

SECTION I

FINANCIAL OVERVIEW

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 components of:

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

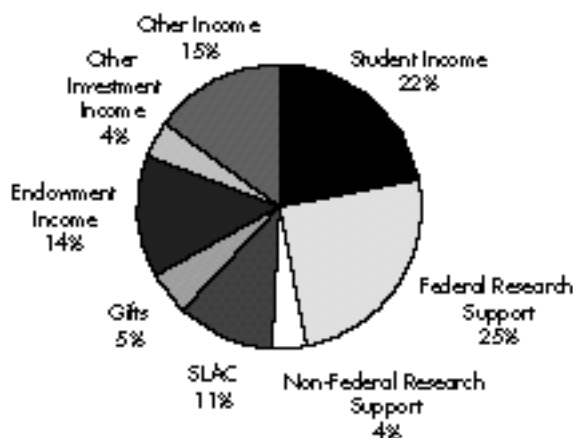
CONSOLIDATED BUDGET FOR OPERATIONS

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 general funds budget forecast and adjusted by the University Budget Office for consistency. The table on the next

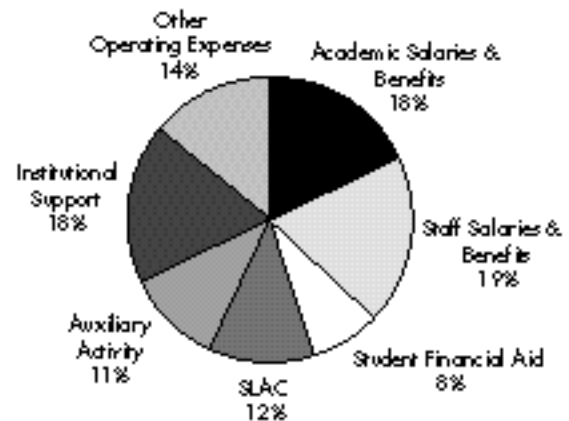
page shows the projected consolidated revenues and expenditures for 1997/98 as well as the actuals for 1995/96 and the estimated year-end projections for the current fiscal year, 1996/97. In addition, definitions of key terms are provided.

It is important to note that the Consolidated Budget for Operations is presented essentially in a "cash format." In other words, it only shows those revenues and expenditures available for current operations. It does not include plant funds, student loan funds, and endowment funds (although endowment income is reflected in this budget). Later in this section, we make a series of adjustments to the Consolidated Budget, essentially converting from a cash basis to an accrual basis, and produce a projected Statement of Activities. This Statement of Activities is consistent with how Stanford's audited financial statements are developed and displayed in the Annual Financial Report.

1997/98 Consolidated Revenues: \$1,489M*



1997/98 Consolidated Expenditures: \$1,400M



*After accounting for transfers, the Total Revenue and Transfers is \$1,430M

Projected Consolidated Budget for Operations, 1997/98
(in millions of dollars)

1995/96 Actuals	1996/97 Forecast	General Funds	Designated	Restricted	Grants and Contracts	Auxiliaries/ Other	Total Current Funds
Revenues and Other Additions							
<i>Student Income:</i>							
		140.2					140.2
130.6	133.6	138.8					138.8
128.2	132.2						54.5
50.0	52.0					54.5	54.5
308.8	317.8	279.0				54.5	333.5
<i>Sponsored Research Support:</i>							
					335.1		335.1
295.3	324.8				171.0		171.0
188.5	193.0	90.5					90.5
93.9	91.8						
577.7	609.6	90.5			506.1		596.6
93.2	73.0	6.7		66.3			73.0
<i>Investment Income:</i>							
		49.4		156.8			206.2
161.3	180.0	39.9	4.9	7.1	0.6		52.5
56.7	60.3		4.9				
218.0	240.3	89.3	4.9	163.9	0.6		258.7
<i>Other Income:</i>							
			112.6	0.3			112.9
106.4	109.6						94.1
94.5	94.5					94.1	94.1
24.2	21.3	12.0	8.1				20.1
225.1	225.4	12.0	120.7	0.3		94.1	227.1
1,422.8	1,466.1	477.5	125.6	230.5	506.7	148.6	1,488.9
Transfers and Other Adjustments							
			11.6				
(28.1)	(20.0)	(11.6)	(10.0)	(15.0)			(25.0)
(25.8)	(21.6)		(15.5)	(8.5)			(39.0)
(9.1)	(6.0)	(15.0)		(5.0)			(5.0)
18.0	10.0			10.0			10.0
1,377.8	1,428.5	450.9	111.7	212.0	506.7	148.6	1,429.9
Expenditures							
		94.2	26.4	53.3	78.7		252.6
235.4	252.2	151.6	21.8	27.2	74.8		275.4
256.3	274.2	38.9	5.4	46.8	19.8		110.9
65.2	68.1				171.0		171.0
188.5	193.0					148.6	148.6
150.6	146.5	123.0	18.9	18.8	90.2		250.9
227.3	241.4	43.2	29.0	46.1	72.2		190.5
171.6	188.3						
1,294.9	1,363.7	450.9	101.5	192.2	506.7	148.6	1,399.9
82.9	64.8		10.2	19.8			30.0

The 1997/98 Consolidated Budget for Operations projection shows revenues and transfers of \$1.43 billion and expenditures of \$1.40 billion. In this section we will review the Consolidated Budget from three perspectives: through an analysis of revenues and expenditures; by type of funding source (e.g. general funds, restricted funds, etc.); and by organizational unit.

The Consolidated Budget for Operations projects a bottom line surplus of \$30.0 million, or 2.1% of total expenditures. This is largely due to the \$11.6 million University Reserve and to an excess of restricted income over expense. Grants and contracts and auxiliary enterprises are expected to be in balance. Total revenues and transfers in 1997/98 will increase only slightly over projected 1996/97 levels. This is due principally to a reduction in revenues and expense in the SLAC budget, as several large fabrication projects funded in 1996/97 will not be part of the 1997/98 SLAC budget. Adjusting for SLAC, revenues and transfers are expected to grow at 1.9% over projected actuals.

Total expenditures are expected to grow by 2.7% over the estimated year-end results for 1996/97. Adjusting for SLAC, expenditures are expected to grow at 5.0%. Since expenditures are expected to increase at a rate somewhat faster than revenues, the total surplus anticipated in 1997/98 is projected to be smaller than in the two previous years.

I. The Consolidated Budget by Principal Income and Expenditure Categories

Income (refer to table on page 2)

Student Income

Tuition: The general tuition rate increase for 1997/98, which was approved by the Trustees in February, is 4.0%. This increase is intended to constrain the growth in Stanford's tuition rate to within the growth of median family income, thereby 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. Tuition income in 1997/98 is projected to grow by 5.0% over the

Key Terms

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

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 and pay the University for any central services provided.

Net Assets Released from Restrictions: Under the new financial reporting standards, gifts and pledges that contain specific donor restrictions preventing their spending in the current fiscal year are

classified as "temporarily restricted" and are not included in the Projected Consolidated Budget for Operations. When the restrictions are satisfied, these funds do become available for spending. At that time they are "released from restrictions" and are included in the Consolidated Budget in the line Net Assets Released from Restrictions.

Financial Aid: Includes expenses for undergraduate and graduate student aid and the tuition allowance (formerly called tuition remission) for teaching assistants and research assistants. Student stipends, which were included in financial aid in previous years, are included in Other Expenses according to the new University financial statements format.

Formula Unit: Budget units whose unrestricted revenues are determined by a formula agreed to by the Provost and the unit and, in most cases, are tied to tuition and indirect cost recovery generated by the unit. The formula units include the Graduate School of Business, the School of Medicine, the research program of the Hoover Institution, and Continuing Studies/Summer Session.

current year's expected tuition, a faster rate of growth than the tuition rate increase. The reason for this is that graduate enrollments in the current year are below budget and, therefore, so is the expected total income. For 1997/98 we expect enrollment to return to the 1995/96 level.

Room and Board: In February the Trustees approved a combined room and board rate increase of 3.0%. This increase represents a new policy direction wherein the current operations, as well as the Capital Improvement Plan of Housing and Dining Services, can be maintained with an increase in rates limited to the growth in inflation.

Sponsored Research Support and Indirect Cost Recovery

The total budget for Sponsored Research Support is expected to be \$596.6 million in 1997/98, or 40% of the total revenues projected in the Consolidated Budget for Operations. Included in this total are the direct costs of externally supported grants and contracts, including SLAC, as well as reimbursement for the indirect costs incurred by the University in support of sponsored activities.

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. There are no major changes in OMB Circular A-21 that would substantially affect the rate calculation. Until Stanford concludes its negotiations with the government, we are assuming that indirect cost recovery will be approximately comparable to the level anticipated for 1996/97.

Investment Income

Endowment 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 smoothed payout rate. Stanford uses a smoothing rule to dampen the impact on the budget of large annual fluctuations in the

market value, thereby providing stability to budget planning. The smoothing rule sets the coming year's payout rate as a weighted average of the target rate and the actual rate in the current year. The projection 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. The smoothed payout rate for 1997/98 is 5.0%, which includes the supplemental component for infrastructure support described below.

Endowment income in 1997/98 is expected to total \$206.2 million, an increase of 14.6% over 1996/97. This includes income from the merged pools, specifically invested endowment, and rental income from the Stanford Research Park and other endowed lands. It is interesting to note that over the past several years, the Stanford Management Company has put considerable effort into generating income from the Research Park, and this budget reflects the results of that effort. The total net rental income from Stanford lands is expected to be \$8.7 million in 1997/98, up from the 1996/97 projected income of \$5.5 million. One-half of the net income from Stanford endowed lands is used for current operations; the other half is reinvested in the endowment.

Supplemental Payout Increase: In 1995/96 and 1996/97, the Board of Trustees approved a supplemental 0.5% increase in the endowment payout rate to help pay for the increased infrastructure related expenses such as debt service on seismic restoration projects, deferred maintenance, and administrative systems. Over the past two years we have used these funds to offset the continuing costs of debt service and the one time costs that were expensed. As shown in the table on the following page, the additional revenue generated by the supplemental payout helps to offset these costs, but it does not cover them.

Other Investment Income: Other investment income consists primarily of payout from the Expendable Funds Pool (EFP), the investment

Supplemental Payout Summary

(in millions)

	1995/96	1996/97	1997/98
Debt Service on Deferred Maintenance	\$ 0.7	\$ 1.7	\$ 2.7
Seismic Repair Program Debt Service		0.2	1.0
Expensed Deferred Maintenance	5.0	2.0	1.5
Administrative Information Systems	17.5	22.8	28.0
Total Expense	\$23.2	\$26.7	\$33.2
Supplemental Payout (unrestricted only)	7.0	7.7	8.7
Excess/(Shortfall)	(\$16.2)	(\$19.0)	(\$24.5)

pool for non-endowment funds. The investments of the EFP are allocated 35% to the endowment and 65% to fixed income and money market instruments. By Trustee policy, 4% of the EFP shall be paid out annually. If actual earnings exceed 4%, an additional amount up to 2% may be taken into the budget. This budget assumes the full 6% return will be achieved. (If total return on the EFP is less than 4%, then a buffer reserve will be used to supplement the actual earnings of the EFP so that the 4% can be paid out. If total return exceeds 6%, the excess returns are used to replenish the buffer reserve.) Total income from this source is expected to be \$52.5 million.

Gifts

Non-capital gift income is expected to total \$73 million in 1997/98. This amount does not include gifts to endowment principal, gifts for capital projects, or gifts that are temporarily restricted. Gift receipts vary somewhat from year to year, and we have made the conservative assumption that gift income will remain at the level anticipated in 1996/97.

Other Income

Other Income includes three components: (1) *Special Program Fees*; (2) *Auxiliary Income*, excluding Room and Board income which is shown separately in the Student Income section; and (3) *Miscellaneous Income*.

The largest component of special program fees is patent and royalty income, which is projected to be about \$20 million, and reflects a decrease

in revenue from the Cohen Boyer patent. This revenue category also includes \$8 million from the affiliates program and \$7 million from the Stanford Center for Professional Development, both in the school of Engineering; and \$10.4 million from the executive education programs in the Graduate School of Business. Overall, special program fees are projected to be \$112.9 million in 1997/98, an inflationary growth over the expected amount for the current year.

Auxiliary income is projected to be \$94.1 million. It includes anticipated payments by UCSF/Stanford Health Care to cover faculty and staff services provided by the Medical School for clinical care, and other auxiliary receipts such as conference fees, athletic event ticket sales, and television income.

Miscellaneous income is projected to be \$20.1 million. The largest component of this category is reimbursements for central support services provided to auxiliary organizations (\$11.2 million). Also included is the income generated by the infrastructure charge (\$3.7 million).

Transfers and Other Adjustments

Several adjustments and transfers need to be made to reflect accurately the net income available for operations.

Transfers to University Reserves: This is a general funds reserve of \$11.6 million set aside to cushion Stanford against potential income shortfalls.

Additions to Endowed Equity: This line reflects our assumption that individual budget units will continue the practice of transferring some excess of revenue over expense in designated and restricted funds to Funds Functioning as Endowment (FFE) and that \$25 million will be transferred to FFE.

Transfer to Plant: These funds will move to the Plant division to be used for capital projects. In particular, we are budgeting \$7.8 million for academic facilities renovation, and the Graduate School of Business is anticipating a \$12 million transfer to plant funds, mainly to fund the GSB Link Addition.

Other Adjustments: This negative number represents a transfer of investment income to auxiliary enterprises and outside agencies, such as SHS, equal to the amount earned by funds they invested in Stanford's investment pools.

Net Assets Released from Restriction: Under the new financial reporting standards recently adopted by the University, gifts and pledges that contain specific donor-imposed restrictions preventing their spending in the current fiscal year are classified as temporarily restricted, and are not included in the Projected Consolidated Budget for Operations. Each year, a portion of funds previously classified as temporarily restricted will become available for spending as specific restrictions are satisfied. In 1997/98, we anticipate that schools and departments will be able to use approximately \$10 million of gifts received in previous years that had been classified as temporarily restricted.

Expenditures (refer to table on page 2)

Academic Salaries

The recommendation for faculty salary increases is based on a 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 in 1997/98 for faculty salaries is 3.5%. We believe that this average increase, when applied appropriately by deans, will be sufficient to maintain Stanford's current competitive position. However, the University has also made special allocations to address specific retention and competitive compensation issues.

Staff Salaries

The recommendation for the staff salary program for 1997/98 is 3.5%. This percentage increase is determined largely by consideration of external market conditions, internal salary relationships, and the University's financial resources. Our objective is to maintain a mid-market position balanced with available resources.

Schools and VP areas are responsible for the delivery and communication of next year's program and will administer it in a way that most appropriately meets their business needs while staying within the 3.5% control. Each budget unit may withhold some percentage of the total salary program authorization to address mid-year increases, salary compression problems, and any salary inequities. As a result, there will be variation in program announcements by schools and VP areas.

Benefits

Two significant changes will occur in the University's benefits in 1997/98: the move from a single benefits rate to multiple rates and the removal of tuition remission (hereafter referred to as tuition allowance) from the benefits pool. Tuition allowance is described in the Financial Aid section below.

Instead of a single staff benefits rate incorporating all employee groups (including students), we propose to separate non-student employees into three groups, each with a different rate, and assume that student salaries (graduate research assistants, teaching assistants, and casual-part-time student labor) will have no

benefits charge assessed. The elimination of the benefits charge against student salaries results from the removal of graduate student tuition allowance from the benefits pool. Because tuition allowance has been the only staff benefit received by student employees, all student salaries will be removed from the salary bases against which benefits are charged.

The three categories for non-student employees are: (1) faculty, other teaching, and regular staff; (2) post-doctoral research affiliates; and (3) casual and temporary employees.

The shift to multiple benefit rates stems from a requirement in OMB Circular A-21 that different benefit rates be used if the benefits of different employee groups differ substantially from each other in relation to their salary bases. The employee categories that Stanford will use have received different sets of benefits for some time, but as long as tuition allowance remained a part of the benefits pool, the use of a single rate resulted in significant savings to federal sponsors in comparison to multiple rates. This enabled Stanford to continue using a single benefit rate. When graduate tuition is removed from the pool, multiple benefits rates result in savings to federal sponsors, in comparison with a single rate. It is this reversal which has prompted the change for 1997/98.

The recommended 1997/98 staff benefits rates are as follows:

Faculty/Other Teaching/Regular Staff	26.1%
Post-Doctoral Research Affiliates	15.6%
Casual/Temporary Employees	8.7%
Students	0.0%
Average Blended Rate	25.6%

The average rate is 4 points below the 29.7% provisional rate for 1996/97. Most of that reduction is due to the exclusion of graduate student tuition allowance, but the effect is partially offset by the removal of student salaries from the salary base. The only substantial increase in current year benefits costs is expected in the Stanford Contributory Retirement

Plan, as nonexempt employees who began receiving contributions as of January 1, 1997 will be participating in the program for the full year in 1997/98. Another factor working to increase the rate in 1997/98 is that the liquidation of excess self-insurance reserves, which has served to reduce the benefit rate in the last several years, should be complete as of the end of 1996/97.

Financial Aid

Stanford expects to spend a total of \$110.9 million in financial aid for both undergraduate and graduate students, \$38.9 million of which will come from general funds. The remainder will be supported by designated and restricted funds (\$52.2 million) and grants and contracts (\$19.8 million). The total financial aid numbers in 1997/98 are substantially higher than the expected total for the current year because they include, for the first time, the direct expense for tuition allowance.

Financial Aid Detail, 1997/98

(in millions)

UG Financial Aid	\$46.7
Graduate Financial Aid	24.9
Tuition Allowance - TAs	9.3
Tuition Allowance - RAs	30.0*
Total	\$110.9

* Does not include \$0.6 million in SLAC RA tuition allowance.

Undergraduate Aid: Stanford remains committed to meeting the demonstrated financial need of its undergraduate students. We estimate that in 1997/98, Stanford resources will provide \$38.1 million in scholarship support for undergraduates and that \$16.8 million will come from general funds. Appendix C includes additional information on undergraduate financial aid.

The table on the following page indicates that the number of undergraduate students receiving some type of grant aid from Stanford has not varied significantly for several years. However, the share of undergraduate aid supported by general funds has dropped from 46% to 36%

Financial Aid Awarded to Undergraduates Who Receive Need-Based Aid

(in millions)

Source of Aid	1993/94 Actual	1994/95 Actual	1995/96 Actual	1996/97 Projection	1997/98 Budget
Restricted	\$12,745	\$14,012	\$13,271	\$15,778	\$17,783
Stanford Fund	0	1,250	3,278	4,250	3,500
General Funds	17,736	16,593	17,452	15,786	16,832
Subtotal Stanford Funded Financial Aid	\$30,481	\$31,855	\$34,001	\$35,814	\$38,115
Government and Outside Awards	8,399	8,666	8,267	8,042	8,599
Total Undergraduate Financial Aid	\$38,880	\$40,521	\$42,268	\$43,856	\$46,714
Number of Students	2,654	2,698	2,705	2,650	2,700
General Funds as a Share of Total Aid	46%	41%	41%	36%	36%
General Funds and Stanford Fund as a Share of Total Aid	46%	44%	49%	46%	44%

over the past four years. This is due primarily to the growth of restricted funds (gifts and endowment income) and to support from the Stanford Fund. The combination of these two funding sources has offset the slow growth of government aid and reduced the burden on general funds. By contrast, most of our principal competitors have seen increases in general funds expenditures for undergraduate financial aid. Together, all of these funding sources have combined to keep pace with the growth in student and family demonstrated need for undergraduate grant aid.

Graduate Aid: Stanford offers financial support to many graduate students in the form of teaching assistantships, research assistantships, and fellowships. In contrast to undergraduate financial aid, academic merit is the chief consideration in awarding graduate fellowships and assistantships. Restricted funds are used to provide the bulk of graduate student support. Teaching assistantships are funded both from general and department funds; research assistantships are funded primarily from sponsored agreements. Fellowships are supported primarily by unrestricted funds and by endowment income.

Tuition Allowance (Tuition Remission): For many years the tuition benefit, received by students with research and teaching assistant appointments, has been charged to the staff benefits pool. The various payers of staff benefits include University general funds, restricted and designated funds, auxiliaries, and the federal government through grants and contracts. The total cost of tuition allowance in 1996/97 will be \$38 million; \$9 million for teaching assistants and \$29 million for research assistants. This expense is expected to increase to \$39.9 million in 1997/98.

In 1997/98, changes in OMB Circular A-21 will no longer allow Stanford to charge tuition to the staff benefits pool. However, graduate students who are employed as research and teaching assistants will continue to receive the tuition benefit from a combination of University resources and through direct charges to research grants and contracts. These costs will be redistributed among the various sources of funds, substantially increasing the share paid by University general funds and somewhat reducing the share paid previously by the federal government (including SLAC).

- **Teaching Assistants:** The total cost of tuition allowance for teaching assistants in 1997/98

Impact of Removing Tuition Allowance from the Staff Benefits Pool by Fund Source

(in millions)

	1997/98 Estimated Costs							Variance
	Tuition in Benefits Pool	All Other Benefits	Total	Tuition Charged Directly	All Other Benefits	Total		
General Funds	\$13.5	\$50.0	\$63.5	\$ 19.6	\$51.1	\$70.6	\$ 7.1	
Designated-Restricted	8.1	29.9	38.0	6.2	29.4	35.6	(2.3)	
Grants and Contracts	8.3	31.1	39.4	13.5	27.5	41.0	1.6	
SLAC	5.2	19.3	24.5	0.6	20.9	21.5	(3.0)	
Auxiliaries	4.8	17.7	22.5	-	19.1	19.1	(3.4)	
Total	\$39.9	\$148.0	\$187.9	\$39.9	\$148.0	\$187.9	(\$0.0)	

will be \$9.3 million and will be paid by the general funds budget. Tuition for teaching assistants in the Graduate School of Business and the School of Medicine will be each school's responsibility and is expected to total about \$0.4 million of the \$9.3 million.

- **Research Assistants:** For research assistants in the non-formula schools, roughly two-thirds of the tuition benefit will be charged directly to the source of funds providing the assistantship. University general funds will cover the other third of the tuition allowance. The Medical School and the Graduate School of Business will be responsible for the difference between the total tuition benefit and the amount charged directly. The total tuition allowance for research assistants in 1997/98 is expected to be approximately \$30.6 million. The portion to be paid by the general funds budget is \$10.3 million. The remaining \$20.3 million will be paid by other sources of funds (restricted funds and direct charges to grants and contracts).
- **Funding Sources:** The total cost to the general funds budget for tuition allowance for research and teaching assistants in 1997/98 is expected to be \$19.6 million (\$9.3 million for teaching assistants and \$10.3 million for research assistants). A major portion of this cost was previously embedded in the budget as part of the staff benefits rate. Specifically, if tuition allowance were still in the benefits

rate, general funds would pay \$13.5 million through a higher staff benefits rate. When these differences are taken into account, we can see the net cost of tuition allowance by fund source, as shown in the table above.

The net cost to the general funds budget of removing tuition from the staff benefits pool is \$7.1 million. Auxiliaries and SLAC will realize a net decrease in expense, because they will not incur any significant tuition allowance expenses in the future. Generally, grants and contracts are expected to incur slightly more costs after we begin charging directly for tuition allowance. Grants with minimal staff salaries that support several research assistants will likely incur higher costs once we begin charging directly for tuition allowance, because the savings from the lower staff benefits rate will be insufficient to offset the tuition cost.

Institutional Support and Other Operating Expenses

Together these two major cost categories comprise about one-third of the expense of the Consolidated Budget for Operations. Some of the principal components include: repairs and maintenance and utilities for campus buildings (\$54 million), equipment (\$70 million), materials and supplies (\$64 million), administrative and professional services (\$59 million), and subcontracts (\$55 million). Several of these areas warrant comment here.

- Due to previous investments in conservation and energy efficient equipment, as well as substantial decreases in tariffs for electricity and natural gas, the expense for the utilities and maintenance of the existing plant is expected to remain constant. Increases are expected, however, due to the costs of providing services to an expanding campus. Specifically, we will incur incremental expenses of \$0.9 million for the utilities and maintenance of new buildings and \$2.7 million for debt service on academic buildings.
- Three years ago we began to ramp up total expense for planned maintenance in academic buildings to maximize the useful life of our facilities and systems. We will add another \$2.0 million increment in general funds to this category in 1997/98 bringing our total annual spending on planned maintenance to \$10.0 million.
- 1997/98 will mark the fourth year of a plan to address a variety of systems issues across the campus, including administrative systems, a major upgrade to the campus network and network security, new distributed computing services, and other enhancements. This Budget Plan includes \$28 million in costs for new systems and infrastructure next year. Of this amount, about 40% is for administrative systems (principally the Core Financial Systems) and the remainder is for networking and infrastructure supporting both academic and administrative computing. About one fourth of the \$28 million in expense is reflected in the Consolidated Budget for Operations. The rest is in the Capital Budget.

II. The Consolidated Budget by Fund Type

General Funds Budget

The general funds budget is an important subset of the Consolidated Budget because these funds can be used for any University purpose. The main sources of general funds 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 general funds budget includes a University Reserve of \$11.6 million in 1997/98. Our ability to budget a reserve at this level is due, in part, to the following factors:

- The proposed general funds 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. In agreeing to the supplement, and in order to maintain the purchasing power of the endowment, the Trustees required that the overall cost increases in the continuing expense items of the general funds budget not exceed 1% in real terms. The Budget for 1997/98 will not exceed that threshold.
- The proposed general funds budget includes \$10.3 million in additional expendable funds pool income over the budgeted amount in 1996/97. This significant increase is generated as a result of full implementation of the change in restricted funds policy approved by the Trustees in June 1995. While the policy is in effect in the current year, its full impact is budgeted for the first time in 1997/98. 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.

1997/98 General Funds Allocations

This year's budget process resulted in an allocation of general funds to each non-formula unit sufficient to cover the salary program planned for 1997/98. In addition, incremental

Summary of 1997/98 Non-Formula General Fund Allocations

(in thousands)

	Base	Additions
School of Earth Sciences	\$2,429	\$0
School of Education	6,825	90
School of Engineering	28,333	346
School of Humanities & Sciences	75,426	589
School of Law	9,593	375
Dean of Research	6,848	280
Hoover Institution	3,997	0
Academic Subtotal	\$133,451	\$1,680
Libraries	\$26,145	\$315
Student Affairs	33,913	271
President-Provost	10,273	465
Academic Support Subtotal	\$70,331	\$1,051
Development	\$10,984	\$415
Facilities Operations	54,399	3,163
CFO-ITSS*	46,009	5,793
Other Administrative Units*	28,294	(3,863)
Debt Service for Academic Plant	9,265	2,703
Administrative Subtotal	\$148,951	\$8,211

*\$3,863,000 has been reallocated from Other Administrative Units to ITSS

general funds were allocated selectively where programmatic plans were pressing within the constraints of available resources. Moreover, additional general funds were allocated to cover new University obligations such as incremental debt service on academic buildings and the costs of tuition allowance. The general funds allocations for each unit are detailed in the table above, and some of the incremental allocations are highlighted in the description that follows.

- Nearly \$600,000 has been allocated for faculty salary support in the schools of Education, Engineering, Humanities and Sciences, and Law to address market and retention issues. Another \$200,000 has been allocated in the School of Engineering for faculty billets.
- \$675,000 has been allocated to the schools to help mitigate the effect on the departments of directly charging tuition benefits for research assistants. An additional \$600,000

in general funds has been allocated to cover the University's share of the Stanford Graduate Fellowships. Since the endowment funds being raised cover only two-thirds of the tuition costs for each fellowship, University general funds will be used to cover the other one-third, in a manner comparable to research assistant tuition allowance.

- \$305,000 has been allocated for Health and Safety costs. Most of this allocation supports the Office of Environmental Health and Safety to ensure that it can function at the levels recommended by last year's compliance audit. The remainder will provide support in the School of Engineering and in the Office of Dean of Research.
- \$3.9 million has been reallocated to ITSS for on-going costs of modernizing Stanford's technology infrastructure. This upgrade is necessary to support the new marketplace applications being purchased and implemented to support business processes.

- As noted earlier, \$2.0 million has been added to the planned maintenance program, the fourth such annual increase in as many years. New and renovated buildings expected to come on-line in 1997/98 require incremental allocations of \$930,000 for utilities and maintenance and \$2.7 million for debt service.
- A significant investment in Finance will allow us to address two compliance areas. \$500,000 has been allocated to the general insurance reserve in recognition of increased claims. Another \$500,000 has been allocated to reorganize and upgrade grants and contracts accounting and to enhance staffing and analysis in a variety of areas in the Controller's Office.

Designated and Restricted Funds Budget

Funds in these budgets are controlled for management purposes primarily by the schools, departments and programs, and individual faculty members. Of the total combined revenue of \$356.1 million, \$156.8 million is endowment income and \$112.9 million is special program fees, such as patent and royalty income, clinical surpluses, and executive education programs. The budgeted expenses reflect the combined forecasts of the schools. A large portion, \$52.2 million, is for financial aid. In addition, these budgets support faculty research programs, equipment purchases, and a variety of other costs.

Grants and Contracts Budget

The budgets of \$506.7 million in this category

are primarily the sponsored grants and contracts (\$335.1 million) under the direction of individual faculty principal investigators. Direct costs of \$171.0 million for SLAC are also included.

Auxiliaries/Other Budget (refer to Total Auxiliary Activity table below)

The principal auxiliaries are Housing and Dining Services (H&DS), Athletics, and Stanford University Press. In addition, the professional services arrangements of the Medical School are included in this group of budgets. Each of these operations is essentially a self-contained business entity, charging both internal and external clients/customers for its services and programs and paying the University for central services provided.

Housing and Dining Services: H&DS projects a balanced position in 1997/98. H&DS will face key challenges in achieving its targets, as it will need to match expenses, including the Capital Improvement Program, against a 3% increase in room and board charges.

Athletics: Athletics anticipates a balanced operating position on the strength of a favorable home football schedule and continued strong management of the Golf Course. The financial aid budget will show a slight deficit (\$238,000 on a total of \$3.5 million), due to increases in tuition and room and board rates as well as the addition of a few new scholarships. In the upcoming year, a plan will be developed to balance this component of the Athletics budget.

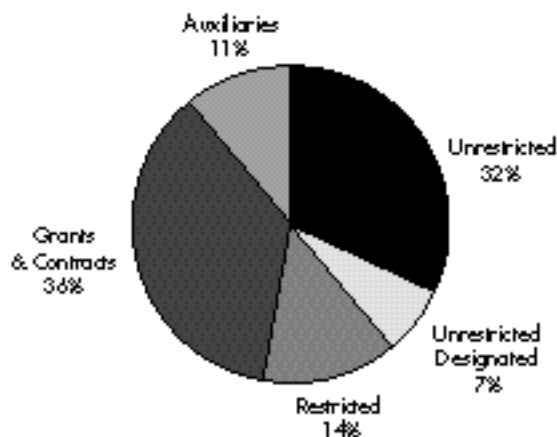
Stanford Press: The Press will begin the first

Total Auxiliary Activity, 1997/98

(in millions of dollars)

	Housing & Dining Services	Athletics	Medical School Svcs.	Press	Other	Total
Revenues & Transfers	66.8	25.2	80.6	3.1	4.5	180.2
Expenditures	66.8	25.2	80.6	3.1	4.5	180.2
Net Change in Reserves	-	-	-	-	-	-

This table represents gross expenditures and revenues; when incorporated into the consolidated budget, interdepartmental transactions of \$31.6 million have to be netted out, resulting in lower total expenditures and revenues of \$148.6 million.

1997/98 Consolidated Expenditures by Fund Type

Does not include SIS

full year under its new outsourced arrangements with Cambridge Press, which will provide all order fulfillment, distribution, and warehousing services. This cost saving arrangement, combined with a projected increase in titles and prices, should move the Press to a more solid financial footing. The closing of the Press warehouse will open space in the central campus for redeployment.

Medical School Professional Services: This category includes the cost of purchased services of physicians and staff by UCSF/Stanford Health Care (\$61.3 million, with \$7.9 million for Pediatrics), and \$11.4 million for the Blood Center. Faculty who provide clinical services are at the same time involved in both research and educational arenas. All academic plans and initiatives are intertwined with the finances of this and other budget categories within the School. Nearly 70% of the expenses and income are for faculty salaries and benefits; another 14% is for staff support.

III. The Consolidated Budget by Organizational Unit

The table on the following page shows the Consolidated Budget for Operations displayed by organizational unit. Four areas are projecting the use of reserves in 1997/98 to balance their budgets:

Graduate School of Business (GSB): The consolidated forecast for the GSB shows a bottom line deficit of \$2.2 million due to a significant one-time investment in classroom upgrades and technology of roughly \$3.0 million.

The School of Education: The \$0.5 million deficit shown in the table reflects a transfer to plant of the same amount to cover expenses associated with the renovation of the School of Education building and a major capital project in the CERAS building.

Research and Graduate Policy: This area shows an overall deficit of \$1.4 million, which is the result of two specific plans. First, the Office of the Vice Provost and Dean of Research and Graduate Policy plans to draw down funds previously provided by the President's Program Fund to back-stop the Stanford Graduate Fellowship program until its endowment is sufficient to support it fully. Second, in the Independent Laboratories, Centers, and Institutes, the Institute for International Studies plans to use reserves to support on-going programs while its fundraising efforts are directed temporarily towards accumulating funding for the reconstruction of Encina East.

School of Medicine: The 1997/98 Consolidated Plan for the School of Medicine projects revenues and transfers of \$397.7 million (including professional services), use of reserves of \$5.9 million, and total expenses of \$403.6 million. The Plan is based on a 7.2% increase in revenues and transfers and a 10.6% increase in expenses over the 1996/97 budget. The planned use of fund balances will go to support capital projects as well as investments in specific programs. The increases in expenses are related to substantial growth in sponsored research activities as well as increased investment in programs and new faculty.

Incremental investments in programs include approximately \$1.4 million to support graduate students, \$1.0 million in anticipated subsidy of the Veterinary Service Center and \$1.1 million related to the administrative infrastructure

Projected Consolidated Budget for Operations, 1997/98 by Unit

(in millions)

	Total Revenues and All Transfers	Total Expenditures	Excess of Revenue over Expenditures
Academic Units:			
School of Earth Sciences	\$22.5	\$22.4	\$0.1
School of Education	19.7	20.2	(0.5)
School of Engineering	145.6	144.7	0.9
School of Humanities & Sciences	162.3	160.4	1.9
School of Law	22.8	22.8	
Dean of Research and Graduate Policy	107.5	108.9	(1.4)
Graduate School of Business	49.9	52.1	(2.2)
School of Medicine*	317.1	323.0	(5.9)
Hoover Institution	21.1	21.1	
Total Academic Units	\$868.5	\$875.6	(\$7.1)
Academic Support Units:			
Stanford University Libraries & Academic Computing	\$34.6	\$34.6	
Student Affairs	83.6	82.8	0.8
Total Academic Support Units	\$118.2	\$117.4	\$0.8
Total Administrative**			
	\$191.1	\$177.8	\$13.3
Auxiliaries	\$148.6	\$148.6	
SLAC	171.0	171.0	
Indirect Cost Adjustment	(90.5)	(90.5)	
Grand Total from Units	\$1,406.9	\$1,399.9	\$7.0
Other Anticipated Income***	23.0		23.0
Total Consolidated Budget	\$1,429.9	\$1,399.9	\$30.0

NOTES:

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

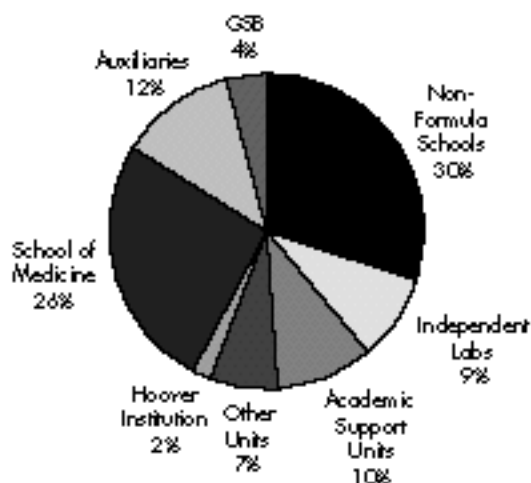
The academic unit budgets include both direct and indirect sponsored income and expenditures. Indirect cost funding passes through the schools and is transferred to the University as expenditures occur. At that point, indirect cost recovery becomes part of unrestricted income for the University. In order not to double count, indirect cost recovery of \$90.5 million received by schools is netted out in the bottom section.

*The budget line for the School of Medicine does not include \$80.6 million in budgets for Medical School professional services. These are shown in the Auxiliaries/Other line. When the Medical School professional services are added to the School's budget, the total anticipated expense of the School of Medicine is \$403.6 million.

** The surplus of \$13.3 million in Administrative Units consists mainly of the \$11.6 million transfer to Unrestricted University Reserves.

***It is also important to note the \$23 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 by unit at this time.

1997/98 Consolidated Expenditures by Unit
(not including SLAC)



redesign efforts in the School. The commitments made to newly appointed or soon to be appointed department leaders account for almost \$10.3 million in expense, an increase of nearly \$2.5 million over the 1996/97 budget amount. The School also expects to recruit approximately 16 new tenure line faculty during 1997/98, and the related expenses are included in the Consolidated Plan.

While the total revenues and transfers have also increased, they are not expected to cover expenses without the planned use of some fund balances which the School has previously retained for these purposes. Several factors account for this situation:

- While endowment income is expected to be greater than in previous years, gifts and designated fund balances are expected to decrease since the majority of these funds will no longer earn interest.
- Patent and Royalty income on the Cohen Boyer patent will drop from \$9 million in 1996/97 to \$3 million in 1997/98.
- In 1995/96 there was a significant increase in designated fund balances held by the departments. It was largely due to clinical surpluses and SHS incentive payments. Given current projections of the 1996/97 clinical profitability we expect the surpluses to contribute substantially less. As a result of this combination of current investments in

planned programs and slower growth in revenues, the School anticipates using approximately \$5.9 million, or approximately 3%, of the \$192 million in fund balances currently held by the School.

CAPITAL PLAN AND BUDGET

The Capital Budget for 1997/98 is presented in the context of a multi-year capital plan intended to address a variety of programmatic needs. Central to these efforts is seismic strengthening, elimination of the bulk of Stanford's deferred maintenance backlog, enhanced student housing, and new construction to support research and teaching in the sciences and engineering.

Next year's Capital Budget calls for \$285.0 million in construction activity, the largest single year of construction work in Stanford's history. Of the \$285.0 million, \$181.5 million has already been identified through fundraising, university reserves, and other sources. About \$81.6 million will be supported with debt, which will be serviced by the general funds budget, Housing & Dining Services budget, and several other budgets within the Consolidated Budget for Operations. We anticipate raising the \$21.9 million through gifts.

A more complete discussion of the 1997/98 Capital Budget and Five Year Capital Plan may be found in Section Three of this document and

1997/98 Capital Budget

(in millions)

Project Type	Budget	Sources of Funds		
		Identified	Gifts to be Raised	Debt
Earthquake Repair & Seismic Risk Mitigation	\$48.3	\$37.2		\$11.0
Academic Program Development	148.1	107.1	16.4	24.6
Deferred Maintenance	37.0	9.7		27.4
Infrastructure	40.6	26.4	5.5	8.7
Compliance	2.7	1.1		1.6
Financial Contingencies	8.3			8.3
Total	\$285.0	\$181.5	\$21.9	\$81.6

in Appendix B. The table on page 15 shows projected expenditures and funding sources for 1997/98.

PROJECTED STATEMENT OF ACTIVITIES

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 1997/98 Statement of Activities for Unrestricted Net Assets, shown on the next page. The Annual Statement of Activities is found in the audited financial report. It is important to note that the format of Stanford's financial reports has changed as of the end of 1995/96, when the University adopted Statement of Financial Accounting Standards (SFAS) 116 and 117. Under the provisions of SFAS 116 and 117, net assets, revenues, expenses, gains, and losses are classified into one of three categories: Unrestricted, Temporarily Restricted, and Permanently Restricted.

- Unrestricted Net Assets are expendable resources used to support the University's core activities of teaching and research. Although these net assets are classified as "Unrestricted" under the new accounting standards, they may be designated by the University for specific purposes or be subject to contractual agreements with external parties or to donors' restrictions.
- Temporarily Restricted Net Assets contain donor-imposed restrictions that cannot be met during the fiscal year in which they are received.
- Permanently Restricted Net Assets are subject to donor-imposed restrictions requiring that the principal be invested in perpetuity. Note that funds invested in the endowment because of a University decision, which are often referred to as funds functioning as endowment, are included in Unrestricted Net

Assets, and not in Permanently Restricted Net Assets like the pure endowment funds.

Temporarily and Permanently Restricted Net Assets are not reflected in the budget, since they cannot be used for the current year operations. Therefore, the table on page 17 only represents the revenues and expenses in the Statement of Activities for Unrestricted Net Assets.

The following key points provide the explanation of the connections between the Consolidated Budget for Operations and the Statement of Activities for Unrestricted Net Assets. There are two main differences between the Statement of Activities and the Consolidated Budget for Operations. First, the Consolidated Budget for Operations reflects only funds used for current operations while the Statement of Activities is a summary of all unrestricted net assets, including plant, student loans, and funds functioning as endowment. Second, the Consolidated Budget for Operations is essentially built on a cash basis, while the Statement of Activities is built on an accrual basis. Therefore, moving from one to the other necessitates the following adjustments:

- a) Other Investment Income: This \$2.2 million represents interest earned by the Plant and Student Loan funds and is added to the Projected Consolidated Budget investment income.
- b) Additions to Endowed Equity: \$25.0 million is expected to be transferred to the endowment pool, as funds functioning as endowment, which, as explained above, are part of the Unrestricted Net Assets included in the Statement of Activities.
- c) Transfer to Plant: \$39.0 million moves to plant funds, as part of Unrestricted Net Assets.
- d) Expenditures for Equipment vs. Depreciation: \$69.5 million of expenses for equipment purchased by the University are included in

**Comparison of Consolidated Budget and Projected Statement of Activities for
Unrestricted Net Assets, 1997/98**

(in millions of dollars)

1995/96 Actuals	1996/97 Forecast		Projected Consolidated Budget	Adjustments	Projected Statement of Activities
Revenues and Other Additions					
<i>Student Income:</i>					
130.6	133.6	Undergraduate Programs	140.2		140.2
128.2	132.2	Graduate Programs	138.8		138.8
50.0	52.0	Room and Board	54.5		54.5
308.8	317.8	Total Student Income	333.5		333.5
<i>Sponsored Research Support:</i>					
295.3	324.8	Direct Costs—University	335.1		335.1
188.5	193.0	Direct Costs—SLAC	171.0		171.0
93.9	91.8	Indirect Costs	90.5		90.5
577.7	609.6	Total Sponsored Research Support	596.6		596.6
93.2	73.0	Expendable Gifts in Support of Operations	73.0		73.0
<i>Investment Income:</i>					
161.3	180.0	Endowment Income	206.2		206.2
59.5	61.7	Other Investment Income (a)	52.5	2.2	54.7
220.8	241.7	Total Investment Income	258.7	2.2	260.9
<i>Other Income:</i>					
106.5	109.6	Special Programs Fees	112.9		112.9
94.5	94.5	Auxiliaries (excl. Room & Board)	94.1		94.1
23.3	21.3	Miscellaneous	20.1		20.1
224.3	225.4	Total Other Income	227.1		227.1
1,424.8	1,467.5	Total Revenues	1,488.9	2.2	1,491.1
Transfers					
		Additions to Endowed Equity (b)	(25.0)	25.0	
		Transfer to Plant/Student Loan (c)	(39.0)	39.0	
(9.1)	(6.0)	Other Adjustments	(5.0)		(5.0)
18.0	10.0	Net Assets Released from Restrictions	10.0		10.0
1,433.7	1,471.5	Total Revenues and Transfers	1,429.9	66.2	1,496.1
Expenditures					
235.4	252.2	Academic Salaries and Benefits	252.6		252.6
256.2	274.2	Staff Salaries and Benefits	275.4		275.4
65.2	68.1	Student Financial Aid	110.9		110.9
92.3	96.6	Depreciation (d)		101.2	101.2
188.5	193.0	SLAC	171.0		171.0
150.6	146.5	Auxiliary Activity	148.6		148.6
227.3	241.4	Institutional Support	250.9		250.9
135.1	120.8	Other Operation Expenses (d)	190.5	(69.5)	121.0
1,350.6	1,392.8	Total Expenditures	1,399.9	31.7	1,431.6
83.1	78.7	Surplus/(Deficit)	30.0	34.5	64.5

Other Operating Expenses in the Consolidated Budget for Operations. In the Statement of Activities, this amount is included in depreciation. Total depreciation is projected at \$101.2 million.

Summary: The impact of capitalization and the flow of funds for plant purposes described above result in a change in the bottom-line of \$34.5 million, from a \$30.0 million surplus in the Consolidated Budget projection to a \$64.5 million surplus in the Statement of Activities projection.