SECTION 1
FINANCIAL OVERVIEW

INTRODUCTION

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

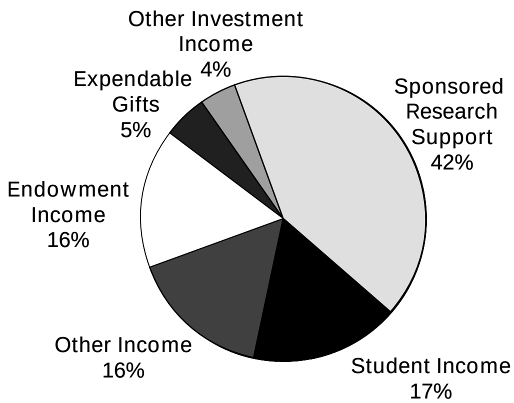
- The Consolidated Budget for Operations
- The Capital Budget
- The Projected Statement of Activities

CONSOLIDATED BUDGET FOR OPERATIONS

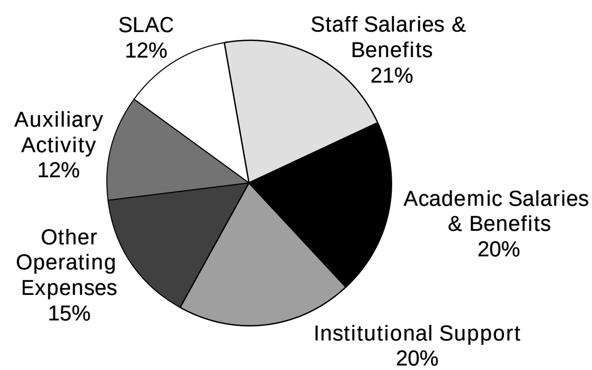
The Consolidated Budget for Operations includes all revenues and expenditures for current operations. It is based on forecasts from the schools and the administrative areas. These forecasts are then merged with the general funds budget forecast and adjusted by the University Budget Office for consistency. The table on the next page shows the actuals for 1996/97, the budget for the current fiscal year, 1997/98, the estimated year-end projections for 1997/98, and the projected consolidated revenues and expenditures for 1998/99. Definitions of key terms are provided. In this section we will review the Consolidated Budget from three perspectives: through an analysis of revenues and expenditures, by type of funding source (e.g., general funds, restricted funds, etc.), and by organizational unit.

It is important to note that the Consolidated Budget for Operations is presented essentially in a "cash format." In other words, it only shows those revenues and expenditures available for current operations. It does not include plant funds, student loan funds, and endowment principal funds, although endowment income is reflected in this budget. Later in this section, we make a series of adjustments to

1998/99 Consolidated Revenues: $1,484M[1]



1998/99 Consolidated Expenditures: $1,411M



1 After accounting for transfers, the total of Revenues and Transfers is $1,428M

Projected Consolidated Budget for Operations, 1998/99
(in millions of dollars)

1996/97 Actuals	1997/98 Budget June, 1997	1997/98 Projected Yr-End Actuals		General Funds	Designated	Restricted	Grants and Contracts	Auxiliaries/ Other	1998/99 Total Current Funds
			Revenues and Other Additions						
			Student Income:						
135.3	140.2	137.9	Undergraduate Programs	143.3					143.3
129.3	138.8	141.1	Graduate Programs	146.6					146.6
52.3	54.5	54.6	Room and Board					57.3	57.3
(66.4)	(95.4)	(93.6)	Student Financial Aid	(40.0)	(4.0)	(47.2)	(9.5)		(100.7)
250.5	238.1	240.0	Total Student Income	249.9	(4.0)	(47.2)	(9.5)	57.3	246.5
			Sponsored Research Support:						
335.1	335.1	349.3	Direct Costs—University				357.8		357.8
192.8	171.0	176.4	Direct Costs—SLAC				171.8		171.8
96.9	90.5	96.2	Indirect Costs	98.5					98.5
624.9	596.6	621.8	Total Sponsored Research Support	98.5			529.6		628.1
81.9	73.0	80.0	Expendable Gifts In Support of Operations	5.0		75.0			80.0
			Investment Income:						
191.7	206.2	218.2	Endowment Income	65.1		172.7			237.8
63.6	45.7	53.6	Other Investment Income	21.4	17.0	16.3	0.2		54.9
5.2			Unrealized Gain						
260.5	251.9	271.8	Total Investment Income	86.5	17.0	189.0	0.2		292.7
			Other Income:						
94.0	100.3	112.7	Special Programs Fees		87.7				87.7
90.2	94.1	103.8	Auxiliaries (excl. Room & Board)					105.8	105.8
42.1	34.5	42.7	Other Income	16.5	33.0	(6.7)	0.1		42.9
226.3	228.9	259.2	Total Other Income	16.5	120.7	(6.7)	0.1	105.8	236.4
1,444.1	**1,388.5**	**1,472.9**	**Total Revenues**	**456.4**	**133.7**	**210.1**	**520.5**	**163.1**	**1,483.7**
			Transfers and Other Adjustments						
16.5	10.0	15.0	Net Assets Released from Restrictions			15.0			15.0
			Transfers to Unrestricted University Reserves	(12.2)	12.2				
			Transfers to Designated Funds	(24.3)	24.3				
(13.8)	(25.0)	(11.5)	Additions to Endowed Equity		(5.5)	(10.6)			(16.0)
(60.2)	(39.0)	(59.4)	Transfer to Plant/Student Loan	(11.8)	(32.9)	(9.8)			(54.5)
1,386.5	**1,334.5**	**1,417.0**	**Total Revenues and Transfers**	**408.1**	**131.8**	**204.7**	**520.5**	**163.1**	**1,428.2**
			Expenditures						
256.0	252.6	261.6	Academic Salaries and Benefits	97.6	31.2	74.6	84.4		287.8
284.7	275.4	287.5	Staff Salaries and Benefits	149.8	41.0	51.1	54.1		296.0
192.8	171.0	176.4	SLAC				171.8		171.8
157.9	148.6	158.4	Auxiliary Activity					163.7	163.7
271.3	250.9	281.4	Institutional Support	107.7	28.8	35.4	116.3		288.2
190.6	206.0	200.6	Other Operating Expenses	53.0	24.2	32.8	93.9		203.9
1,353.3	**1,304.5**	**1,365.9**	**Total Expenditures**	**408.1**	**125.2**	**193.9**	**520.5**	**163.7**	**1,411.4**
33.2	**30.0**	**51.1**	**Surplus/(Deficit)**	**0.0**	**6.6**	**10.8**	**0.0**	**(0.6)**	**16.8**

the Consolidated Budget, in order to convert it from a cash basis to an accrual basis, and produce a Projected Statement of Activities. This Statement of Activities is consistent with how Stanford's audited financial statements are developed and displayed in the Annual Report.

The 1998/99 Consolidated Budget for Operations projection, as displayed on page 2, shows revenues and transfers of $1.428 billion and expenditures of $1.411 billion, resulting in a bottom line surplus of $16.8 million, approximately 1% of total expenditures. The projected surplus is driven by three factors. The first is a $12.2 million unrestricted University Reserve, which, as noted in the Executive Summary, is a buffer against the possibility of shortfalls in investment and research income. The second is the expectation of additional transfers to designated funds that reflect a multi-year pattern of actual actions by schools and departments as they build local contingencies and save for future projects and programs. Finally, we anticipate that strong endowment performance will result in a net excess of restricted income over expense. Grants and contracts are projected to be in balance.

An analysis of budget growth must be viewed from two perspectives. The first is the variance between the 1997/98 budget and the projected year-end actuals. Our projected year-end actuals are higher than the budget on both revenue and expense. On the revenue side, research volume is significantly higher than originally forecasted. Our 1996/97 research volume actuals, from which we forecast the 1997/98 year-end results, were higher than expected, thus increasing our projection for 1997/98. Investment income has increased because market performance and gifts to endowment for both 1996/97 and 1997/98 are stronger than planned. We are also seeing an increase in other income due to unexpected

Key Terms

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

Designated Funds: Funds which come to the University as unrestricted but are directed to specific purposes by the Trustees or the administration.

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

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

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

Net Assets Released from Restrictions: Under Financial Accounting Standards Board reporting standards, gifts and pledges that contain specific donor restrictions preventing their spending in the current fiscal year are classified as "temporarily restricted" and are not included in the Projected Consolidated Budget for Operations. When the restrictions are satisfied, these funds do become available for spending. At that time they are "released from restrictions" and are included in the Consolidated Budget in the line Net Assets Released from Restrictions.

Student Financial Aid: Includes expenses for undergraduate and graduate student aid and the tuition allowance for teaching assistants and research assistants not charged to grants and contracts. In accordance with the University financial statements format, these expenditures are shown as an offset to student income. Student stipends are not considered to be financial aid and are included in Other Expenses.

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

one-time patent income and under-estimation of auxiliary activity. On the expense side, salaries are higher than budget due to the increase in research volume, the hiring of faculty into existing billets, particularly in the Medical Center line in the Medical School, and additional staff positions. The projected actual expense for institutional support is up considerably compared to budget due principally to an increase in subcontracts on sponsored research projects.

The second perspective on budget growth is an analysis of the forecast over year-end projected actuals. Total revenues and transfers in 1998/99 are projected to increase at about 1% over the expected 1997/98 levels. Adjusting for SLAC, revenues and transfers are expected to grow at 1.3% over projected actuals. This rather slow growth is a result of several factors: a modest increase in net tuition income; cautious assumptions in research and gifts; and a drop in other income due to the expiration of the Cohen-Boyer patent. These negative factors are offset by strong investment growth. Total expenditures are expected to grow by 3.3% over the estimated year-end results for 1997/98; adjusting for SLAC, expenditures are expected to grow at 4.2%. Since expenditures are expected to increase at a rate somewhat faster than revenues, the total surplus in 1998/99 is expected to be smaller than that projected for the current year.

The Consolidated Budget by Principal Income and Expenditure Categories

INCOME (REFER TO TABLE ON PAGE 2)

Student Income

Increases in student charges for both tuition and room and board are guided by our estimates of the growth in family income, our market position, and the general price inflation, particularly in the Bay Area.

TUITION – The general tuition rate increase for 1998/99, which was approved by the Trustees in February, is 3.8%. This increase is consistent with our continuing goal to constrain the growth in Stanford's tuition rate to within the growth of median family income, thereby keeping a Stanford education affordable to the best students. The approved increase, together with a substantially lower increase in the room and board rate, will yield a total increase in student charges of 3.5%, a figure we expect will be slightly below the growth in family income. We expect that our tuition increase will be comparable to – or slightly lower than – the increases of our competition. And, given that local inflation is projected within the 3% range, our price increase is as close to inflation as it has been in several years. Total tuition and fee income in 1998/99 is projected to grow by 3.9% over the current year's budgeted tuition income due to the rate increase and increases in fee income.

ROOM AND BOARD – In February the Trustees approved a combined room and board rate increase of 2.8%. This increase is in keeping with the goal, established a year ago, of holding room and board rate increases close to the projected rate of inflation. In fact, it represents the first year in recent memory when our price increase was less than projected inflation. This policy is intended to constrain rate increases while providing the ability to make progress on the renovation of student residences through the multi-year Capital Improvements Plan. While this plan remains unchanged, it has been made more affordable by lengthening it from 12 to 15 years, with completion now scheduled for 2006/07.

STUDENT FINANCIAL AID[1] – Stanford expects to spend a total of $100.7 million in financial aid for both undergraduate and graduate students, $40.0 million of which will come from general funds. The remainder will be supported by designated and restricted funds ($51.2 million) and grants and contracts ($9.5 million). The total financial aid numbers in 1998/99 are 7.6% higher than the projected total in the current year due principally to an expansion of the undergraduate financial aid program.

1 In accordance with University financial statements format, student financial aid is shown as an offset to student income.

1998/99 Student Financial Aid and Other Graduate Student Support from Stanford Resources
(in millions)

	General Funds	Designated and Restricted	Grants and Contracts	Total
Student Financial Aid				
Undergraduate Need-Based	$14.2	$23.1	$2.8	$40.1
Undergraduate Athletic		9.1		9.1
Graduate	6.0	14.3	4.9	25.2
Tuition Allowance	19.8	4.7	1.7	26.3
Total	40.0	51.2	9.5	100.7
Other Graduate Student Support[1]				
Stipends	11.4	14.4	19.1	45.0
Other Tuition Allowance	0.5	3.1	13.7	17.3
RA and TA Salaries	11.1	14.0	37.5	62.6
Total	23.1	31.5	70.3	124.9
Total Student Support	**$63.1**	**$82.7**	**$79.8**	**$225.6**

1 Neither Stanford's audited financial statements, nor the Consolidated Budget for Operations on page 2, include the "Other Graduate Student Support" items in the line called Student Financial Aid. These expenditures are included in the Other Operating Expenses line.

Undergraduate aid – Stanford remains committed to meeting the demonstrated financial need of its undergraduate students. We estimate that, in 1998/99, Stanford resources will provide $40.1 million in need-based scholarship support for undergraduates, an increase of 17.2% over 1997/98 projected actuals. Of this amount, $14.2 million will come from general funds.

The principal reasons for this growth in undergraduate aid are two financial aid policy changes approved by the Trustees in February. The first change is to limit the impact of home equity when calculating financial aid eligibility. Home value will be capped at three times annual household income before the amount of home equity is determined for the eligibility calculation. This change, which results in an addition of $1.8 million to the general funds budget for undergraduate financial aid, will assist those with home values that have risen much faster than their family incomes. The second change reduces, and in many cases eliminates, students' required contributions from academic-year jobs and loans by changing how the University considers outside scholarships when determining undergraduate financial aid packages. Under the new policy, outside scholarships won by students will directly offset students' required contributions in contrast to the existing policy that only gives partial credit for these outside awards. The incremental cost of this new policy is $2.0 million and will be supported by Presidential funds in the next three budget years, after which time it will be supported by general funds.

The table on the following page shows that the number of undergraduate students receiving some type of grant aid from Stanford declined in 1996/97. However, the total number is expected to increase slowly this year and next, but not return to the previous high of 2,705 students. The share of undergraduate aid supported by general funds has dropped from 46% to 29% over the past four years. This is due primarily to the growth of restricted funds (gifts and endowment income) and to support

Financial Aid Awarded to Undergraduates Who Receive Need-Based Scholarship Aid
(in millions)

Source of Aid	1993/94 Actual	1994/95 Actual	1995/96 Actual	1996/97 Actual	1997/98 Projected	1998/99 Budget
Restricted	$12,745	$14,012	$13,271	$15,883	$18,130	$19,618
Stanford Fund/Presidential Funds[1]		1,250	3,278	4,492	4,300	6,300
General Funds	17,736	16,593	17,452	13,737	11,803	14,187
Subtotal Stanford Funded Financial Aid	30,481	31,855	34,001	34,112	34,233	40,105
Govt. and Outside Awards	8,399	8,666	8,267	8,042	8,340	8,529
Total Undergraduate Financial Aid	**$38,880**	**$40,521**	**$42,268**	**$42,154**	**$42,573**	**$48,634**
Number of Students	2,654	2,698	2,705	2,584	2,600	2,625
General Funds as a Share of Total Aid	46%	41%	41%	33%	28%	29%
General Funds and Stanford Fund as a Share of Total Aid	46%	44%	49%	43%	38%	42%

1 This line is only the Stanford Fund through 1997/98. In 1998/99, Presidential Funds will contribute $2.0 million to support the change in the treatment of outside awards.

from the Stanford Fund and Presidential funds. The combination of these two funding sources has offset the slow growth of government aid and reduced the burden on general funds. Together, all of these funding sources have combined to keep pace with the growth in student and family demonstrated need for undergraduate grant aid. Appendix C includes additional information on undergraduate financial aid.

Graduate aid - Stanford offers financial support to graduate students in the form of fellowships, research assistantships, and teaching assistantships. Included in a teaching or research assistantship is tuition allowance that covers a student's 9-unit tuition bill during his or her appointment. Consistent with Stanford's financial statement format, teaching and research assistantship salaries are not included in the financial aid line. Moreover, stipends and tuition allowance that are charged to either the instruction budget or to grants and contracts also are not included in the line for financial aid. As displayed in the table on page 5, these other sources of graduate student support are significant, amounting to $124.9 million in 1998/99.

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

Of particular note, the Stanford Graduate Fellowship program enters its second year in 1998/99. The program will support roughly 110 new Stanford Graduate Fellows in addition to the 122 students who are Fellows in the current year. The total cost of this program in 1998/99 is budgeted at $6.5 million and will be supported principally by funds from a presidential reserve. When the program reaches its full complement of students in 1999/00, we anticipate 350 students at a cost of approximately $10 million, to be funded primarily by restricted endowment income.

Sponsored Research Support and Indirect Cost Recovery

The total budget for Sponsored Research Support is expected to be $628.1 million in 1998/99, or 42% of the total revenues projected in the Consolidated Budget for Operations. Included in this total are both the direct costs of externally supported grants and contracts, including SLAC, as well as reimbursement for the indirect costs incurred by the University in support of sponsored activities.

The University's recovery of indirect costs associated with sponsored activities depends on the indirect cost rate and the direct research volume on which the rate is applied. There are several proposed changes to OMB Circular A-21 that may affect the rate calculations for 1998/99. Until the pending regulations are finalized and Stanford concludes its negotiations with the government, we are assuming that indirect cost recovery will be just slightly higher than the level anticipated for 1997/98.

Investment Income

Endowment Income – The largest part of investment income is endowment income. The estimate of endowment income is a function of a forecast of the endowment market value at the beginning of the coming budget year and the approved smoothed payout rate. Stanford uses a smoothing rule to dampen the impact on the budget of large annual fluctuations in the market value, thereby providing stability to budget planning. The smoothing rule sets the coming year's payout rate as a weighted average of the target rate and the actual rate in the current year. The projection of the coming year's market value is based on the long-term assumption that total return on the endowment will be 6.25% above inflation. The smoothed payout rate for 1998/99 is 4.95%, which includes the supplemental component for infrastructure support described below. This rate is below the target payout rate of 5.25%, including the supplemental 0.5%, because the endowment market value has grown significantly faster than our long-term assumption of 6.25% above inflation.

Endowment income in 1998/99 is expected to total $237.8 million, an increase of 9.0% over 1997/98 projected actuals. This includes income from the merged pools, specifically invested endowment, and rental income from the Stanford Research Park and other endowed lands. Of the total endowment income, $65.1 million, or 27.4%, is projected to support the unrestricted budget. This amount includes the income generated from Stanford endowed lands. Over the past several years, the Stanford Management Company has put considerable effort into generating income from the Research Park, and this budget reflects the results of that effort. The total net rental income from Stanford lands is expected to be $13.9 million in 1998/99, up significantly from the actual rental income of $7.7 million in 1996/97. By Board policy, one-half of the net income from Stanford endowed lands is reinvested in endowment principal. This is accounted for by netting out half of the total expected rental income in the Other Investment Income line in the Consolidated Budget, to conform with the audited financial statements.

Supplemental Payout Increase – Beginning in 1995/96, the Board of Trustees approved a supplemental 0.5% increase in the endowment payout rate to help pay for increased infrastructure related expenses such as debt service on seismic restoration projects, deferred maintenance, and administrative systems. We have used these funds to offset such expenses and will continue that approach in 1998/99.

Other Investment Income – Other investment income consists primarily of payout from the Expendable Funds Pool (EFP), the investment pool for non-endowment funds. The investments of the EFP are allocated 35% to the endowment and 65% to fixed income and money market instruments. By Trustee policy, 4.0% of the EFP balance is paid out annually. If actual earnings exceed 4.0%, an additional amount up to 2.0% may be used to support the unrestricted budget. The Consolidated Budget assumes the full 6.0% return will be achieved.

(If total return on the EFP is less than 4.0%, then a buffer reserve will be used to supplement the actual earnings of the EFP so that the 4.0% can be paid out. If total return exceeds 6.0%, the excess returns are used to replenish the buffer reserve.) Total income from this source is expected to be $54.9 million.

Expendable Gifts
Non-capital gift income is expected to total $80.0 million in 1998/99. This amount does not include gifts to endowment principal, gifts for capital projects, or gifts that are temporarily restricted. Gift receipts vary somewhat from year to year, and we have made the conservative assumption that gift income will remain at the level we anticipate in 1997/98.

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

Special Program Fees – These fees are comprised of a wide range of income sources generated by a variety of programs across the University. One of the largest components is patent and royalty income, which is projected to be about $15 million. This is down from approximately $25 million in 1996/97, reflecting the first year in which we will receive no income from the Cohen Boyer patent. Special program fees also includes $8.6 million from the affiliates program and $7.6 million from the Stanford Center for Professional Development, both in the School of Engineering; and $10.2 million from the executive education programs in the Graduate School of Business. Overall, special program fees are projected to be $87.7 million in 1998/99.

Auxiliary Income – Auxiliary income, excluding room and board fees, is projected to be $105.8 million. It includes anticipated payments by UCSF/Stanford Health Care to cover faculty and staff services provided by the Medical School for clinical care, the income for the Schwab Center, and other revenue from the auxiliary operations including conference fees, athletic event ticket sales, television income, and the sale of Stanford Press books.

Other Income – Other income is projected at $42.9 million. The largest component of this category is reimbursements for central support services provided to auxiliary organizations ($13.0 million). Also included are medical direction fees received by the School of Medicine from the Lucille S. Packard Children's Hospital ($13.0 million) and the income generated by the infrastructure charge ($3.5 million).

Transfers and Other Adjustments

Several adjustments and transfers need to be made to reflect accurately the net income available for operations expenses. They are explained below.

Transfers to University Reserves – This is a general funds reserve of $12.2 million set aside to cushion Stanford against potential income shortfalls, particularly in research and investment income.

Transfers to Designated Funds – $24.3 million of unrestricted funds are transferred into schools' and departments' reserves by those units for future new initiatives or for contingency.

Additions to Endowed Equity – This line reflects our assumption that individual budget units will continue the practice of transferring some excess of revenue over expense in restricted funds to Funds Functioning as Endowment (FFE). We expect a total of $16.0 million will be transferred to FFE.

Transfer to Plant – These funds will move to the Plant division to be used for capital projects. The larger items in this amount are $8.2 million for academic facilities renovation in the non-formula schools, $24.8 million for Medical School renovations which are described on page 32, and $5.0 million for an addition to the Littlefield Management Center of the Graduate School of Business.

Net Assets Released from Restrictions – Under the financial reporting standards recently required of the University, gifts and pledges that contain specific donor-imposed restrictions preventing their spending in the current fiscal year are classified as temporarily restricted, and are not included in the Projected Consolidated Budget for Operations. Each year, a portion of funds previously classified as temporarily restricted will become available for spending as specific restrictions are satisfied. In 1998/99, we anticipate that schools and departments will be able to use approximately $15 million of gifts received in previous years that had been classified as temporarily restricted.

Expenditures (refer to table on page 2)

Academic Salaries

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

The average salary program in 1998/99 for faculty salaries is 3.0%. We believe that this increase, when applied appropriately by deans, will be sufficient to maintain Stanford's current competitive position. In addition to the base faculty salary program, additional general funds of approximately 0.5% will be available to address specific retention and competitive compensation issues.

While the nominal increase in faculty salaries is planned to be 3.0%, total expenses for academic salaries and benefits are expected to rise approximately 10% in 1998/99. This is due primarily to increases in the number of faculty in several schools. The Law School will add six new faculty in 1998/99 into existing, but previously unfilled, billets. Four new billets will be added to support expansion of undergraduate education initiatives. Instructors have been added for Freshman Seminars, and Research Assistants have been added to the Large Introductory Course project. The Medical School is planning the addition of 16 new tenure-line faculty into existing, but unfilled, billets. Other factors contributing to the high rate of growth in academic salary expenses include faculty recruiting and retention efforts such as housing supplements, salary supplements, and increased summer support.

Staff Salaries

The recommendation for the staff salary program for 1998/99 is 3.0%. This percentage increase is determined largely by consideration of external market conditions, internal salary relationships, and the University's financial resources. Our objective is to maintain a mid-market position balanced with available resources.

In addition to the 3.0%, the University has allocated 0.5% (in aggregate) in partial support of special market adjustments for jobs that significantly lag the market. The 0.5% allocation will be variably apportioned, depending on each business unit's need to make market adjustments to base salaries. Because the University-allocated special market adjustment is not expected to address the full extent of the market lag in most instances, business units are authorized to fund the remaining adjustments from local sources of funding, if they are available.

Schools and VP areas are responsible for the delivery and communication of next year's program and will administer it in a way that most appropriately meets their business needs while staying within the 3.0% allocation. Each budget unit may withhold some percentage of the total salary program authorization to address mid-year increases, salary compression problems, and any salary inequities. As a result, there will be variation in program announcements by schools and VP areas.

Benefits

In contrast to the substantial changes which took place in the fringe benefits program during 1997/98 (when tuition remission was removed from the benefits pool, student salaries were removed from the salary base, and the remaining salaries and benefits were grouped into three employee categories), the changes taking place during the 1998/99 year are primarily minor ones, representing year-to-year changes in the costs of ongoing programs. Overall, benefits programs and costs are relatively stable. As a result, the rates charged against University salaries show little change.

Fringe Benefit Rates

	1997/98 Negotiated Rates	1998/99 Proposed Rates
Regular Benefits-Eligible Employees	25.3%	25.4%
Post-Doctoral Research Affiliates	15.6%	14.6%
Casual/Temporary Employees	8.4%	8.4%
Students	0.0%	0.0%
Average Blended Rate	24.5%	24.7%

Overall, the rate for regular benefits-eligible employees, which comprises most of the total cost and salaries, will increase by only 0.1 rate points in 1998/99 over the rate negotiated with the Office of Naval Research for 1997/98. (The 1997/98 negotiated rate was 0.9 points below Stanford's proposed and budgeted rate of 26.2%, due in large part to the self-insurance reserve investment performance described below.) The change in the blended average rate from 1997/98 to 1998/99 is an increase of 0.2 points.

Although the change in the benefits rate is minimal, several increases in program costs should be noted. After several years of low medical inflation, medical insurance costs are projected to increase by 10% next year in the Kaiser program, on which the University contribution to health insurance is based. The resulting effect on the regular benefits-eligible employee rate is 0.2 points. An increase in dental insurance costs is forecast due to industry trend projections. Additionally, changes in the computer system supporting the flexible benefits program will cause increased health and welfare consulting expenditures next year over the current year.

Stanford's required contributions to its self-insured long-term disability, workers' compensation, and unemployment insurance programs show a substantial increase in 1998/99. However, those increases are from an artificially low base, because earnings from these programs' self-insurance reserves have been unusually strong over the past several years. This has allowed the University to pay for ongoing costs of disability payments and unemployment compensation from reserve earnings rather than from contributions from the fringe benefits pool.

These increased insurance costs are partially offset by a projected reduction in faculty early retirement costs. This is due to reduced participation in Faculty Early Retirement Program (FERP), which was closed to new participants after 1993/94, and year-to-year fluctuation in the number of faculty members expected to participate in the Faculty Retirement Incentive Program (FRIP). (More detail on benefits may be found in Appendix C.)

Institutional Support and Other Operating Expenses

Together these two major cost categories total $492.1 million and comprise about one-third of the expenses of the Consolidated Budget for Operations. The principal components include: maintenance and utilities for campus buildings ($55 million), library materials ($15 million), student stipends ($45 million), administrative computing costs ($14 million), travel ($20 million), materials and supplies ($80 million), and administrative and professional services ($145 million). Incorporated into this line are two key expense categories that warrant further comment:

Utilities and Maintenance for New Facilities – We plan to allocate $3.0 million for utilities and maintenance costs for new and renovated on-campus facilities. The most significant allocations will be for the new Electrical Engineering building, the McCullough Annex, the Library Technical Services Building, and the Museum. In addition, the Medical School plans to spend an incremental $341,000 for utilities and maintenance of an off-campus rental facility which will house lab research space for the Genome Project.

Administrative Systems Development – 1998/99 will mark the fifth year of a plan to address a variety of systems issues across the campus, including administrative systems, a major upgrade to the campus network and network security, new distributed computing services, and other enhancements. This Budget Plan includes $14.3 million in costs for new systems and infrastructure next year, down from the projected 1997/98 expense of $26.5 million. Of this amount, about 55% is for administrative systems (principally Release 2 of the Core Financial Systems project, which will address the University's purchasing and payables functions), and the remainder is for networking and infrastructure supporting both academic and administrative computing. About a third of the $14.3 million in expense is reflected in the Consolidated Budget for Operations. The rest is in the Capital Budget.

Capital Debt Service

The 1998/99 Debt Service is projected to be $68.1 million. This number reflects the total University principal and interest payments on notes and bonds (exclusive of commercial paper). For internal purposes, however, the University charges its internal units for the use of debt, according to a new debt policy approved by the Board in December 1997. This policy redefined limits on the University's overall debt ratios and revised internal accounting procedures for debt-funded projects. These projects are now funded from a central pool of available debt and make payments amortized over the useful life of the project based on a single, blended interest rate. In the past, projects were charged based on the terms of the particular bond used to fund the project.

The table below details the different components of debt service. $18.3 million will be used

Sources of Funds for Debt Service
(in millions)

	1996/97 Actuals	1997/98 Forecast	1998/99 Budget
Annual Debt Service Cost Excluding Commercial Paper	**$48.6**	**$62.5**[1]	**$68.1**[2]
Sources of Funds Used to Service Debt			
Academic Projects (Completed)	$11.2	$13.2	$18.3
Auxiliaries	13.1	14.1	17.1
Service Centers (Utilities/ITSS)	10.6	11.2	13.3
Other[3]	13.7	24.0	19.4
Total	**$48.6**	**$62.5**	**$68.1**

1 The difference between the $62.5 million in this table and the $92.5 million projected in the 1997 Annual Report is $30 million Commercial Paper refinancing of SHAC debt.

2 The difference between the $68.1 million in this table and the $58.2 million projected in the 1997 Annual Report results from interest payments due on the CEFA N bonds issued after August 31, 1997.

3 Includes investment earnings on unused debt, refinancing to cover principal payments, and reimbursements by miscellaneous small projects.

Summary of 1998/99 General Funds Allocations (excluding Formula units)
(in thousands)

	Base[1]	Incremental Programmatic Additions[2]
School of Earth Sciences	$2,409	$0
School of Education	7,069	60
School of Engineering	29,637	233
School of Humanities & Sciences	73,070	855
Undergraduate Education	5,722	600
School of Law	9,901	150
Dean of Research	7,426	458
Hoover Institution	4,038	
Academic Subtotal	139,272	2,356
Stanford University Libraries	27,109	150
Student Affairs	31,969	453
Academic Support Subtotal	59,069	603
President/Provost	11,312	333
Development	11,363	100
Facilities	19,924	100
Utilities and O&M	40,241	2,995
Business Affairs	28,574	740
ITSS	24,453	1,600
Other Administrative Units[3]	6,837	160
Other [4]	48,135	1,084
Administrative Subtotal	$190,839	$7,112

1 Base general funds allocations support the continuation of ongoing academic and administrative programs.

2 Incremental Programmatic Additions are funds allocated for implementation of new academic or administrative programs which are anticipated to be ongoing, starting in 1998/99.

3 Other Administrative Units includes General Counsel, and the general funds allocation to Athletics, Press, and SLAC.

4 Other includes debt service obligations in the non-formula units, research support mitigation, the housing allowance program, and tuition allowance.

to support capital projects to be completed before September 1, 1999. The remaining debt service is carried in Auxiliaries, principally in Housing and Dining Services where the Capital Improvement Plan (CIP) is debt-financed, and in Service Centers, mainly in Utilities and Networking. Finally, interest earnings on unused debt are used to pay debt service.

The $68.1 million is included in the Consolidated Budget for Operations in several categories, depending on the specific uses of debt and consistent with the University annual financial statements format. Principal payments for capital projects are budgeted in the Transfer to Plant line and interest payments are budgeted in the Other Operating Expenses line. Debt service for Auxiliaries projects is budgeted in the Auxiliary Activity line. Debt service for projects associated with Service Centers, such as Utilities or Networking, is included in the Institutional Support line.

The Consolidated Budget by Fund Type

General Funds Budget

The general funds budget is an important subset of the Consolidated Budget, because these funds can be used for any University purpose. The principal sources of general funds are Tuition and Fees, Indirect Cost Recovery, Unrestricted Endowment Income, Other Investment Income, and Unrestricted Gifts. As shown in the Consolidated Budget for Operations, the general funds budget includes a University Reserve of $12.2 million in 1998/99. This base reserve is a continuation of the reserve we established in the budget in 1996/97. The reserve is the first guard against potential shortfalls in indirect cost recovery or investment income.

The proposed general funds budget assumes the Trustees again will approve an additional 0.5% in the endowment payout rate to help defray infrastructure costs, including the costs of earthquake repair, deferred maintenance, and administrative systems.

1998/99 General Funds Allocations - The budget process and the resulting allocation of unrestricted funds to academic and administrative units have been based on available revenue. This year's budget process resulted in an allocation of general funds to each non-formula unit sufficient to cover the salary program planned for 1998/99, as well as increases in graduate student aid. Also, incremental general funds were allocated selectively where programmatic plans were pressing within the constraints of available resources. Additional general funds were allocated to cover new University obligations such as incremental debt service, maintenance and utilities on new facilities, and investments in technology. The general funds allocations for each unit are detailed in the table on the previous page, and some of the incremental allocations are highlighted in the description that follows.

- $660,000 has been allocated for supplemental faculty salary support in the schools of Education, Engineering, and Humanities and Sciences to address recruiting and retention issues. Another $139,000 has been allocated in the School of Engineering for faculty billets.
- $350,000 has been allocated to the School of Humanities and Sciences for lecturers and instructional materials in support of language competency, academic governance and administration, and program support in Psychology.
- $600,000 has been allocated to the Vice Provost for Undergraduate Education, primarily to support the implementation of the new Introduction to Humanities course options as part of the new Area One requirement.
- $308,000 has been allocated to the Office of the Dean of Research to complete the funding necessary to support the new Center for Research on Economic Development and Policy Reform.
- The Vice Provost of Student Affairs will spend $650,000 to support undergraduate admissions yield enhancement. This will be funded in part through a base increase of $150,000 which is offset by an increase in the application fee. In addition, the Provost reallocated the remaining funding from Cowell Student Health Center savings. These savings resulted from restructuring health services in accordance with a commitment made several years ago to reduce Cowell's reliance on General Funds.
- $1.1 million has been reallocated from a base systems reserve to ITSS to support the upgrade of the Stanford network (SUNet). This upgrade is necessary to increase the capacity on the network to accommodate multi-media documents, video-on-demand, and on-line courseware. An incremental $500,000 will be used for on-going support of administrative infrastructure services that are being developed for the new systems applications. Additional base budget technology investments have been made for

Academic Technology Specialists (ATS) in the Libraries ($150,000) and for classroom technology improvements ($150,000). The ATS funding is supplemented with $250,000 in one-time funds.

- New and renovated buildings expected to come on-line in 1998/99 require incremental allocations of $3.0 million for utilities and maintenance and $1.1 million for debt service. The incremental allocation of $1.1 million for 1998/99 is in relation to the prior year's budget, which is significantly higher than the year-end projected actuals due to the recent change in the debt policy.
- $500,000 has been allocated to the general insurance reserve in recognition of increased claims. This is the second year in a three year plan to fully fund the reserve.

Designated and Restricted Funds Budget

Funds in these budgets are controlled for management purposes primarily by the schools, departments and programs, and individual faculty members. Of the total combined revenue of $343.8 million, $172.7 million is endowment income, $75.0 million is restricted gifts, and $87.7 million is special program fees such as patent and royalty income, clinical surpluses, and executive education programs. The budgeted expenses reflect the combined forecasts of the schools. These budgets support faculty research programs, equipment purchases, and a variety of other costs.

Grants and Contracts Budget

The grants and contracts budget of $520.5 million represents the sum of the direct sponsored activity under the direction of individual faculty principal investigators ($357.8 million, net of student aid) and the direct costs for SLAC ($171.8 million). The total for University direct costs builds upon a higher than budgeted amount for the current year due to strong research volume growth in both 1996/97 and 1997/98, led by the Medical School. Total University research volume is expected to grow below the rate of growth in inflation in 1998/99.

Auxiliaries/Other Budgets

The principal Auxiliary Operations are Housing and Dining Services (H&DS), Stanford University Press, and Athletics. In addition, the professional services arrangements of the Medical School are included in this group of budgets. Each of these operations is essentially a self-contained entity supporting broad University purposes. As such, these operations charge both internal and external clients/customers for their services and programs. They also pay the University for central services provided.

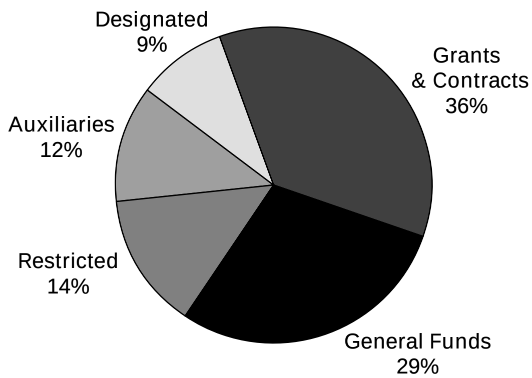
Housing and Dining Services – Housing and Dining is budgeting a deficit of $592,000 for 1998/99, as part of its long-term plan for financing the renovations of Stanford's student residences. In the early years of the 15-year Capital Improvements Program, H&DS was able to run surpluses in its operations budget, which were

Total Auxiliary Activity, 1998/99
(in millions of dollars)

	Housing & Dining Services	Athletics	Medical Center	Press	Other	Total
Revenues & Transfers	68.5	27.3	87.0	3.1	8.3	194.2
Expenditures	69.1	27.3	87.0	3.1	8.3	194.8
Net Change in Reserves	(0.6)	0.0	0.0	0.0	0.0	(0.6)

NOTE: This table represents gross expenditures and revenues. When incorporated into the consolidated budget, interdepartmental transactions of $31.1 million have to be netted out, resulting in net total expenditures of $163.7 million and revenues of $163.1 million.

1998/99 Consolidated Expenditures by Fund Type[1]



1 Excluding UCSF/Stanford Health Care

reserved to cover the cost of debt service in future years. 1998/99, the seventh year of the program, is the first of five consecutive years in which H&DS plans to draw down those reserves. Also included in the budget are reductions in planned operating costs resulting from the Trustee decision in February to hold the growth rate of room and board to 2.8%.

ATHLETICS – Athletics is projecting a balanced operating budget for 1998/99 after projecting a $350,000 surplus in 1997/98. The 1998/99 budget anticipates a drop in football revenue, due to a less desirable home schedule than last year. This is offset somewhat by an anticipated increase in basketball income and by planned increases in revenue sharing from the National Collegiate Athletic Association. The financial aid budget for Athletics is projected to be in deficit by $500,000. A fund-raising effort to eliminate that shortfall over the next several years is underway. This portion of the Athletics budget is not included in the Auxiliary/Other column of the Consolidated Budget. Rather, it is included in the Student Financial Aid amount in the restricted funds column.

STANFORD UNIVERSITY PRESS – The Press plans a balanced financial position in 1998/99, which includes the long-standing University subsidy of $195,000, with 123 books anticipated for publication. The Press is projected to end the current year in balance (net of the subsidy), as a result of a strong list, continued editorial and design improvements, and a newly-implemented cost-effective outsourcing arrangement with Cambridge Press for warehousing and distribution.

MEDICAL SCHOOL PROFESSIONAL SERVICES – This category includes the cost of the services of Stanford physician faculty and staff purchased by UCSF/Stanford Health Care of $74.0 million, including Pediatrics and other Children's Services, and $13.0 million for the Blood Center. Faculty who provide clinical services are at the same time involved in both research and education. All academic plans and initiatives are intertwined with the finances of this and other budget categories within the School. Nearly 71% of the expenses and income are for faculty salaries and benefits; another 18.5% is for staff support.

The Consolidated Budget by Organizational Unit

The table on the next page shows the Consolidated Budget for Operations displayed by organizational unit. A brief discussion of selected areas follows.

SCHOOL OF ENGINEERING – The School recently implemented reserve guidelines to help provide for the following: continuity of research programs and student support during funding gaps, support for non-allowable administrative expenses, protection for disallowed expenses on past grants and contracts, funds for laboratory upgrades and new equipment, matching funds for federal programs, and new funding for innovative ideas. The 1998/99 consolidated plan projects a $10.5 million surplus, $7.8 million of which represents increases in faculty reserves in both designated and expendable funds. The remaining $2.7 million surplus is in restricted endowment funds whose expenditures are not planned to match the income generated through strong market performance.

Projected Consolidated Budget for Operations, 1998/99 by Unit
(in millions)

	Total Revenues and All Transfers	Total Expenditures	Excess of Revenue Over Expenditures
Academic Units:			
School of Earth Sciences	$24.2	$22.9	$1.2
School of Education	21.8	21.2	0.6
School of Engineering	165.2	154.7	10.5
School of Humanities & Sciences (includes VPUE)	188.7	177.5	11.1
School of Law	26.4	26.4	
Dean of Research	104.1	111.7	(7.6)
Graduate School of Business	51.8	56.8	(5.0)
School of Medicine[1]	356.8	372.2	(15.4)
Hoover Institution	23.0	23.0	
Total Academic Units	961.9	966.4	(4.5)
Academic Support Units:			
Stanford University Libraries	34.3	34.3	
Student Affairs	84.5	84.0	0.5
Total Academic Support Units	118.8	118.3	0.5
Total Administrative[2]	201.8	190.3	11.5
Auxiliaries	163.1	163.7	(0.6)
SLAC	171.8	171.8	
Indirect Cost Adjustment[3]	(98.5)	(98.5)	
Student Financial Aid Adjustment[4]	(100.7)	(100.7)	
Grand Total from Units	**1,418.2**	**1,411.4**	**6.8**
Other Anticipated Income[5]	10.0		10.0
Total Consolidated Budget	**$1,428.2**	**$1,411.4**	**$16.8**

NOTES:

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

1 The budget line for the School of Medicine does not include $87.0 million for Medical School professional services. These are shown in the auxiliaries line. When the Medical School professional services are added to the School's budget, the total anticipated expense of the School of Medicine is $459.2 million.

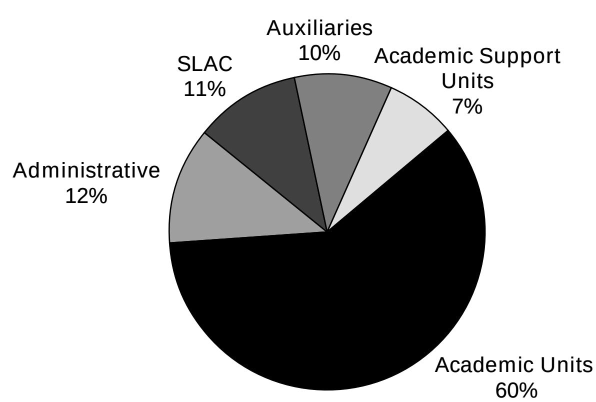
2 The surplus of $11.5 million in Administrative Units consists mainly of the $12.2 million transfer to Unrestricted University Reserves.

3 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 $98.5 million received by the schools is netted out in the "Indirect Cost Adjustment" line.

4 In accordance with the University financial statement format, student financial aid is netted against student income in the Consolidated Budget. Because it is in the revenue and expense of the academic units, it is netted out in the "Student Financial Aid Adjustment" line.

5 The $10.0 million shown in Other Anticipated Income is based on historical experience and reflects our belief that the University will receive additional unrestricted and/or restricted income that we cannot specifically identify by unit at this time.

1998/99 Consolidated Expenditures by Unit



School of Humanities and Sciences – The 1998/99 consolidated plan for the School of Humanities and Sciences (H&S) projects an excess of revenue over expense of $11.1 million. Over $9 million of the expected surplus is due to restricted endowment income exceeding planned expenditures. There are no plans at this time to add expense. Rather, the School intends to reserve the surplus against the possibility of future declines in endowment performance.

Dean of Research and Graduate Policy – This area shows an overall deficit of $7.6 million, which results primarily from the planned use of reserves to finance the second year of the Stanford Graduate Fellowship program. While the long term goal is to support the program from endowment income, and significant funds have been raised toward this end, the first two years of the program are being funded by $10.0 million previously provided by presidential funds. The third year of the program, 1999/2000, should be supported fully by endowment income. The remaining decrease in fund balances, approximately $1.5 million, is due to planned use of reserves in the Institute for International Studies and the Center for the Study of Language and Information.

Graduate School of Business (GSB) – The Graduate School of Business consolidated forecast shows a deficit of $5.0 million, reflecting a planned draw down of reserves, due primarily to investment in the addition to Littlefield Management Center, as well as a proposed initial phase of renovations to the GSB Building. The Littlefield project will be funded by gifts, payment of which is expected over three years. In the interim, the GSB will provide the funding from budget savings and other reserves, which will be repaid as the gift funds are received. Assuming that the initial phase of the GSB renovation is approved, support will be provided by a combination of gifts and facilities reserves, using budget savings reserves as necessary before pledges are paid.

School of Medicine – The 1998/99 consolidated plan for the School of Medicine projects revenues and transfers of $443.8 million (including professional services reflected in the Auxiliaries line in the table on page 14), use of reserves of $15.4 million, and total expenses of $459.2 million. The 1998/99 Plan is based on a 11.6% increase in revenues and transfers and a 13.8% increase in expenses over the 1997/98 plan. The increases in revenues and transfers are related to more refined approaches to forecasting income in the designated and restricted funds, as well as substantial growth in sponsored research activities. The increase in expense is related to the growth in sponsored research activities in addition to increased investment in programs and new faculty. Some of the growth in research income and expenses is the result of increases in activity in the last half of 1996/97, after development of the 1997/98 plan, and greater than expected increases thus far in 1997/98. The School's 1998/99 plan also anticipates an increase in research activities of almost 7% over the expected 1997/98 year end. The planned use of fund balances will go to support capital projects as well as investments in specific programs.

Incremental investments in programs include nearly $9 million to satisfy commitments made to newly appointed or soon to be appointed department leaders, almost $1 million to address issues related to the new faculty compensation plan, and approximately $1 million to complete the rollout of the Research Management Group support and to begin the ACCESS program for clinical trials. The School expects to recruit approximately 16 new tenure line faculty during 1998/99, and the related expenses, including incremental support and research staff, are included in the consolidated plan.

While total revenues and transfers have increased significantly, the School expects to use some of its fund balances which have previously been retained for these purposes. This is largely due to the changed approach that the School has taken to capital planning and the initiation of a number of capital projects on a similar timeframe. Planning for capital expenditures has been integrated into the consolidated plan, and they are projected to require a transfer to plant of $24.8 million in 1998/99. This includes improvements to student labs and classrooms at $4.3 million, seismic stabilization of the Edwards building at $2.8 million, commitments to chairs at $2.9 million, projects related to Center for Clinical Sciences Research (CCSR) relocations of $1.9 million, a project to upgrade the computer networks within School buildings to meet recently defined University standards at $2.4 million, and departmentally initiated and funded projects at approximately $4 million. In order to cover both current expense and the transfer of $24.8 million to plant, the School anticipates using approximately $15.4 million, or approximately 7%, of the $209.5 million in fund balances currently held by the School.

CAPITAL BUDGET

The Capital Budget for 1998/99 marks the successful conclusion of several important projects begun more than five years ago. The Science and Engineering Quad, the Museum, and the restoration of Green Library West will be completed. In addition, the Center for Clinical Sciences Research will be virtually complete by the end of the upcoming fiscal year.

Next year's Capital Budget calls for $217.8 million in projected expenditures on capital projects. The impact on the Consolidated Budget for Operations is shown in two places. The first is $5.1 million in incremental debt service for those projects that will be coming on-line in 1998/99. The second is $3.0 million for the incremental operations, maintenance, and utilities costs required to run those facilities. Both of these cost categories are incorporated into the Institutional Support line of the Consolidated Budget.

The details of the Capital Budget for 1998/99 are included in Section Three of this document.

PROJECTED STATEMENT OF ACTIVITIES

In order to provide a consistent and clear linkage between the Consolidated Budget for Operations and the various annual financial documents presented to the Stanford community, we are including a projected 1998/99 Statement of Activities for Unrestricted Net Assets, shown on page 19. The Annual Statement of Activities is found in the audited financial report. In 1996, the University adopted Statement of Financial Accounting Standards (SFAS) 116 and 117. Under the provisions of SFAS 116 and 117, net assets, revenues, expenses, gains, and losses are classified into one of three categories: Unrestricted, Temporarily Restricted, and Permanently Restricted.

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

Temporarily and Permanently Restricted Net Assets are not reflected in the budget, since they cannot be used for the current year operations. Therefore, the table on page 2 only represents

Comparison of Consolidated Budget and Projected Statement of Activities, 1998/99 for Unrestricted Net Assets
(in millions of dollars)

1996/97 Actuals	1997/98 Budget		Projected Consolidated Budget	Adjustments	Projected Statement of Activities
		Revenues and Other Additions			
		Student Income:			
135.3	140.2	Undergraduate Programs	143.3		143.3
129.3	138.8	Graduate Programs	146.6		146.6
52.3	54.5	Room and Board	57.3		57.3
(66.4)	(110.9)	Student Financial Aid	(100.7)		(100.7)
250.5	222.6	Total Student Income	246.5		246.5
		Sponsored Research Support:			
335.1	335.1	Direct Costs—University	357.8		357.8
192.8	171.0	Direct Costs—SLAC	171.8		171.8
96.9	90.5	Indirect Costs	98.5		98.5
624.9	596.6	Total Sponsored Research Support	628.1		628.1
81.9	73.0	Expendable Gifts In Support of Operations	80.0		80.0
		Investment Income:			
191.7	206.2	Endowment Income	237.8		237.8
81.9	54.7	Other Investment Income[a]	54.9	5.0	59.9
273.6	260.9	Total Investment Income	292.7	5.0	297.7
		Other Income:			
94.0	112.9	Special Programs Fees	87.7		87.7
90.2	94.1	Auxiliaries (excl. Room & Board)	105.8		105.8
42.4	20.1	Other	42.9		42.9
226.6	227.1	Total Other Income	236.4		236.4
1,457.4	**1,380.2**	**Total Revenues**	**1,483.7**	**5.0**	**1,488.7**
		Transfers			
16.5	10.0	Net Assets Released from Restrictions	15.0		15.0
		Additions to Endowed Equity[b]	(16.0)	16.0	
		Transfer to Plant/Student Loan[c]	(54.5)	54.5	
	(5.0)	Other Adjustments	0.0		
1,473.9	**1,385.2**	**Total Revenues and Transfers**	**1,428.2**	**75.5**	**1,503.7**
		Expenditures			
256.0	252.6	Academic Salaries and Benefits	287.8		287.8
284.7	275.4	Staff Salaries and Benefits	296.0		296.0
75.4	101.2	Depreciation[d]		92.6	92.6
192.8	171.0	SLAC	171.8		171.8
157.9	148.6	Auxiliary Activity	163.7		163.7
271.3	250.9	Institutional Support	288.2		288.1
127.4	121.0	Other Operating Expenses[d]	203.9	(67.3)	136.5
1,365.6	**1,320.7**	**Total Expenditures**	**1,411.4**	**25.2**	**1,436.5**
108.3	**64.5**	**Surplus/(Deficit)**	**16.8**	**50.3**	**67.2**

the revenues and expenses in the Statement of Activities for Unrestricted Net Assets.

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

a) Other Investment Income: This $5.0 million represents interest earned by the Plant and Student Loan funds and is added to the Projected Consolidated Budget investment income.

b) Additions to Endowed Equity: $16.0 million is expected to be transferred to the endowment pool, as funds functioning as endowment, which, as explained above, are part of the Unrestricted Net Assets included in the Statement of Activities.

c) Transfer to Plant/Student Loan: $54.5 million moves to plant funds, as part of Unrestricted Net Assets.

d) Expenditures for Equipment vs. Depreciation: $67.3 million of expenses for equipment purchased by the University are included in Other Operating Expenses in the Consolidated Budget for Operations. In the Statement of Activity, this amount is depreciated. Total depreciation is projected at $92.6 million.

The impact of capitalization and the flow of funds for plant purposes described above result in a change in the bottom-line of $50.3 million, from a $16.8 million surplus in the Consolidated Budget projection to a $67.2 million surplus in the Statement of Activities projection. The comparable adjustment in 1996/97 was $75.1 million between the $33.2 million bottom-line for Operations and the $108.3 million bottom-line in the Statement of Activities. The adjustment was larger in 1996/97 for two main reasons: first, depreciation is expected to increase from $75.4 million in 1996/97 to $92.6 million in 1998/99, due to the increased level of capital expenses; and we expect the 1998/99 Transfer to Plant to be approximately $6 million lower than in 1996/97.