Stanford University Budget Plan

2005/06

Submitted for Action to the
Board of Trustees
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This publication can also be found on the World Wide Web at:
http://www.stanford.edu/dept/pres-provost/budget/plans/plan06.html

Section 1
Financial Overview

In this section we will review the details of the 2005/06 Consolidated Budget for Operations, discuss the impact of the Capital Budget on the Consolidated Budget, and present a projected Statement of Activities.

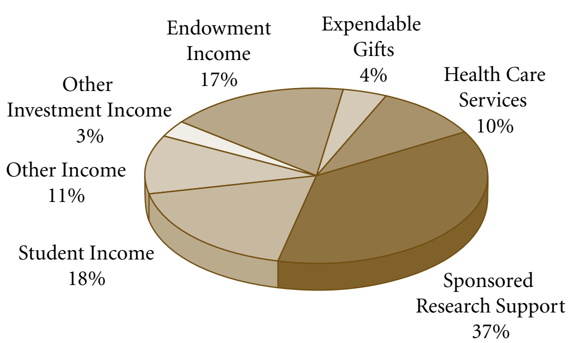
CONSOLIDATED BUDGET FOR OPERATIONS

The Consolidated Budget for Operations provides a management oriented overview of all non-capital revenues and expenditures for Stanford University in the fiscal year. 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.

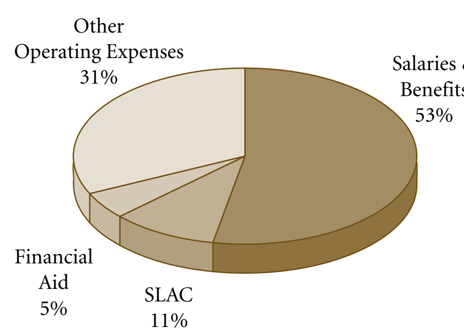
The Consolidated Budget is shown on a modified cash basis and reflects the legal restrictions of fund accounting. Unlike the Statement of Activities in the Annual Report, which is presented in accordance with Generally Accepted Accounting Principles (GAAP), the Consolidated Budget for Operations more closely reflects the uses and movements of funds as managed internally by schools and departments. It reflects capital equipment expenditures (which reduce available fund balances) rather than reflecting only the current year's depreciation charge. Also, it reflects benefits as they are charged through the benefits burden rate rather than as the actual payments to providers outside the university. The Consolidated Budget shows only those revenues and expenses available for current operations. It does not include plant funds, student loan funds, or endowment principal funds, although it does reflect endowment payout. The table on the next page shows the projected consolidated revenues and expenses for 2005/06. For comparison purposes, this table also shows the actual revenues and expenses for 2003/04 and both the budget and the year-end projections for the current fiscal year, 2004/05. In addition, definitions of key terms are provided on page 3.

The 2005/06 Consolidated Budget for Operations shows total revenues of $2,922.4 million and expenses of $2,823.1 million, resulting in excess revenues over expenses of $99.3 million. However, after estimated transfers, primarily to plant funds, the Consolidated Budget shows a surplus of $49.2 million.

2005/06 Consolidated Revenues: $2,922.4M [1]



2005/06 Consolidated Expenses: $2,823.1M



[1] Net Revenues after Transfers: $2,872.3M

Consolidated Budget for Operations, 2005/06

[in millions of dollars]

2003/04 Actuals	2004/05 Budget June 2004	2004/05 Projected		General Funds	Designated	Restricted	Grants and Contracts	Auxiliary & Service Center Activities	Total Current Funds
			Revenues and Other Additions						
			Student Income:						
191.7	201.7	205.4	Undergraduate Programs	213.2					213.2
182.3	196.4	200.3	Graduate Programs	206.3					206.3
86.5	93.3	90.8	Room and Board					93.8	93.8
460.5	491.4	496.5	Total Student Income	419.5				93.8	513.3
			Sponsored Research Support:						
525.5	546.1	564.0	Direct Costs–University				587.7		587.7
233.8	260.0	263.0	Direct Costs–SLAC				318.0		318.0
164.2	158.7	176.0	Indirect Costs	180.4					180.4
923.5	964.8	1,003.0	Total Sponsored Research Support	180.4			905.7		1,086.1
243.6	274.5	256.4	Health Care Services	6.7	247.9			40.8	295.4
103.8	120.0	125.0	Gifts In Support of Operations	2.0		128.0			130.0
			Investment Income:						
400.0	424.8	443.8	Endowment Income	100.2		392.4			492.6
77.3	81.6	86.1	Other Investment Income	29.9	55.0	6.5	0.2		91.6
477.3	506.4	529.9	Total Investment Income	130.1	55.0	398.9	0.2		584.2
251.1	248.0	255.8	Special Program Fees and Other Income	7.4	153.3	3.0		99.7	263.4
43.5	50.0	50.0	Net Assets Released from Restrictions			50.0			50.0
2,503.3	**2,655.1**	**2,716.6**	**Total Revenues**	**746.1**	**456.2**	**579.9**	**905.9**	**234.3**	**2,922.4**
			Expenses						
1,294.1	1,361.1	1,393.1	Salaries and Benefits	450.6	309.3	226.9	318.4	169.2	1,474.4
233.8	260.0	263.0	SLAC				318.0		318.0
128.0	141.9	135.2	Financial Aid	22.4	1.3	106.1	12.2		142.0
803.9	823.8	855.4	Other Operating Expenses	153.4	115.4	157.5	241.6	220.8	888.7
2,459.8	**2,586.8**	**2,646.7**	**Total Expenses**	**626.4**	**426.0**	**490.5**	**890.2**	**390.0**	**2,823.1**
43.5	**68.3**	**69.9**	**Revenues less Expenses**	**119.7**	**30.2**	**89.4**	**15.7**	**(155.7)**	**99.3**
			Transfers						
(43.2)	(61.6)	(65.1)	Transfers to Assets (Plant, Endowment, etc.)	(15.4)	(34.6)	(13.0)		(2.1)	(65.1)
20.4		15.0	Net Internal Revenue / Expense	(77.9)	(12.6)	(18.4)	(12.8)	136.7	15.0
13.9		22.5	Other Transfers	(15.8)	23.4	(23.1)	(2.9)	18.4	
(8.9)	**(61.6)**	**(27.6)**	**Total Transfers**	**(109.1)**	**(23.8)**	**(54.5)**	**(15.7)**	**153.0**	**(50.1)**
34.6	**6.7**	**42.3**	**Revenues less Expenses and Transfers**	**10.6**	**6.4**	**34.9**		**(2.7)**	**49.2**
			Beginning Operating Equity	9.9	387.6	572.0	(0.2)	0.6	969.9
			Ending Operating Equity	20.5	394.0	606.9	(0.2)	(2.1)	1,019.1

Total revenues in 2005/06 are projected to increase 7.6% over the expected 2004/05 levels, somewhat slower than the 8.5% expected growth rate for the 2004/05 levels over the 2003/04 actuals. The revenue growth in 2005/06 is once again aided by strong growth in endowment income, health care services, and SLAC. Total expenses are expected to grow by 6.7% over the estimated year-end results for 2004/05. The increase is driven by salaries and benefits and a 20.9% growth in SLAC.

To explain the different dimensions of the Stanford budget, in the following sections we will review the Consolidated Budget from three perspectives:

- By principal revenue and expense categories;
- By type of funding source (e.g., general funds, restricted funds); and
- By organizational unit.

The Consolidated Budget by Principal Revenue and Expense Categories

Revenues

Student Income

Increases in student charges are guided by a number of considerations. The most important are our programmatic needs, the affordability of a Stanford education, the effectiveness of our financial aid program, our market position, and price inflation in the local and national economies. Overall, student income is expected to increase by 3.4% in 2005/06.

Tuition – The general tuition rate increase for 2005/06, which was approved by the Trustees in February, is 4.5%, the same rate of increase as approved for 2004/05. This increase applies to the undergraduate tuition rate, the general graduate rate, and the full-time tuition rates for graduate students in the schools of Engineering and Law. The School of Medicine will increase its tuition by 5.45%, and the Graduate School of Business (GSB) will increase the rate for second year MBAs by 5.8% and for first year MBAs by 8.8%. The GSB will move to a new tuition structure in which entering MBA students will pay the same tuition in each of their two years starting with the class entering in the fall of 2005. This change was requested by MBA students and is similar to the practice at Harvard. Even with these increases, the tuition rate at the GSB is expected to remain slightly below the highest priced MBA program.

Tuition revenue from undergraduate programs is expected to grow 3.8%, somewhat less than the approved increase in tuition due to an expected overall reduction in undergraduate and co-term enrollment of nearly 50 students. Similarly, graduate program revenue is expected to increase by only 3.0%, which

KEY TERMS

General Funds: Unrestricted funds that can be used for any university purpose. The largest sources are tuition, unrestricted endowment, and indirect cost recovery.

Designated Funds: Funds that come to the university as unrestricted but are directed to particular schools and departments, or for specific purposes by management agreement.

Restricted Funds: Includes expendable and endowment income funds that can only be spent in accordance with donor restrictions.

Grants and Contracts: The direct component of sponsored research, both federal and non-federal. Individual principal investigators control these funds.

Auxiliaries: Self-contained entities such as Residential & Dining Enterprises and Intercollegiate Athletics that generate income and charge directly for their services. These entities usually pay the university for central services provided.

Service Centers: Entities that provide services primarily for internal clients for which they charge rates to recover expenses.

Net Assets Released from Restrictions: Under GAAP, 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 Consolidated Budget for Operations. When the restrictions are released, these funds become available for use and are included as part of the Consolidated Budget on the line Net Assets Released from Restrictions. These funds include cash payments on pledges and funds transferred from pending funds to gift funds.

Financial Aid: Includes expenses for undergraduate and graduate student aid. Student stipends and tuition allowance are not considered to be financial aid and are included in other lines in the Consolidated Budget.

Formula Areas: Budget units whose allocations of general funds are predetermined by a formula agreed to by the Provost and the unit. Principal formula units include the Graduate School of Business, the School of Medicine, and the Hoover Institution.

is substantially lower than the approved tuition rate increase, again due to a planned reduction in enrollment of nearly 150 students in H&S and the School of Engineering. These decreases follow several years of enrollment creep and reflect the schools' plans for managing the costs of graduate students.

Room and Board – In February, the Trustees approved a combined room and board rate increase of 4.5% for 2005/06. The room rate will increase by 5.3% and the board rate by 3.7%. The 2005/06 recommended increases in room and board rates were developed under the following Residential & Dining Enterprises (R&DE) guiding principles and operational goals: to sustain operations with a reserve-to-expense ratio of at least 2.0%; to continue to build an asset renewal/preservation program that will annually fund building infrastructure projects and improvements; to complete life safety and seismic projects as part of the ongoing capital improvement program; to rigorously manage debt obligations; and to ensure that students receive extraordinary services that are provided in a fiscally responsible manner. Overall room and board revenue will grow by only 3.3%, despite the larger approved increase in room and board rates. This is due primarily to a reduction in revenue associated with off-campus subsidies for graduate student housing as the need for these subsidies has decreased.

Sponsored Research Support and Indirect Cost Recovery

The budget for total sponsored research support is expected to be $1,086.1 million in 2005/06, or 37% of the total revenues projected in the Consolidated Budget for Operations. Included in this figure are the direct costs of externally supported grants and contracts ($587.7 million for university research and $318.0 million for SLAC), as well as reimbursement for the indirect costs ($180.4 million) incurred by the university in support of sponsored activities.

University direct costs are expected to grow 4.2% in 2005/06 following strong projected growth of 7.3% in the current year. Despite limited growth in federal funding, we expect that Stanford faculty will continue to compete favorably for available research dollars from both the federal government and other sponsoring agencies.

Total direct costs for SLAC are expected to increase from $263 million in 2004/05 to $318 million in 2005/06. Funding from the Department of Energy (DOE), which still provides most of the funding for SLAC, is expected to increase from $255 million in the current year to $305 million in 2005/06, including $86 million for the construction of the Linac Coherent Light Source (LCLS) project, which will become operational in 2008/09. LCLS will be the world's first x-ray free electron laser. Since the inception of SLAC, funding for the operation of the SLAC linear accelerator has been the responsibility of the DOE Office of High Energy Physics. In preparation for the operation of the LCLS in 2009, the DOE Office of Basic Energy Sciences will be providing partial funding for the operation of the linear accelerator, marking the beginning of a multi-year transition of programmatic ownership for the SLAC linear accelerator operations from the Office of High Energy Physics to the Office of Basic Energy Sciences.

The negotiated predetermined indirect cost rate will decrease from 57% in the current year to 56% in 2005/06. Even so, we expect a modest increase in indirect cost recovery due to the increase in the research base and the number of contracts that will continue into next year with the current rate.

Health Care Services

Health Care Services income is budgeted to be $295.4 million in 2005/06, a 15.2% increase over the projection for 2004/05. It includes $224.0 million paid to the Medical School by Stanford Hospital and Clinics and Lucile Packard Children's Hospital related to physician services of its faculty, a 16.4% increase over the expected 2004/05 level. It also includes revenue of $21.5 million by the Blood Center. Other components include $7.4 million of hospital payments to the Medical School for rent, use of the library, and research support. The hospitals also pay the university for a number of university provided services, including communications services, legal services, operations and maintenance, and utilities, totaling $42.5 million.

Expendable Gifts

Expendable gift income is expected to total $130 million in 2005/06. Expendable gifts are those that are immediately available for purposes specified by the donor. They do not include gifts to endowment principal, gifts for capital projects, gifts pending designation, or non-government grants. The estimate for 2005/06 represents modest growth in new expendable gifts and would result in the university's highest expendable gift totals ever.

Investment Income

ENDOWMENT INCOME – Endowment payout to operations in 2005/06 is expected to be $492.6 million, an 11.0% increase over 2004/05. The merged endowment pool has enjoyed a second consecutive year of strong growth in its market value and is the driver for the increase in endowment payout.

The estimate of payout from the merged endowment pool is a product of a forecast of the endowment market value during the coming budget year and a 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 to be a weighted average of the current year's payout rate and the target rate. The smoothed payout rate trends up when the market declines and down when the market value increases. The target payout rate is 5.0%, and the smoothed payout rate projected for 2005/06 is 4.44%.

Total endowment income includes payout from funds invested in the merged endowment pool as well as specifically invested endowments and rental income from the Stanford Research Park and other endowed lands. Total endowment income is also impacted by new gifts to endowment. In 1999/00, Stanford received a record $242 million in gifts to endowment principal. Gifts to endowment are expected to be $233 million in the current year and reach a new high of $290 million in 2005/06.

Of the total endowment income, $100.2 million, or 20.3%, is unrestricted. The unrestricted endowment income includes payout from unrestricted endowment funds and most of the income generated from Stanford endowed lands. This unrestricted portion is expected to increase 5.9% over the 2004/05 amount, somewhat slower than the growth expected in total endowment income. Investments in the Research Park call for the use of $17 million of unrestricted endowment principal funds, which will reduce next year's payout. Moreover, turnover and lower rents will keep total revenue from Stanford lands nearly flat.

OTHER INVESTMENT INCOME – Other investment income consists of four main sources of income: the payout on the expendable funds pool (EFP), income earned on unexpended endowment payout, income on the Stanford Housing Assistance Center portfolio, and investment income supporting the Stanford Management Company. The largest of these sources is the EFP, the investment pool for non-endowment funds. The EFP comprises the university's general operating funds, non-government grants, expendable gifts, and designated funds belonging to various schools and departments, as well as student loan funds, plant funds, and other short-term funds. This pool of funds represents a significant component of university investment capital, with a current average fund balance of approximately $1.2 billion. The EFP is invested approximately 87.5% in the merged endowment pool and 12.5% in money market instruments. An additional $190 million in unspent endowment payout, formerly invested in the EFP and now segregated in the endowment income funds pool (EIFP), is invested entirely in money market instruments.

Total other investment income is budgeted to increase 6.4% to $91.6 million in 2005/06. The amount from the EFP and the newly segregated EIFP is projected to increase 9.0% in 2005/06 as a result of a 2.0% assumed increase in the size of the pools as well as a 20% increase in the expected money market rate of return on the EIFP. Income on the Stanford Housing Assistance Center portfolio and investment income supporting the Stanford Management Company are projected to increase by an inflationary amount.

Special Program Fees and Other Income

This category includes the revenues from several different types of activities, such as technology licensing income, conference and symposium revenues, fees from the executive education programs in the Graduate School of Business and the Stanford Center for Professional Development, fees from travel/study programs, and revenues from corporate affiliates, mostly in the schools of Earth Sciences and Engineering.

Another major component of this category is the revenue from auxiliary activities, excluding student room and board fees. This includes revenues from conference activity, concessions, rent, and other operating income in R&DE, athletic event ticket sales and television income, HighWire Press, the University Press, Stanford West Apartments, and several other smaller auxiliaries.

Total special program fees and other income are budgeted at $263.4 million in 2005/06, an inflationary increase of 3.0% over the expected level in 2004/05.

Net Assets Released from Restrictions

This represents funds previously classified as temporarily restricted that will become available for spending as specific donor restrictions are satisfied. These include cash payments on pledges and pending gifts whose designation has been determined. In 2005/06, we anticipate that schools and departments will be able to use $50 million of gifts received in previous years that had been classified as temporarily restricted. Until temporarily restricted funds are released from restrictions, they are not included in the Consolidated Budget for Operations.

Expenses

Salaries and Benefits

Total salaries and benefits are budgeted to be $1,474.4 million in 2005/06, a 5.8% increase over the projected amount for 2004/05. Included in this total are academic, staff, and bargaining unit salaries, as well as fringe benefits, tuition benefits for research and teaching assistants, and other non-salary compensation such as bonuses and incentive pay.

Salaries – The 2005/06 Budget Plan includes a competitive merit salary program for faculty and staff. The program also provides special market adjustment funding for those faculty and staff groups that are below their relevant markets. 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. For staff, the salary program is designed to target salaries in the mid-range of the local employment market.

The recommendation for faculty salary increases is based on a review of data supporting particular recommendations from each school, internal comparisons, comparisons with peer institutions using data that is publicly available, and consideration of available resources. Based on this analysis, the general salary program increase in 2005/06 for faculty salaries is 3.5%. Added to this will be targeted increases to address equity and retention issues. Total academic salary expenditures, which include faculty, clinical educators, lecturers, graduate research and teaching assistants, and other academic salaries, are projected to grow by 5.5% in 2005/06, driven by the base faculty salary program, the special market adjustment funding, and modest headcount growth.

Staff salary expenditures are expected to increase by 6.5% as a result of our merit program and an increase in headcount comparable to that of the past several years. As in previous years, the approved staff salary program takes into consideration the financial condition of the university as well as the current labor market status. The approved salary program for 2005/06 is expected to allow the university to maintain its desired position in the local market. The program authorizes base merit increases, targeted funding for specific job groups that lag the market by 10% or more, and non-base performance bonus/incentive programs equal to 1.5% of each unit's approved salary base. Taken together, the 2005/06 authorizations for central and local funding offer management substantial flexibility to reward top performers, to recognize differences in individual performance, and to address the documented cases where pay for specific jobs lags the overall market.

Fringe Benefits – After several years of substantial increases, the fringe benefits rate for regular benefits-eligible employees, which covers most university employees and comprises most of Stanford's benefits costs, will remain unchanged at 30.5% in 2005/06. The rates for post-doctoral affiliates and contingent employees will decline. The rate for graduate research and teaching assistants will increase, due to the rising cost of Cardinal Care health insurance.

The rising cost of health care continues to exert upward pressure on the regular benefits-eligible rate, with health insurance for active employees increasing by 0.6 points and provisions for retiree health insurance increasing by 0.3 points. However, in 2005/06, unlike the past few years, reductions in the rate due to other programs will offset those increases. The largest single decrease is in Stanford's defined-benefit retirement plan, which will not require any funding from the university in the coming year, thereby reducing the regular benefits-eligible rate by 0.4 points. Reductions in Workers' Compensation, Long-Term Disability, and post-employment insurance (the cost of providing health and life insurance to former employees who have terminated on Long-Term Disability) also contribute to decreases in the rate.

Despite the recent announcement of an upcoming change in Stanford's contribution for future retirees' health insurance, there will be an increase in retirement medical costs. Because all current retirees, all active employees eligible to retire as of January 1, 2006, and all employees age 55 or over and eligible to retire within five years of that date will be grandfathered into the current plan, the future savings of the new plan will not be evident for several years. This is especially true since Stanford funds the trust for retirement medical costs on a terminal funding basis, meaning that the university provides funds for future insurance premiums as employees actually retire. Until non-grandfathered employees begin to retire, the liability, and therefore the cost of funding that liability, will continue to grow.

The under-recovery of costs from prior years remains a major component of cost in the regular benefits-eligible rate for 2005/06. Normally, the rate for 2005/06 would include only the under- or over-recovery from 2003/04. However, costs in both 2001/02 and 2002/03 were so substantially under-recovered (by about $40 million in the two years together) that those carry-forwards are being spread over three years. The 2005/06 rate will include the last third of the 2001/02 under-recovery, the second third of the under-recovery from 2002/03, and all of the $2.5 million under-recovery from 2003/04. While the total carry-forward in the regular benefits-eligible rate will increase in dollar terms, it will add only 0.1 point to the rate due to increases in the salary and wage base.

The benefits rate for post-doctoral research affiliates will decline in the coming year, from 19.1% to 18.4%, in spite of the fact that health insurance costs are increasing for post-docs just as they are for regular employees. The decrease is due, in part, to more moderate workers' compensation costs, but mainly because of a small over-recovery carry-forward from 2003/04, in contrast to the under-recovery carry-forward in the 2004/05 rate. The rate for contingent (casual or temporary) employees will decline from 8.9% to 8.5%, also due to an over-recovery carry-forward from 2003/04.

The rate for graduate teaching and research assistants (RAs and TAs) will increase from 3.4% to 3.7%. This rate will continue to fund half the cost of Cardinal Care health insurance for RAs and TAs with appointments of 25% or more, with a smaller contribution for appointments between 10% and 25%. The cost of Cardinal Care, like other health care, will experience a double-digit increase in the coming year. Other student salaries, such as pay for part-time clerical work during the school year, are not charged for benefits, nor are the students holding those jobs eligible for the university contribution toward their Cardinal Care premium.

Total costs in the benefits pool are budgeted to increase 7.5% from negotiated 2004/05 costs and 5.6% from projected year-end costs.

The negotiated 2004/05 and the provisional 2005/06 fringe benefits rates are as follows:

Fringe Benefits Rates

	2004/05 Negotiated Budget	2005/06 Provisional Rates
Regular Benefits-Eligible Employees	30.5%	30.5%
Postdoctoral Research Affiliates	19.1%	18.4%
Casual/Temporary Employees	8.9%	8.5%
Graduate RAs and TAs	3.4%	3.7%
Other Students	0.0%	0.0%
Average Blended Rate	27.6%	27.7%
Tuition Grant Program Recovery Rate	1.20%	1.45%

The Tuition Grant Program (TGP) rate is charged separately against regular benefits-eligible salaries only. In order to comply with federal government rules, all federal government sponsored accounts are exempted from the TGP charge. Academic service centers also are exempted. The TGP rate will increase from 1.20% in 2004/05 to 1.45% in 2005/06, as the overall costs of tuition grants have outpaced the growth in Stanford's salary base.

Financial Aid

Stanford expects to spend a total of $142.0 million on student financial aid for undergraduate and graduate students, $22.4 million of which will come from general funds. As the table on the next page indicates, designated and restricted funds ($107.4 million) and grants and contracts ($12.2 million) will support the remainder. The total financial aid numbers are 5.1% above the projected total for 2004/05. This increase is consistent with the increases in tuition rates for both undergraduate and graduate students.

Undergraduate Aid – This Budget Plan reflects Stanford's long-held commitment to need-blind admissions supported by a financial aid program that meets the demonstrated financial need of all admitted undergraduate students. We estimate that in 2005/06, Stanford students will receive $73.1 million in need-based scholarships, of which $59.8 million will be from Stanford resources. The remaining $13.3 million will come from government and outside awards. The following sources support Stanford's $59.8 million commitment:

2005/06 Financial Aid and Other Graduate Student Support from Stanford Resources[1]

[in millions of dollars]

2004/05 Projected		General Funds	Designated and Restricted	Grants & Contracts	Total
	Student Financial Aid				
57.2	Undergraduate	12.8	47.0		59.8
13.8	Undergraduate Athletic		15.1		15.1
64.2	Graduate	9.6	45.3	12.2	67.1
135.2	Total	22.4	107.4	12.2	142.0
	Other Graduate Student Support				
70.3	Stipends	7.7	37.9	27.3	72.9
54.3	Tuition Allowance	31.1	7.4	18.3	56.8
65.7	RA and TA Salaries	7.1	27.0	34.0	68.1
190.3	Total	45.9	72.3	79.6	197.8
325.5	Total Student Support	68.3	179.7	91.8	339.8

[1]Excludes postdoctoral salaries

- General funds will cover $12.8 million, a welcome decrease of 9.2% over 2004/05 and the lowest level of general funds support since 2001/02. This decrease is significant and represents the anticipated impact of the Campaign for Undergraduate Education (CUE) as well as a modest expected decrease in the total number of students who will receive need-based scholarship aid. The number of students on aid has declined slightly from our high of 2,896 in 2003/04 to a projection of 2,830 in 2005/06. Although significantly higher than we saw in the late 1990s, the number appears to have leveled off.
- Restricted income will provide $37.4 million, and
- The Stanford Fund will provide $9.6 million.

Stanford restricted funding, including endowment income and the Stanford Fund, will contribute a little more than 64% of the total need-based scholarship budget, up from a low of 60% in 2003/04, but down from the high of 71% in 2000/01. The upward trend reflects the successful conclusion of CUE, and should remain at this level barring increased demand for financial aid funds.

One area of concern is that federal and state sources of undergraduate assistance are continuing to decline in relation to our costs. State grants are expected to drop 8% over 2004/05 funding due to decreases in new awards for the second year in a row. Federal authorization levels have remained constant, and changes to the formula for calculating federal aid eligibility will mean a slight decrease in Pell Grant funding.

Athletic scholarships, which are not need-based, will be awarded to undergraduate students in the amount of $15.1 million, an increase that reflects the cost of tuition and seven new scholarships.

The table on the next page shows the detail of undergraduate need-based scholarship aid. Schedules 6 and 7 in Appendix B provide supplemental information on undergraduate financial aid.

Graduate Aid – Stanford provides several kinds of financial support to graduate students expected to total $264.9 million in 2005/06. As the table above indicates, this includes the tuition component of fellowships in the amount of $67.1 million, which is reflected in the Student Financial Aid line of the Consolidated Budget. It also includes funding, not shown in the Student Financial Aid line of the budget, for stipends, tuition allowance, and RA and TA salaries of $197.8 million. Consistent with the presentation of Stanford's financial statements, tuition allowance (tuition benefits for RAs and TAs) and RA and TA salary expenses are in the Salaries and Benefits line, and the stipend amount is in the Other Operating Expenses line of the Consolidated Budget for Operations on page 2.

Financial Aid Awarded to Undergraduates Who Receive Need-Based Scholarship Aid
[in millions of dollars]

Source of Aid	2000/01 Actuals	2001/02 Actuals	2002/03 Actuals	2003/04 Actuals	2004/05 Projected	2005/06 Budget
Restricted	25.9	26.4	29.2	30.6	33.7	37.4
Stanford Fund/Presidential Funds	11.5	9.3	9.5	10.9	9.4	9.6
General Funds	4.6	10.3	13.6	13.8	14.1	12.8
Subtotal Stanford Funded Scholarship Aid	42.0	46.0	52.3	55.3	57.2	59.8
Government and Outside Awards	10.6	12.3	12.4	14.0	13.7	13.3
Total Undergraduate Scholarship Aid	52.6	58.3	64.7	69.3	70.9	73.1
General Funds as a Share of Total Aid	9%	18%	21%	20%	20%	18%
General Funds and Stanford Fund as a Share of Total Aid	31%	34%	36%	36%	33%	31%
Endowment Funds as a Share of Total Aid	49%	45%	45%	44%	48%	51%
Number of Students	2,516	2,663	2,803	2,896	2,860	2,830
Restricted and Stanford Fund/Presidential Funds	71.1%	61.2%	59.9%	59.8%	60.8%	64.3%

The minimum rate for RA and TA salaries and stipends will increase by 3.7% in 2005/06; tuition allowance expense is expected to increase by 4.5%, the rate of increase for general graduate tuition.

Other Operating Expenses

This expense category includes all non-salary expenditures in the Consolidated Budget for Operations except financial aid, which is detailed separately above. These budget expenditures make up nearly one-third of the total expenses of the Consolidated Budget and are projected to increase by 3.9% to $888.7 million in 2005/06. The principal components include materials and supplies ($137 million), administrative and professional services ($122 million), maintenance and utilities for campus buildings ($136 million), internal debt service ($117 million), research subcontracts ($83 million), equipment purchases ($56 million), student stipends ($73 million), and travel ($34 million).

Utilities and Maintenance – The total cost of utilities is expected to increase slightly from $57 million in 2004/05 to $59 million in 2005/06, moderated by the stability of purchased utility prices. The price of natural gas is no longer expected to spike sharply, and the budget is based on the assumption that the price will increase by only 1% over current costs. Purchased electricity prices have come down slightly in the current year and are expected to remain unchanged into 2005/06. Domestic water prices from Hetch Hetchy are expected to be flat for 2005/06, but the lake water prices are projected to increase 7% over the current costs due to the Santa Clara Valley Water District well tax. Sewer expenses from the City of Palo Alto are projected to increase 23% as they incorporate capital and system improvements into their rates. Overall utility consumption is expected to increase modestly with few new structures coming on line in 2005/06.

Maintenance and repair costs are budgeted at $77 million in 2005/06, a 9.3% increase over the current year's level. The facilities operations group within Land and Buildings provides building maintenance and repair services to nearly 60% of the campus. The School of Medicine contracts with the hospital for these services. R&DE provides the services internally. Next year's budget includes the second year in which we have added incremental funding for planned maintenance as part of a deliberate strategy to increase funding for this purpose by $6 million over the next few years. The first increment added $1 million in 2004/05 to the existing $8 million budget. In 2005/06, we furthered the effort with an incremental $2 million funded by general funds. Increases in custodial costs are also included in the 2005/06 budget resulting from a new contract that replaces one that expires at the end of 2004/05. Additions include two leased off-campus labs for the School of Medicine and incremental maintenance costs for the Astrophysics building and the Bakewell renovation.

Debt Service – The 2005/06 internal debt service is projected to be $117.5 million, a $5.0 million increase over 2004/05. The university borrows funds from capital markets and uses the proceeds to fund capital projects and programs. These projects and programs are required to repay the principal and premium, if any, plus interest over the estimated useful life of the asset. These payments are known as internal debt service. The rate charged to projects is calculated annually as a blended interest rate covering all interest expense and bond issuance costs. The projected blended rate for 2005/06 is 5.74%.

Transfers

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

- Transfers to Assets (Plant, Endowment, etc): This line includes transfers of expendable funds to both plant funds and student loan funds. It also includes the net of transfers from designated and restricted funds to funds functioning as endowment (FFE) and withdrawals from these endowment reserves. Of the total, $48.1 million is budgeted to be transferred to plant funds to be used for capital projects. We expect $15.7 million will be invested in funds functioning as endowment and an additional $1.3 million will move to the student loan division.
- Net Internal Revenue/Expense: Internal revenue and internal expense are generated from those charges that are made between departments within the university for services provided through charge-out mechanisms. Communication services provided by ITSS to university departments is one example of internal revenue and expense. Another is the charge that the Department of Project Management, the group that manages construction projects on campus, allocates to capital projects that use their services. These charges contribute to the revenue and expense of individual departments and fund types but, ultimately, are netted against each other in the presentation of the Consolidated Budget to avoid double counting. There is, however, a net $15 million of internal revenue flowing into the Consolidated Budget, primarily from capital plant funds, which are outside the Consolidated Budget, into service centers and other funds within the Consolidated Budget.
- Other Transfers: These are transfers between fund types within the Consolidated Budget for Operations. They include the transfer of Stanford lands rental income to the housing reserve and to R&DE to support faculty and graduate housing subsidies, the transfer of general funds revenue to support programs in the Alumni Association and Athletics, and other similar transfers. Because these transfers are made between fund types within the Consolidated Budget for Operations, the net is zero. However, this line also includes the academic grants that Stanford Hospital and Clinics (SHC) transferred to the School of Medicine to support the clinics in 2003/04 and 2004/05. The grants are reflected as a transfer of equity. In 2004/05 the amount is expected to be $22.5 million. The new professional services agreement under development between the School of Medicine and SHC is expected to eliminate the need for this transfer in the future.

The Consolidated Budget by Fund Type

General Funds

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 student tuition, indirect cost recovery from sponsored activity, unrestricted endowment income, and income from the expendable funds pool. Every unit receives general funds, which support both academic and administrative functions. Total general funds revenue is projected to be $746.1 million in 2005/06.

Non-formula General Funds Allocation Process

Two policy changes have impacted 2005/06 general funds revenues and allocations. First, under a new policy approved by the Board of Trustees, the infrastructure charge will be applied much more broadly to university designated and restricted funds, most of which reside within the schools. Also, the rate will increase from 6% to 8%, with the incremental 2% remaining locally as operating budget relief for the schools and departments. The new infrastructure policy will result in several million dollars of restricted funds being converted to unrestricted funds, which will be used to offset the facilities and administrative overhead costs associated with the activities funded by those restricted funds. Funds from the infrastructure charge flow into general funds as internal revenue in the transfer section of the Consolidated Budget.

Summary of 2005/06 General Funds Reductions and Additions (Excludes Formula Units)

[in thousands of dollars]

	Total 2004/05 GF Allocation	Price & Salary Inflation	Reductions	Additions	Total 2005/06 GF Allocation	2004/05 to 2005/06 % Change
School of Earth Sciences	3,301	162		440	3,903	18.2%
School of Education	9,776	477		268	10,521	7.6%
School of Engineering	42,857	1,916		1,557	46,330	8.1%
School of Humanities & Sciences	106,445	5,144		3,974	115,563	8.6%
School of Law	12,915	533		724	14,172	9.7%
Undergraduate Education	11,382	441		205	12,028	5.7%
Dean of Research	23,885	1,070		1,481	26,436	10.7%
Stanford University Libraries	37,123	1,241		1,000	39,364	6.0%
Total – Academic	247,684	10,984		9,649	268,317	8.3%
Office of Admission and Financial Aid	6,954	262		389	7,605	9.4%
Student Affairs	17,496	693	95	338	18,432	5.3%
Office of the President & Provost	10,928	426		664	12,018	10.0%
Vice President for Public Affairs	4,896	168		353	5,417	10.6%
Business Affairs[1]	40,802	1,486	537	2,810	44,561	9.2%
ITSS	43,315	1,202	200	3,402	47,719	10.2%
Development and Alumni Association	21,917	816		4,610	27,343	24.8%
Land & Buildings[2]	36,731	1,036		535	38,302	4.3%
Other Administrative Units[3]	10,202	184	75	743	11,054	8.4%
Total – Administrative	193,241	6,273	907	13,844	212,451	9.9%
Undergraduate Scholarship Aid	18,014	(5,199)			12,815	(28.9%)
Incremental O&M and Utilities				3,042	3,042	
Debt Service	26,787			2,191	28,978	8.2%
Central Obligations[4]	76,403	106		350	76,859	0.6%
Unallocated Surplus				10,600	10,600	
Total – Other	121,204	(5,093)		16,183	132,294	9.1%
Total Non-Formula Units	562,129	12,164	907	39,676	613,062	9.1%

Notes:

1 For this table, insurance and fire contract allocations have been moved to Central Obligations.

2 For this table, utilities allocations have been moved to Central Obligations.

3 Other Administrative Units includes general funds allocations for General Counsel, SLAC, Athletics, Stanford University Press, and the Stanford Faculty Club.

4 Central Obligations include tuition allowance, graduate student health insurance contribution, and the university reserve. In addition, for this table, utilities, insurance and fire contract allocations have been included in this line.

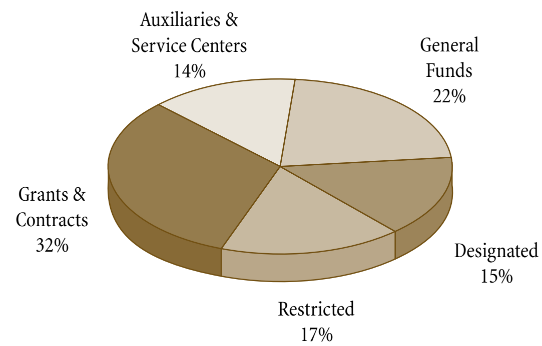
The other policy change involves the methodology by which general funds allocations to non-formula units are calculated. The impact of this change is that, during strong endowment growth years such as 2005/06, the units will now enjoy the full increase in payout rather than having some of that increase offset by a reduction in general funds. Under this new policy, non-formula units will receive over $5 million more in general funds allocations than they would have under the prior policy.

The 2005/06 budget process began with a moderate surplus in the general funds forecast, which was a sharp contrast to that of the prior three years when the university faced significant general funds shortfalls from the outset. General funds allocations controlled by the Provost are expected to grow by $51 million from 2004/05 to 2005/06. In spite of this steep growth in general funds, the university still faced the challenge of funding millions of dollars in pressing infrastructure projects – some of which were deferred during the lean budgets of recent years – as well as providing additional funding in support of vital academic initiatives.

In order to provide added flexibility during the budget allocation process (buffering against a possible downturn in the general funds revenue projection) and also to practice continued fiscal diligence, the Provost asked the administrative units to submit proposals for general funds cuts up to 2.5% of their total base allocation. For these units, this was the fourth consecutive year that they were asked to provide cut recommendations. In contrast, the academic units, which faced funding reductions of their own with the new infrastructure charge policy, were asked instead to provide a detailed assessment of the financial impact of that change on their unit and, if appropriate, submit a general funds mitigation request.

Throughout the winter, each budget unit met individually with the Budget Group, which comprises representatives from both faculty and administration, to discuss strategic plans, fund balances, and financial reports. In addition, the units presented numerous requests for incremental general funds for new programs and initiatives. As the budget process progressed, the general funds outlook continued to improve, so much so that the Provost was able to refuse all but a handful of budget cuts from the administrative units, as well as provide significant infrastructure charge mitigation funding for the academic units. Moreover, the university was able to fund over $19 million of new programs (out of a total request of $38 million), on top of the $9.5 million of increments committed in prior years.

2005/06 CONSOLIDATED EXPENSES BY FUND TYPE



Highlights of these incremental allocations are as follows:

Academic Units

For 2005/06, the academic units will receive about $10 million in incremental general funds for new programs, initiatives, and other needs, including:

- $1.6 million in infrastructure charge mitigation,
- $1.4 million for research compliance support,
- $1.5 million for academic salaries above the general merit program, including funding one new Bioengineering billet,
- $1.0 million for library materials and projects, and
- $2.0 million for general support of the School of Humanities and Sciences.

Funds were also allocated in support of the Law School clinics, the Elementary Teacher Education Program, and the Division of Literatures, Cultures, and Languages, as well as dozens of other academic functions.

Business Affairs and Systems

A total of $6.2 million was allocated to Business Affairs and ITSS to support a broad array of core administrative needs. Included in this total is $2.5 million to provide staffing relief to the Controller's Office and the Office of Research Administration. These departments provide critical administrative services to the entire university, but have been stretched thin over the past five years as their headcount growth has significantly lagged that of the rest of the university.

Most of the remaining funds were allocated to support the production and maintenance of Stanford's new suite of administrative systems. This includes funding for projects, upgrades, enhancements, ongoing maintenance, and support.

Facilities Related

Land and Buildings was allocated $2 million for planned maintenance for academic buildings and infrastructure. A recent Investment in Plant analysis, discussed in Section 3, identified a $6 million shortfall in planned maintenance funding. This incremental $2 million follows a $1 million increment last year and is part of a multi-year effort to bring base funding to the level necessary to sustain Stanford's physical plant. Another $1.7 million supports additional custodial staffing, preventive maintenance, and incremental O&M and utilities for new buildings.

Development and Alumni Association

A total of $4.6 million was allocated to the Office of Development and the Alumni Association to support the following:

- New programs in preparation for the new campaign ($2 million),
- Centralization of stewardship and annual giving ($1.25 million), and
- The final year of a multi-year base build-up for Development ($750,000) and the Alumni Association ($610,000).

Designated Funds

Designated income comes into the university as unrestricted, but is directed to particular units for specific purposes by management agreement. The main sources of designated income are special program fees such as technology licensing income, corporate affiliates payments, and executive education programs; payments from the hospitals to the departments in the Medical School through the clinical practice; and other investment income, including income generated by the Stanford housing portfolio and investment income supporting the Stanford Management Company. Also included in designated funds are most activities of the Stanford Alumni Association, including all of the income and expenses associated with the travel/study programs. Other designated funds include funds set aside for university-sponsored research and cost sharing. Schools, departments, programs, and individual faculty members control the majority of the funds in these budgets, but the university manages some of these designated funds as reserves, such as self-insurance reserves.

Total designated income is expected to be $456.2 million in 2005/06, an increase of 9.4% over the 2004/05 year-end projection. This growth is fueled by a 16.4% projected growth in designated clinical revenue paid by the hospitals to the School of Medicine for physician services. The remaining designated funds are expected to grow about 3.3%. Additionally, we are projecting that $23.4 million, primarily general funds and endowment income, will be transferred into designated funds.

Total expenses charged to designated funds are budgeted to be $426.0 million. An additional $34.6 million of designated funds, primarily existing fund balances, is expected to be transferred to funds functioning as endowment and to cover plant projects. Lastly, $12.6 million of designated funds will be used to cover net internal expenses, yielding a small surplus of $6.4 million in this fund type.

Restricted Funds

The restricted funds budget represents income, expenditures, and transfers for both restricted expendable funds and restricted endowment income funds. Together, revenue from these sources is projected to be $579.9 million in 2005/06. Of this total, $392.4 million is from endowment income and the remaining $187.5 million is from expendable gifts, payments on prior-year pledges, and expendable funds pool payout on restricted fund balances. $490.5 million is budgeted to be spent from restricted funds for a variety of activities, including endowed professorships, fellowships, and general expense supporting research and teaching. $106.1 million of this amount will be used to cover financial aid. An additional $54.5 million in restricted funds is expected to be transferred to other fund types, including plant, endowment principal, and designated funds. Total restricted revenues less expenses and transfers net a projected surplus of $34.9 million, most of which will be added to the fund balances in the schools.

The schools, which control nearly two-thirds of the university's total expendable (designated and restricted) fund balances, have historically generated more restricted revenue than can be spent in a given year, resulting in growth in fund balances. Some of the annual revenue is not used because the terms of the funds are so restrictive as to preclude its use. Efforts continue to review and possibly ease the restrictiveness of some funds as well as to split some large endowed chair funds, which generate much more income than is required to cover a single faculty member's salary and benefits, to allow them to support more than one faculty member.

It is regular practice to reserve designated and restricted revenue to pay for planned capital projects or other large purchases, to cover potential shortfalls in sponsored research funding, to supplement existing research funding, and to provide student support that cannot be met from other funding sources. Schedule 17 in Appendix B shows the academic area fund balances by unit.

Grants and Contracts

The grants and contracts budget for 2005/06 of $905.9 million represents $587.7 million of direct sponsored activity under the oversight of individual faculty principal investigators and $318.0 million in direct costs for SLAC. The university direct cost totals are formulated based upon the projected year-end results for 2004/05 and through consultations with individual research areas. Total university research volume is expected to grow by 4.2% in 2005/06 with slightly higher growth in the School of Medicine than across the remainder of the campus. SLAC is projecting a 20.9% increase over its current year budget with the continued ramp up of its major construction project, the Linac Coherent Light Source.

Auxiliary and Service Center Activities

The total budget for auxiliary and service center activities is projected to be $234.3 million in 2005/06. Auxiliary operations are self-contained financial entities supporting the broader purposes of the university. The principal auxiliary activities of the university are the Athletics department, the Blood Center, HighWire Press, Residential & Dining Enterprises, the Stanford West/Welch Road Apartments, and the Stanford University Press. In addition, there are several other small auxiliary enterprises, such as the Residential Subdivisions, the Bing Nursery School, the Stanford-in-Washington and Overseas Studies campus residences, and the Schwab Residential Center. Service Centers are entities that provide common services primarily for internal clients for which they charge rates to recover expenses. The principal service centers are the Shared Services and Computer Resource Center within ITSS, which provides telephone, internet, and computer support services; the utilities division; and the operations and maintenance shops. Together the auxiliaries and service centers are projecting a slight deficit of $2.7 million.

The Consolidated Budget by Organizational Unit

The Consolidated Budget is the aggregation of all of the budget units that make up the university. In addition to the seven schools, there are the additional academic areas of the Dean of Research, the Vice Provost for Undergraduate Education, the Hoover Institution and University Libraries. There also are several administrative and auxiliary units. The budget plans for some of these units are highlighted in this section and in the tables on pages 15, 21, and 23.

Graduate School of Business

The Graduate School of Business (GSB) is projected to break even for 2005/06. Revenues are expected to grow approximately 6% over the budget plan for 2004/05 via increased tuition, aggressive fundraising, and a projected 10% growth in endowment income.

Expenses are also projected to grow 6%, reaching $117 million. The growth will support market-based faculty salary adjustments, additional faculty, and faculty development. It will also address facilities issues, continue investment in centers, and allow continuing investments in student and alumni services.

School of Earth Sciences

The School of Earth Sciences projects a $1.4 million current funds surplus for 2005/06. After $1.2 million is transferred to reserves, expendable funds will increase by approximately $200,000. A projected increase in endowment payout, higher returns on investment from specific school-managed funds, and a new formula for using endowment income as part of the general funds allocation method provide the bulk of the expected surplus. Although the budget for endowment and expendable gifts revenue is increasing, designated income from affiliate programs remains flat. As in past years, the oil and gas industries are still experiencing corporate consolidation. The result is that school affiliate programs have fewer companies participating, which puts a strain on affiliate-funded research activities.

For 2005/06, general funds will make up 12% of total income. The remainder of the budget is funded by designated income from affiliates (13%); endowment income (33%); federal and nonfederal grants and contracts (35%); expendable gifts (3%); and university research and support from other university units (4%).

Expenses are projected to be $40.2 million, up 18.2% from the 2004/05 budget. This growth can be attributed

Consolidated Budget for Operations by Unit, 2005/06
[in millions of dollars]

	Total Revenues and Transfers	Total Expenses	Result of Current Operations	Transfers (to)/from Assets	Change in Fund Balance
Academic Units:					
Graduate School of Business[1,2]	110.8	111.0	(0.2)		(0.2)
School of Earth Sciences	41.6	40.2	1.4	(1.2)	0.2
School of Education	34.0	33.1	0.9		0.9
School of Engineering	227.8	211.0	16.8	(21.9)	(5.1)
School of Humanities and Sciences[1]	320.2	313.8	6.4	(4.7)	1.7
School of Law	44.5	42.5	2.0	(3.7)	(1.7)
School of Medicine[1,2]	933.7	928.2	5.5	(19.2)	(13.7)
Vice Provost for Undergraduate Education	26.3	27.1	(0.8)		(0.8)
Dean of Research	180.2	177.5	2.7	(0.4)	2.3
Hoover Institution	37.1	37.1			
Stanford University Libraries[1]	56.3	57.6	(1.3)	0.9	(0.4)
Total Academic Units	2,012.5	1,979.1	33.4	(50.2)	(16.8)
Total Administrative (details on page 21)	613.9	609.9	4.0	(7.1)	(3.1)
Total Auxiliary Activities (details on page 23)	246.1	250.6	(4.5)	2.5	(2.0)
SLAC	318.0	318.0			
Internal Transaction Adjustment[3]	(261.1)	(246.1)	(15.0)	15.0	
Indirect Cost Adjustment[4]	(180.4)	(180.4)			
Grand Total from Units	2,749.0	2,731.1	17.9	(39.8)	(21.9)
Central Accounts	140.4	92.0	48.4	(10.3)	38.1
Expectation of Additional Revenue[5]	33.0		33.0		33.0
Total Consolidated Budget	2,922.4	2,823.1	99.3	(50.1)	49.2

Notes:

1 The budget lines for the School of Medicine, Graduate School of Business, H&S, and Libraries do not include auxiliary revenues and expenses. These items are shown in the Auxiliary Activities line. These auxiliary operations include the Medical School Blood Center, the Schwab Center of the GSB, HireWire Press and University Press in the Libraries, Overseas Studies, Stanford In Washington, and Bing Nursery School in H&S. These auxiliary activities are shown in more detail in the Schools' Consolidated Forecasts in Appendix A.

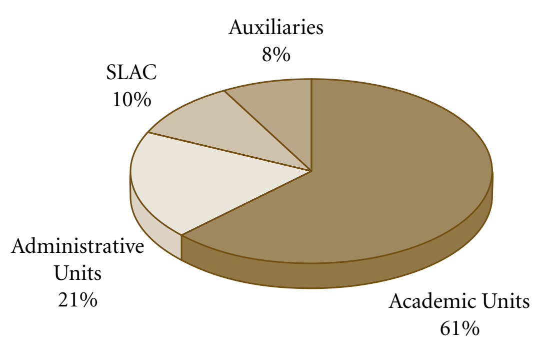
2 This budget reflects a direct allocation of tuition revenue in those units operating under a formula funding arrangement.

3 Internal revenues and expenses are included in the unit budgets. This adjustment backs out these internal activities from the Consolidated Budget to avoid double counting them. There is a net $15 million balance in internal activity due to payments from Plant funds.

4 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 $180.4 million received by the schools is taken out in the "Indirect Cost Adjustment" line.

5 The $33.0 million of revenue is based on historical experience and reflects the expectation that the university will receive additional unrestricted and/or restricted income that cannot be specifically identified by unit at this time.

2005/06 Consolidated Expenses by Unit



to two main factors. The first is the implementation of the school's strategic plan, a challenging set of goals that includes everything from a ramped-up fundraising and communications program to the establishment of two new research centers. As part of the plan, the school has begun to upgrade its physical plant, including student offices and laboratory facilities. It has also established an outreach office and increased IT support and will be providing more technical support to analytical labs. The second factor is an increase in sponsored research funding. Faculty have received two very large federal awards, resulting in several million dollars of increased spending in each of the next several years.

School of Education

The School of Education projects a $900,000 surplus for 2005/06. The surplus, which will be spent over the next several years, primarily represents funding for the Elementary Teacher Education Program and the John Gardner Center for Youth and their Communities. In 2005/06, a major effort will be made to raise fellowship funds, particularly for students in the teacher education programs.

Revenue is expected to increase by 6.3% over the 2004/05 year-end forecast. Increased revenues are expected for the Elementary Teacher Education Program, the Center for Educational Leadership, and the John Gardner Center for Youth and their Communities. Revenues are expected to continue to grow for non-federal sponsored research but will remain flat for federally funded research. Although the school has succeeded in raising funds to renovate the Old Bookstore (to be renamed the Barnum Family Center for School and Community Partnerships), additional gifts are expected in support of the courtyards and conference rooms. These could free up $1 million in pending funds to be directed to general school activities.

Expenses are expected to grow by 11%. The operating budget will grow by 11% as a result of salary adjustments and expenses related to the new Elementary Teacher Education Program. Faculty recruitment will remain heavy, with associated costs. Expendable gift expenses relate primarily to three areas: new fellowships for the teacher education programs and other Masters programs; expenses related to the new Center for Educational Leadership; and increased expenses related to the John Gardner Center. Non-federal sponsored project expenses will increase 8%, and federal expenses, which have decreased in the last several years, will stay flat.

School of Engineering

The School of Engineering is forecasting an operating surplus of $16.8 million. However, after $21.9 million is transferred to facilities and endowment principal, expendable reserves will drop by $5.1 million. The surplus is a result of a combination of successful fundraising and careful spending.

The transfers to reserves will allow the school to create a new $10 million endowment for the Design Institute and to continue to meet significant financial commitments to the Department of Bioengineering and the Institute for Computational and Mathematical Engineering. Reserves will provide partial support of major instrumentation acquisitions in the field of nanotechnology, the establishment of the Architectural Design Program, and the Research Experience for Undergraduates Program.

The school anticipates that renovations of the Panama Mall corridor for the establishment of the Design Institute, expansion of the Materials Science and Engineering Department, and moves and fit-outs of other departments will also require the consumption of reserves. In addition, as the new Science and Engineering Quad (SEQ 2) approaches the design and program phase, the school expects to use reserves for costs related to feasibility studies and benchmarking.

School of Humanities and Sciences

The School of Humanities and Sciences (H&S) projects a $1.7 million surplus for 2005/06, after a $4.7 million transfer to assets. The school continues to focus on providing adequate funding for operations and projects a $3 million use of dean's office reserves in the upcoming year. For several years, the school has increased the volume of faculty hiring as vacant billets have been reactivated. The associated increase in base and one-time costs, coupled with higher costs of the enhanced graduate aid program implemented two years ago, have increased the annual use of reserves to close operating budget deficits. Dean's office reserves are projected to be exhausted in 2005/06. As a result, H&S has reevaluated its faculty hiring plan and postponed twenty-nine searches to future years. Graduate admissions have also been reduced by thirty-seven students to balance overadmissions in the previous two years. Department-controlled reserves and fund flows will be used to close the remaining funding gap.

The school's finances are projected to be very tight for the next two years. In the short term, H&S is working to strengthen existing processes to control expenditures. The school has also begun a longer-term project addressing rational allocation of consolidated resources.

H&S projects that additional endowment inflows from new Hewlett-related gifts will restore financial equilibrium in about two years, allowing greater focus on new academic initiatives. The school will carefully manage the use of total inflows to provide robust and stable support for current activities while allowing pursuit of new academic directions.

Law School

The Law School projects a $2 million surplus from operations. However, transfers of $3.7 million will result in a $1.7 million reduction of expendable reserves. The transfers include $1.2 million for the Loan Repayment Assistance Program, $1 million for renovation of the Crown Quadrangle, and $1.5 million in faculty housing loans for faculty recruitment and retention.

The school's estimated revenues and expenditures represent a 24% increase over the past two years. The rapid growth is the result of high endowment returns, a successful executive education program, and academic program and clinic support from law firms, corporations, and alumni.

The new revenues are focused on the academic mission of the school, particularly faculty salaries, legal clinics, and academic program offerings. The school has increased faculty salaries 12% over the past two years, but its salaries still lag as much as 8%–15% behind those of top-paying law schools such as Harvard, Chicago, and Yale—the latter two being key rivals due to similarities in size and program. The school has managed, barely, to maintain a competitive salary program, but these schools are now offering packages significantly stronger than Stanford's to attract and retain faculty. The Law School will need to continue an aggressive campaign to remain competitive.

The clinic budgets have doubled from $1.3 million in 2003/04 to over $2.6 million in 2005/06. The Law School clinics now include an Environmental Law Clinic, Cyberlaw Clinic, Criminal Prosecution Clinic, Education Advocacy Clinic, Immigrant's Rights Clinic, Supreme Court Litigation Clinic, and Community Law Clinic, all led by a new director of clinical education.

The school has been successful in fundraising for its academic programs and continues to grow the programs in Law, Economics and Business; Law, Science and Technology; Environmental Law; International Law; and Constitutional Law. The school will have nine visiting faculty next year, more than double the number in any previous year.

The Law School is budgeting over $100,000 in 2005/06 to create a new Public Interest Center. The center and its accompanying program are intended to provide in-depth training, to create opportunities for public service, and to inculcate the value of service.

School of Medicine

In 2005/06, the School of Medicine (SoM) is projecting a surplus from operations of $5.5 million and a transfer of $19.2 million to endowment, plant, and student aid, netting to a $13.7 million deficit. Key components of this projection include the following:

- Expenses are projected to increase 5.6% and revenues 5.1% over the projected 2004/05 results.
- Of the school's total revenue and transfers, sponsored research contributes 43%. Designated clinic income and tuition contribute 23% and 3%, respectively. Endowment income, expendable gifts, other designated income, and operating budget funds constitute the majority of the remainder.
- The school will continue to increase its investments in interdisciplinary programs, including Clark Center operations, BioX, the Department of Bioengineering, the Stanford Institutes of Medicine, the strategic centers, and the Comprehensive Cancer Center.
- The school plans to transfer $5.0 million of designated funds to funds functioning as endowment and $14.2 million to cover plant-related costs.

The dean's office and the departments have accumulated reserves to use for program and facility development and will utilize these in carefully planned strategic initiatives.

Revenue Growth

Revenue for 2005/06 is projected to be 5.1% greater than in 2004/05. This represents a slight slowdown in growth due to the following factors:

- A slower rate of growth of 4.5% in research activity is projected due to space constraints and slower growth of the NIH budget. In 2004/05, research activity is projected to grow 8.7% over 2003/04.

- New expendable gift revenue is projected to be 7.5% greater in 2005/06 than in 2004/05. (Expendable gift revenue does not include the anticipated increase in capital gifts, which will be a major focus of the school's development effort in 2005/06.)

Income from clinical operations is projected to increase 16.4% in 2005/06 from the projected year-end results for 2004/05. The two major components of this income stream are payments for professional services rendered to patients and service payments from the hospitals. The school expects to implement a new professional services agreement with Stanford Hospital and Clinics that will align physician productivity and hospital payments. Details of the methodology are still under development.

Expense Growth

The school's budget plan assumes the recruitment of approximately fifteen incremental tenure line faculty and five incremental medical center line faculty in 2005/06 and includes the costs of this recruitment, including program support and incremental staff. Several factors influence this projection, including (1) space constraints pertaining to clinical and basic sciences faculty; (2) the Provost's imposition of a cap on the school's faculty billets; (3) a projected increase in 2004/05 in the departure rate of faculty as more members reach retirement age; and (4) limitations on unrestricted resources for expansion and faculty retention.

Expenses are projected to be 5.6%, or $50.3 million, greater than the projected 2004/05 results. The major components of this increase are the following:

- $3.7 million—expenses associated with incremental tenure-line and medical center line faculty,
- $19.4 million—increases in academic and staff salaries,
- $7.6 million—increases in academic and staff employee benefits,
- $10.8 million—increases in noncompensation expenditures on sponsored projects, both direct and indirect, and
- $4.5 million—increases in space-related costs.

Transfers to Plant, Endowment, and Other Entities

The school and individual departments will continue to transfer funds to endowment in order to earn additional return on the funds while holding them for future investments in new faculty and programs. The projected amount of these transfers is $5.0 million in 2005/06. The projected transfers to plant of $14.2 million represent continued expenditures on planned maintenance projects plus smaller renovation projects and discretionary projects to accommodate program changes and faculty recruitment.

Vice Provost for Undergraduate Education

In 2005/06, the Vice Provost for Undergraduate Education (VPUE) projects a budget with a consolidated deficit of $850,000. That budget includes increased investment in ongoing initiatives, including:

- Redefining undergraduate advising: A second academic director will be appointed in 2005/06 to enhance residence-based advising, expanding on the pilot program that appointed an academic director in Wilbur Hall in 2004. Also, to bolster the active efforts to recruit faculty as academic advisors to freshmen and sophomores, the modest financial incentives offered this year to freshman advisors will also be offered to sophomore advisors.
- Implementing the new writing and oral presentation requirement in the Program in Writing and Rhetoric: Six additional lecturers will be hired in 2005/06.
- Completing a reorganization of central office staff: The addition of a director of operations is a key component of the plan to enhance the administrative operations of the VPUE and better serve an organization that has grown substantially over the last several years.
- Continuing to increase undergraduate research opportunities: Projections call for a second year of funding above historical amounts in support of these opportunities.

Almost all of these enhancements are intended to be continuing expenses, and general funds, both base and one-time, support the majority of the costs. The VPUE, however, still relies on a considerable amount of one-time funding, including the use of accumulated reserves, to support its existing operations.

The long-standing plan to replace one-time funds from the President, the Provost, and expendable gifts with new endowment gifts from the Campaign for Undergraduate Education (CUE) has progressed significantly in the past year. Even with the new CUE resources and one-time funding, though, the financial results for 2005/06 will be achieved only by implementing targeted funding reductions of $293,000. Those reductions are a reaction to the upcoming change in the university's infrastructure charge policy. The Provost agreed to partially mitigate, on a one-time basis, the effects of that policy change, but the VPUE will absorb the entire impact starting with the 2006/07 fiscal year.

Given that the infrastructure mitigation and other one-time funding sources will expire during 2005/06, the VPUE will be challenged in future years to fund its base operations and necessary innovations. Certainly, the continued increase in CUE resources will make that challenge easier, but a blend of strategies will be required to arrive at a balanced budget in the near future. Those strategies will include the use of accumulated reserves, reallocations of existing resources, and a constant justification of existing expenses.

The VPUE will rely on endowment income—much of it from relatively new endowments—to support 48% of 2005/06 activities. A note of caution should therefore be added that the unit will remain vulnerable to substantial income fluctuations should endowment market values decline. The VPUE will seek to retain adequate reserves to guard against this potential volatility while the CUE endowments grow and become less susceptible to shortfalls.

Dean of Research and Graduate Policy

The Vice Provost and Dean of Research and Graduate Policy (DoR) budget anticipates a $2.7 million surplus from operations with $362,000 in transfers to reserves leaving a $2.3 million increase in fund balances. The budget relies heavily on restricted funds and sponsored research, which constitute about 70% of total projected revenue. Affiliate and gift income is expected to remain stable and endowment income is expected to increase by 11% in 2005/06. Expenditures will remain stable or grow accordingly.

University research awards distributed by independent institutes and centers, such as the Center for Study of Language and Information, the Stanford Center for Innovations in Learning, and the Stanford Institute for the Environment, are expected to increase in 2005/06. These awards are primarily funded by affiliate income, gifts, Presidential funds, and matching funds from the DoR and various schools.

Projections for federal grants and contracts at the Hansen Experimental Physics Laboratory (HEPL) are lower than in previous years. Since the launch of Gravity Probe-B (GP-B) on April 20, 2004, a major event at HEPL, expenditures on the GP-B project have been decreasing.

In general, sponsored research continues to grow in most independent laboratories, centers, and institutes. For example, the Global Climate and Energy Project's (GCEP's) operational awards (Central Management, Technical Assessment, and Energy Systems Analysis) will grow modestly in 2005/06, with growth driven mainly by salary increases and by a moderate increase in workshop and symposium activity. The major growth in GCEP will consist of new research projects coming on line in September 2005 and in April 2006, though these will be partially offset by the scheduled termination of other projects in March 2006.

Hoover Institution

In 2005/06, the Hoover Institution will complete a two-year effort to reduce annual expenditures by $2.5 million. Successful completion of this effort will eliminate the need to use reserves for on-going operations and will set the stage for new programmatic development. During this time of retrenchment, the Hoover Institution Library and Archives continues to respond to opportunities for undertaking a number of large collection and preservation projects. Among the collection projects are the Radio Free Europe/Radio Liberty archives, the Kuomingtang Party archives, and other collections on modern Chinese history. In addition, preservation capabilities are being enhanced by the construction and equipping of a 6,000 square foot preservation lab, scheduled for completion in 2005/06.

SLAC

The Department of Energy (DOE) still provides most of the funding for SLAC, although in recent years SLAC has been involved in various interagency projects such as SPEAR3 with NIH and GLAST with NASA. The Linac Coherent Light Source (LCLS), SLAC's current major construction project, is also funded by the DOE Office of Basic Energy Sciences. The project will utilize the last third of the SLAC linear accelerator (linac). LCLS will build the world's first x-ray free electron laser, a fourth generation x-ray light source. The total funding for the construction is $315 million in seven years through 2009. The project has begun the long-lead procurement phase in 2005 and conventional facilities construction will begin in 2006. It is scheduled to be operational in 2009. The projected costs for 2005/06 assume incremental funding of $86 million for the LCLS project, although this funding is still awaiting Congressional action on the 2006 Energy and Water Development Appropriations.

Because of the LCLS construction, total direct costs for SLAC are expected to be about $55 million (21%) higher in 2005/06 than in 2004/05.

Since the inception of SLAC, funding for the operation of the SLAC linac, which is currently being used as an injector for the PEP-II B Factory and other experiments, has been the responsibility of the DOE Office of High Energy Physics (DOE-HEP). In preparation for the operation of the LCLS in 2009, in 2005/06 the DOE Office of Basic Energy Sciences (DOE-BES) will be providing partial funding for the operation of the linac. This marks the beginning of a multi-year transition of programmatic ownership for the SLAC linac operations from DOE-HEP to DOE-BES.

Stanford University Libraries and Academic Information Resources (SULAIR)

Incremental and one-time allocations to the SULAIR 2005/06 base budget provide continued support for a course management system as a common good to the entire campus, as well as increased funding for its digital initiatives. In addition, incremental funding for the library materials budget will help to offset the dramatic decrease in the value of the U.S. dollar against foreign currencies, in which SULAIR spends well over 50% of its collections budget. However, the library materials budget continues to be stretched by the addition of new programs of teaching and research at Stanford, without equivalent decreases in other programs, and by the annual increases in the cost of academic journal subscriptions. With faculty guidance and assistance, SULAIR has selectively weeded subscriptions. There is concern, however, that Stanford now subscribes to the bare minimum number of journals, especially in the science and engineering disciplines.

SULAIR continues to have about a $2 million structural deficit, arising primarily from its inability to increase revenue for materials and supplies expenses in the 1990s, while its expenses, particularly for computers and related services, as well as for facilities and outsourcing, increased dramatically. SULAIR continues to use its diminishing fund balances to support these expenses and balance its budget, but there is now almost no reserve to apply to digital initiatives (including the Google Project), to the development of new systems and services, or to various minor capital projects.

Dean of Student Affairs

In 2005/06, Student Affairs will draw down fund balances by $255,000, as a major gift to the Office of Accessible Education anticipated in late 2004/05 is spent. While the gift is expected to continue beyond next year, this budget assumes gifts intended for future years will be received after 2005/06.

To meet budget reduction targets in 2005/06, the graduate application fee will increase by $5, and spending on costs other than compensation will be limited. The revised infrastructure charge policy will have a significant impact on several Student Affairs units that are heavily dependent on gift and endowment funding (such as the Haas Center) or that are supported in part by fees that have in the past been exempted from the infrastructure charge (such as the student health center). A portion of the increase in the infrastructure charge will be mitigated by an increase to general funds.

With the support of incremental general funds, Bechtel International Center will restructure and add staff to better support foreign students and scholars. Additional general funds will also cover increases in the cost of medical services for students.

Stanford Alumni Association

Stanford Alumni Association (SAA) is projecting a slight surplus for 2005/06. SAA anticipates a continued steady recovery in its external revenue sources, and it will use these resources to build and maintain its alumni relations activities.

In 2005/06, SAA will seek to identify new opportunities that will help it meet its governing objective to maximize alumni satisfaction and active support for the university over time. In so doing, SAA will continue to focus on its four main strategic priorities: building Stanford's presence in the regions; integrating alumni into the life of the university; strengthening class identity; and leveraging the power of communications.

SAA will also employ resources to identify and capture additional information about alumni involvement with Stanford. Using this information to segment its alumni on a behavioral basis, SAA will be able to determine where expanded alumni relations programming will achieve the greatest return on investment.

Summary of Administrative Activities, 2005/06
[in millions of dollars]

	Revenues and Transfers	Expenses	Results of Current Operations	Transfers (to)/from Assets	Change in Fund Balance
Land & Buildings	172.2	167.7	4.5	(7.0)	(2.5)
ITSS	101.8	103.4	(1.6)	0.1	(1.5)
Business Affairs	73.2	74.4	(1.2)		(1.2)
Development	27.5	27.4	0.1	(0.1)	
Alumni Association	33.0	32.8	0.2	0.8	1.0
President and Provost Office	29.6	30.4	(0.8)		(0.8)
Student Affairs	31.4	31.4		(0.3)	(0.3)
Office of Admissions (Includes Financial Aid)	85.2	82.8	2.4	0.5	2.9
Stanford Management Company	18.1	18.1			
General Counsel	8.5	8.4	0.1	(0.1)	
Athletic Financial Aid and Camps	20.3	19.8	0.5	(1.0)	(0.5)
Public Affairs	8.5	8.7	(0.2)		(0.2)
SLAC (Non-DOE Contract)	4.6	4.6			
Total	613.9	609.9	4.0	(7.1)	(3.1)

Land and Buildings

Land and Buildings revenues come from multiple service centers (approximately $107 million), general funds and other transfers ($55 million), and auxiliary and designated revenues ($12 million). An overall annual budget of $175 million in revenues and transfers (including $2.8 million of auxiliary activities not shown in the table above) represents an increase of 3.4% over the 2004/05 year-end projection of $169 million, mainly due to increases of $5 million in general funds and transfers and $2 million in service center revenue.

In 2004/05, the university determined that planned maintenance of university buildings was underfunded by approximately $6 million and added $1 million to the existing $8 million budget. In 2005/06, we have added another $2 million, and will continue increasing this budget in future years.

An incremental $1 million is allocated for new buildings and renovations, including the renovation of Roble Gym, which has been transferred from Athletics to the academic campus, the seismic renovation of Bakewell, and the Astrophysics building, which is expected to be completed in 2005/06.

Overall, the service centers continue to be stable and expect to break even. Expenses will be slightly higher due to salary increases related to the Bargaining Unit contract, and the university salary program. Stanford continues to assess the "Make vs. Buy" options for services provided in house through service center shops; more than half of these services are now contracted out. Although in-house maintenance shop rates are competitive with those of outside contractors, Facilities Operations focuses its in-house shops on regular maintenance that requires familiarity with the building systems.

Information Technology and Systems Support (ITSS)

In 2004/05, ITSS Data Center and Communication Services were combined due to overlapping technology, and ITSS itself was divided into two new organizations, though they submit a combined budget. Information Technology Services provides computing, telecommunications, and networking infrastructure; academic computing services; business and administrative computing facilities; and services and technical support for departmental networks. Administrative Systems provides development, support, and enhancement services for administrative applications (including Oracle and PeopleSoft), middleware and infrastructure services (including authority and authorization services), and reporting and data services.

For 2005/06, ITSS forecasts consolidated revenue of $101.8 million: general funds of $56.4 million and service center, rate-based funds of $45.4 million. The general funds budget was increased to accommodate the new university five-year plan for systems, which was developed to eliminate the continual requests for one-time funding.

A major goal for 2005/06 is to increase the effectiveness and efficiency of the university's administrative systems. These systems require significant enhancements to make them stronger and more consistently available to meet the critical demands of the academic units.

General funds finance the staffing, equipping, and operation of all principal university administrative systems. The Financial (Oracle) and Human Resource and Student Administration (PeopleSoft) systems consume the majority of this funding. Oracle system enhancement and refinement, particularly as related to other essential systems and functions, continues to draw significant resources. General funds are also used to provide basic IT services to all university client groups: faculty, staff, and students. These services and infrastructures are essential to delivering and supporting technology. They include networking, backbone and desktop security, help desks, and the campus card program.

ITSS rate-based services are now provided through the following three service centers:

- Shared Services ($39.4 million)—Provides voice and video communication, data communication combined with data hosting, and operations in order to ensure end-to-end connectivity and the uninterrupted delivery of voice and data traffic,
- Computer Resource Center ($5 million)—Provides desktop and server installation and maintenance to attain the highest possible level of hardware and software availability and user value,
- Technology Training ($1 million)—Provides lecture, hands-on, classroom, and Web-based training to ensure desktop and system users are able to operate and maintain software and equipment to meet their specific objectives.

Athletics

The Department of Athletics, Physical Education, and Recreation (DAPER) projects a balanced auxiliary budget and a small surplus in its financial aid budget in 2005/06.

Auxiliary budget income will grow by 8% from 2004/05 through the addition of new areas of oversight. During 2004/05, DAPER assumed responsibility for the Red Barn Equestrian Center and the Stanford Campus Recreation Association (SCRA) facilities. These are break-even operations and result in a combined incremental income (and expense) of $1.6 million (4% of DAPER's budget). In addition, DAPER will receive increased general funds to cover the operational and staffing costs of the new Arrillaga Recreation Building, which is primarily for non-intercollegiate sports use and is projected to open in late summer 2005. Other income areas remain basically flat, though there is a small increase in contractual income from the NCAA and the Pacific 10 Conference due to a new XM Radio income stream.

DAPER's auxiliary budget expenses will include modest salary growth in 2005/06, consistent with the university's salary plan. As mentioned above, expenses will be added for the Red Barn Equestrian Center and SCRA programs and for the Arrillaga Recreation Building, which will add new programmatic offerings for the campus. Several operational areas that have been held flat the past few years will see modest 1%–3% expense increases.

The total number of full scholarships will increase from 314 in 2004/05 to 321 in 2005/06. Due to forecast growth in endowment income, DAPER expects a small financial aid surplus, even after adding seven scholarships.

Residential & Dining Enterprises

The Residential & Dining Enterprises (R&DE) strategic financial plan projects 2005/06 to be the second of three years with a planned operating deficit. R&DE is projecting a consolidated deficit of $789,000 on revenues and transfers of $119.3 million. R&DE will use reserves to cover the shortfall.

Capital projects scheduled for 2005/06 include the second of the three-phase Roble Hall renovation to meet seismic, life safety, fire sprinkler, and other code regulations. In addition, construction of the final residence and dining hall in Manzanita Park will begin. This

Summary Auxiliary Activities, 2005/06
[in millions of dollars]

	Revenues and Transfers	Expenses	Results of Current Operations	Transfers (to)/from Assets	Change in Fund Balance
Athletics[1]	41.5	44.3	(2.8)	2.8	
Blood Center	28.3	28.3			
HighWire Press	18.3	18.3			
Residential & Dining Enterprises	119.3	120.1	(0.8)		(0.8)
Stanford West/Welch Road	14.9	15.9	(1.0)		(1.0)
University Press	7.5	7.5			
Other	16.3	16.2	0.1	(0.3)	(0.2)
Total	246.1	250.6	(4.5)	2.5	(2.0)

NOTES:
[1] Financial aid activity and camps are not included.

project will be funded entirely through gifts. R&DE's $420 million Capital Improvement Program (CIP) will be in the fourteenth year of a nineteen-year plan. CIP projects planned in 2005/06 include continued seismic and life safety upgrades of Row Houses, Florence Moore kitchen infrastructure and code improvements, and Escondido Village seismic code changes.

After considerable analysis, R&DE has implemented a phased reduction in budgeted room income to reflect actual occupancy rate declines in recent years. These declines (from 98.5% to approximately 93.5%) are due in large part to greater undergraduate participation in overseas studies programs, especially during spring quarter. There have also been an increased number of resident contract terminations in recent years. It is expected that university policy changes to student contracts will help reduce contract terminations, thereby stabilizing student income.

For the first year since the SLAC Guest House opened in 2003, R&DE plans to realize the complete revenue potential from this facility, which is operated by Student Housing. The off-campus graduate student housing program, managed by Housing Assignment Services, is undergoing a phased reduction and will end in August 2007.

A new meal plan structure will provide students with more flexible dining options at both residential and retail facilities.

On the expense side, the 2005/06 pooled debt rate will increase by almost thirty-four basis points, thus raising R&DE's annual debt service payments. R&DE will also incur major expenses for increases in compensation; Student Housing's implementation of a state-of-the-art facilities management system; the first full year of Graduate Community Center operations, maintenance, and debt service; and the continuing initiative to build an asset preservation program to fund building infrastructure renewal.

Stanford University Press

The Press is forecasting a balanced position for 2005/06. Total revenue and other income is budgeted at $7.5 million, with $5.6 million coming from book sales and $1.9 million from rights sales and other income sources. Continuing the pattern of the last three years, this income will both sustain the well-established humanities program and underwrite the accelerating growth of newer programs in anthropology, business, economics, law, politics, and sociology.

Building on the 27% revenue growth achieved in the last three years, the year-on-year sales target is again aggressive at 14%, reflecting increased total gross book sales, continued low levels of returns, and an increasingly robust backlist.

After three years of cost reduction, including a 10% cut in 2004/05, the Press expects an inflationary increase in its cost base. This will still keep expenditures at pre-2002 levels. Costs of sales for fiscal year 2005/06 are budgeted at $2.4 million, a 3% increase over what is expected in 2004/05 despite the 14% growth in sales. Operating costs are budgeted at $4.3 million, up from the $4.1 million estimated for 2004/05. Operating expense growth stems from distribution expense, which is directly related to sales growth; presswide salary increases; and investment in marketing and acquisitions.

IMPACT OF THE CAPITAL BUDGET ON THE CONSOLIDATED BUDGET FOR OPERATIONS

The 2005/06 Capital Budget calls for $373.3 million in expenditures on capital projects. The impact of these expenditures on the Consolidated Budget for Operations is shown in two places. The first is $5.0 million in incremental internal debt service for those projects that will be coming on line in 2005/06 or for projects completing in 2004/05 that were operational for less that the entire fiscal year. Of this total, $2.8 million will be borne by unrestricted funds (general funds and designated funds), and the Auxiliaries and Service Centers will cover $3.1 million. These increases will be offset by a $0.9 million reduction in internal debt service in ITSS due to a decrease in capital equipment amortization. The second impact of the Capital Budget on the operations budget is $1.0 million for incremental operations, maintenance, and utilities costs, primarily for the Astrophysics building and reopening Bakewell.

PROJECTED STATEMENT OF ACTIVITIES

The table on the next page compares the Consolidated Budget for Operations with the projected operating results section of the Statement of Activities. The Statement of Activities summarizes all changes in net assets during the year (both operating and non-operating). It is similar to a corporate income statement prepared in accordance with Generally Accepted Accounting Principles (GAAP) and is part of the audited financial statements published in the Annual Report.

Stanford University, as a not-for-profit institution and a recipient of restricted donations, manages itself internally according to the principles of fund accounting. Cash resources are classified into fund groups, which are subject to different legal and management constraints.

There are four different categories of funds:

1) Current Funds, which include revenue to be used for operating activities — e.g., tuition revenue, sponsored research support, endowment payout, and other investment income;

2) Endowment Principal Funds, which include all of Stanford's endowment funds, both those restricted by the donor, and those designated as endowment funds by university management;

3) Plant Funds, which include all funds to be used for capital projects, such as construction of new facilities or retirement of indebtedness; and

4) Student Loan Funds, which include those funds to be lent to students.

The Consolidated Budget for Operations follows the principles of fund accounting. It includes only current funds, and reflects the sources and uses of current funds on a modified cash basis that more closely matches the way that the university is managed internally. Within these current funds, funds are further classified by their purpose and level of restriction. The Consolidated Budget also reflects the transfer of current funds for investment in other fund groups: funds functioning as endowment, student loan funds, and plant funds. For example, a school may choose to transfer operating revenue to fund a future capital project. Similarly, a department may decide to move unspent current funds to the endowment, either to build capital for a particular purpose, or to maximize the return on those funds as a long-term investment.

Converting the Consolidated Budget into the Statement of Activities

In addition to its requirement to manage funds in accordance with donor imposed restrictions, Stanford also has external reporting requirements. To convert the Consolidated Budget to the Statement of Activities format, certain revenue and expense reclassifications and adjustments are necessary. For example, the Consolidated Budget reports as expense the use of funds to acquire equipment. For GAAP purposes the acquisition of capital equipment is recorded as an increase in capital assets in the Statement of Financial Position (similar to a corporate balance sheet), with a corresponding annual amount of expense required to depreciate the cost of the capital equipment over its useful life in the Statement of Activities.

Comparison of Consolidated Budget and Statement of Activities, 2005/06
Unrestricted Net Assets
[in millions of dollars]

Statement of Activities 2003/04 Actuals	Statement of Activities 2004/05 June 2004 Budget	Statement of Activities 2004/05 Projected		Fiscal Year 2005/06 Consolidated Budget	Fiscal Year 2005/06 Adjustments	Fiscal Year 2005/06 Projected Statement of Activities
			Revenues and Other Additions			
			Student Income:			
191.7	201.7	205.4	Undergraduate Programs	213.2		213.2
182.3	196.4	200.3	Graduate Programs	206.3		206.3
86.5	93.3	90.8	Room and Board	93.8		93.8
(128.1)	(141.9)	(135.2)	Student Financial Aid[e]		(142.0)	(142.0)
332.4	349.5	361.3	Total Student Income	513.3	(142.0)	371.3
			Sponsored Research Support:			
525.5	546.1	564.0	Direct Costs–University	587.7		587.7
233.9	260.0	263.0	Direct Costs–SLAC	318.0		318.0
164.1	158.7	176.0	Indirect Costs	180.4		180.4
923.5	964.8	1,003.0	Total Sponsored Research Support	1,086.1		1,086.1
230.0	255.3	236.2	Health Care Services[f]	295.4	(20.7)	274.7
105.2	120.0	125.0	Expendable Gifts In Support of Operations	130.0		130.0
			Investment Income:			
400.0	424.8	443.8	Endowment Income	492.6		492.6
77.3	81.6	86.1	Other Investment Income	91.6		91.6
477.3	506.4	529.9	Total Investment Income	584.2		584.2
258.7	251.4	255.8	Special Program Fees and Other Income[g]	263.4		263.4
46.2	50.0	50.0	Net Assets Released from Restrictions	50.0		50.0
2,373.3	**2,497.4**	**2,561.2**	**Total Revenues**	**2,922.4**	**(162.7)**	**2,759.7**
			Expenses			
1,286.0	1,354.2	1,384.4	Salaries and Benefits[d]	1,474.4	(3.3)	1,471.1
233.8	260.0	263.0	SLAC	318.0		318.0
			Capital Equipment Expense[b]	55.8	(55.8)	
197.1	195.0	190.0	Depreciation[c]		192.0	192.0
0.0	0.0	0.0	Financial Aid[e]	142.0	(142.0)	
649.0	691.2	719.6	Other Operating Expenses[f,g]	832.9	(81.7)	751.2
2,365.9	**2,500.4**	**2,557.0**	**Total Expenses**	**2,823.1**	**(90.8)**	**2,732.3**
7.4	**(3.0)**	**4.2**	**Revenues less Expenses**	**99.3**	**(71.9)**	**27.4**
			Transfers			
			Additions to Assets[a]	(65.1)	65.1	
			Net Internal Revenue/Expense[h]	15.0	(15.0)	
			Total Transfers	**(50.1)**	**50.1**	
7.4	**(3.0)**	**4.2**	**Excess of Revenues Over Expenses After Transfers**	**49.2**	**(21.8)**	**27.4**

The following adjustments are made to the Consolidated Budget to convert it to the GAAP basis Statement of Activities format:

a) Eliminate Fund Transfers. The Consolidated Budget includes transfers of $65.1 million of current funds to other fund groups, including plant, student loans, and funds functioning as endowment. The Statement of Activities reflects operating results for all fund groups, including plant, student loan, and funds functioning as endowment.

b) Remove Capital Equipment purchases. The Consolidated Budget includes the projected current year's purchases of capital equipment as expense. For GAAP purposes, the cost of capital equipment is recorded on the Statement of Financial Position. As a result, $55.8 million is eliminated from Consolidated Budget expenses.

c) Record Depreciation expense for the current year's asset use. The Statement of Activities includes the current year's depreciation expense related to capital assets being depreciated over their useful lives. Depreciation expense includes the depreciation of capital equipment and other capital assets, such as buildings and land improvements. This adjustment adds $192 million of expense.

d) Adjust Fringe Benefit expenses. The Consolidated Budget reflects the fringe benefits cost based on the fringe benefit rate charged on all salaries. The Statement of Activities reflects accruals for certain benefits, such as pension and post-retirement benefits that are required by GAAP to be shown as expense in the period the employee earns the benefit. For 2005/06, budgeted expenses are expected to exceed GAAP expenses by $3.3 million.

e) Reclassify Financial Aid. GAAP requires that student financial aid be shown as a reduction of revenue. In the Consolidated Budget, financial aid is reported as an operating expense. Accordingly, $142.0 million of student financial aid expense is reclassified as a reduction of revenues in the Statement of Activities.

f) Adjust Health Care Services. For GAAP purposes, Health Care Services revenues received from the hospitals are reported net of expenses that the university charges the hospitals. The Consolidated Budget presents these revenues and expenses on a gross basis. This adjustment reclassifies $20.7 million from Other Operating Expenses to Health Care Services revenues.

g) Adjust Other Operating Expenses. The Consolidated Budget includes all debt service. It reflects as Other Operating Expenses the use of funds to cover repayment of the principal component of indebtedness. On a GAAP basis this transaction is reflected in the Statement of Financial Position. Therefore, Other Operating Expenses must be reduced by the amount of debt principal amortization. In addition, adjustments must be made to account for the difference between internal and external interest payments. This adjustment reduces expense by $61.0 million.

h) Eliminate Net Internal Revenue/Expense. The Statement of Activities excludes all internal revenues and expenses. However, the Statement of Activities includes the activity of all fund types, while the Consolidated Budget does not include plant funds. Therefore, the net inflow of $15.0 million from plant funds into the Consolidated Budget for purchases of internal services must be eliminated.

In summary, the impact of these adjustments decreases the Consolidated Budget's projected $49.2 million surplus by $21.8 million, resulting in a projected surplus of $27.4 million in the Statement of Activities.