion is to cover existing programs such as asbestos abatement and chemical waste compliance assistants which previously were not fully funded.
- Our largest investment continues to be in physical infrastructure. \$2 million has been

allocated for planned maintenance, the third of a three year plan to bring base funding for this purpose to \$8 million. \$1 million has been allocated for incremental utilities and operations and maintenance for CIS Extension, Gates Computer Science, Museum renovations, and a variety of landscape and vegetation projects. \$3.4 million has been added to the budget for incremental debt service in support of deferred maintenance, seismic strengthening, and a portion of new buildings.

Principal Income and Expenditure Categories

The following table summarizes the principal income and expenditure assumptions behind the 1996/97 Consolidated Budget for Operations. A discussion of these items follows.

Principal Income and Expenditure Assumptions for 1996/97

Income Assumptions	
- Tuition Rate Increase	4.0%
- Room & Board Rate Increase	4.0%
- Research Volume Growth (MTDC)	1.6%
- Base Endowment Payout Rate	4.75%
- Supplemental Endowment Payout Rate	0.5%
Expenditure Assumptions	
- Faculty Salary Growth	3.0%
- Staff Salary Growth	2.5%
- Benefits Rate	29.7%
Inflation Rate:	3.0%

Income (refer to table on page 4)

Student Income

Tuition: The general tuition rate increase for 1996/97, which was approved by the Trustees in February, is 4.0%. This rate is the smallest percentage increase in tuition in more than thirty years. With few exceptions, our tuition increases, particularly in the past 10-15 years, have exceeded the average growth in family income in the United States. While Stanford's financial aid program has succeeded in meeting demonstrated need, continued increases in the amount of aid

required cannot be sustained indefinitely. Tuition increases in excess of growth in family income are of great concern to students and families who find themselves borrowing more each year to fund higher education costs. The increase approved for 1996/97 is predicated on keeping a Stanford education affordable to the best students. Based on historical trends, we also expect that it will improve our competitive pricing position relative to other high quality private institutions.

Room and Board: In February the Trustees approved a combined room and board rate increase of 4.0%. While the basic board rate increase is only 3.1%, approximately the expected rate of inflation, the basic room rate increase is 5.0%. This is because the financing of the Capital Improvements Plan in Housing and Dining Services is pushing up the room charges. Additionally, operating funds to support growing maintenance and repair needs and increases in funding for Residence Deans, the professional staff responsible for responding to various student life emergencies, are generated by these increases.

Sponsored Research Support and Indirect Cost Recovery

The University's recovery of indirect costs associated with sponsored activities depends on the indirect cost rate and the direct research volume on which the rate is applied. The University will not be negotiating the 1996/97 indirect cost rate with the Office of Naval Research, the government agency with which Stanford negotiates its indirect cost rate, until sometime this summer. Therefore, we do not have a specific rate to use in the forecast of reimbursed indirect costs. Instead, we have made an estimate based on a modest expectation of growth in the costs for which we are reimbursed.

Investment Income

The largest part of investment income is endowment income. The estimate of endowment income is a function of a forecast of the endowment market value at the beginning of the coming budget year and the approved payout rate. The estimate of the coming year's market value is based on the long-term assumption that total return on the endowment will be 6.25% above inflation. How-

ever, due to the strong performance of the market in the first half of the year, we are projecting the market value of the endowment in September 1996 to be more than 13% over the September 1995 level.

Endowment income in 1996/97 is expected to total \$155.8 million. This includes income from the merged pools, specifically invested endowment, and rental income from the Stanford Research Park and other endowed lands. The Stanford Management Company has put considerable effort into the generation of income from the Research Park, and this budget reflects the results of that effort. Over the next three to four years, we expect that rental income will nearly double to \$7 million, one half of which will be reinvested in endowment principal.

In each of the last two years the Trustees approved a standard payout rate of 4.75% plus a 0.5% supplemental increase in the rate for one year. The budget for 1996/97 is built on the assumption that the Trustees will once again support a supplemental payout rate of 0.5%. The supplemental increase is needed to pay the debt service and expenses associated with infrastructure costs embedded in the budget. The total of these costs in the Unrestricted Budget is significantly greater than the amount of incremental endowment available to the Unrestricted Budget. The supplemental increase in the payout rate in 1996/97 will generate approximately \$7.5 million in unrestricted funds relief.

Other investment income consists primarily of payout from the Expendable Funds Pool.

Gifts

Non-capital gift income is expected to total \$98.3 million. The average annual growth in gift income since 1990 has been 3.8%. There is considerable variation from year to year, however, and we have made the conservative assumption that gift income would remain the same as the 1995/96 expected level.

Other Income

Other Income includes three components:

Special Program Fees consist mainly of patent and royalty income, fees from the Stanford Executive Program and the Sloan Program, and various reimbursements from the Children's Hospital and the Santa Clara Valley Hospital. Special program fees are projected to grow at 3% above inflation, based on historical data. Overall, special program fees are projected at \$102.4 million.

Auxiliary Income excludes Room and Board income shown separately in the Student Income section. This category includes \$68.0 million of anticipated payments by Stanford Health Services to cover faculty and staff services provided by the Medical School for clinical care, \$11.9 million representing Blood Bank income, and \$21.3 million of other auxiliary receipts such as conference fees and athletic event ticket sales or television income.

Miscellaneous Other Income is projected at \$23.8 million. The largest component of miscellaneous other income consists of reimbursements for central support services provided to several ancillary organizations, including enterprises such as the Howard Hughes Medical Institute and the Research Libraries Group.

Expenditures (refer to table on page 4)

Academic Salaries

The recommendation for faculty salary increases is based on a combination of the review of data supporting particular recommendations from each school, internal (to Stanford) comparisons, comparisons with peer universities using data that are publicly available, and consideration of available resources. The goal is to set faculty salaries at a level that will maintain Stanford's competitive position both nationally and internationally for the very best faculty.

The expected increase for 1996/97 for faculty salaries is 3%. We believe that this average increase, when applied appropriately by deans, will generally be sufficient to maintain Stanford's current competitive position. However, the University has also made special allocations to each school to address specific retention and competitive compensation issues.

Staff Salaries

The staff salary program recommended is 2.5%, plus a special adjustment authorization to help alleviate selected internal equity and external market problems, and to provide some additional flexibility in recognizing extraordinary merit. The recommendation for staff salary increases is based on our objective to maintain a mid-market position balanced with available resources. We believe this allocation meets our goal. Despite annual budget reductions, Stanford has consistently allocated incremental funds for staff salary increases. The planned program for 1996/97 continues that policy.

Benefits

The recommended 1996/97 staff benefits rate is 29.7% of salaries and wages. This rate is 3.5 points higher than the 26.2% rate negotiated for 1995/96. While this increase appears large, it actually returns the benefits rate to the underlying base level of roughly 30%. The rates in 1994/95 and 1995/96 were artificially low due to large negative carry-forwards and one-time adjustments in self-insurance reserves. (Stanford negotiates its benefits rates with the federal government on a 'fixed with carry-forward' basis. This means that we estimate the benefits costs at the start of the year, determine the actual costs at the end of the year, and apply any difference to future benefits rates. In the early 1990's, Stanford over-contributed to its self insurance reserves. This caused an artificially high rate that needed to be corrected in subsequent rates, thereby causing the lower rates in 1994/95 and 1995/96.)

The staff benefits rate in any particular year consists of two distinct components. The first is the base rate, which represents the ratio of current year benefits costs to the salary and wage base benefiting from the costs. The second is the carry-forward, an adjustment to the current rate for changes in the base rate from a prior year, as described above. The base rate, which is the measure of the ongoing cost of staff benefits at the University, is projected to decrease 0.2 points from 1995/96 to 1996/97; there is no carry-forward into 1996/97.

While the overall base rate for 1996/97 is projected to decrease slightly, there are components of the benefits budget that are expected to increase. The most significant increase for 1996/97 is expected to be in the cost of retirement plans. In an effort to make Stanford's retirement plans more attractive to nonexempt staff, the Stanford Contributory Retirement Plan (SCRCP), the University's defined-contribution retirement plan, will be made available to existing nonexempt staff and will become the only plan for all new staff as of January 1, 1997. Currently, all nonexempt and bargaining unit employees participate in the Stanford Retirement Annuity Plan (SRAP), a defined-benefit plan. The net impact of the change will be a slight increase in the rate.

The budget anticipates decreases in the Faculty Retirement Incentive Program, whose introductory phase has expired, and in health insurance costs, due to competition and cost-cutting among health care providers. Despite moderate increases in other health and welfare insurance programs, such as workers compensation and dental insurance, the total cost of insurance programs is expected to decline in 1996/97.

As in previous years, the proposed rate assumes that a single rate will be applied to all University salaries and that the cost pool will continue to include tuition remission for teaching assistants and research assistants through 1996/97, the last year allowed by OMB Circular A-21.

These projections may be affected by negotiations with the Office of Naval Research. More details on benefits may be found in Appendix C, Schedule 10.

Financial Aid

As described in the table on the following page, another large component of non-salary expense is financial aid. We expect to spend a total of \$120 million in financial aid for both undergraduate and graduate students, \$30.7 million of which will come from unrestricted funds. The remainder will be supported by designated and restricted funds (\$50.1 million) and grants and contracts (\$39.2 million).

Projected Budget for Financial Aid, 1996/97

(in millions)

	Unrestricted	Unrestricted Designated	Restricted	Grants & Contracts	Total
Undergraduate Financial Aid	\$20.2	\$0.0	\$19.0	\$19.9	\$59.1
Graduate Financial Aid	10.5	6.7	24.4	19.3	60.9
Total	\$30.7	\$6.7	\$43.4	\$39.2	\$120.0

Stanford remains committed to meeting the computed financial need of all its undergraduate students. Based on this policy, we estimate that in 1996/97 Stanford resources will provide nearly \$37 million in scholarship support for undergraduates and that more than \$20 million will come from unrestricted funds. Appendix C includes detailed information on undergraduate financial aid.

While Stanford offers financial support to many graduate students, funds are limited and rarely cover all of the costs. In contrast to undergraduate financial aid, academic merit is the chief consideration, with financial need secondary in the awarding of graduate fellowships and assistantships. Restricted funds are used to provide the bulk of graduate student support, particularly in the schools of Business, Engineering, and Medicine. Research assistantships are funded primarily from sponsored agreements; teaching assistantships are funded both from unrestricted and department funds. Fellowships are supported primarily by unrestricted funds and by a small amount of endowment income. A significant component of graduate support, roughly \$37 million in 1995/96, is tuition remission for research and teaching assistants paid from the staff benefits pool. This amount is not included in the \$120 million for financial aid; rather, it is included in the salary and benefits lines. Effective 1997/98, we will no longer be able to charge tuition remission to the staff benefits pool. Planning efforts are well underway to accommodate this dramatic change with as little impact on graduate students and the budget as possible.

Non-Salary Expenditures

Non-Salary Expenditures is comprised of operation and maintenance and utilities for campus buildings, debt service, library materials, administrative

computing costs, plant and general insurance, and a variety of supplies and materials costs. Several of these areas warrant comment here.

The utilities and operations and maintenance of the University's buildings and grounds are a major expense of the Unrestricted Budget. In 1996/97 we will be able to reap significant savings in utilities costs due to substantial decreases in tariffs for electricity and natural gas in the current year. These reductions, together with modest changes in consumption, are expected to save us about \$1.8 million annually. Other reductions will be achieved in operations and maintenance due to a slowing in the growth of contract services.

Two years ago we began the process of ramping up total expense for planned maintenance in academic buildings in order to maximize the useful life of our facilities and systems. We will add another \$2 million increment in unrestricted funds to this category in 1996/97, bringing our total annual spending on planned maintenance to \$8 million.

Analysis of Schools and Other Area Results

The table on the next page shows the Consolidated Budget for Operations displayed by organizational unit. Several areas are predicting decreases in fund balances in 1996/97.

Engineering: The School of Engineering has built reserves over the past several years in anticipation of capital construction costs for new buildings. In 1996/97 the School plans to spend \$2.5 million primarily for construction costs related to the Gates Computer Science building. This figure also includes the costs of furnishings for CIS Extension that are in addition to the project costs. The School expects to have similar costs in each of the

Projected Consolidated Budget for Operations, 1996/97 by Unit

(in millions of dollars)

	Total Revenues and All Transfers	Total Expenditures	Excess of Revenue over Expenditures	Beginning Operating Equity	Ending Operating Equity
Academic Units:					
School of Earth Sciences	\$20.5	\$20.8	(\$0.3)	\$11.8	\$11.5
School of Education	19.7	20.0	(0.3)	3.8	3.5
School of Engineering	131.5	133.3	(1.8)	55.5	53.7
School of Humanities & Sciences	157.2	157.0	0.2	63.6	63.8
School of Law	20.8	20.8		6.0	6.0
Dean of Research and Graduate Policy	107.1	106.6	0.5	28.5	29.0
Graduate School of Business	45.6	47.1	(1.5)	22.1	20.6
School of Medicine*	288.4	285.4	3.0	171.9	174.9
Hoover Institution	19.7	21.5	(1.8)	6.3	4.5
Total Academic Units	\$810.5	\$812.5	(\$2.0)	\$369.5	\$367.5
Academic Support Units:					
Stanford University Libraries & Academic Computing	\$31.3	\$31.3		\$2.5	\$2.5
Student Affairs	87.6	87.2	\$0.4	5.4	5.8
Information Technology Systems & Services	24.9	26.5	(1.6)	6.3	4.7
Total Academic Support Units	\$143.8	\$145.0	(\$1.2)	\$14.2	\$13.0
Other Units	\$164.9	\$162.1	\$2.8	\$133.3	\$136.1
Other:					
Auxiliaries	\$153.2	\$153.4	(\$0.2)	\$37.5	\$37.3
SLAC	205.0	205.0		0.4	0.4
Indirect Cost Adjustment	(91.8)	(91.8)			
Other Anticipated Income**	22.0		22.0		22.0
Total Consolidated Budget	\$1,407.6	\$1,386.2	\$21.4	\$554.9	\$576.3

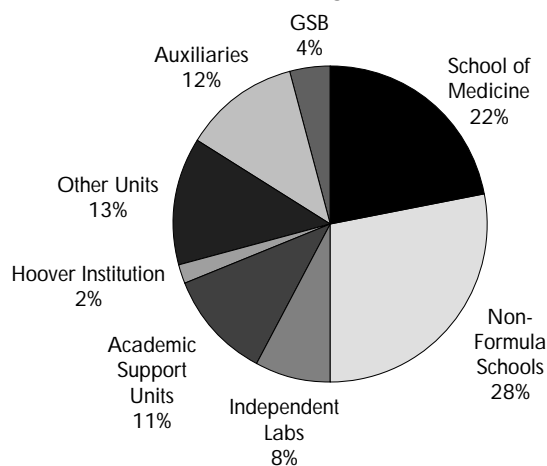
NOTES:

This budget does not reflect a direct allocation of tuition revenue in those units not operating under a formula funding arrangement.

The academic unit budgets include both direct and indirect sponsored income and expenditures. Indirect cost funding passes through the schools and is transferred to the University as expenditures occur. At that point, indirect cost recovery becomes part of unrestricted income for the University. In order not to double count, indirect cost recovery of \$91.8 million received by schools is netted out in the bottom section.

*The budget line for the School of Medicine does not include \$79.9 million in budgets for the auxiliary organizations within the School. These are shown in the Auxiliaries line. When the medical auxiliaries are added to the School's budget, the total anticipated expense of the School of Medicine is \$365.3 million.

**It is also important to note the \$22.0 million shown in Other Anticipated Income. This figure is based on historical experience and reflects our belief that the University will receive additional unrestricted and/or restricted income that we cannot specifically identify at this time.

1996/97 Consolidated Expenditures by Unit
(not including SLAC)

next couple of years. The planned use of reserves will result in a decrease in the School's fund balances in 1996/97 of \$1.8 million.

Graduate School of Business (GSB): The GSB is projecting an excess of expenditures over revenue in 1996/97 of \$1.5 million. Several factors work together to create this deficit. The first is the addition of eight new faculty allowing the School to be fully staffed for the first time in many years. The remainder of the deficit is caused by one-time factors. The School plans to make a significant investment in technology upgrades for both the network and desktops. The budget includes the incremental expense associated with the new Schwab building in 1996/97, but the School does not have plans to increase the fees to Executive Education Program participants until 1997/98.

Hoover: In recent years, Hoover has deliberately increased its reserve balance in anticipation of several multi-year projects. In particular, three sources have contributed to past increases in fund balances: designated expendable gifts earmarked for budgeted, multi-year projects; library income accumulated for capital projects; and funds withdrawn from funds functioning as endowment to support research efforts of some scholars who participated in Stanford's Faculty Retirement Incentive Program. Hoover's bottom line in 1996/97 reflects a balanced budget that includes as a source of funds the planned use of reserves for on-going, multi-year projects that were fully funded prior to 1996/97.

Information Technology Systems and Services (ITSS): ITSS plans to draw down its reserves and designated funds in 1996/97 to support the migration from mainframe applications to a client/server environment. The Data Center will incur duplicate costs until full migration has taken place. This planned use of reserves is reflected in the \$1.6 million deficit in designated funds.

Auxiliaries/Other

The largest auxiliaries are Housing and Dining Services and the Athletics Department (DAPER). Housing and Dining Services is projecting a net use of \$0.3 million in reserves as part of the

planned Capital Improvements Program. DAPER and the other auxiliary enterprises are projecting balanced budgets, or slight surpluses.

CAPITAL PLAN AND BUDGET

The Five Year Capital Plan includes \$81.5 million in projects to be presented to the Board for concept approval in 1996/97. The Capital Budget for 1996/97 is comprised of \$186.7 million in anticipated expenditures for projects already in design, approved, or currently underway. (It also includes expenditures on projects anticipated for concepts approval.)

A capital plan for the remainder of the decade has been developed, establishing the following priorities:

- To support laboratory and office renovation, principally for faculty recruitment and retention; and build necessary new facilities to support the highest priority program initiatives, principally through reliance on fundraising.
- To complete the seismic repair and upgrade work in accordance with academic needs.
- To recognize, budget for, and reduce significantly the deferred maintenance backlog.

To achieve these ambitious goals, approximately \$708.3 million in capital expenditures are projected from 1996/97 through 2000/01. A large portion of these projects is subject to completion of fundraising goals. Through the generous support of Stanford's friends, the recent agreements with the Federal Emergency Management Agency (FEMA), and the prudent use of debt, we believe this ambitious program for Stanford's future can be realized.

A full discussion of the 1996/97 Capital Budget and the Five Year Capital Plan, complete with itemized projects and funding sources, is contained in Section Five of this document and in Appendix B. The tables on the following page show projects to be presented for concept approval, projected expenditures for 1996/97, and sources of funding.

1996/97 Capital Plan: Projects to be Presented for Concept Approval

(in millions)

Project	Cost	Sources of Funds		
		Identified	Gifts to be Raised	Debt
EQ Repair & Seismic Risk Mitigation	\$27.3	\$4.1		\$23.2
Academic Program Development	37.8	1.4	\$5.6	30.8
Infrastructure	16.4			16.4
Total	\$81.5	\$5.5	\$5.6	\$70.4

1996/97 Capital Budget: Projected Expenditures

(in millions)

Project	Cost	Sources of Funds		
		Identified	Gifts to be Raised	Debt
EQ Repair & Seismic Risk Mitigation	\$43.5	\$29.4	\$1.4	\$12.7
Academic Program Development	95.0	43.2	10.9	40.9
Deferred Maintenance	21.5	11.9		9.6
Infrastructure	24.5	0.1	5.4	19.0
Compliance	2.2	1.0		1.2
Total	\$186.7	\$85.6	\$17.7	\$83.4

STATEMENT OF OPERATIONS

In order to provide a consistent and clear linkage between the Consolidated Budget for Operations and the various annual financial documents presented to the Stanford Community, we are including a projected 1996/97 Statement of Operations, shown on the next page. The Statement of Operations is found in the audited financial report. The following key points provide the explanation of the connections between the Consolidated Budget for Operations and the Statement of Operations.

The two main differences between the Statement of Operations and the Consolidated Budget for Operations are the following. First, the Consolidated Budget for Operations reflects only current funds while the Statement of Operations is a summary of current, plant, and student loan funds. (Endowment funds are reported separately on the Statement of Endowment and Changes in Endowed Equity.) Second, the Consolidated Budget for Operations is essentially built on a cash basis, while the Statement of Operations is built on an accrual basis. Therefore, moving from one to the other necessitates the following adjustments:

- a) Interest Income: This \$2.6 million earned by the Plant and Student Loan funds is added to the current funds investment income.
- b) Expenditures for Equipment vs. Depreciation: Total equipment purchases are budgeted as direct expenditures of \$72.5 million in the Consolidated Budget for Operations. In the Statement of Operations, expenses related to the \$63.8 million of equipment owned by Stanford are included in depreciation. Total depreciation is projected at \$93.8 million.
- c) Transfer to Plant: The \$22.8 million moves to the Operating Equity balance as a part of plant funds.
- d) Capital Gifts for Facilities: This \$30 million reflects the anticipated gifts for facilities. This revenue is not shown on the Consolidated Budget for Operations, which does not include plant funds.
- e) Operating Equity: The \$879.2 million adjustment adds plant and student loan fund balances and investment in plant to the Consolidated Budget for Operations' current fund balances.

Comparison of Consolidated Budget and Projected Statement of Operations, 1996/97

(in millions of dollars)

1994/95 Actuals	1995/96 Forecast		Projected Consolidated Budget	Adjustments	Projected Statement of Operations
Revenues					
<i>Student Income:</i>					
123.9	129.8	Undergraduate Programs	135.7		135.7
121.9	129.5	Graduate Programs	135.6		135.6
47.9	49.9	Room and Board	52.0		52.0
293.7	309.2	Total Student Income	323.3		323.3
<i>Sponsored Research Support:</i>					
276.5	286.0	Direct Costs	293.8		293.8
87.2	89.1	Indirect Costs	91.8		91.8
175.8	200.0	SLAC	205.0		205.0
539.5	575.1	Total Sponsored Research Support	590.6		590.6
100.3	98.3	Gifts	98.3		98.3
<i>Investment Income:</i>					
155.0	144.5	Endowment Income	155.8		155.8
43.6	42.1	Other Investment Income	55.0	2.6 ^{a)}	57.6
21.0		Unrealized Gain			
219.6	186.6	Total Investment Income	210.8	2.6	213.4
<i>Other Income:</i>					
90.9	96.8	Special Programs Fees	102.4		102.4
95.4	98.2	Auxiliaries (excl. Room & Board)	101.2		101.2
18.0	16.8	Other Income	23.8		23.8
204.3	211.8	Total Other Income	227.4		227.4
1,357.4	1,381.0	Total Revenues	1,450.4	2.6	1,453.0
Expenses					
260.4	272.2	Academic Salaries and Benefits	284.5		284.5
302.2	310.2	Staff Salaries and Benefits	317.8		317.8
562.6	582.4	Total Salaries and Benefits	602.3		602.3
69.4	76.5	Student Financial Aid	82.0		82.0
34.6	35.5	Student Stipends	38.0		38.0
113.3	112.6	Administrative and Professional Services	127.6		127.6
6.0	6.0	Equipment	72.5	(63.8) ^{b)}	8.7
94.8	94.3	Depreciation		93.8 ^{b)}	93.8
83.2	82.7	Materials and Supplies	104.3		104.3
30.7	30.5	Utilities	46.6		46.6
25.9	25.7	Repairs and Maintenance	34.8		34.8
175.8	200.0	SLAC	205.0		205.0
86.8	86.3	Other	73.1		73.1
1,283.1	1,332.5	Total Expenses	1,386.2	30.0	1,416.2
(34.0)	(15.0)	Additions to Endowed Equity	(20.0)		(20.0)
		Transfer to Plant/Student Loan	(22.8)	22.8 ^{c)}	
(5.6)		Transfer of Net Assets to SHS			
34.7	33.5	Excess of Revenues over Expenses	21.4	(4.6)	16.8
Other Changes in Operating Equity					
67.4	30.0	Capital Gifts for Facilities		30.0 ^{d)}	30.0
102.1	63.5	Net Change in Operating Equity	21.4	25.4	46.8
1,268.5	1,370.6	Beginning Operating Equity	554.9	879.2^{e)}	1,434.1
1,370.6	1,434.1	Ending Operating Equity	576.3	904.6	1,480.9

NOTES: In the Statement of Operations published in the Annual Financial Report, auxiliary expenditures are shown as a separate line item instead of being distributed among the specific line items as shown above.

These numbers do not include Stanford Health Services.

Summary: The impact of capitalization and the flow of funds for plant purposes described above result in a change in the bottom-line of \$25.4 million, from a \$23.2 million surplus in the Consolidated Budget projection to a \$48.6 million surplus in the Statement of Operations projection.

This Statement of Operations projection does not reflect changes in accounting rules recently issued by the Financial Accounting Standards Board. These will be incorporated in the University's 1995/96 audited financial statements.