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

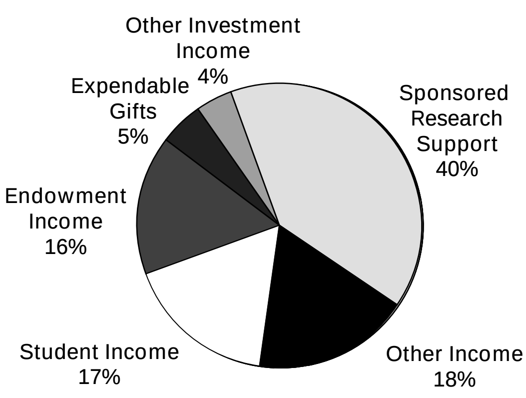
THE CONSOLIDATED BUDGET FOR OPERATIONS

The Consolidated Budget for Operations includes all non-capital revenues and expenditures. It is based on forecasts from the schools and the administrative areas. These forecasts are then merged with the general funds budget forecast and adjusted by the University Budget Office for consistency. The table on the next page shows the projected consolidated revenues and expenditures for 1999/00. For comparison purposes, this table also shows the actual revenues and expenditures for 1997/98, the budget for the current fiscal year (1998/99), and the estimated year-end projections for 1998/99. Definitions of key terms are provided.

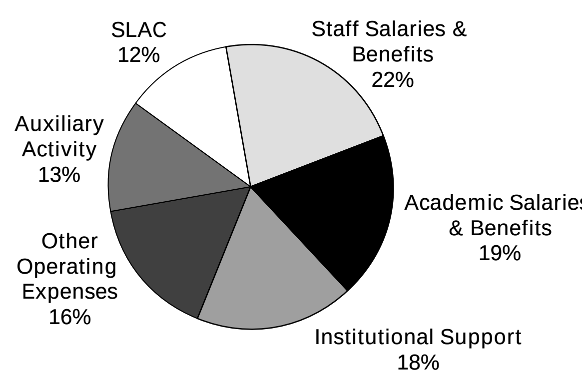
In this section we will review the Consolidated Budget from three perspectives: through an analysis of revenues and expenditures, by type of funding source (e.g., general funds, restricted funds, etc.), and by organizational unit.

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

1999/00 Consolidated Revenues: $1,710.8M[1]



1999/00 Consolidated Expenditures: $1,640.0M



1 After accounting for transfers, the total of Revenues and Transfers is $1,647.0M

Projected Consolidated Budget for Operations, 1999/00
(in millions of dollars)

1997/98 Actuals	1998/99 Budget June, 1998	1998/99 Projected Yr-End Actuals		General Funds	Designated	Restricted	Grants and Contracts	Auxiliaries/ Other	Total Current Funds
			Revenues and Other Additions						
			Student Income:						
142.9	143.3	146.4	Undergraduate Programs	153.0					153.0
134.8	146.6	144.4	Graduate Programs	149.8					149.8
57.0	57.3	60.6	Room and Board					59.5	59.5
(69.0)	(100.7)[1]	(71.4)	Student Financial Aid	(14.1)	(2.1)	(51.5)	(7.6)		(75.3)
265.7	246.5	280.0	Total Student Income	288.6	(2.1)	(51.5)	(7.6)	59.5	287.0
			Sponsored Research Support:						
350.7	357.8	371.2	Direct Costs—University				388.3		388.3
187.2	171.8	177.0	Direct Costs—SLAC				193.0		193.0
97.7	98.5	106.6	Indirect Costs	111.2					111.2
635.5	628.1	654.8	Total Sponsored Research Support	111.2			581.3		692.5
77.6	80.0	80.0	Expendable Gifts In Support of Operations	2.0		78.0			80.0
			Investment Income:						
229.7	237.8	250.7	Endowment Income	73.4		196.8		0.3	270.5
52.8	54.9	72.7	Other Investment Income	27.5	25.6	11.3	0.2	0.6	65.2
(7.9)			Unrealized Gain						
274.7	292.7	323.4	Total Investment Income	100.9	25.6	208.1	0.2	0.9	335.7
			Other Income:						
131.7	87.7	140.0	Special Programs Fees		122.0				122.0
116.2	105.8	142.8	Auxiliaries (excl. Room & Board)					153.4	153.4
32.6	42.9	38.0	Other Income	26.3	19.4	(5.2)	(0.3)		40.3
280.5	236.4	320.8	Total Other Income	26.3	141.4	(5.2)	(0.3)	153.4	315.7
1,534.0	**1,483.7**	**1,659.0**	**Total Revenues**	**528.9**	**164.9**	**229.4**	**573.8**	**213.8**	**1,710.8**
			Transfers and Other Adjustments						
33.1	15.0	34.0	Net Assets Released from Restrictions			25.5			25.5
			Transfers to Unrestricted University Reserves	(13.2)	13.2				
			Transfers to Designated Funds	(4.7)	4.7				
(17.5)	(16.0)	(32.0)	Additions to Funds Functioning as Endowment		(1.4)	(10.4)			(11.8)
(80.2)	(54.5)	(54.5)	Transfer to Plant/Student Loan	(11.9)	(62.2)	(3.4)			(77.5)
8.6			Other Transfers						
1,478.0	**1,428.2**	**1,606.5**	**Total Revenues and Transfers**	**499.0**	**119.1**	**241.2**	**573.8**	**213.8**	**1,647.0**
			Expenditures						
295.8	287.8	299.2	Academic Salaries and Benefits	114.2	32.9	76.0	87.0		310.1
300.1	296.0	359.8	Staff Salaries and Benefits	176.4	48.0	47.2	102.9		374.5
187.2	171.8	177.0	SLAC				193.0		193.0
172.9	163.7	202.3	Auxiliary Activity					213.3	213.3
286.1	288.2	281.7	Institutional Support	116.3	33.9	27.6	113.7		291.5
209.5	203.9	248.5	Other Operating Expenses	92.1	30.0	58.3	77.2		257.6
1,451.6	**1,411.4**	**1,568.4**	**Total Expenditures**	**499.0**	**144.8**	**209.0**	**573.8**	**213.3**	**1,640.0**
26.3	**16.8**	**38.0**	**Surplus/(Deficit)**		**(25.7)**	**32.2**		**0.5**	**7.0**

1. In the 1998/99 Consolidated Budget, the Student Financial Aid line also included $26.3 million in Graduate Tuition Allowance. This amount has been re-categorized in the 1999/00 Budget into the Academic Salaries and Benefits line.

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

The 1999/00 Consolidated Budget for Operations projection shows revenues and transfers of $1.647 billion and expenditures of $1.640 billion, resulting in a bottom line surplus of $7.0 million, or 0.4% of total expenditures. The projected surplus is the smallest forecast in several years due primarily to transfers of funds to the plant division in support of the Capital Budget. This drives the deficit projected in the Designated Funds column of the Consolidated Budget for Operations on the next page. We anticipate that strong endowment performance will result in a net excess of restricted income over expense. Grants and contracts are expected to be in balance.

Total revenues and transfers in 1999/00 are projected to increase 2.5% over the expected 1998/99 levels. Adjusting for SLAC, revenues and transfers are expected to grow only 1.7% over projected actuals. This minimal growth, compared to prior years, results from a significant decrease in special program fees resulting from the expiration of the Cohen Boyer patent. Total expenditures are expected to grow by 4.6% over the estimated year-end results for 1998/99; adjusting for SLAC, expenditures are expected to grow at 4.0%. Since expenditures are expected to increase at a rate somewhat faster than revenues and transfers, the total surplus in 1999/00 is expected to be significantly smaller than that projected for the current year.

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 Consolidated Budget for Operations. When the restrictions are satisfied, these funds become available to cover expenses. At that time, they are "released from restrictions" and are included in the Consolidated Budget in the line Net Assets Released from Restrictions.

Financial Aid: Includes expenses for undergraduate and graduate student aid. In accordance with the University financial statements format, these expenses are shown as an offset to student income. Student stipends and tuition allowance are not considered to be financial aid and are included in the expense side of the budget.

Formula Unit: Budget units whose unrestricted revenues are determined by a formula agreed to by the Provost and the unit and, in most cases, is 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.

The Consolidated Budget by Principal Income and Expenditure Categories

INCOME (REFER TO TABLE ON PAGE 2)

Student Income

Increases in student charges are guided by a number of considerations. The most important are our programmatic needs, the affordability of a Stanford education, the effectiveness of our financial aid program, our market position, and price inflation in the local and national economies.

TUITION – The general tuition increase for 1999/00, which was approved by the Trustees in February, is 4.3%. This increase was the result of several factors.

- The most important factor was the financial requirement of the budget. As the largest source of unrestricted income to the budget, tuition supports important initiatives. Tuition revenue also pays for the ongoing but essential activities of the university for which restricted funds are not generally available. These include faculty and staff salaries, student services, building maintenance costs, and debt service on new and renovated facilities. For 1999/00 it was particularly important to provide unrestricted funds to enhance the competitiveness of our salary program.
- A second factor considered in the tuition decision was the affordability of a Stanford education. The tuition increase, together with a 1.4% growth in room and board charges, will yield a total increase in student charges of 3.5%, a figure we expect will approximate the growth in family income. In combination with our financial aid program, we believe this increase will keep Stanford affordable to a wide range of families.
- A final factor considered was our price level compared to other institutions. Historically, Stanford's student charges have been 5% (about $1600) below those of our principal competitors, Harvard, Princeton, Yale, and MIT. Based on the approved actions at those institutions for 1999/00, our position relative to those institutions will stay approximately the same.

ROOM AND BOARD – The 1.4% increase in room and board is the lowest increase since 1970. It reflects a 3% increase in room charges and

1999/00 Student Financial Aid and Other Graduate Student Support from Stanford Resources
(in millions)

FY99 Projected Year-End Actuals		General Funds	Designated and Restricted	Grants and Contracts	Total
	Student Financial Aid				
$37.4	Undergraduate	$12.9	$23.9	$3.4	$40.2
9.1	Undergraduate Athletic		10.0		10.0
24.9	Graduate	1.2	19.7	4.2	25.1
71.4	Total	14.1	53.6	7.6	75.3
	Other Graduate Student Support				
44.5	Stipends	$7.2	19.2	20.0	46.4
41.5	Tuition Allowance	22.0	7.9	13.2	43.1
62.6	RA and TA Salaries	11.6	15.6	39.8	67.0
148.6	Total	40.8	42.7	73.0	156.5
$221.0	Total Student Support	$54.9	$96.3	$80.6	$ 231.8

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

Source of Aid	1994/95 Actual	1995/96 Actual	1996/97 Actual	1997/98 Actual	1998/99 Projected	1999/00 Budget
Restricted	$14.0	$13.3	$15.9	$18.5	$19.5	$20.8
Stanford Fund/Presidential Funds	1.3	3.3	4.5	4.3	6.3	6.5
General Funds	16.6	17.5	13.7	12.2	11.2	12.9
Subtotal Stanford Funded Financial Aid	31.9	34.1	34.1	35.0	37.0	40.2
Govt. and Outside Awards	8.7	8.3	8.0	8.9	8.6	8.6
Total Undergraduate Financial Aid	**$40.6**	**$42.4**	**$42.1**	**$43.9**	**$45.6**	**$48.8**
Number of Students	2,698	2,705	2,584	2,610	2,575	2,600
General Funds as a Share of Total Aid	41%	41%	33%	28%	23%	26%
General Funds and Stanford Fund as a Share of Total Aid	44%	49%	43%	38%	36%	40%

no increase in the board plan. This minimal price increase results from cost reduction and productivity enhancements across Housing and Dining Services and a decline in interest rates on debt paid to support facility construction and renovation.

Student Financial Aid – Stanford expects to spend a total of $75.3 million in financial aid for undergraduate and graduate students, $14.1 million of which will come from general funds. The remainder will be supported by designated and restricted funds ($53.6 million) and grants and contracts ($7.6 million). The total financial aid numbers are 5.5% above the projected total in the current year, due to increases in tuition and a modest expansion of the undergraduate aid program.

Undergraduate aid – This Budget Plan reflects Stanford's long-held commitment to meeting the demonstrated financial need of its undergraduate students. We estimate that in 1999/00, Stanford resources will provide $48.8 million in scholarships, of which $40.2 million will be need based. Of the $40.2 million, $12.9 million will come from general funds.

In February, the Trustees approved two policy enhancements to the financial aid program: aid supplements to those at the lowest income levels, and those students who are President's Scholars. This aid will help raise the yield rate for these groups to the yield rate for the rest of the entering class. The incremental $500,000 for these changes is included in this Budget Plan.

The table above shows the detail of undergraduate need-based student aid. We anticipate a slight increase in the number of students receiving scholarship aid next year after recording a drop in that number in 1998/99. The supplemental aid for low income students, noted above, accounts principally for this increase. The share of undergraduate aid from general funds has dropped from 41% to 26% over the last several years. This is due to the growth of restricted funds supporting financial aid and to support from the Stanford Fund and Presidential funds. All of these funding sources have combined to keep pace with the growth in student and family demonstrated need for undergraduate scholarship aid. Appendix B (Schedules 5 and 6) includes additional information on undergraduate financial aid.

Graduate aid – Stanford provides several kinds of financial support totaling $181.6 million to graduate students. As the table on page 5 indicates, this includes fellowships of $25 million, which are reflected in the student financial aid line of the budget. It also includes funding, not shown in the student financial aid line of the budget, for stipends, tuition allowance, and research and teaching assistant salaries of $156.6 million. Consistent with the presentation of Stanford's financial statements, the tuition allowance and RA (Research Assistant) and TA (Teaching Assistant) salaries expenses are in the Academic Salaries and Benefits line, and the stipend amount is in the Other Operating Expense line of the Consolidated Budget for Operations on page 2.

Of particular note, the Stanford Graduate Fellowship program will reach its full complement of students in 1999/00. This Budget Plan includes $10 million of funding for 325 students. This funding will come from a combination of restricted endowment income and funds from a Presidential reserve.

Sponsored Research Support and Indirect Cost Recovery

The total budget for Sponsored Research Support is expected to be $692.5 million in 1999/00, or 40% of the total revenues projected in the Consolidated Budget for Operations. Included in this figure are the total direct costs of externally supported grants and contracts ($388.3 million for University research and $193.0 million for SLAC) as well as reimbursement for the indirect costs ($111.2 million) incurred by the University in support of sponsored activities.

Direct research volume in the Medical School, which makes up about half of the University's total volume, has experienced double digit growth in each of the last three years, including the current year's growth rate of 14.2%. Medical School research volume is expected to grow 6.0% in 1999/00, a strong but somewhat slower pace than in recent years. Research volume in the non-medical area declined in 1997/98 but is on pace for a 5.0% growth in the current year. We are budgeting a 3.5% growth in non-medical research volume next year.

The Department of Energy (DOE) has historically provided almost all of the funding for SLAC. Beginning in 1998/99, however, a significant amount of funding came from the National Institutes of Health (NIH). The NIH has entered into an agreement with the DOE for enhancing the capabilities at the Stanford Synchrotron Radiation Laboratory to provide better support to the structural molecular biology community. This program comprises only $5.0 million of the 1998/99 SLAC direct costs, but it will contribute $20.0 million in the 1999/00 budget.

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. Stanford management and staff have been working to negotiate a *predetermined* indirect cost rate with the federal government. In the past, Stanford has operated most years under a *fixed with carryforward* rate, where the University charges an annually negotiated fixed rate for an entire year. At the end of the year, there is an audit to determine the actual indirect costs incurred in support of research. The difference between the recovery of indirect costs through the negotiated fixed rate and the actual allowable costs is considered either over- or under- recovery and is called carryforward. The carryforward is then added to the expected indirect costs allocable to research in the next rate calculation. A predetermined rate is a fixed rate without a carryforward provision. The advantage to this type of rate is that there is no audit of actual costs required. It is Stanford's hope to negotiate, up front, predetermined rates for more than one year, thereby reducing the costs associated with after-the-fact audits. The negotiation of the 1999/00 rate is in process.

Investment Income

Endowment Income – The largest part of investment income is endowment income. The estimate of endowment income is a product 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 to be 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 projected for 1999/00 is 5.28%, which includes the supplemental component for infrastructure support described below.

Endowment income in 1999/00 is expected to total $270.5 million, an increase of 7.9% over 1998/99. This includes income from the merged endowment pools, specifically invested endowment, and rental income from the Stanford Research Park and other endowed lands. Of the total endowment income, $73.4 million, or 27%, is projected to support the unrestricted budget. The unrestricted amount includes all of 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 continued effort. The total net rental income from Stanford lands has increased from $7.7 million in 1996/97 to $15.4 million in 1997/98 to an expected $18.7 million in 1998/99. Income from this activity is projected to be $20.9 million in 1999/00. Until recently, Board policy required that one-half of the net income from Stanford endowed lands be reinvested in endowment principal. At its December 1998 meeting, the Board authorized the University to allocate all of the rental income to current operating income, effective January 1, 1999, and continuing for a period of three years. The change in allocation policy was made to alleviate the housing crisis that has been brought about largely by the dramatic increase in Bay Area land values. Half of the net rental income during the approved period will be used to fund a reserve to address housing issues for both faculty and graduate students.

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 expenses such as debt service on seismic restoration projects, deferred maintenance, and administrative support systems. We have used these funds to offset the continuing costs of debt service as well as the one-time costs that were spent. At its February 1999 meeting, the Trustees approved a three-year extension of the supplemental payout.

Other Investment Income – Other investment income consists primarily of earnings on the Expendable Funds Pool (EFP), the investment pool for non-endowment funds. The Expendable Funds Pool consists of the University's general operating funds, non-governmental grants, expendable gifts belonging to various schools and departments, and other short term funds. The investments of the EFP are allocated approximately 40% to the endowment and 60% to fixed income and money market instruments. By Trustee policy, the University guarantees the value of deposits in the EFP and a minimum payout of 4% annually. If actual earnings on the pool exceed 4%, an additional amount up to 2% may be used to support the unrestricted budget. If total return on the EFP is less than 4%, then a buffer reserve, which consists of unrestricted funds functioning as endowment, will be used to supplement the actual earnings of the EFP so that the 4% can be paid out. The 1999/00 Consolidated Budget assumes a 5% return will be achieved. Total income from this source is expected to be $65.2 million.

Expendable Gifts

Non-capital gift income is expected to total $80.0 million in 1999/00. This amount does not include gifts to endowment principal, gifts for capital projects, or gifts that are temporarily restricted. Gift receipts in support of current operations declined from $100.3 million in 1994/95 to $77.6 million in 1997/98. We have assumed that gift income will be flat at $80.0 million in both the current year and in 1999/00.

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 $40 million. 1999/00 will be the first year in which we will receive no income from the Cohen Boyer patent, which produced $21.1 million in the current year, 1998/99. Special program fees also include $16 million from corporate affiliates, mostly in the schools of Earth Sciences and Engineering. There is also $11.8 million from the executive education programs in the Graduate School of Business, $7.4 million from the Stanford Center for Professional Development, and over $5 million from summer camps sponsored by Athletics. Overall, special program fees are projected to be $122.0 million in 1999/00, an $18.0 million decrease over the expected amount for the current year.

Auxiliary Income – Auxiliary income, excluding room and board fees, is projected to be $153.4 million. It includes anticipated payments by UCSF Stanford Health Care to cover faculty and staff services provided by the Medical School for clinical care, and other auxiliary receipts such as conference fees, athletic event ticket sales, and television income. It also includes the activities of the Stanford Alumni Association.

Other Income – Other income is projected to be $40.3 million. This category includes reimbursements for central support services provided to auxiliary organizations ($9.9 million) and income generated by the infrastructure charge ($4.6 million). A large portion of Other Income comes in to the Medical School as designated funds ($19.4 million). These are payments from affiliated institutions such as Santa Clara Valley Medical Center, Lucille Packard Children's Hospital, or UCSF Stanford Health Care, for strategic support or physician services from the faculty of the Medical School.

Transfers and Other Adjustments

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

- Transfers to University Reserves: This is a general funds reserve of $13.2 million set aside to cushion Stanford against potential income shortfalls, particularly research and investment income.
- Transfers to Designated Funds: $4.7 million of unrestricted funds are projected to be transferred into schools' and departments' reserves by those units for future new initiatives or for contingency.
- Additions to Funds Functioning as Endowment: This line reflects our assumption that individual budget units will continue the practice of transferring some excess of revenue over expense in restricted gift funds to Funds Functioning as Endowment (FFE). These funds are invested with the merged endowment pool. We expect a total of $11.8 million will be transferred to FFE.
- Transfer to Plant: These funds will move to the plant division to be used for capital projects. The total amount projected for next year, $77.5 million, is substantially larger than in previous years in keeping with the overall level of the capital program. In particular, we are budgeting $8.4 million in

unrestricted funds for academic facilities renovation; the Medical School is projecting a transfer to plant of $53.8 million which is described on page 19; and both the School of Engineering and the Graduate School of Business are anticipating transfers in excess of $5.0 million to plant funds.

- Net Assets Released from Restrictions: 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 1999/00, we anticipate that schools and departments will be able to use approximately $25.5 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 comparisons, comparisons with peer universities using data that are publicly available, and consideration of available resources. The goal is to set faculty salaries at a level that will maintain Stanford's competitive position both nationally and internationally for the very best faculty.

The average salary program in 1999/00 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 broad-based salary program, specific allocations for faculty salary increments have been made in the schools of Engineering and Law.

While the nominal increase in faculty salaries is planned to be 3.0%, total expenses for academic salaries and benefits are expected to increase 3.6% in 1999/00. This is due, in part, to increases in the number of faculty billets in several schools. Moreover, tuition allowance for research and teaching assistants is included in this expense category and is expected to rise with the 4.3% growth of tuition. Also included in this line of the budget are supplemental payments to faculty participating in various housing assistance programs.

Staff Salaries

For the past several years Stanford's aggregate staff salary program has lagged salary growth in the Silicon Valley employment market where we must compete for staff employees. We have barely maintained our historical mid-market position, and our competitive position has deteriorated. In some high demand job groups, particularly information technology, finance, and administrative support positions, we have lost considerable ground to the local market. In this Budget Plan we are making an effort to maintain, if not to improve, our market position.

The staff salary program for 1999/00 includes growth of 3.0% in our cost base, an additional allocation for internal equity and general market adjustments, and an additional variable allocation for job groups that are significantly below market. Our expectation is that these allocations will minimize the loss of further ground against the local market.

In addition to this salary allocation, there will be an authorization for units to award one-time, non-base performance bonuses up to 1% of the unit's continuing salary base, in situations where a unit has reserves to draw upon.

This year we have introduced a different approach to salary management. Unlike previous years, managers have been given salary allocation guidelines that may be applied more flexibly in both timing and amount, based on performance. Managers have been encouraged to move away from thinking of the salary program as a cost-of-living entitlement and, rather, to think of the program as one that recognizes market changes and differentiates salary increases on the basis of productivity and performance.

By 2000/01 we expect to have in place a comprehensive new program that will provide greater management flexibility for allocating salary dollars, reward quality of performance versus years of service, and move from a rigid September 1 focal point salary increase to individualized evaluation and salary adjustment periods. Such changes are expected to help managers optimize the impact of our salary program allocations. Included in this new salary program will be broad market-based salary bands, supported by a standardized performance evaluation system.

Benefits

The most significant change in the fringe benefits program in 1999/00 will be the way the faculty/staff children's Tuition Grant Program (TGP) is handled. Because of a change in OMB (Office of Management and Budget) Circular A-21, which regulates costs charged to the federal government under sponsored agreements, TGP may no longer be included in the fringe benefits pool, starting in 1999/00. (A non-allowable charge to support TGP will be made against non-federally funded salaries, as described below.)

In the two years since the University implemented multiple benefits rates in 1997/98, TGP has been among the costs included in the pool for faculty, other teaching, and regular staff employees (post-doctoral affiliates and contingent employees do not qualify for the program). Removal of TGP from the pool will result in a reduction of about 0.9 points in the rate charged against these regular benefits-eligible employees' salaries, in comparison to the revised budget for 1998/99.

The Staff Tuition Reimbursement Program (STRP), a tuition assistance program for employees, will be added to the Staff Development Program in 1999/00, but the cost of the first year is projected to be modest. Its steady-state cost is projected at just under $1 million per year.

Other notable changes in benefits costs are reflected in Schedule 11 of Appendix B and are described here.

- Costs of retirement programs and Social Security are expected to increase 4.5%, following the increase in the salary base and reflecting a slight (2%) increase in employee headcount across the University.
- Faculty early retirement costs are expected to drop by almost 20% as more of the participants in the original Faculty Early Retirement Program leave the program and are not replaced.
- Medical and dental insurance costs, which are rising at 6.5% and 10.5%, respectively, reflect the projected growth in employees as well as anticipated premium price increases of 5% for medical insurance and 8% for dental insurance.
- The cost of Stanford's contribution to retiree medical insurance is expected to drop by 11.6% because our liability is approaching full funding, thereby reducing the requirement to fund the outside trust maintained by Stanford for retiree health insurance.
- Other miscellaneous benefits programs are expected to increase in cost by 10%. This is mainly due to the first year of expenditures on the new Staff Tuition Reimbursement Program.

The TGP rate of 1.45% will be charged separately against regular benefits-eligible salaries only. In order to comply with Circular A-21, all federal government-sponsored accounts will be exempted from the charge. Academic service centers will also be exempted. Other than these exclusions, the TGP charge will look just like another fringe benefits charge against salaries. Therefore, regular benefits-eligible salaries charged to non-federally funded accounts will receive two benefits charges, one allowable and one unallowable. The TGP rate is expected to remain flat for the next several years.

The actual 1998/99 and the recommended 1999/00 staff benefits rates are as follows:

Staff Benefit Rates

	1998/99 Rates	1999/00 Rates
Regular Benefits-Eligible Employees	24.8%	24.1%
Post-Doctoral Research Affiliates	13.6%	13.2%
Casual/Temporary Employees	8.4%	8.4%
Students	0.0%	0.0%
Average Blended Rate	23.9%	23.3%
TGP Recovery Rate		1.45%

Institutional Support and Other Operating Expenses

Together these two major cost categories total $549.1 million and comprise one-third of the expenses of the Consolidated Budget for Operations. The principal components include: materials and supplies ($93 million), maintenance and utilities for campus buildings ($76 million), equipment purchases ($75 million), student stipends ($47 million), administrative and professional services ($63 million), travel ($22 million), library materials ($17 million), and administrative computing costs ($10 million). A few of these areas warrant comment here.

Maintenance and Utilities for Campus Structures – The operations and maintenance expense for the Stanford campus is significant, at $75.7 million. This amount is impacted not only by the ongoing costs of these services but by the renewal and development of the campus. The impact of the Capital Plan on the Consolidated Budget in 1999/00 includes an incremental $2.7 million for the O&M and utilities associated with the completion of the SEQ McCullough Annex, CCSR in the Medical School, and the Stanford Infrastructure Program campus landscaping projects.

Administrative Systems – This Budget Plan includes $10.4 million in costs for administrative systems replacement and infrastructure next year, down substantially from the annual amounts in each of the last several years as the number of active projects declines. Work will continue on the Core Financial Systems project, and implementation of the new student system, known as Axess 2000, will move ahead. This budget will also pay for networking and infrastructure projects supporting both academic and administrative computing. The majority of this expense is reflected in the Capital Budget.

Debt Service

The 1999/00 debt service is projected to be $76.9 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 units for the use of debt according to the Debt Policy approved by the Board of Trustees 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. The table on the following page details the different components of debt service.

The $76.9 million for total debt service is included in the Consolidated Budget for Operations in several categories, depending on the specific uses of debt and consistent with the University's 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 Auxiliary projects is budgeted in the Auxiliary Activity line. Debt service for projects associated with Service Centers, such as utilities and

Sources of Funds for Debt Service, 1997/98 - 1999/00
(in millions)

	1997/98 Actuals	1998/99 Forecast	1999/00 Budget
Annual Debt Service Cost Excluding Commercial Paper	**$63.2**	**$77.0**[1]	**$76.9**[2]
Internal Repayments			
Academic Projects (Completed)	13.8	17.0	20.1
Auxiliaries	16.1	18.7	19.3
Service Centers (Utilities/ITSS)	12.5	12.6	15.0
Subtotal	42.4	48.3	54.4
Other[3]	20.8	28.7	22.5
	$63.2	**$77.0**	**$76.9**

1 The difference between the $77.0 million in this report and the $72.4 million projected in the 1998 Annual Report is additional debt service for Medium Term Notes 2 - $1.4 million, CEFA P - $2.4 million, CEFA O - $0.3 million, and CEFA L-6 - $0.5 million.

2 The difference between the $76.9 million in this report and the $65.7 million projected in the 1998 Annual Report is additional debt service for Medium Term Notes 2 - $3.0 million, CEFA P - $8.1 million, CEFA O refunding of CEFA I reduction of ($1.0) million and CEFA L-6 and L-7 - $1.1 million.

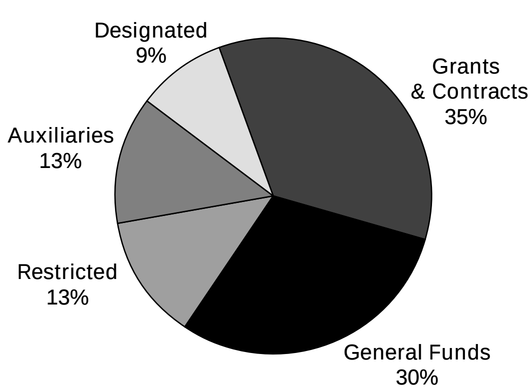
3 Includes investment earnings on unused debt, refinancing to cover principal payments, and reimbursements by miscellaneous small projects.

networking, is included in the Institutional Support line.

The Consolidated Budget by Fund Type

In this section, we describe the budget by type of funding source. The main fund types are general funds, designated funds, restricted funds, grants and contracts, and auxiliaries. The relative share of the budget attributable to each fund type is shown in the pie chart below.

1999/00 Consolidated Expenditures by Fund Type



General Funds Budget

The general funds budget is an important subset of the Consolidated Budget, because these funds can be used for any university purpose. The main sources of general funds are Tuition and Fees, Indirect Cost Recovery, Unrestricted Endowment Income, Other Investment Income, and Unrestricted Gifts. Total general funds revenue is projected to be $528.9 million in 1999/00. As shown in the Consolidated Budget for Operations, the general funds budget includes a University Reserve of $13.2 million in 1999/00. 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 and investment income and is used on a one-time basis to fund a variety of short-term commitments.

1999/00 General Funds Allocations

The process of allocating general funds to budget units begins with a forecast of available

Summary of 1999/00 General Funds Allocations (excluding Formula units)
(in thousands)

	Fully Funded Base Calculation[1]	Reductions[2]	Incremental Programmatic Additions[3]	Actual General Funds Allocation
School of Earth Sciences	$2,272	($74)		$2,198
School of Education	7,473	(91)	$135	7,516
School of Engineering	30,309	(419)	668	30,558
School of Humanities and Science	76,800		441	77,242
Undergraduate Education	5,270		700	5,970
School of Law	9,962	(271)	205	9,896
Dean of Research	7,242		145	7,387
Hoover Institution	4,155	(195)		3,960
Academic Subtotal	143,484	(1,051)	2,294	144,727
Stanford University Libraries	27,932		241	28,173
Student Affairs	31,728	(175)	257	31,810
Academic Support Subtotal	59,660	(175)	498	59,983
President/Provost	10,020	(50)	373	10,344
Development	11,688		100	11,788
Business Affairs	28,218		250	28,468
ITSS	30,547		900	31,447
Institutional Planning and Operations	22,243	(500)	12	21,755
Utilities and O&M	44,421		850	45,271
Debt Service	13,052		3,115	16,167
Other Administrative Units[4]	7,154	(85)	40	7,109
Central Obligations[5]	29,669		350	30,019
Administrative Subtotal	197,013	(635)	5,990	202,368
Total	$400,157	($1,861)	$8,782	$407,078

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

2 A *fully funded* allocation receives a pre-determined percentage increase on certain fixed and non-fixed expenses. In the 1999/00 allocation, many units did not receive increases on any *non-fixed* expenses. Therefore the actual allocation may be lower than the fully funded base calculation.

3 Incremental Programmatic Additions are funds allocated for implementation of new academic or administrative programs which are anticipated to be ongoing, starting in 1999/00.

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

5 Central Obligations include tuition allowance, the housing allowance program, and research support mitigation.

revenue. Then an estimate is made of the 1999/00 continuing base budget for each unit, assuming growth factors for salaries, student aid, library acquisitions, operations and maintenance, and other expenses. For the last several years, no growth factor has been applied to general non-salary expense. These calculations yield an estimated fully funded general funds budget for each non-formula unit. To balance the expected available general funds and the overall expense estimate, unit budgets may not be fully funded. However, certain categories of expense are considered to be fixed costs and have been fully funded in every unit. These include faculty salaries and benefits, student aid, library acquisitions, utilities, and insurance.

Other expenses, including staff salaries and benefits, may not be fully funded in each unit. The table above shows the reductions in general funds allocations from fully funded budgets. These were taken mostly in the school budgets where restricted funds are available.

Incremental general funds were allocated selectively where programmatic plans were pressing within the constraints of available resources. General funds were also allocated to cover University obligations such as incremental debt service, operations and maintenance and utilities on new structures, and investments in technology. The general funds allocations for each unit are detailed in the table below, and some of the incremental allocations are highlighted in the description that follows.

- $1.1 million has been allocated for faculty billets in the schools of Education, Engineering, Humanities and Sciences, and Law. Another $288,000 has been allocated in the Schools of Engineering, Humanities and Sciences, and Law for faculty salary supplements and replacement teaching for junior faculty on sabbatical.
- $700,000 has been allocated to the Vice Provost for Undergraduate Education as part of the planned build-up of this area's base budget.
- Incremental general funds of $145,000 have been allocated to the Office of the Dean of Research to support the research compliance office.
- The Vice Provost of Student Affairs will receive an additional $107,000 to support new initiatives in financial aid as well as the new judicial affairs system.
- $900,000 has been allocated to ITSS for improvements in residential computing and for on-going support of administrative infrastructure services that are being developed for the new systems applications. In the same manner as last year, additional technology investments are also being made for Information Resource Specialists in the Libraries ($141,000) and for classroom technology improvements ($150,000).
- Additional allocations to administrative areas include $250,000 for the Controller's office, $100,000 for the Office of Development, and $373,000 to the Office of the President and Provost for campus relations, the budget office, the news service, and university communications.
- New and renovated buildings expected to come online in 1999/00 require incremental general funds allocations of $850,000 for utilities and maintenance and $3.1 million for debt service. These amounts are only a subset of the total charge resulting from Capital Budget projects, as some of the expenses were pre-funded in the 1998/99 budget and a portion is paid from auxiliary, service center, and formula school budgets.

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 $394.3 million, $196.8 million is endowment income and $122.0 million is special program fees, such as patent and royalty income, corporate affiliates, and executive education programs. The budgeted expenses reflect the combined forecasts of the schools. These budgets support faculty salaries and research programs, equipment purchases, and a variety of other costs. In addition, designated funds will be used in several schools to support capital projects.

Grants and Contracts Budget

The grants and contracts budget of $573.8 million represents the sum of the direct sponsored activity under the direction of individual faculty principal investigators ($380.8 million, net of student aid) and the direct costs for SLAC ($193.0 million). The total for University direct costs builds upon a higher than budgeted amount for the current year due to strong research volume in the Medical School since 1996/97. Total University research volume is expected to grow by 4.6% in 1999/00.

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, as is the Stanford Alumni Association. Each of these operations is essentially a self-contained financial entity supporting the broader purposes of the University. As such, these organizations charge both internal and external clients/customers for their services and programs. They also pay the University for central services provided.

Total Auxiliary Activity, 1999/00
(in millions)

	Revenues and Transfers	Expenditures	Excess of Revenues Over Expenditures
Housing & Dining Services	$67.1	$66.7	$0.4
Athletics	29.6	29.6	
Medical Center	97.6	97.6	
Alumni Association	28.9	28.9	
Press	3.8	3.7	0.1
Other	18.8	18.8	
Total	$245.8	$245.3	$0.5

NOTE: This table represents gross expenditures and revenues. When incorporated into the Consolidated Budget, interdepartmental transactions of $32.0 million have to be netted out, resulting in net total revenues of $213.8 million and expenditures of $213.3 million.

Housing and Dining Services – Housing and Dining is budgeting a surplus of $349,000 for 1999/00 on revenues of $67.1 million. This surplus will be transferred to reserves and used as part of the H&DS long term Capital Improvement Program (CIP) for the renovations of Stanford's student residences. H&DS is midway through the 15-year CIP program and in 1999/00 plans to begin work on the renovation of the Toyon/Branner complex. The H&DS budget also includes reductions in operating expenses in Dining Services which made possible the Trustee decision in February to hold the growth rate of room and board to 1.4% overall, with the board rate showing no increase.

Athletics – Athletics is projecting a balanced consolidated budget after a transfer of $326,000 from its operating budget to its financial aid budget. The operating budget includes an increase in football gate receipts due to a favorable home schedule. In addition, the Golf Course's contribution to Athletics will rise due to fee increases. Athletics is benefiting from the additional financial aid endowment funds that have been created in recent years. This income is necessary to keep pace with the continued increases in tuition, room and board, and the new scholarships which have been added in recent years. The total number of full scholarships has increased in the last several years from 270 to 280.

Stanford University Press – The Press plans a $92,000 surplus next year, which is net of the long-standing University subsidy of $470,000. In addition, the Press will be allocated $249,000 in a supplemental one time allocation to support strategic initiatives in book production and the expansion of editorial capacity in business and economics.

Alumni Association – After operating as a separate entity for over a century, the Stanford Alumni Association (SAA) has been successfully integrated with the University. The Alumni Association's budget for next year will show a small deficit of $45,000 on revenues of $28.9 million. The primary revenue sources are travel programs, membership dues, seminars, donations from the Sierra Camp subsidiary company, and investment income. The SAA has begun an ambitious program to expand and enhance alumni activities and services.

The University has allocated $3.3 million of incremental funding over the next three years to assist with this expansion. SAA will cover its operating shortfall through its reserves, which are projected to stand at $3.6 million at the start of the 1999/00 fiscal year.

Medical School Professional Services – This category includes the cost of purchased services of physicians and staff by UCSF Stanford Health Care of $80.4 million, including Pediatrics and other children's services, $4.1 million for Primary Care, and $13.1 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 73% of the expenses and income are for faculty or physician salaries and benefits; another 19% is for staff support. With the introduction of the new funds flow approach and the current lack of clinical financial and productivity information, this source of funds to pay faculty compensation is at greater risk now than has been the case in the past. The School is taking steps to establish departmental, as well as School, contingency reserves that will be necessary to cover the losses likely to occur in some of the departments that have previously been unable to meet their needs without subsidies.

The Consolidated Budget by Organizational Unit

The table on the facing page shows the Consolidated Budget for Operations displayed by organizational unit. Detailed budgets by unit are found in Appendix A. A brief discussion of the budgets of the seven schools follows.

Earth Sciences – As in previous years, Earth Sciences continues to maintain a healthy financial position. Financial support comes from a broad spectrum of sources: federal grants and contracts (29%); endowment (25%); industrial affiliate programs (22%); gifts and other grants (12%); and university general funds (12%). The School's continued reliance on affiliate income for staff salaries and graduate student support is a potential area of concern. Many affiliate members are from the oil industry, which is undergoing a significant economic downturn. Projecting a 5% decrease in affiliate revenue, the School is pursuing alternative funding sources while considering a slowdown on certain affiliate-funded research projects.

School of Education – The School of Education consolidated budget projects an excess of revenues over expenditures of $438,000. This small surplus will be combined with existing School reserves to support the following: faculty recruitment, continued student support during funding gaps, capital improvements, and funding for new initiatives.

Engineering – The School of Engineering consolidated budget continues to reflect a strong overall position. The consolidated plan projects a $9.7 million surplus, primarily attributed to increased faculty reserves and a modest increase in restricted endowment. During 1999/00 the School expects to spend approximately $5 million for new construction and laboratory renovations.

Engineering continues to track its financial reserves at each level of the organization as well as by department. In the aggregate, the School is financially healthy, although closer examination shows signs of weakness in some parts of the School. Fortunately, the greatest financial strength is in those departments with the greatest financial exposure, Electrical Engineering and Computer Science. But several departments are experiencing financial difficulties, and the Dean's Office is working with them to better understand the sources of their financial stress and to develop plans to improve their financial stability.

School reserves, as a percentage of total expenditures, have declined slightly over the past three years. Since expenses related to faculty recruitment and facilities have been higher than normal, this trend is not unexpected. In light of the School's major financial commitment to the

Projected Consolidated Budget for Operations by Unit, 1999/00
(in millions)

	Revenues and Transfers	Expenditures	Excess of Revenues Over Expenditures
Academic Units:			
School of Earth Sciences	$22.2	$22.0	$0.3
School of Education	21.2	20.8	0.4
School of Engineering	171.0	161.3	9.7
School of Humanities & Sciences[1]	192.6	188.4	4.2
Undergraduate Education	14.3	15.0	(0.7)
School of Law	31.7	29.7	2.0
Dean of Research	114.1	114.9	(0.8)
Graduate School of Business[1]	60.7	66.3	(5.6)
School of Medicine[1]	379.3	422.8	(43.5)
Hoover Institution	25.1	25.1	
Total Academic Units	1032.2	1066.2	(33.9)
Academic Support Units:			
Stanford University Libraries	45.2	45.2	
Student Affairs	79.2	78.1	1.1
Total Academic Support Units	124.5	123.4	1.1
Total Administrative[2]	243.0	230.5	12.5
Auxiliaries	213.8	213.3	0.5
SLAC	193.0	193.0	
Indirect Cost Adjustment[3]	(111.2)	(111.2)	
Student Financial Aid Adjustment[4]	(75.3)	(75.3)	
Grand Total from Units	**1,620.1**	**1,639.9**	**(19.8)**
Other Anticipated Income[5]	26.9		26.9
Total Consolidated Budget	**$1,647.0**	**$1,639.9**	**$7.1**

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 lines for the School of Medicine, Graduate School of Business, and H&S do not include auxiliary income and expenses. These items are shown in the Auxiliaries line. These auxiliary operations include Medical School professional services, the Schwab Center of the GSB, and Stanford in Washington and Bing Nursery School in H&S. These auxiliary revenues and expenses can be seen in more detail in the Schools' Consolidated Budgets in Appendix A.

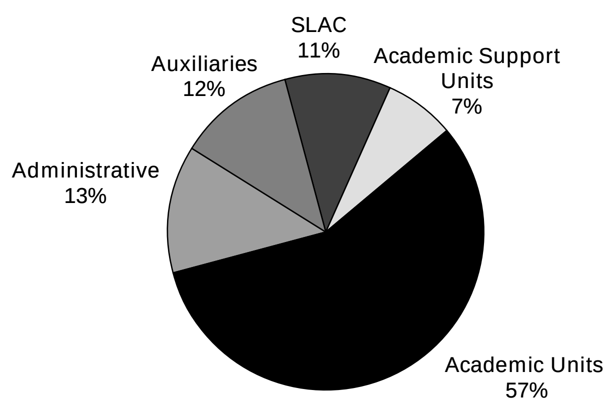
2 The surplus of $12.5 million in Administrative Units consists mainly of the $13.2 million transfer to Unrestricted University Reserves. Without this transfer, the Administrative Units would be showing a $0.6m deficit, due to a planned drawdown of designated funds in ITSS for site licensing and modifications to legacy systems.

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 $111.2 million received by the schools is taken out in the "Indirect Cost Adjustment" line.

4 In accordance with the University financial statement format, certain types of student financial aid are shown as negative income against student income in the Consolidated Budget. Because it appears in the revenue and expense of the academic units, it is taken out in the "Student Financial Aid Adjustment" line.

5 The $26.9 million shown in Other Anticipated Income is based on historical experience and reflects our belief that the University will receive additional income that we cannot specifically identify by unit at this time.

1999/00 Consolidated Expenditures by Unit



planned Mechanical Engineering Laboratory Building, however, the total unrestricted reserve is small. This fact highlights the School's critical need for successful fundraising for the addition and renovation of critical laboratory facilities.

Humanities and Sciences – On a consolidated basis, H&S fund balances are projected to grow by $4 million. While overall fund balance growth implies financial health for the School, many of the same cost and budgetary challenges facing H&S in the current year are hidden in the detail.

Expenses related to faculty recruitment and retention increased significantly during 1998/99 and are projected to increase further in 1999/00. The high cost of housing, start-up funding and lab setup, particularly for the large number of senior hires in these years, will require the school to use $6.0 million of designated and $2.5 million of endowment funds to balance the 1999/00 operating budget. Senior recruitment activities are projected to diminish after 1999/00, returning this expense stream to a more manageable level.

This use of designated funds is masked by a $4.75 million projected year-end transfer of operating budget funds to designated funds for carryforward of unused graduate aid and departmental operating budget savings. The sum of all these transactions equals the $2.0 million net decrease in designated fund balances shown on the School's consolidated budget in Appendix A.

Despite a $2.5 million transfer to the operating budget, endowment fund balances are projected to grow by $5 million during 1999/00. While this increase indicates strong endowment return and growth in the number of funds, it is also reflective of several internal factors. A number of incremental endowed chairs have not yet been filled, creating an accumulation of payout that cannot be used. In addition, a relatively large number of H&S endowments have highly restrictive donor authorizations, which make funds difficult to use. This year, the H&S Dean's office will be working closely with departments to analyze fund authorizations, historical uses, and how funds can be better used in the future to support school priorities.

Faculty renewal activities have significantly increased the number of H&S billets over the past several years. Billet growth, coupled with increased responsibility and complexity, has created significant strain on the school's administrative staff, which has not grown concomitantly with faculty increases. Administrative restructuring projects addressing these issues are projected to come online during 1999/00 and will add additional costs to the school's budget.

Law School – The Law School consolidated forecast reflects the anticipated receipt of a $12 million endowment gift from an estate and other significant gifts related to the School's fundraising campaign. The revenue from this endowment and anticipated expendable gifts results in a projected surplus of almost $2 million. The school is waiting for the transition of deans to prioritize how those funds will be allocated among its many needs, including faculty salaries, faculty support, computer and systems upgrades, facilities, and maintenance.

Moreover, the total needs far exceed the estimated surplus. Faculty salaries continue to lag behind our peer schools; recruiting faculty to this area is difficult due to housing costs. The Law School's classrooms have not been upgraded since the building was built over 25 years ago.

Graduate School of Business – The Graduate School of Business consolidated forecast shows a deficit of $5.6 million, reflecting a planned draw down of reserves to complete the renovation of the 30-year old GSB building. This project, to be completed in early 2000, is funded by budget savings and other designated reserves as well as by some gifts. In addition to this investment in facilities, the forecast includes increased support to doctoral students and proposed ongoing significant investment in technology.

School of Medicine – As anticipated, the program investment reflected in the School of Medicine's 1999/00 Consolidated Plan involves significant growth in expenses and substantial use of the School's accumulated reserves. The Consolidated Plan projects revenues and transfers of $476.9 million (including professional services), use of reserves of $43.5 million, and total expenses of $520.4 million. The 1999/00 Consolidated Plan assumes a 7.5% increase in revenues and transfers and a 13.3% increase in expenses over the 1998/99 Consolidated Plan.

Revenue Growth: The increases in revenues and transfers are related principally to refined approaches to forecasting income in the designated and restricted funds, substantial growth in sponsored research activities, and increased investment in programs and new faculty. Year-end projections for 1998/99 show sponsored activities almost 10% higher than the 1998/99 budget, and the School's 1999/00 Consolidated Plan anticipates an additional increase of more than 6%.

Expense Growth: While the expenses related to sponsored activities make up less than 44% of total expenses, the growth in sponsored activities accounts for approximately 50% of the overall expense growth. O&M and utilities costs are expected to increase by almost 16.5% in 1999/00. Some of the O&M and utility cost increases over the 1998/99 forecast have already occurred in the current year with additional leases required to provide necessary research space off-campus; O&M costs will increase with the activation of CCSR in the spring of 2000. Incremental investments in programs include approximately $9 million to satisfy commitments made to newly appointed or soon to be appointed department leaders, approximately $0.5 million to address issues related to the new faculty compensation plan, and almost $1 million to pay for fund-raising costs for the new Children's Health Initiative. The School expects to recruit approximately 26 new tenure line faculty during 1999/00, and the related expenses, including incremental support and research staff, are included in the Consolidated Plan. This anticipated increase in faculty and staff, when added to annual salary increases and changes in benefits rates, accounts for more than 73% of the anticipated increase in expenses in the 1999/00 Consolidated Plan.

Use of Reserves: The School expects to use some of its accumulated reserves for program development and facilities revitalization. This is largely due to the integrated approach that the School has taken to capital planning and the initiation of a number of capital projects as part of a facilities master plan to improve critical education and research space and revitalize the E.D. Stone buildings. The 1998/99 capital plan anticipated a need to transfer approximately $24.2 million to plant to begin funding capital projects. The School now expects to need to transfer no more than $9.4 million (of the anticipated $24.2 million) during the course of this fiscal year. The remaining $14.8 million included in the anticipated 1998/99 transfers is now carried forward to and included in the 1999/00 projected transfer to plant of $53.8 million. The anticipated transfers in 1999/00 will partially fund the following projects:

- Improvements to the library, student labs, and classrooms at $15.2 million,
- Critical replacement of mechanical and electrical infrastructure in the E.D. Stone Buildings at $6.4 million,
- Projects related to the completion of CCSR at $10.7 million,
- The first phase of the revitalization of the Stone Buildings including offices and laboratories that will meet commitments made to the new chairmen of Surgery and Pathology at $15.6 million, and
- Approximately $18.3 million to fund improvements to Building 4 on the campus of the Palo Alto Veterans Administration Medical Center.

Funding the capital budget, planned maintenance, and departmentally initiated and funded projects will also require debt of approximately $13 million and gifts yet to be raised of approximately $18 million. As a result of this combination of current investments in planned programs and slower growth in revenues, the School anticipates using approximately $43.5 million of the $225 million of expendable reserves or funds functioning as endowment currently held by the School. The School anticipates that $20 to $30 million of funds functioning as endowment would need to be liquidated next year as part of this plan, and it will return to the Board for specific approval at that time.

IMPACT OF THE CAPITAL BUDGET ON THE CONSOLIDATED BUDGET FOR OPERATIONS

Next year's Capital Budget calls for $300.6 million in expenditures on capital projects. The impact of these expenditures on the Consolidated Budget for Operations is shown in two places. The first is $5.9 million in incremental debt service for those projects that will be coming online in 1999/00 or which had less than a full year of debt service in 1998/99. The second is $2.7 million for the incremental operations, maintenance, and utilities costs required to run those facilities.

The details of the Capital Budget for 1999/00 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 1999/00 Statement of Activities, shown on the facing page, that highlights the University's operations within the total unrestricted net assets.

The Statement of Activities (analogous to a corporate profit/loss statement) is found in the audited annual 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 21 represents only the revenues and expenses in the Statement of Activities for Unrestricted Net Assets.

Converting the Consolidated Budget into the Statement of Activities

The following key points explain the connections between the Consolidated Budget for Operations and the *operations* component of the Statement of Activities for Unrestricted Net

Comparison of Consolidated Budget and Projected Statement of Activities, 1999/00 for Unrestricted Net Assets
(in millions of dollars)

1997/98 Actuals	1998/99 Budget		Projected Consolidated Budget	Adjustments	Projected Statement of Activities
		Revenues and Other Additions			
		Student Income:			
142.9	143.3	Undergraduate Programs	153.0		153.0
134.8	146.6	Graduate Programs	149.8		149.8
57.0	57.3	Room and Board	59.5		59.5
(69.0)	(100.7)	Student Financial Aid	(75.3)		(75.3)
265.7	246.5	Total Student Income	287.0		287.0
		Sponsored Research Support:			
350.7	357.8	Direct Costs—University	388.3		388.3
187.2	171.8	Direct Costs—SLAC	193.0		193.0
97.7	98.5	Indirect Costs	111.2		111.2
635.5	628.1	Total Sponsored Research Support	692.5		692.5
77.6	80.0	Expendable Gifts In Support of Operations	80.0		80.0
		Investment Income:			
229.9	237.8	Endowment Income	270.5		270.5
34.4	59.9	Other Investment Income[a]	65.2	1.0	66.2
264.3	297.7	Total Investment Income	335.7	1.0	336.7
		Other Income:			
131.7	87.7	Special Programs Fees	122.0		122.0
116.2	105.8	Auxiliaries (excl. Room & Board)	153.4		153.4
33.2	42.9	Other	40.3		40.3
281.1	236.4	Total Other Income	315.7		315.7
1,524.2	**1,488.7**	**Total Revenues**	**1,710.8**	**1.0**	**1,711.8**
		Transfers			
34.2	15.0	Net Assets Released from Restrictions	25.5		25.5
		Additions to Funds Functioning as Endowment[b]	(11.8)	11.8	
		Transfer to Plant/Student Loan[c]	(77.5)	77.5	
1,558.4	**1,503.7**	**Total Revenues and Transfers**	**1,647.0**	**90.3**	**1,737.3**
		Expenditures			
295.8	287.8	Academic Salaries and Benefits	310.1		310.1
300.3	296.0	Staff Salaries and Benefits	374.5		374.5
91.1	92.6	Depreciation[d]		96.8	96.8
187.2	171.8	SLAC	193.0		193.0
172.9	163.7	Auxiliary Activity	213.3		213.3
287.6	288.1	Institutional Support	291.5		291.5
142.4	136.5	Other Operating Expenses[d]	257.6	(72.2)	185.4
1,477.3	**1,436.5**	**Total Expenditures**	**1,640.0**	**24.6**	**1,664.6**
81.1	**67.2**	**Surplus/(Deficit)**	**7.0**	**65.7**	**72.7**

Assets.[1] 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 current, plant, student loans, and funds functioning as endowment. Therefore, in the Statement of Activities, a transfer from current funds to Funds Functioning as Endowment (FFE) or the plant division has a net effect of zero. 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 requires the following adjustments:

Adjustments to Move from Current Funds[2] to All Types of Funds:

a) Other Investment Income: This $1.0 million represents interest earned by the Plant and Student Loan funds and is added to the Consolidated Budget investment income to equate to the Statement of Activities.

b) Additions to Funds Functioning as Endowment: The Consolidated Budget for Operations forecasts that the schools will transfer $11.8 million to the endowment division, as funds functioning as endowment to be invested in the merged endowment pool. As explained above, endowment division is part of total Unrestricted Net Assets, therefore transfers from current funds to FFE have a net effect of zero in the Statement of Activities. To create the Statement of Activities, these transfers are added back in.

c) Transfer to Plant: $77.5 million is expected to be transferred from current funds to the plant division to fund capital expenditures. These transfers are added to the Consolidated Budget for the same reason as in (b), above.

Adjustments to Move from a Cash Basis to an Accrual Basis:

d) Expenditures for Equipment vs. Depreciation: $72.2 million of expenses for equipment are included in Other Operating Expenses in the Consolidated Budget for Operations. In the Statement of Activities, equipment purchases are capitalized and depreciated over their useful lives. Total depreciation is projected at $96.8 million. Therefore, two adjustments are made. The first is to remove the $72.2 million for equipment from the Other Operating Expenses line. The second is to add $96.8 million to the Depreciation line.

The impact of capitalization and the flow of funds for plant purposes described above result in a change in the bottom line of $65.7 million, from a $7.0 million surplus in the Consolidated Budget projection to a $72.7 million surplus in the Statement of Activities projection. The comparable adjustment in 1997/98 was $54.8 million between the $26.3 million bottom-line for the Consolidated Budget and the $81.1 million bottom line in the Statement of Activities.

1 Certain non-operating components of Unrestricted Net Assets, such as UCSF Stanford Health Care or gains in funds functioning as endowment, are not included in the Statement of Activities on page 21.

2 Current funds are resources that are expendable for the primary instruction and research mission of the University, within accounting and donor restrictions, if any. Endowment principal, student loan funds, and plant funds are not considered current funds, as they are held for other specific purposes.