SECTION 1

CONSOLIDATED BUDGET FOR OPERATIONS

In this section we review the details of the 2008/09 Consolidated Budget for Operations, describe the general funds allocation process and results, and present a forecasted Statement of Activities.

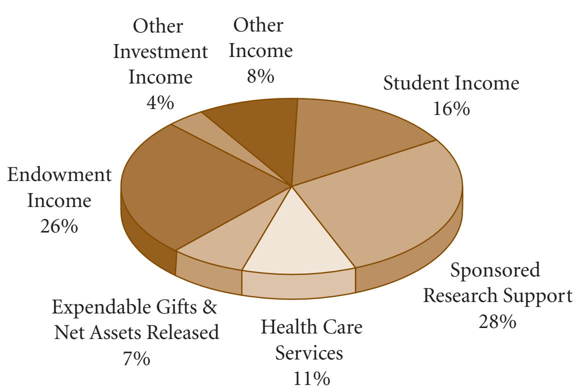
CONSOLIDATED BUDGET FOR OPERATIONS

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 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 includes 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 payout of endowment income.

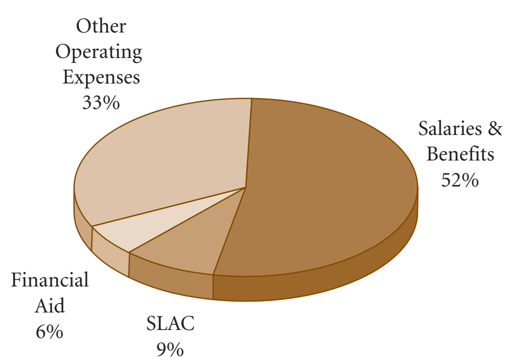
The 2008/09 Consolidated Budget for Operations shows total revenues of $3,824 million and expenses of $3,519 million, resulting in net operating results of $305 million. However, after estimated transfers, primarily to plant funds, the Consolidated Budget shows a surplus of $130.1 million.

Total revenues in 2008/09 are projected to increase 2.6% over the expected 2007/08 levels, an increase that is moderated by continued slow growth in sponsored research and an expected decrease in the SLAC budget. Total expenses are expected to grow by 5.1% over the estimated year-end results for 2007/08. The table on the next page shows the projected consolidated revenues and expenses for 2008/09. For comparison purposes, it also shows the actual revenues and expenses for 2006/07 and both the budget and the year-end projections for the current fiscal year, 2007/08. In addition, definitions of key terms are provided on page 5.

2008/09 Consolidated Revenues: $3,824.0 M [1]



2008/09 Consolidated Expenses: $3,519.0 M



[1] Net Revenues after Transfers: $3,649.1 million

Consolidated Budget for Operations, 2008/09

[in millions of dollars]

2006/07 Actuals	2007/08 Budget[1] October 2007	2007/08 Projected Actuals		General Funds	Designated	Restricted	Grants and Contracts	Auxiliary & Service Center Activities	Total
			Revenues						
			Student Income:						
225.9	237.8	243.1	Undergraduate Programs	251.6					251.6
222.9	232.9	233.6	Graduate Programs	243.1					243.1
99.9	103.2	104.0	Room and Board					107.6	107.6
548.7	573.9	580.7	Total Student Income	494.7				107.6	602.3
			Sponsored Research Support:						
548.7	534.0	552.0	Direct Costs--University				555.3		555.3
345.7	338.1	358.0	Direct Costs--SLAC				318.4		318.4
172.2	185.9	174.7	Indirect Costs	185.9					185.9
1,066.6	1,058.0	1,084.7	Total Sponsored Research Support	185.9			873.7		1,059.6
394.5	402.1	402.4	Health Care Services	14.9	339.0	6.7		57.7	418.3
197.5	175.0	200.0	Gifts In Support of Operations	2.0		198.0			200.0
94.6	80.0	80.0	Net Assets Released from Restrictions			80.0			80.0
			Investment Income:						
606.3	879.7	911.1	Endowment Income	166.3		810.8			977.1
120.5	127.9	129.4	Other Investment Income	57.4	68.9	9.3	0.4		136.0
726.8	1,007.6	1,040.5	Total Investment Income	223.7	68.9	820.1	0.4		1,113.1
325.3	333.2	340.3	Special Program Fees and Other Income	9.7	228.9	1.9	1.5	108.7	350.7
3,354.0	**3,629.8**	**3,728.6**	**Total Revenues**	**930.9**	**636.8**	**1,106.7**	**875.6**	**274.0**	**3,824.0**
			Expenses						
1,606.2	1,744.6	1,742.3	Salaries and Benefits	485.6	410.2	441.3	301.1	213.6	1,851.8
345.6	338.1	358.0	SLAC				318.4		318.4
156.0	169.4	177.1	Financial Aid	11.7	3.0	174.4	14.9		204.0
991.4	1,018.7	1,070.9	Other Operating Expenses	223.5	233.4	226.4	218.3	243.2	1,144.8
3,099.2	**3,270.8**	**3,348.3**	**Total Expenses**	**720.8**	**646.6**	**842.1**	**852.7**	**456.8**	**3,519.0**
254.8	**359.0**	**380.3**	**Operating Results**	**210.1**	**(9.8)**	**264.6**	**22.9**	**(182.8)**	**305.0**
			Transfers						
(88.4)	(21.4)	(52.8)	Additions to Endowment Principal	(0.4)	(11.6)	5.1		0.5	(6.4)
(82.1)	(116.6)	(106.9)	Other Transfers to Assets	(20.0)	(11.2)	(27.0)			(58.2)
	(129.7)	(130.1)	Transfers to Capital Facilities Fund	(85.3)	(29.4)	(21.0)			(135.7)
19.9	12.7	28.4	Net Internal Revenue & Expense	(98.5)	98.0	(132.3)	(22.9)	181.1	25.4
(150.6)	**(255.0)**	**(261.4)**	**Total Transfers**	**(204.2)**	**45.8**	**(175.2)**	**(22.9)**	**181.6**	**(174.9)**
104.2	**104.0**	**118.9**	**Operating Results after Transfers**	**5.9**	**36.0**	**89.4**		**(1.2)**	**130.1**
			Beginning Fund Balances	49.6	846.4	764.3	3.7	4.6	1,668.6
			Ending Fund Balances	55.5	882.4	853.7	3.7	3.4	1,798.7

[1] Restated to reflect increase in target payout rate.

The Consolidated Budget by Principal Revenue and Expense Categories

Revenues

Student Income

Student income is expected to increase by 3.7% in 2008/09. Increases in student charges are guided by a number of considerations. The most important are our programmatic needs, the effectiveness of our financial aid program, the comparison of our tuition to the competition, and the current political and public relations context in which the recommendation is shaped.

Tuition – The general tuition rate increase for 2008/09 is 3.5% to arrive at $36,030 for an undergraduate. This action was approved by the Board of Trustees in February. This is the lowest tuition rate increase in more than thirty years. Stanford expects to generate $494.7 million in tuition revenue in 2008/09. This amount represents only 13% of Stanford's total revenue but 53% of general funds. In addition to supporting faculty and staff salaries and other direct academic program needs, tuition plays a significant role in funding infrastructure, support services, and other operational activities. The increase approved for 2008/09, however, is not expected to keep pace with the increase in the cost of these services. Nonetheless, we expect to provide both continuing and modest incremental support to academic and administrative areas by allocating a slightly higher proportion of other sources of general funds for these purposes. Over the past two years, Stanford has increased its tuition by slightly more than the median of the tuition rates of the highly selective private colleges and universities that comprise the Consortium on Financing Higher Education (COFHE). Stanford's tuition currently ranks 14th among the 17 COFHE institutions. We do not anticipate that the 2008/09 tuition rate increase will substantially alter our overall position relative to the other COFHE schools, and we are confident that we will remain below the median for this group. The 3.5% 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 4.25%, and the Graduate School of Business (GSB) will increase the rate for entering MBA students by 6.5%, continuing its practice of holding second year MBA tuition constant. For the second consecutive year, terminal graduate registration (TGR) will not increase.

Tuition revenue from undergraduate programs is expected to grow 3.5%, consistent with the tuition rate increase. Graduate program revenue is expected to

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 prior year pledges and funds transferred from pending funds to gift funds.

Financial Aid: Includes expenses for undergraduate and graduate student aid. Student salaries, 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.

increase by 4.1%, which reflects the higher increases adopted for the School of Medicine and the Graduate School of Business.

Room and Board – In February, the Trustees approved a combined room and board rate increase of 3.5% for 2008/09, bringing the undergraduate rate to $11,182. The room rate will increase by 5.75% and the board rate by only 0.75%. We expect that these rates will sustain Stanford's cost of housing ranking in the lower quartile of the COFHE institutions and will lower Stanford's cost of dining ranking from the highest to closer to the median. The lower combined room and board rate will provide a greater perceived value to students and parents. The 2008/09 recommended increases in room and board rates were developed under the following Residential and 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 life safety and seismic projects as part of the ongoing capital improvement program; to improve operational funding of the asset renewal and preservation program; to support annual building improvements and to lessen reliance on debt funding; to provide funding for the improvement of the security and access control system in the residential buildings; and to absorb the 37% living wage increase for casual labor. In order to maintain its high quality with the minimal rate increase, Stanford Dining is planning for increased retail revenue, reduced purchasing costs, and expanded energy and water conservation initiatives. Overall room and board revenue will grow by 3.5%.

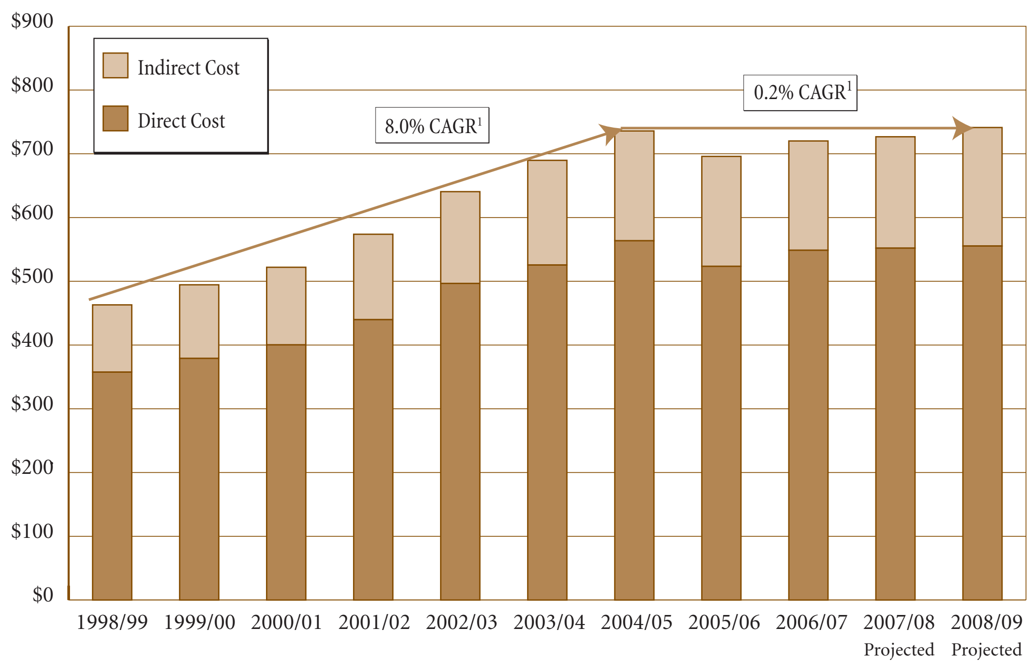
Sponsored Research Support and Indirect Cost Recovery

The budget for sponsored research support is projected to be $1,059.6 million in 2008/09. This figure includes the direct costs of externally supported grants and contracts ($555.3 million for university research and $318.4 million for SLAC), as well as reimbursement for indirect costs ($185.9 million) incurred by the university in support of sponsored activities. Sponsored research currently generates 28% of the university's consolidated revenues, down from 36% just five years ago. As shown in the chart below, non-SLAC sponsored research enjoyed strong growth in the years leading up to 2004/05, averaging 8.0% annual growth from 1998/99 through 2004/05. However, since then sponsored research volume has been flat, and we anticipate only slight growth in 2008/09.

On the longer-range horizon there may be slight improvement. The 2009 federal research funding outlook is more promising than it has been in recent years. The National Science Foundation (NSF) and the Department of Energy (DOE) Office of Science are expected to see significant funding increases due to the current administration's focus on the American Competitiveness Initiative (ACI). A key goal of ACI is

University Sponsored Research Activity (Excluding SLAC)

[in millions of dollars]



[1] Compound Annual Growth Rate (CAGR)

to double the funding levels for NSF and DOE Office of Science over a ten year period ending 2016. The largest NSF increases are expected to be in Math, Physical Sciences, Engineering, and Computer & Information Sciences. Smaller increases are expected in funding levels for NASA, DOD, and the remainder of DOE.

The National Institutes of Health (NIH) expect next year's funding level to be flat, continuing the recent trend of flat or declining funding following a ten-year doubling effort that ended in 2004. Adjusted for inflation, bio-medical research has fallen 13% from the 2004 level. As NIH is the university's largest federal funding source (non-SLAC), this trend has a significant impact on our overall research volume.

The School of Medicine estimates that direct research activity will be flat in 2008/09. Non-Medicine direct research is expected to grow slightly (1.5%) due to moderate expected growth in Engineering and the independent labs within the Dean of Research.

Indirect cost recovery will grow somewhat faster due to a projected increase in the indirect cost rate from 58.0% in 2007/08 to 61.4% in 2008/09. The 2008/09 indirect cost rate will not be finalized until negotiations with the federal government conclude in summer 2008.

The Department of Energy continues to provide most of the funding for SLAC. Total direct costs for SLAC are expected to increase by about $12 million in 2007/08, but then to decline by about $40 million to $318.4 million in 2008/09 as the construction of the $105 million Linac Coherent Light Source facilities is completed and the project progresses to the phase of installing technical components. SLAC research activity is discussed in more detail in Section 2.

Health Care Services

Health Care Services income is budgeted to be $418.3 million in 2008/09, a 3.9% increase over the projection for 2007/08. The majority of this income ($377.4 million) is in the School of Medicine, including $323.0 million paid by Stanford Hospital and Clinics and Lucile Packard Children's Hospital related to the clinical practices of the faculty, $6.7 million paid by Lucile Packard Children's Hospital for Children Health Initiative Gift and Match programs. Another $35.1 million is generated by the Blood Center. Also included are $3.6 million of hospital payments to the Medical School for rent and use of the library, and $9.0 million from non-clinical programs and services. The hospitals also pay the university for a number of university provided services, including $13.4 million to Business Affairs IT primarily for communications services, $5.5 million to the Office of the General Counsel for legal services, $12.2 million to Land, Buildings and Real Estate for operations and maintenance and utilities, and $9.8 million to the central administration for items such as debt service and general overhead payments.

Expendable Gifts

Expendable gift income in support of operations is expected to total $200.0 million in both the current year and 2008/09, a level consistent with the actual gift revenue in 2006/07. The flat gift projection reflects the expectations of the Office of Development following the jumpstart of the Stanford Challenge and recognizes a slowing in the national economy. Expendable gifts are those immediately available for purposes specified by the donor. While total gift receipts are expected to be very strong as Stanford continues to raise funds as part of the Stanford Challenge, much of the total raised by the Office of Development is not immediately available and is not reflected on this income line. In particular, expendable gift income in support of operations does not include gifts to endowment principal, gifts for capital projects, gifts pending designation, or non-government grants.

Net Assets Released from Restrictions

This category 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 made in prior years and pending gifts whose designation has been determined. In 2008/09, we anticipate that schools and departments will be able to use $80.0 million of gifts and pledges received in previous years that had been classified as temporarily restricted.

Investment Income

Endowment Income – In June 2007 the Board of Trustees approved an increase in the target endowment payout rate from 5.0% to 5.5%, to be reviewed in five years. This change resulted in incremental endowment income of approximately $180 million in the current year and an overall increase of over 50% in endowment payout to operations in 2007/08 over 2006/07. Nearly 75% of the incremental payout is able to support activities previously funded by unrestricted funds. The released general funds will be redirected to the Capital Facilities Fund, which is devoted to capital projects and infrastructure needs.

Endowment payout to operations in 2008/09 is expected to be $977.1 million, a 7.2% increase over 2007/08. While this increase is somewhat less than those enjoyed over the past several years, actual investment returns are still above our long-term expectations of 10%. The estimate of endowment payout from the merged pool (MP) 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 it goes down when the market value increases. The target payout rate is 5.5%, and the smoothed payout rate projected for 2008/09 is 5.33%.

Total endowment income includes payout from funds invested in the MP 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. Gifts to endowment are expected to reach $300 million in the current year and in 2008/09.

Of the total endowment income, $166.3 million, or 17.0%, is unrestricted. The unrestricted endowment income includes payout from unrestricted merged endowment funds and most of the income generated from Stanford endowed lands. The unrestricted portion is expected to increase by 6.2% in 2008/09, somewhat slower than the growth expected in total endowment income, because we do not anticipate new unrestricted endowment gifts.

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 separately invested in the endowment income funds pool (EIFP), income on the Stanford Housing Assistance Center (SHAC) portfolio, and investment income distributed to support the Stanford Management Company and the real estate division of Land, Buildings, and Real Estate. The largest of these sources is the EFP, the investment pool for most 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 balance of approximately $1.9 billion. The EFP is invested approximately 87.5% in the merged pool and 12.5% in money market instruments. For the majority of the funds held in the EFP, the payout that is available for operations is set at 5.5%. The remaining funds receive a money fund rate. Investment returns above this payout are invested in the merged pool as funds functioning as endowment and are controlled by the president. EFP payout in 2008/09 is expected to be $91.3 million, a 5.0% increase over 2007/08.

The EIFP is approximately $200 million and is invested entirely in money market instruments. Income from this source is budgeted at $8.3 million, up from $7.9 million in 2007/08. Other investment income, including SHAC and the Stanford Management Company is expected to add $44.7 million in 2008/09.

Total other investment income is expected to increase by 5.1% to $136.0 million in 2008/09.

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 Residential & Dining Enterprises, 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 $353.5 million in 2008/09, an increase of 3.0% over the expected level in 2007/08.

Expenses

Salaries and Benefits

The salary and benefits line in the Consolidated Budget for Operations corresponds to total compensation, which includes 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. Total compensation in 2008/09 is budgeted to be $1,851.8 million, a 6.3% increase over the year end projection of $1,742.3 million. Total salary expense is also expected to grow by 6.3% as a result of the approved merit programs for faculty and staff, additional salary adjustments for equity and retention, as well as projected modest headcount growth for faculty and 2% headcount growth for staff. The fringe rate applied to regular staff and faculty is expected to increase only slightly, so the increase in benefits expense will grow with the growth in salary expense. The salaries and benefits line does not include $175.3 of salaries and benefits that are included in the total for the Stanford Linear Accelerator Center (SLAC), which is discussed on the next page.

Salaries – The 2008/09 Budget Plan includes a competitive merit salary program for faculty and staff. The program also provides additional funding so that adjustments can be made for those faculty and staff salaries that lag their respective markets, for equity adjustments among similar positions, and for retaining our best faculty and staff. The annual salary program is guided by the university's compensation philosophy. 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 each job category to the competitive marketplace average in the local employment market. Overall, salary expense in 2008/09 is budgeted to be $1,320.6 million, a 6.3% increase over the expected year-end projection for salary expense.

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 are publicly available, and consideration of available resources. Based on this analysis, the general salary program increase in 2008/09 for faculty salaries is 3.5%. Added to this will be a pool of salary dollars available to address individual equity and competitive issues. In addition, several schools presented requests to the Budget Group for funds to address faculty salary issues beyond the planned increases. Incremental general funds were allocated for this purpose in the schools of Earth Sciences, Humanities and Sciences, and Law.

Total staff salary expenditures are expected to increase by 6.3% as a result of the approved salary program and roughly 2% headcount growth. 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 2008/09 is expected to allow the university to maintain its competitive position in the local market. The program authorizes base merit increases, an incremental allocation to address a combination of issues including equity with the local market and within Stanford, as well as retention. It also includes a provision for targeted funding for specific job groups that lag the market by 10% or more and non-base performance bonus/incentive programs. Taken together, the 2008/09 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 – The benefits rate for regular benefits-eligible employees, which covers most university employees and comprises most of Stanford's benefits costs, will go up slightly, from 27.9% in 2007/08 to 28.0% in 2008/09. The rate for post-doctoral affiliates will decrease, while the rates for contingent employees and graduate research and teaching assistants will increase.

The increase in the regular-benefits-eligible rate (RBE) for 2008/09 is mainly due to the net impact of two factors: the continuing rise in health care costs and a large carry-forward from 2006/07. The carry-forward is the under- or over-recovery that occurs when the fringe rate charged during the year is either insufficient to recover the actual costs or causes an over-recovery of the actual costs. The carry-forward is added to (or subtracted from) a future rate, usually two years forward. In 2006/07, the RBE rate over-recovered costs by $18.4 million. Ordinarily, these costs would be subtracted from the total costs included in the rate for 2008/09 and would have the impact of lowering the RBE rate by 1.4 points. However, in an effort to minimize the annual fluctuation in the fringe benefits rate, and in anticipation of an under-recovery of costs in 2007/08, we propose applying 50% of the costs to the 2008/09 rate and the remaining 50% to the 2009/10 rate. The impact of the 2006/07 carry-forward on the 2008/09 rate is a reduction of 0.7 points to the underlying base rate, but it represents a decrease of only 0.2 points compared to the 2007/08 rate, which is also suppressed due to a negative carry-forward from a prior year.

The underlying rate, without carry-forward, is projected to increase by 0.3 points, mainly because the university's expenses for health insurance continue to rise at double-digit rates. Health insurance costs for active employees are expected to increase by 10% and will add nearly 0.5% to the RBE rate in 2008/09. This increase is offset by a 0.2 point decrease in retirement programs.

The benefits rate for post-doctoral research affiliates will decrease slightly in the coming year, from 20.8% to 20.7%. This is primarily due to a carry-forward credit from 2006/07 offset by increased health insurance costs. The rate for contingent (casual or temporary) employees will increase from 7.6% to 7.7%.

The rate for graduate teaching and research assistants will increase significantly from 4.0% to 4.6%, due to the rising insurance costs. This rate will continue to fund half the cost of Cardinal Care 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 is projected to increase by about 10.5% 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.

The negotiated 2007/08 and the recommended 2008/09 fringe benefits rates are as follows:

Fringe Benefits Rates

	2007/08 Negotiated Budget	2008/09 Proposed Rates
Regular Benefits-Eligible Employees	27.9%	28.0%
Post-Doctoral Research Affiliates	20.8%	20.7%
Casual/Temporary Employees	7.6%	7.7%
Graduate RAs and TAs	4.0%	4.6%
Other Students	0.0%	0.0%
Average Blended Rate	25.6%	25.8%
Tuition Grant Program Recovery Rate	1.75%	1.75%

The Tuition Grant Program (TGP) rate is charged separately against regular benefits-eligible salaries only. In order to comply with OMB Circular A-21, all government-sponsored accounts are exempt from the charge. Academic service centers are also exempt.

SLAC

Total SLAC costs in 2008/09 are expected to be $318.4 million, about $40 million lower than the projection for 2007/08, due to the completion during the year of the Linac Coherent Light Source (LCLS) construction project. The total SLAC budget consists of $175.3 million in salaries and benefits, virtually unchanged from the $173.5 million projected for 2007/08, and of $143.1 million in other operating expense, a 22.4% decrease from the current year's level. The decrease in SLAC's non-salary budget results from substantially lower construction costs.

Financial Aid

Stanford expects to spend a total of $204.0 million on student financial aid for undergraduate and graduate students, $11.7 million of which will come from general funds. Designated and restricted funds ($177.4 million) and grants and contracts ($14.9 million) will support the remainder. The total financial aid numbers are 15.2% above the projected total for 2007/08. This increase is driven by the increases in tuition rates for both undergraduate and graduate students and the enhancements to the undergraduate scholarship program intended to improve affordability for students from middle-income families.

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 2008/09 Stanford students will receive $109.3 million in need-based scholarships, of which $97.2 million will be from Stanford resources, an increase of 28.9%. The remaining $12.1 million will come from government and outside awards, a slight decrease over the current year.

The significant increase in the undergraduate scholarship program is the result of a dramatic change in the university's undergraduate financial aid program aimed at further reducing the costs of a Stanford education to middle-income families. Under the new program, parents with incomes of less than $100,000 will no longer pay tuition; parents with incomes of

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

Source of Aid	2003/04 Actuals	2004/05 Actuals	2005/06 Actuals	2006/07 Actuals	2007/08 Projected	2008/09 Budget
Department Funds and Expendable Gifts	1.2	1.9	1.1	0.9	1.2	1.2
Endowment Income	29.4	32.7	37.2	45.0	67.0	76.3
President's Funds	10.9	9.5	9.8	10.3	7.2	19.7
General Funds	13.8	14.3	12.7	10.2	0.0	0.0
Subtotal Stanford Funded Scholarship Aid	55.3	58.4	60.8	66.4	75.4	97.2
Government and Outside Awards	14.0	13.8	12.1	12.1	12.4	12.1
Total Undergraduate Scholarship Aid	69.3	72.2	72.9	78.5	87.8	109.3
General Funds as a Share of Total Aid	20%	20%	17%	13%	0%	0%
President's Funds as a Share of Total Aid	16%	13%	13%	13%	8%	18%
Endowment funds as a Share of Total Aid	42%	45%	51%	57%	76%	70%
Number of Students	2,896	2,870	2,789	2,769	2,800	2,957

less than $60,000 will not be expected to pay tuition or contribute to the costs of room, board, or other student expenses. In addition, the program reduces the expected contribution from students on aid, thereby effectively eliminating the need for student loans. These changes greatly simplify the calculation of financial aid for low- and middle-income families and should allow Stanford to more easily communicate the improved affordability for these families. Unfortunately, these policy changes will most likely result in the loss of eligibility for Cal Grants for approximately 75 students. This loss adds to the total cost of the program. The new program will add $15.5 million to the cost of the undergraduate scholarship program in 2008/09. The incremental costs will be covered by one-time endowment reserves and presidential funds until new endowments can be raised. An additional $5.2 million will be needed to cover the increased costs of our existing scholarship program.

The following sources support Stanford's overall $97.2 million commitment to undergraduate scholarship in 2008/09:

- Restricted income (endowment and gifts) will provide $77.5 million, a 13.8% increase over 2007/08 due in large part to the one-time use of $3.1 million in endowment reserves.
- Funds controlled by the president will provide $19.7 million, up from $7.2 million in 2007/08. The large increase reflects the president's investment in the new program.
- General funds will not contribute to the cost of the undergraduate scholarship program this year. The increase in the target endowment payout rate from 5.0% to 5.5% in 2007/08 has eliminated the need for general funds at this time.

The table above shows the detail of undergraduate need-based scholarship aid. Schedules 7 and 8 in Appendix B provide supplemental information on undergraduate financial aid.

Athletic scholarships, which are not need-based, will be awarded to undergraduate students in the amount of $17.5 million, an increase that reflects the cost of tuition.

Graduate Aid – Stanford provides several kinds of financial support to graduate students which are expected to total $276.6 million in 2008/09. As the table on the next page indicates, this includes the tuition component of fellowships in the amount of $84.7 million, which is reflected in the Financial Aid line of the Consolidated Budget. Financial aid for graduate students is expected to increase by 6.0%, consistent with the planned increases in tuition in the various graduate programs. The table also includes funding, not shown in the Financial Aid line of the budget, for stipends, tuition allowance, and RA and TA salaries of $191.9 million. Consistent with the

2008/09 Financial Aid and Other Graduate Student Support from Stanford Resources

[in millions of dollars]

Projected 2007/08 Year-End		General Funds	Designated and Restricted	Grants & Contracts	Total
	Student Financial Aid				
79.7	Undergraduate		97.2	4.6	101.8
16.7	UG Athletic		17.5		17.5
80.7	Graduate	11.7	62.7	10.3	84.7
177.0	Total	11.7	177.4	14.9	204.0
	Other Graduate Support				
57.0	Stipends	9.6	32.4	17.6	59.5
55.0	Tuition Allowance	32.7	7.2	17.0	57.0
71.3	RA/TA Salaries &Benefits	8.5	31.3	35.7	75.5
183.3	Total	50.7	70.9	70.3	191.9
70.3	Postdoc Support	0.6	22.1	50.4	73.1
430.7	Total Student Support	63.0	270.4	135.6	469.0

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 4. The minimum rate for TA and RA salaries and stipends will increase by 5.75% in 2007/08; tuition allowance expense is expected to increase by 3.6%.

Graduate student support is funded by all of Stanford's various fund types, with the exception of auxiliary funds. In aggregate, unrestricted funds (general funds and designated funds) contribute a little less than 29%, restricted funds support about 42%, and grants and contracts supply the remaining 29%. However, the patterns of funding vary substantially within the schools. Not surprisingly, grants and contracts provide a significantly higher proportion of graduate student funding in the research-intensive schools like Medicine and Engineering. The professional schools rely almost exclusively on restricted funds. Recent changes in the grant processes of the National Science Foundation and the National Institutes of Health have exacerbated, and in some cases, created gaps between the amount of graduate support the grants provide and the costs of funding those graduate students. These funding gaps have required schools and departments to use their own sources of funds to provide full funding. The university is taking steps to identify other funding sources to fill these gaps (see sidebar discussion on graduate support on the next page.)

Schedule 4 in Appendix B shows graduate student support by source of funds.

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. This category makes up about one-third of the total expenditures in the Consolidated Budget and is projected to increase by 6.9% to over $1.1 billion in 2008/09. The principal components include; materials and supplies ($205 million, of which about one-third are laboratory supplies); professional services ($141 million); other services ($83 million); maintenance and utilities for campus buildings ($161 million); internal debt service ($142.7 million); research subcontracts ($65 million); capital equipment purchases ($71 million); student stipends ($88 million); and food, entertainment and travel ($86 million).

Utilities and Maintenance – The total cost of utilities is expected to increase from a projected $64.2 million in 2007/08 to $68.7 million in 2008/09.

Graduate Student Funding

One of the immediate challenges of the Vice Provost for Graduate Education (VPGE) office is to determine how to adapt to changes in the types and levels of federal research support for graduate students at Stanford. Increased competition and constraints on the National Institutes of Health (NIH) and National Science Foundation (NSF) budgets are exacerbating existing gaps between the graduate student support provided by these federal agencies and the rising costs of doctoral student support at Stanford.

The university is presently working to address tuition shortfalls on two federally funded programs: NSF Graduate Fellowships and NIH Training Grants

The NSF Graduate Fellowships Program provides three years of funding to selected graduate students. These nationally competitive awards include a stipend and an annual "cost of education allowance." For several years, the "cost of education allowance," which Stanford uses for tuition, has been set at $10,500. The gap between the cost of Stanford's graduate tuition and this $10,500 allocation has been increasing every year as tuition has increased. The cumulative gap is estimated to exceed $30 million from 2007/08 through 2011/12.

Likewise, the NIH recently announced a $16,000 tuition support cap on all new Training Grants awarded, and it caps annual stipend support at $20,722. The estimated cumulative gap at Stanford is $15 million from 2007/2008 through 2011/12.

To address these gaps, several schools have identified additional funding sources for graduate student support and have made graduate student support a priority in fundraising. The Office of the Vice Provost for Graduate Education has devised strategies to more fully tap Stanford Graduate Fellowship funds in order to increase support for doctoral fellowships and to reduce some of the tuition gaps on NIH Training Grants and NSF Fellowships over this five-year period.

More generally, the university (through its operating budget and general funds) provides continuing support for graduate students. This includes funding most graduate student Teaching Assistants (TAs) with a package that includes a salary, tuition allowance, and an insurance payment. University general funds also subsidize the cost of tuition for Research Assistants (RAs), permitting restricted grant and contract funds to go further. Through the allocation of general funds to each school, additional student support is made possible, as those schools use their funds to support new and continuing graduate students through locally-managed programs.

Long-term problem solving to address graduate student funding challenges is needed, however, to ensure continued excellence in graduate education and research.

Much of the cost increase is due to increases in the purchase prices of natural gas and electricity. While the purchased electricity prices are relatively stable at present, the natural gas market remains somewhat volatile, with prices recently on the upswing.

Maintenance and repair costs are budgeted at $92.3 million in 2008/09. The facilities operations group within the Land, Buildings, and Real Estate organization provides building maintenance and repair services to nearly 60% of the campus. The School of Medicine contracts with the Hospital for most of these services, while Residential and Dining Services provides the services internally.

An incremental $1.7 million was allocated in general funds for maintenance and utilities for new buildings and renovations. Included in this amount is the remainder of the funding for the Environment and Engineering building and Parking Structure 6, plus funding for the SIEPR building, the Advanced Vehicle Facility, the Stanford Daily Replacement Building, and other facilities.

Internal Debt Service – The 2008/09 internal debt service is projected to be $142.7 million, a $9.5 million increase over 2007/08. The year-over-year increase is due primarily to two large projects coming on line in 2008/09, which are the 21-acre hotel and office building complex on Sand Hill Road and the Munger Graduate Residences.

The university issues debt in the public markets to finance capital projects and programs. Internal loans are then applied to projects, which amortize the debt over the project life in equal installments (principal and interest). The budgeted interest rate used to calculate internal debt service is a blended rate of all external interest expense, bond issuance costs, and administrative costs, and is reset annually. The projected blended rate for 2008/09 is 5.2%, which is a 0.5% decrease from the current year's rate.

Transfers

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

- Additions to Endowed Principal: This line includes transfers of expendable funds to endowment principal which creates funds functioning as endowment (FFE). Total transfers to FFE of $6.4 million are planned in 2008/09.
- Other Transfers to Assets: The transfers in this category are primarily to plant for capital projects. Total transfers of $58.2 million to Plant are planned for 2008/09.

The combination of these two types of transfers from current funds to other forms of assets in 2008/09 at $64.8 million is down substantially from our projection of $119.7 million in 2007/08. This is principally due to two large transfers totaling $50.0 million to funds functioning as endowment (FFE) in 2007/08. Of this, $40.0 million was transferred to FFE in Humanities & Sciences by the provost, and $10.0 million was transferred from the Google proceeds to match funds raised as part of the Stanford Challenge. At this time we do not expect any transfers in 2008/09 of this magnitude.

- Transfers to the Capital Facilities Fund: $135.7 million will be used to address many of the projects in the Capital Plan. These are funds that have been made available as a result of the incremental endowment payout that was generated by the increase in the target payout rate. Most of the funds are unrestricted and have been freed up through the higher payout rate. In some cases, such as the president's funds, the incremental endowment is being used directly to support the capital projects.
- 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 Business Affairs-IT 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 $25.4 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.

GENERAL FUNDS

The general funds budget is an essential element of the Consolidated Budget because general funds can be used for any university purpose. The main sources of these funds are student tuition, indirect cost recovery from sponsored activity, unrestricted endowment income, and income from the expendable funds pool. Every university unit receives general funds, which support both academic and administrative functions. Total general funds revenue in 2008/09 is projected to be $931 million, of which $136 million flows to the formula schools per the negotiated formula arrangements.

Last year, the provost allocated $32 million of incremental general funds across the university while still maintaining a $12.7 million budgeted surplus to buffer against a possible forecast downturn in future years. In retrospect, maintaining a reserve was highly prudent, as general funds are expected to grow only 4.3% in 2008/09, compared to an average annual growth of 7.2% in the previous five years. Due to our desire to slow the growth in the cost of attending Stanford, the general tuition growth rate for 2008/09 has been set at 3.5%, the lowest increase in recent memory and below the growth in university expenses. As the largest source of general funds, tuition growth has a meaningful impact on our ability to fund new programs and activities.

Because general funds provides the necessary administration and infrastructure for all core activities at the university, the rapid growth in programs funded by restricted funds creates a demand for ever-increasing general funds. An ongoing university challenge is finding effective ways to grow general funds to meet this demand. Over the past several years we were able

Summary of 2008/09 General Funds Reductions and Additions (Excludes Formula Units)

[in thousands of dollars]

	2007/08 Base GF Allocation	Price & Salary Inflation	Additions	2008/09 Base GF Allocation	2007/08 to 2008/09 Increase
School of Earth Sciences	1,301	42	400	1,743	34.0%
School of Education	11,117	498	350	11,965	7.6%
School of Engineering	46,307	2,090	750	49,147	6.1%
School of Humanities & Sciences	111,483	4,680	2,000	118,163	6.0%
School of Law	11,995	440	348	12,783	6.6%
Vice Provost and Dean of Research	30,705	1,161	965	32,831	6.9%
Vice Provost for Undergraduate Education	15,033	534	125	15,692	4.4%
Vice Provost for Graduate Education	2,838	26	1,000	3,864	36.2%
Stanford University Libraries	41,752	1,462	600	43,814	4.9%
Total - Academic	272,531	11,079	6,538	290,148	6.5%
Office of Admission and Financial Aid	9,294	351	145	9,790	5.3%
Student Affairs	21,713	903	325	22,941	5.7%
Office of the President & Provost	14,747	576	830	16,153	9.5%
Office of Public Affairs	6,462	236	235	6,933	7.3%
Business Affairs[1]	49,278	1,919	955	52,152	5.8%
Business Affairs - Information Technology	57,451	2,046	423	59,920	4.3%
Development and Alumni Association	39,258	1,541	1,105	41,904	6.7%
Land, Buildings and Real Estate[2]	49,624	1,899	650	52,173	5.1%
Other Administrative Units	12,875	404	275	13,554	5.3%
Total - Administrative	260,702	9,875	4,943	275,520	5.7%
Incremental O&M and Utilities			1,679	1,679	
Debt Service	29,739		2,700	32,439	9.1%
Central Obligations[4]	90,817	(1,932)	745	89,630	(1.3%)
Total - Other	120,556	(1,932)	5,124	123,748	2.6%
Total Non-Formula Units	653,789	19,023	16,605	689,417	5.4%
Unallocated Surplus	12,752			5,900	
Capital Facilities Fund	81,746			85,320	
Total Non-Formula General Funds[5]	748,287			780,637	

Notes:

[1] For this table, insurance, fire contract, and audit 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, audit, and fire contract allocations have been included in this line.

[5] Includes $20 million of internal revenue from the infrastructure charge.

to enhance general funds by revising the expendable funds pool policy and the infrastructure charge policy. Looking forward, we do not anticipate policy changes that will generate incremental general funds, resulting in the likelihood of increased reliance on reallocation within the general funds budget.

Compounding the challenges of slower general funds growth is the substantial demand for general funds to cover a large portion of the costs associated with the university's ambitious capital plan. O&M and utilities expenses serviced by general funds are projected to grow by $25.7 million from 2008/09 to 2011/12, a 35% increase, and an additional $5.0 million will be required for incremental debt service by the end of this time period.

Throughout the winter, budget units met individually with the Budget Group, which comprises representatives from both faculty and administration, to discuss strategic plans, fund balances, and financial reports. The provost directed all budget units to incorporate internal reallocations and other coinvestments into their funding plans for new programs and initiatives.

Limited base funds were available to be allocated due to four primary factors: limited growth in general funds revenue, the need to fund a competitive faculty and staff salary program, nearly $8 million of existing incremental base commitments, and the desire to budget a small base reserve. The units collectively requested $30 million of general funds. For those requests deemed most critical to the university's mission, $8.7 million was granted. This amount represents only about 1% of the university's total non-formula general funds budget.

Faculty Support: $3.1 million

Even with fairly generous overall faculty salary programs over the past several years, there remain in some fields significant gaps in faculty compensation in comparison with our key competitors. A priority this year was to address some of the most serious areas, including Law and Economics. In total, about $1.7 million was allocated for incremental faculty compensation.

Nearly every school is concerned with the skyrocketing costs of faculty recruitment and retention. While schools have made efforts to address these costs from reserves and restricted funds, they have been unable to fully cover the costs of attracting and retaining premier faculty. To help ameliorate this problem, $1.4 million was allocated across several schools, with the lion's share going to H&S.

Other Academic Support: $3.1 million

In addition to the direct support for faculty, $3.1 million was allocated across the academic units for a wide array of programs and priorities. Of this, $1.0 million went to Vice Provost for Graduate Education (VPGE) as part of a multi-year commitment to build its base budget. Currently, presidential discretionary funds provide most of the funding for VPGE. Other commitments include $750,000 to Engineering for general operating support, $600,000 for library support and $500,000 to the Dean of Research to address, among other things, independent lab administrative support.

Facilities: $5.3 million

$4.4 million is required to service incremental O&M, utilities and debt service on new buildings coming on-line during 2008/09. In addition, $650,000 was allocated to Land, Buildings, and Real Estate in support of a range of projects, and funds were allocated in support of SEQ 2, Old Union and the Ford Center expansion.

Other Allocations: $5.1 million

A total of $5.1 million was allocated for a wide range of activities across campus. Highlights include continued base buildup for the Office of Development, compliance funding for the Dean of Research, IT support, and over $1 million for several health and security initiatives.

PROJECTED STATEMENT OF ACTIVITIES

In addition to its requirement to manage funds in accordance with donor imposed restrictions, Stanford also presents a Statement of Activities, prepared in accordance with Generally Accepted Accounting Principles (GAAP), to comply with external reporting requirements. The Statement of Activities summarizes all changes in net assets during the year (both operating and non-operating) and is similar to a corporate income statement. The table on the facing page compares the Consolidated Budget for Operations with the projected operating results section of the Statement of Activities.

Comparison of Consolidated Budget and Statement of Activities, 2008/09
Unrestricted Net Assets
[in millions of dollars]

Statement of Activities				Fiscal Year 2008/09		
2006/07 Actual	2007/08 October 2007 Budget[1]	2007/08 Projected Year-End		Projected Consolidated Budget	Adjustments	Projected Statement of Activities
			Revenues			
			Student Income:			
227.4	237.8	243.1	Undergraduate Programs	251.6		251.6
222.9	232.9	233.6	Graduate Programs	243.1		243.1
99.9	103.2	104.0	Room and Board	107.6		107.6
(156.1)	(169.4)	(177.1)	Student Financial Aid[e]		(204.0)	(204.0)
394.1	404.5	403.6	Total Student Income	602.3	(204.0)	398.3
			Sponsored Research Support:			
541.1	534.0	552.0	Direct Costs—University	555.3		555.3
345.7	338.1	358.0	Direct Costs—SLAC	318.4		318.4
171.4	185.9	174.7	Indirect Costs	185.9		185.9
1,058.2	1,058.0	1,084.7	Total Sponsored Research Support	1,059.6		1,059.6
366.5	372.5	374.1	Health Care Services[f]	418.3	(29.6)	388.7
198.5	175.0	200.0	Expendable Gifts In Support of Operations	200.0		200.0
95.7	80.0	80.0	Net Assets Released from Restrictions	80.0		80.0
			Investment Income:			
609.0	879.7	911.1	Endowment Income[j]	977.1	4.7	981.8
100.6	95.4	98.0	Other Investment Income[g]	136.0	(32.5)	103.5
709.6	975.1	1,009.1	Total Investment Income	1,113.1	(27.8)	1,085.3
332.7	338.2	345.3	Special Program Fees and Other Income[j]	350.7	8.7	359.4
3,155.3	**3,403.3**	**3,496.8**	**Total Revenues**	**3,824.0**	**(252.7)**	**3,571.3**
			Expenses			
1,535.4	1,728.7	1,767.3	Salaries and Benefits[d,g,j]	1,851.8	0.8	1,852.6
345.7	338.1	358.0	SLAC	318.4		318.4
			Capital Equipment Expense[b]	70.8	(70.8)	
201.9	222.1	217.8	Depreciation[c]		224.0	224.0
			Financial Aid[e]	204.0	(204.0)	
821.7	828.8	914.6	Other Operating Expenses[f,g,h,j]	1,074.0	(99.9)	974.1
2,904.7	**3,117.7**	**3,257.7**	**Total Expenses**	**3,519.0**	**(149.9)**	**3,369.1**
250.6	**285.6**	**239.1**	**Operating Results**	**305.0**	**(102.8)**	**202.2**
			Transfers			
			Additions to Assets[a]	(64.6)	64.6	
			Capital Facilities Fund[a]	(135.7)	135.7	
			Net Internal Revenue/Expense[i]	25.4	(25.4)	
			Total Transfers	**(174.9)**	**174.9**	
250.6	**285.6**	**239.1**	**Operating Results after Transfers**	**130.1**	**72.1**	**202.2**

[1] Restated to reflect increase in target payout rate.

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.

A difference between reporting operating results in the Consolidated Budget and in the Statement of Activities is that current funds that are set aside for non-operating purposes (such as to fund plant projects or to establish funds functioning as endowment) reduce the Consolidated Budget bottom-line, but have no impact on the Statement of Activities bottom-line (as their GAAP designation of restriction level has not changed). So, while the operating results of the Consolidated Budget are decreased by the transfers of $64.6 million to plant and FFE and $135.7 million set aside for the Capital Facilities Fund, these "set-asides" have no impact on the Statement of Activities operating results.

Converting the Consolidated Budget into the Statement of Activities

To convert the Consolidated Budget to the Statement of Activities under GAAP, certain revenue and expense reclassifications, transfers, and adjustments are necessary.

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

a) Eliminate Fund Transfers. The Consolidated Budget includes transfers of $200.3 million of current funds to other fund groups, including plant, student loans, 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 as an asset on the Statement of Financial Position. As a result, $70.8 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 $224.0 million of expense.

d) Adjust Fringe Benefit expenses. The Consolidated Budget reports the fringe benefits cost based on the fringe benefit rate charged on all salaries. The Statement of Activities reflects actual expenses for fringe benefits, which includes 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 2008/09, GAAP expenses are expected to be lower than budgeted expenses by $9.7 million.

e) Reclassify Financial Aid. GAAP requires that the tuition portion of student financial aid be shown as a reduction of revenue. In the Consolidated Budget, financial aid is reported as an operating expense. Accordingly, $204.0 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 $29.6 million from Other Operating Expenses to Health Care Services revenues.

g) Adjust for Internal Investment Management Expenses. Included in the Consolidated Budget revenues and expenses are $32.5 million of internal expenses of the Stanford Management Company, Real Estate Operations, and the Investment Accounting department. For GAAP purposes, these expenses incurred as part of the generation of investment returns are netted against investment earnings. This adjustment reduces Other Investment Income, as well as reducing $24.3 million from compensation and $8.2 million from non-compensation expenses, with no net change in the bottom line.

h) 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 repayments of debt are reported as reductions in Notes and Bonds Payable 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. These adjustments reduce expense by $71.0 million.

i) 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 $25.4 million from plant funds into the Consolidated Budget for purchases of internal services must be eliminated.

j) Include Stanford Sierra Camp and Rosewood Sandhill Hotel. The Statement of Activities includes the revenues and expenses of the Sierra Camp that the Alumni Association runs as a separate limited liability corporation, as well as the operating revenue and costs of the new Rosewood Sandhill Hotel, also a separate limited liability corporation. $13.4 million in revenues and $13.4 million in expenses gets added ($4.5 million in Salaries and Benefits and $8.9 million in Other Operating Expenses).

In summary, the impact of these adjustments increases the Consolidated Budget's projected $130.1 million surplus by $72.1 million, resulting in a projected surplus of $202.2 million in the Statement of Activities.