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

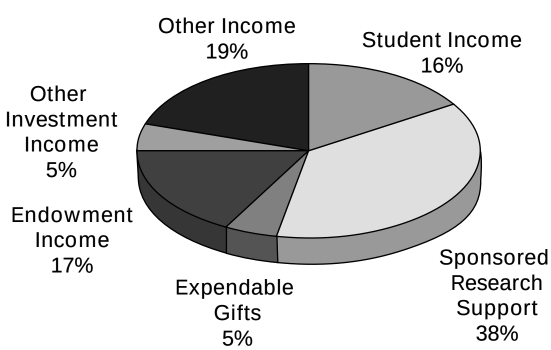
CONSOLIDATED BUDGET FOR OPERATIONS

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 2000/01. For comparison purposes, this table also shows the actual revenues and expenditures for 1998/99 and both the budget and the estimated year-end projections for the current fiscal year, 1999/00. Definitions of key terms are provided.

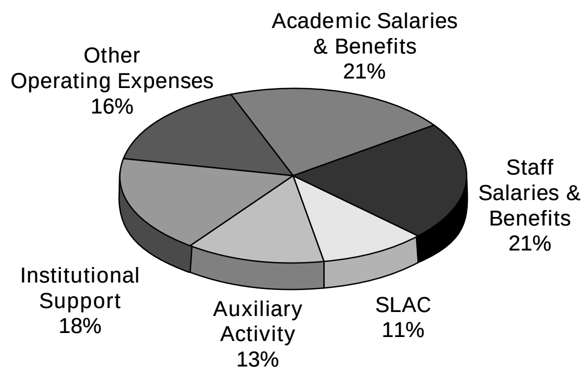
In this section we will review the Consolidated Budget from three perspectives: through an analysis of revenues and expenditures, by type of funding source (e.g. general funds, restricted funds, etc.), and by organizational unit.

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,

2000/01 Consolidated Revenues: $1,879.3M[1]



2000/01 Consolidated Expenditures: $1,772.0M



[1] Net Revenues after Transfers: $1,799.3M

PROJECTED CONSOLIDATED BUDGET FOR OPERATIONS, 2000/01

(in millions of dollars)

1998/99 Actuals	1999/00 Budget June, 1999	1999/00 Projected Yr-End Actuals		General Funds	Designated	Restricted	Grants and Contracts	Auxiliaries/ Other	Total Current Funds 2000/01
			Revenues and Other Additions						
			Student Income:						
147.4	153.0	153.0	Undergraduate Programs	162.0					162.0
141.9	149.8	149.7	Graduate Programs	156.7					156.7
61.3	59.5	63.0	Room and Board					67.1	67.1
(72.3)	(75.3)	(71.5)	Student Financial Aid	(14.3)	(2.7)	(61.0)	(5.6)		(83.6)
278.3	287.0	294.2	Total Student Income	304.4	(2.7)	(61.0)	(5.6)	67.1	302.2
			Sponsored Research Support:						
357.5	388.3	376.4	Direct Costs—University				392.4		392.4
170.7	193.0	186.8	Direct Costs—SLAC				197.7		197.7
105.5	111.2	113.9	Indirect Costs	120.6					120.6
633.6	692.5	677.2	Total Sponsored Research Support	120.6			590.1		710.7
97.4	80.0	87.0	Expendable Gifts In Support of Operations	2.0		85.0			87.0
			Investment Income:						
261.6	270.5	287.3	Endowment Income	87.8		227.3			315.1
103.6	65.2	103.0	Other Investment Income	25.0	35.5	38.0	0.8		99.3
365.2	335.7	390.3	Total Investment Income	112.8	35.5	265.3	0.8		414.4
			Other Income:						
136.7	122.0	140.0	Special Programs Fees		143.5				143.5
143.1	153.3	159.5	Auxiliaries (excl. Room & Board)					163.8	163.8
44.6	40.3	56.0	Other Income	33.7	28.9	(4.5)	(0.3)		57.8
324.4	315.6	355.5	Total Other Income	33.7	172.4	(4.5)	(0.3)	163.8	365.1
1,698.9	**1,710.8**	**1804.2**	**Total Revenues**	**573.6**	**205.2**	**284.8**	**585.0**	**230.9**	**1,879.3**
			Transfers and Other Adjustments						
32.1	25.5	25.0	Net Assets Released from Restrictions			25.0			25.0
			Transfers to Unrestricted Univ Reserves	(10.0)	10.0				
			Transfers to Designated Funds	(12.7)	12.7				
(37.6)	(11.8)	(33.4)	Transfers to Funds Functioning as Endowment		(15.0)	(9.4)			(24.4)
(72.9)	(77.5)	(72.4)	Transfer to Plant/Student Loan	(11.9)	(32.0)	(33.6)		(3.1)	(80.6)
1,620.4	**1,647.0**	**1723.4**	**Net Revenues after Transfers**	**539.0**	**180.8**	**266.8**	**585.0**	**227.7**	**1,799.3**
			Expenditures						
318.1	310.1	348.5	Academic Salaries and Benefits	126.1	48.1	90.9	102.7		367.7
329.8	374.5	359.5	Staff Salaries and Benefits	187.8	63.5	42.2	92.5		386.0
170.7	193.0	186.8	SLAC				197.7		197.7
209.2	213.3	219.5	Auxiliary Activity					229.7	229.7
292.3	291.5	302.8	Institutional Support	129.6	41.6	27.9	114.2		313.4
261.6	257.6	268.0	Other Operating Expenses	95.4	48.0	56.3	77.8		277.5
1,581.6	**1,640.0**	**1,685.0**	**Total Expenditures**	**539.0**	**201.2**	**217.2**	**585.0**	**229.7**	**1,772.0**
38.8	**7.0**	**38.4**	**Surplus/(Deficit)**	**0.0**	**(20.3)**	**49.6**	**0.0**	**(2.0)**	**27.3**

student loan funds, or endowment principal funds, although endowment income is reflected in this budget. Later in this section, we 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 2000/01 Consolidated Budget for Operations shows net revenues after transfers of $1,799.3 million and expenditures of $1,772.0 million, resulting in a bottom line surplus of $27.3 million, or 1.5% of total expenditures.

Net revenues after transfers in 2000/01 are projected to increase 4.4% over the expected 1999/00 levels. Adjusting for SLAC, revenues and transfers are expected to grow 4.2% over projected actuals. This growth results from continued strength in endowment income and continued strong sponsored research support. Total expenditures are expected to grow by 5.2% over the estimated year-end results for 1999/00; adjusting for SLAC, expenditures are expected to grow at 5.1%. The growth in expense is driven largely by the proposed enhanced salary program.

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.

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 and 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 do 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. In most cases, the formula 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.

Tuition – The general tuition increase for 2000/01, which was approved by the Trustees in February, is 6.0%. This increase is somewhat higher than in previous years and helps generate the revenue necessary to address some of the expense pressures presented by the Bay Area's booming economy. At the same time, the University is making significant investments in the student financial aid program. The approved tuition increase, together with another low increase in the room and board rate, will yield a total increase in student charges of 5.0%.

Room and Board – In February the Trustees approved a combined room and board rate increase of 1.9%. This increase is below the projected rate of inflation for the third straight year and holds the board rate to zero growth for the second year in a row. Housing and Dining Services will continue the Capital Improvements Program in 2000/01, representing the ninth year of a sixteen-year effort to renovate student residences. In addition, the overall Housing and Dining Services budget includes an incremental 508 units for graduate student housing in the new Escondido Village studio apartments.

Student Financial Aid – Stanford expects to spend a total of $83.6 million in student financial aid for undergraduate and graduate students, $14.3 million of which will come from general funds. Designated and restricted funds ($63.7 million) and grants and contracts ($5.6 million) will support the remainder. The total financial aid numbers are 16.9% above the projected total for the current year, due to the larger increase in tuition and major enhancements to the undergraduate financial aid program as well as a projected increase in the number of students on aid.

Undergraduate Aid – This Budget Plan reflects Stanford's long-held commitment to need-blind admissions supported by a financial aid program that meets the demonstrated financial need of all admitted undergraduate students. Moreover, this Plan includes funds for important enhancements to our undergraduate scholarship program. We estimate that in 2000/01, Stanford students will receive $53.7 million in need-based scholarships, of which $44.5 million will be from Stanford resources. Of the $44.5 million, $13.0 million will come from general funds. An additional $10.8 million in athletic scholarships, which are not need-based, will be awarded to undergraduate students.

In February, the Trustees approved two new policy enhancements to our undergraduate scholarship

2000/01 Student Financial Aid and Other Graduate Student Support from Stanford Resources
(in millions of dollars)

FY00 Projected Year-End Actuals		General Funds	Designated and Restricted	Grants and Contracts	Total
	Student Financial Aid				
36.8	Undergraduate	13.0	31.4	0.1	44.5
10.0	Undergraduate Athletic		10.8		10.8
24.7	Graduate	1.3	21.5	5.5	28.3
71.5	Total	14.3	63.7	5.6	83.6
	Other Graduate Student Support				
50.6	Stipends	8.8	20.1	24.7	53.6
44.8	Tuition Allowance	26.6	8.2	12.7	47.4
67.3	RA and TA Salaries	12.6	16.6	42.3	71.4
162.7	Total	48.0	44.9	79.6	172.4
234.2	**Total Student Support**	**62.2**	**108.6**	**85.2**	**256.0**

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

Source of Aid	1995/96 Actual	1996/97 Actual	1997/98 Actual	1998/99 Actual	1999/00 Projected	2000/01 Budget
Restricted	13.3	15.9	18.5	19.0	20.3	22.6
Stanford Fund/Presidential Funds	3.3	4.5	4.3	5.6	8.8	8.9
General Funds	17.5	13.6	12.2	12.4	7.7	13.0
Subtotal Stanford Funded Financial Aid	34.1	34.0	35.0	37.0	36.8	44.5
Govt. and Outside Awards	8.3	8.0	8.9	9.0	9.1	9.2
Total Undergraduate Financial Aid	42.4	42.0	43.9	46.0	45.9	53.7
Number of Students	2,705	2,584	2,610	2,573	2,530	2,575
General Funds as a Share of Total Aid	41%	33%	28%	27%	17%	24%
General Funds and Stanford Fund as a Share of Total Aid	49%	43%	38%	39%	36%	41%

program. The first reduces the standard "self-help" portion of financial aid packages by $1,000, from $6,500 to $5,500. Self-help is the amount students are expected to contribute to their education costs through loans and part-time work. The second change caps parental contribution in the financial aid calculations at 20% of income for families with annual household incomes between $50,000 and $100,000. In addition, Stanford is implementing changes recently adopted by the College Scholarship Service in the Institutional Methodology for financial aid calculations. These changes will further assist middle-income families by reducing the parental contribution. Together these enhancements in the undergraduate aid program will add approximately $3.8 million to the budget for undergraduate scholarship aid.

The table above shows the detail of undergraduate need-based student aid. We anticipate an increase in the number of students receiving scholarship aid next year after recording a drop in that number in both 1998/99 and 1999/00. The increase in the number of students on aid, enhancements to the scholarship program, and a 6.0% increase in tuition combine to push up the expected cost of our need-based scholarship program by 17.0%. Most of this increase will be paid for by general funds. It is our expectation that incremental restricted funds will be able to offset the general funds burden as the Undergraduate Campaign gets fully underway. Appendix B (Schedules 5 and 6) includes additional information on undergraduate financial aid.

Graduate Aid – Stanford provides several kinds of financial support to graduate students totaling $200.7 million. As the table on page 4 indicates, this includes fellowships of $28.3 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 $172.4 million. Consistent with the presentation of Stanford's financial statements, the tuition allowance and RA and TA 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.

For the third year in a row, the minimum rate for RA and TA salaries and stipends will increase above the nominal salary increase for faculty and staff. In 2000/01, this increase will be 6.0% and is intended to help mitigate the impact of the higher tuition rate increase.

Sponsored Research Support and Indirect Cost Recovery

The total budget for Sponsored Research Support is expected to be $710.7 million in 2000/01, or 37.8% 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 ($392.4 million for University research and $197.7 million for SLAC) as well as reimbursement for the indirect costs ($120.6 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 expected growth rate of 16.7%. Medical School research volume is expected to grow 8.5% in 2000/01, a strong but slightly slower pace than in recent years. Continued expansion of the research program is constrained by limited available research space. Research volume in the non-medical area increased at an inflationary rate of 3.0% in 1998/99 but is on pace for a slight decline in the current year. We are budgeting a 2.5% growth in non-medical research volume next year.

Total direct costs for SLAC are expected to increase by 5.8% in 2000/01. The total budget for the high energy physics program of SLAC is expected to be relatively flat. However, significant growth is expected at the Stanford Synchrotron Radiation Laboratory (SSRL). The budget increase for SSRL is primarily associated with the SPEAR3 project, which upgrades the synchrotron radiation facility, SPEAR. In 1999, the DOE and the NIH agreed jointly to provide the funding for SPEAR3. 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 will be coming from the National Institutes of Health (NIH). The NIH has entered into an agreement with the DOE for enhancing the capabilities at the SSRL to provide better support to the structural molecular biology community.

Investment Income

Endowment Income – The lion's share 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 target payout rate is 5.2%, and the smoothed payout rate projected for 2000/01 is 4.67%. 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.

Endowment income in 2000/01 is expected to total $315.1 million, an increase of 9.7% over 1999/00. 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, $87.8 million, or 28.0%, 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 $18.4 million in 1998/99 to an expected $24.7 million in 1999/00. Income from this activity is projected to be $25.4 million in 2000/01. In February, the Trustees authorized the University, indefinitely, to allocate 100% of the rental income to current operating income, compared to the previous policy of reinvesting half of the income back to the endowment land principal funds. The policy change was made with the understanding that half of the income now will be used to alleviate the housing crisis for faculty and graduate students resulting from the dramatic increase in Bay Area land values.

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 4.0% annually. If actual earnings on the pool exceed 4.0%, an additional amount up to 2.0% may be used to support the unrestricted budget. If total return on the EFP is less than 4.0%, 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 4.0% can be paid out. The 2000/01 Consolidated Budget assumes a 5.5% return will be achieved. Total income from this source is expected to be $99.3 million.

Expendable Gifts

Non-capital gift income is expected to total $87.0 million in 2000/01. 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 have averaged $90.0 million over the past five years, but have varied from a high of $100.3 million to a low of $77.6 million during this period. We have assumed that gift income will be flat at $87.0 million in both the current year and in 2000/01.

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 consist mainly of patent and royalty income, fees from the executive education programs in the Graduate School of Business, the Stanford Center for Professional Development, and from summer camps sponsored by Athletics. Special program fees also include nearly $20.0 million from corporate affiliates, mostly in the schools of Earth Sciences and Engineering. Overall, special program fees are projected to be $143.5 million in 2000/01, an inflationary increase over the expected amount for the current year.

Auxiliary Income – Auxiliary income, excluding room and board fees, is projected to be $163.8 million. It includes $97.9 million for purchased services of Medical School physicians and staff by Stanford Hospital and Clinics, including Pediatrics and other Children's Services. It also includes other auxiliary receipts such as conference fees, athletic event ticket sales and television income, the activities of the Stanford Alumni Association, and the Stanford Press.

Other Income – Other income is projected to be $57.8 million in 2000/01. This category includes reimbursements for central support services provided to auxiliary organizations ($13.7 million) and income generated by the infrastructure charge ($4.5 million). A large portion of Other Income comes in to the Medical School as designated funds ($20.0 million). These are payments from affiliated institutions such as Santa Clara Valley Medical Center, Lucile Packard Children's Hospital, or Stanford Hospital and Clinics 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 $10.0 million set aside to cushion Stanford against potential income shortfalls, particularly research and investment income.
- Transfers to Designated Funds: $12.7 million of unrestricted funds generated from the annual rental income form Stanford endowed lands will be transferred to designated where it will be used to fund faculty and graduate student housing expenses.

- 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). We expect a total of $24.4 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, $80.6 million, is substantially larger than in previous years in keeping with the overall level of the capital program. In particular, we are budgeting $8.6 million in unrestricted funds for academic facilities renovation; the Medical School is projecting a transfer to plant of $43.3 million; and the School of Engineering and the Graduate School of Business are anticipating transfers totalling $4.6 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 2000/01, we anticipate that schools and departments will be able to use approximately $25.0 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 salary program increase in 2000/01 for faculty salaries is 3.5%. 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, additional general funds of approximately 1.0% will be available to address specific retention and competitive compensation issues. Furthermore, specific allocations for faculty salary increments have been made in the schools of Engineering, H&S, and Law.

While the nominal faculty salary program is planned to be 3.5%, total expenses for academic salaries and benefits are expected to increase 5.5% in 1999/00. Total expenses for this category are driven up by the incremental allocations mentioned above, some increases in the number of faculty billets, and the slight increase in the benefits rate. Moreover, tuition allowance for research and teaching assistants is included in this expense category and is expected to rise with the 6.0% 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 many job groups, and particularly in 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 improve our market position.

The staff salary program for 2000/01 includes growth of 3.5% in our cost base, an additional broad-based market/equity/retention component, and a restricted, targeted allocation for specific job groups that lag the market significantly. We expect these allocations to prevent the loss of further ground against the local market. In addition to these salary allocations, there will be an authorization for units to reallocate budget savings or other resources to fund additional base increases up to 2.0% of the continuing salary base and/or one-time, non-base performance bonuses up to 2.0% of the continuing salary base of the unit.

Last year we introduced a different approach to salary management, and we are re-emphasizing the approach this year. Managers are given salary allocation guidelines that are flexible in timing and amount, that recognize market forces, but that are always based on performance.

We have implemented a comprehensive new program that provides greater management flexibility for allocating salary dollars and recognizes and rewards quality of performance versus years of service. The new staff salary program, Staff Compensation @ Stanford, includes broad market-based salary bands and streamlined processes and will ultimately be supported by a standardized performance evaluation system.

Benefits

There are no major programmatic changes or additions planned for benefits in 2000/01, and the average blended fringe rate is expected to increase by only 0.1%. However, this modest increase in the rate belies the fact that the costs of some of our major programs are increasing substantially. These cost increases are offset by a corresponding increase in the salary and wage base. Schedule 11 of Appendix B highlights the changes by program from 1997/98 through 2000/01. Notable changes in specific benefits costs and the salary and wage base are described below.

Total pension programs, including retirement, Social Security, and faculty early retirement programs, are expected to increase by 10.6% in 2000/01. These costs represent nearly two-thirds of the total costs in the benefits pool and are driven by changes in the regular salary program and employee headcount throughout the University. The expected increase in the salary and wage base mitigates the impact of these costs on the rate.

Insurance programs are projected to increase 13.0% in 2000/01. In particular, medical insurance costs are expected to rise by 14.5%, reflecting the assumption of a 10.0% increase in premiums for calendar 2001. Once again, the expected increase in the salary and wage base mitigates the impact of these costs on the rate. The cost of Stanford's contribution to retiree medical insurance is expected to increase by more than 50.0%, due to the University's increased liability for retiree health care. These costs comprise only 8.0% of total insurance costs and therefore do not have a material effect on the overall benefits rate.

The actual 1999/00 and the recommended 2000/01 fringe benefits rates are as follows:

Fringe Benefits Rates

	1999/00 Rates	2000/01 Rates
Regular Benefits-Eligible Employees	24.1%	24.3%
Post-Doctoral Research Affiliates	13.2%	13.5%
Casual/Temporary Employees	8.4%	8.5%
Students	0.0%	0.0%
Average Blended Rate	23.3%	23.4%
Tuition Grant Program Recovery Rate	1.45%	1.45%

The Tuition Grant Program (TGP) rate of 1.45% is charged separately against regular benefits-eligible salaries only. In order to comply with Circular A-21, all federal government sponsored accounts are exempted from the charge. Academic service centers also are exempted.

Institutional Support and Other Operating Expenses

Together these two major cost categories total $590.9 million and comprise one-third of the expenses of the Consolidated Budget for Operations. The principal components include: materials and supplies ($108.0 million), maintenance and utilities for campus buildings ($70.0 million), equipment purchases ($77.0 million), student stipends ($54.0 million), administrative and professional services ($74.0 million), subcontracts ($67.0 million), travel ($26.0 million), and library materials ($17.0 million). A few of these areas warrant comment here.

Maintenance and Utilities for Campus Structures – The operations and maintenance for the Stanford campus is a significant expenditure at $70.0 million. This amount is impacted not only by the ongoing costs of these services but by the renewal and development of the campus. An incremental $2.9 million is budgeted for the O&M and utilities associated with the completion of the Alumni Center, CCSR in the Medical School, and a variety of small projects including Jasper Ridge, the library collections storage facility, and various grounds infrastructure projects.

Debt Service – The 2000/01 debt service is projected to be $105.2 million. This number reflects the total external 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. 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 below details the different components of debt service.

The $105.2 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 annual financial statements format. Principal payments for academic 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 networking, is included in the Institutional Support line.

Administrative Systems – This Budget Plan includes $31.3 million for administrative systems replacement and infrastructure, which is a significant increase over the expected $19.3 million for systems replacement in the current year. The increase reflects a management decision to accelerate the timeframe in which these systems are replaced at Stanford while, at the same time, requiring that implementations allow little customization from standard packages. This

Sources of Funds for Debt Service
(in millions of dollars)

	1998/99 Actuals	1999/00 Forecast	2000/01 Budget
Academic Projects (Completed)	17.0	19.1	21.7
Auxiliaries	18.3	20.8	22.1
Service Centers (Utilities/ITSS)	12.6	11.8	11.5
Subtotal Capital Budget	47.9	51.7	55.3
Sand Hill Road Projects		0.4	7.2
Refinancing of Existing Tax Exempt Debt[1]	17.8	18.4	15.7
Other[2]	12.4	19.9	27.0
Annual Debt Service Cost Excluding Commercial Paper	**78.1**	**90.4**	**105.2**

1 The University issues variable rate demand notes to refinance current California Education Facilities Authority (CEFA) principal payments.

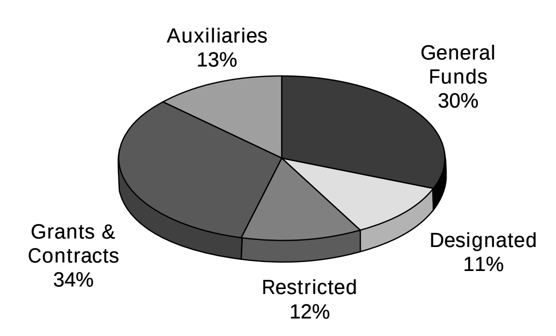
2 Includes investment earnings on unused debt, reimbursements by miscellaneous small projects and payments made through wholly owned real estate investments.

strategy will cost more in each of the next few years, but will reduce the total cost of replacing and upgrading old systems and eliminating our reliance on the mainframe and proprietary software. During 2000/01 we expect to make significant progress on the implementation of Peoplesoft's student information system (Axess 2000) and human resources system. We will complete the extension of the development system to allow for integration of the Alumni Association and to finalize arrangements for outsourcing much of our student loan portfolio. Next year's budget includes $4.0 million for the next several modules of our Oracle financial system. While the funding for these projects comes from a variety of sources in the consolidated budget, the expenses are recorded in the Plant Division and are reflected in the infrastructure section of the Capital Budget.

The Consolidated Budget by Fund Type

General Funds Budget

The general funds budget is an important subset of the Consolidated Budget, because these funds can be used for any university purpose. The main sources of general funds are Tuition and Fees, Indirect Cost Recovery, Unrestricted Endowment Income, Other Investment Income, and Unrestricted Gifts. Total general funds revenue is projected to be $573.6 million in 2000/01. As shown on page 2 in the Consolidated Budget for Operations, the general funds budget includes a University Reserve of $10.0 million in 2000/01. This base reserve is a continuation of the reserve we established in the 1996/97 budget. 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.



2000/01 General Funds Allocations – The process of allocating general funds to non-formula budget units begins with a forecast of available revenue. Then an estimate is made of the 2000/01 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. The estimated 2000/01 continuing base budget reflects the cost of conducting this year's business at next year's cost. It does not include additional funds for innovation. However, the general funds forecast for 2000/01 allowed for an allocation of $24.7 million in incremental general funds to the non-formula units above and beyond the funds needed for normal inflation of expenses.

After several years of below market staff compensation programs, our merit-based program for 2000/01 will be stronger and will focus on providing funds for market adjustments and retention. Of the $24.7 million incremental general funds, 48.5% was directed to enhance the salary program for staff, faculty, and teaching and research assistants. The remaining 51.5% of incremental general funds were allocated to specific units, after careful consideration of budget proposals, and to cover 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 on the next page, and some of the incremental allocations are highlighted in the description that follows.

- $1.5 million has been allocated for faculty salary supplements in the schools of Education, Engineering, Humanities and Sciences, and Law. Nearly $1.0 million of this amount is in the

Summary of 2000/01 General Funds Allocations (excluding Formula units)
(in thousands of dollars)

	Fully Funded Allocation[1]	Incremental Programmatic Additions[2]	Total General Funds Allocation
School of Earth Sciences	1,983		1,983
School of Education	7,886	184	8,070
School of Engineering	31,830	133	31,963
School of Humanities and Sciences	80,967	3,240	84,207
School of Law	9,948	504	10,452
Undergraduate Education	6,916	1,000	7,916
Dean of Research	14,328	175	14,503
Hoover Institution	4,128		4,128
Academic Subtotal	157,986	5,236	163,222
Stanford University Libraries	30,422	340	30,762
Student Affairs	32,792	290	33,082
Academic Support Subtotal	63,214	630	63,844
President/Provost	11,395	218	11,613
Development	12,159	803	12,962
Business Affairs	40,756	419	41,175
ITSS	34,381	500	34,881
Land & Buildings	51,907	687	52,594
Debt Service	16,167	900	17,067
Other Administrative Units[3]	4,804	844	5,648
Central Obligations[4]	39,033	2,500	41,533
Administrative Subtotal	210,602	6,871	217,473
Total	**431,802**	**12,737**	**444,539**

1 Base general funds allocations support the continuation of ongoing academic and administrative programs and do not include any incremental allocations.

2 Incremental Programmatic Additions are funds allocated for implementation of new academic or administrative programs which are anticipated to be ongoing, starting in 2000/01

3 Other Administrative Units includes General Counsel, and general funds allocations to SLAC and the Alumni Association.

4 Central Obligations include tuition allowance, the housing allowance program, systems reserve, research support mitigation, and the university reserve.

School of Humanities and Sciences and will address a lack of funding associated with billet growth in the School.

- An additional $2.2 million was allocated to the School of Humanities and Sciences. Of this $1.0 million is earmarked specifically to help reduce the deficit in unrestricted funds in the school. The remainder covers a variety of programs including the Cantor Center for Visual Arts, Stanford-in-Washington, Economics fellowships, and Jasper Ridge.
- $1.0 million has been allocated to the Vice Provost for Undergraduate Education as part of the planned build-up of this area's base budget.
- The Law School will receive $500,000 for general support of academic programs, student services, and faculty salaries.

- Over $700,000 has been allocated for technology across several administrative units. This includes support for the academic technology specialist program in the libraries, general technical support in ITSS, and classroom technology in the Vice Provost for Student Affairs.
- Incremental general funds of $175,000 have been allocated to the Office of the Dean of Research for administrative support in the Independent Labs, Centers, and Institutes.
- Significant general funds have been added to the Office of Development to augment the budget for the Stanford Fund and the President's Fund, and for increased non-salary expenses due to larger numbers of donors, gifts, and trusts.
- Additional allocations to administrative areas include $225,000 for the Controller's office, $744,000 for the Alumni Association for alumni relations, and a combined $256,000 to the Offices of the President and Provost and General Counsel.
- New and renovated buildings expected to come on-line in 2000/01 require incremental general funds allocations of $653,000 for utilities and maintenance and $900,000 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 2000/01 budget and a portion is paid from auxiliary, service center, and formula school budgets.
- $2.5 million has been added to the administrative systems reserve, bringing it to a total of $4.7 million. This reserve is used to fund the cost of administrative systems replacement.

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 $490.0 million, $227.3 million is endowment income and $143.5 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 $585.0 million represents the sum of the direct sponsored activity under the direction of individual faculty principal investigators ($387.3 million, net of student aid) and the direct costs for SLAC ($197.7 million). The total for University direct costs builds upon the projected actuals for the current year. Total University research volume is expected to grow by 4.3% in 2000/01.

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. Together these activities are projecting a deficit of $2.0 million in 2000/01.

Housing and Dining Services – Student Housing and Dining is budgeted for an operating deficit of $1.5 million for 2000/01 on revenues in excess of $81.1 million. Included in this budget are income and expenses for the 508 graduate student apartments which will open during the year.

The operating loss will be funded from Housing and Dining Services reserves. It is part of an approved long term strategy to finance the debt associated with the Capital Improvement Program (CIP) for renovations of Stanford's student residences. 2000/01 is the 9th year of the 16 year CIP program. Projects to be initiated and/or

Total Auxiliary Activity, 2000/01
(in millions of dollars)

	Revenues and Transfers	Expenditures	Excess of Revenues Over Expenditures
Medical School Professional Services	97.9	97.9	
Housing & Dining Services	82.1	83.6	(1.5)
Athletics[1]	33.0	33.0	
Press	3.6	3.9	(0.3)
Alumni Association	30.3	30.5	(0.2)
Other	12.8	12.8	
Total[2]	259.7	261.7	(2.0)

NOTES:
1 Financial Aid activity is not included.
2 This table represents gross revenues and expenditures. When incorporated into the Consolidated Budget on page 2, interdepartmental transactions of $32.0 million have been netted out.

completed during this year include renovations to Toyon and Branner Halls and completion of the remodeling of the Stern and Wilbur kitchens and food serveries. In addition, renovations to Mirrielees apartments and the renovation and seismic strengthening of the Hoskins Midrise will be undertaken during this year.

University Dining Services will continue its Value Enhancement Program which includes improvements to facilities, menu, and special events while maintaining strong controls on the cost of food and labor. For the second straight year board rates will not increase. This effort was critical to the Trustee decision in February to hold the overall growth rate of room and board to 1.9%.

Athletics – Athletics is projecting a balanced consolidated budget after a transfer of $636,000 to reduce principal on its outstanding university debt. The budget includes a decrease in football gate receipts due to a less favorable home schedule. This is offset by an anticipated increase in men's basketball ticket income. An incremental contribution of $1.3 million from the DAPER Investment Fund drives an increase in 2000/01 unrestricted funds.

Athletics continues to benefit from additional financial aid endowment funds that have been created in recent years. This income is necessary to keep pace with increases in tuition, room, and board, and the new scholarships that have been added in recent years. The total number of full scholarships increases from 284 in 1999/00 to 297 in 2000/01.

Stanford University Press – The Press is projecting a loss of $306,000 for 2000/01. This loss reflects further erosion of the sale of clothbound monographic books, which have been the bulk of the Press' publications in past years. The loss also reflects the investment in editorial and marketing programs that will be focused on new subject areas having greater sales potential, in particular the continued investment in business, organization theory and economics. It is expected that the return on these investments will begin to be realized in 2001/02.

Alumni Association – The Alumni Association will extend its regional program to engage the alumni more fully in support of undergraduate education. To accomplish this goal, the Alumni Association plans to enlist leaders in each of the major regions to serve as ambassadors for Stanford, refine and communicate the levels of service provided to each of the regions as well as the commitment expected from them, and to develop the tools and training needed for the regional representatives to succeed. The Alumni Association also plans to invest in alumni volunteer relations. The Association plans to increase staff and develop an online interactive database that will enable alumni to match their skills and interests with available volunteer opportunities. The expansion in these programs in 2000/01 will result in an anticipated shortfall of $250,000, which will be covered from operating reserves.

Medical School Professional Services – This category includes the cost of purchased services of physicians and staff by Stanford Hospital and

Clinics of $97.9 million. These services include Pediatrics, other Children's Services, and 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 income and expenses are for faculty or physician salaries and benefits; another 21% is for staff support. With the continuation of the new funds flow approach introduced in 1998/99 and the dissolution of the merger with UCSF part of the way through the current fiscal year, this source of funds to pay faculty compensation continues to be at greater risk than in prior years. 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 been unable to cover their costs without subsidies. As Stanford Hospital and Clinics is reestablished it will also be necessary to reach agreements on approaches to supporting faculty or physician compensation throughout the development of new clinical programs.

The Consolidated Budget by Organizational Unit

The table on page 16 shows the Consolidated Budget for Operations displayed by organizational unit. Detailed budgets by unit may be found in Appendix A. A brief discussion of selected budgets follows.

Earth Sciences – Earth Sciences maintains a healthy financial position, despite a continued decline in general funds support and a decline in affiliate income. Financial support comes from a broad spectrum of sources: federal grants and contracts (28%); school endowment (29%); industrial affiliate programs (20%); gifts and other grants (11%); and university general funds (12%). Expenditures on new faculty, including housing assistance and lab set-up costs, have been high and will continue to be for the next several years, as commitments made during recruitment are realized. Laboratory renovations continue, and the School is able to accommodate the increased need within existing facilities. Funding for these expenses has been earmarked out of existing reserves, and has not impacted the school's ability to meet its base budget needs.

School of Education – The School of Education continues to enjoy a sound financial position. As it has in the past several years, the School expects to generate a small surplus of $700,000. It will be combined with existing reserves to support new faculty, particularly housing assistance, and funding of new initiatives such as the Learning Technology Center that the School is currently planning.

Engineering – The financial outlook for the School of Engineering continues to be strong. The School is projecting a consolidated budget surplus of $11.7 million, which will result in sizable increases in faculty reserves and restricted endowment. School-controlled reserve funds will also grow significantly over the coming year. This reserve growth has been planned in anticipation of several new academic programs and pending major capital projects. It is likely that spending from these reserves will be significant in the two years following 2000/01.

Humanities and Sciences – H&S consolidated projections continue to reflect many of the same financial challenges reported last year. Although faculty recruitment activity will decrease from 1999/00 levels, there remains a need to recruit a relatively large number of faculty at both senior and junior levels to maintain departmental strength and quality. Recruitment costs remain high, particularly in lab sciences. The School will partner with the Provost and President to cover these costs. Continued analysis of the School's finances has identified structural funding problems in on-going operational costs. The School plans to cover these costs in the short term through better use of its funds and in the long term through development initiatives.

Consolidated fund balances are projected to grow by $6.4 million. It should be noted that this increase is the net of continued decreases in fund

Projected Consolidated Budget for Operations by Unit, 2000/01

(in millions of dollars)

	Total Revenues and All Transfers	Total Expenditures	Excess of Revenue Over Expenditures
Academic Units:			
School of Earth Sciences	25.3	24.7	0.6
School of Education	24.7	24.0	0.7
School of Engineering	181.8	170.1	11.7
School of Humanities & Sciences[1]	204.2	197.8	6.4
School of Law	32.2	32.0	0.2
Undergraduate Education	16.7	17.3	(0.6)
Dean of Research	109.7	109.1	0.6
Graduate School of Business[1]	72.7	79.1	(6.4)
School of Medicine[1]	465.2	472.3	(7.1)
Hoover Institution	28.4	27.6	0.8
Total Academic Units	1,160.9	1,154.0	6.9
Academic Support Units:			
Stanford University Libraries	51.5	51.5	
Student Affairs	35.8	38.8	(3.0)
Learning Technology & Extended Education	18.5	19.3	(0.8)
Total Academic Support Units	105.8	109.6	(3.8)
Total Administrative[2]	281.6	285.2	(3.6)
Auxiliaries	227.7	229.7	(2.0)
SLAC	197.7	197.7	
Indirect Cost Adjustment[3]	(120.6)	(120.6)	
Student Financial Aid Adjustment[4]	(83.6)	(83.6)	
Grand Total from Units	1,769.5	1,772.0	(2.5)
Other Anticipated Income[5]	29.8		29.8
Total Consolidated Budget	1,799.3	1,772.0	27.3

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 in H&S. These auxiliary revenues and expenses can be seen in more detail in the Schools' Consolidated Forecasts in Appendix A.

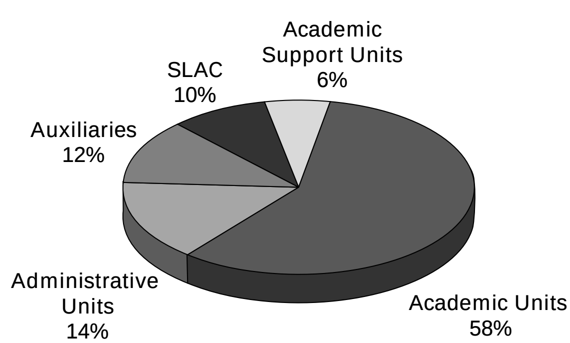
2 The deficit of $3.6 million in the Administrative areas is the net of a transfer to the plant division for administrative systems replacement and the $10.0 million university reserve.

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 $120.6 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, $83.6 million is removed in the "Student Financial Aid Adjustment" line.

5 The $29.8 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.

2000/01 Consolidated Expenditures by Unit



balances controlled at the Dean's Office and substantial growth in department and faculty-controlled fund balances. Detailed analysis of School funds and accumulated fund balances continues in conjunction with University development and legal staff. Thus far, $4 million in fund balances have been identified and used to support the 1999/00 operating budget. This project will continue through the remainder of the year to identify additional fund flows and accumulated balances that will be used in support of the School.

Law School –The Law School consolidated forecast projects additional success in acquiring expendable gifts to support academic programs, even after the recent end of the Campaign. Estimated income closely matches projected expenses.

Dean of Research – The Dean of Research consolidated budget projects an increase in fund balances of almost $640,000. The strong performance of the endowment and patent income generated in the Office of Technology and Licensing (OTL) have provided an opportunity to increase reserves. In addition, several Stanford Graduate Fellows will be on leave next year, reducing fellowship expenses.

Graduate School of Business – Excluding proposed capital/plant projects ("transfers to plant"), the proposed budget for the GSB results in a deficit of about $5.0 million. Critical factors are the estimated net increase in the number of faculty, new research and course development initiatives, and ongoing investment in technology infrastructure and support. With the conclusion of the very successful 75th anniversary campaign in 1999/00, expendable gifts are assumed to return to historical levels in 2000/01.

When the proposed capital projects and housing loans funded by the school to recruit and retain faculty are added, the deficit is projected to increase to $6.4 million. The deficit will be funded by budget savings and other accumulated funds raised recently to provide the Dean with support for critical innovative and competitive investments.

School of Medicine – The Consolidated Plan for the School shows significant growth in expenses and revenue and substantial use of reserves, particularly in support of transfers to plant. The Consolidated Plan projects revenues and transfers of $465.2 million (excluding professional services), use of reserves of $7.1 million, and total expenses of $472.3 million.

Revenue Growth: The increase in revenues, before transfers, over the 1999/00 Consolidated Plan is 12.6%. It is related to continuing refinement of designated and restricted income forecasting, anticipated stabilization of funds flows from clinical sources, increased investments in programs and new faculty, and strong growth in sponsored projects. Year-end projections for 1999/00 show sponsored activities almost 3.0% higher than the 1999/00 Plan and the School's 2000/01 Consolidated Plan anticipates an additional increase of more than 8.9%.

Expense Growth: The School expects to recruit approximately 24 incremental tenure-line faculty and 29 incremental medical center line faculty during 2000/01. The increase in medical center line faculty is a direct result of the need to develop new clinical programs in order to revitalize the clinical enterprise. This anticipated increase in faculty and supporting staff, when added to annual salary increases and changes in benefits rates, accounts for more than 66% of the anticipated increase in expenses in the 2000/01 Consolidated Plan. Incremental investments in programs include approximately $12.6 million to satisfy commitments made to recently appointed department leaders, approximately $1.6 million for additional information technology initiatives, and $1.0 million to support the activities of the Vice President for Medical Affairs.

Use of Reserves: The School plans to use some of its accumulated reserves for program development and facilities revitalization during 2000/01. This is reflected in the transfers from endowment of approximately $29.5 million as well as the reduction in ending operating equity. During the current year the facilities master plan to improve critical education and research space and revitalize the E.D. Stone buildings (now known as the GALE project) has been more fully developed and the approach to funding defined. While the majority of the project will be funded by gifts, a portion of the support will come from sources held by several of the academic departments. In order to meet this support obligation the departments will need to liquidate approximately $29.5 million of funds functioning as endowment during the next year in addition to using reserves they currently hold in the expendable funds pool. In 2000/01, funding the capital budget, planned maintenance, and departmentally initiated and funded projects will also require debt of approximately $8.3 million and gifts yet to be raised of approximately $37.3 million.

Vice Provost for Student Affairs – The 2000/01 Consolidated Budget for the Vice Provost for Student Affairs shows an overall decrease in fund balances of nearly $3.0 million. This results from the planned use of $4.3 million of accumulated reserves for the replacement of the current Cowell Student Health Center building with a new structure. Other fund balances will show modest increases similar to the results of the past several years.

IMPACT OF THE CAPITAL BUDGET ON THE CONSOLIDATED BUDGET FOR OPERATIONS

Next year's Capital Budget calls for $273.9 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 $3.6 million in incremental debt service for those projects that will be coming on-line in 2000/01 or which had less than a full year of debt service in 1999/00. The second is $2.9 million for the incremental operations, maintenance, and utilities costs required to run those facilities.

The details of the Capital Budget for 2000/01 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 2000/01 Statement of Activities, shown on page 19, 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 19 only represents the operating revenues and expenses in the Statement of Activities for Unrestricted Net Assets.

Comparison of Consolidated Budget and Projected Statement of Activities, 2000/01 for Unrestricted Net Assets

(in millions of dollars)

Statement of Activities 1998/99 Actuals	1999/00 Budget	1999/00 Projected Year-End		2000/01 Projected Consolidated Budget	Adjustments	Projected Statement of Activities
			Revenues and Other Additions			
			Student Income:			
147.4	153.0	153.0	Undergraduate Programs	162.0		162.0
141.9	149.8	149.7	Graduate Programs	156.7		156.7
61.3	59.5	63.0	Room and Board	67.1		67.1
(72.3)	(75.3)	(71.5)	Student Financial Aid	(83.6)		(83.6)
278.3	287.0	294.2	Total Student Income	302.2		302.2
			Sponsored Research Support:			
357.5	388.3	376.4	Direct Costs—University	392.4		392.4
170.7	193.0	186.8	Direct Costs—SLAC	197.7		197.7
105.5	111.2	113.9	Indirect Costs	120.6		120.6
633.6	692.5	677.2	Total Sponsored Research Support	710.7		710.7
97.4	80.0	87.0	Expendable Gifts In Support of Operations	87.0		87.0
			Investment Income:			
261.6	270.5	287.3	Endowment Income	315.1		315.1
141.2	66.2	103.0	Other Investment Income[a]	99.3	5.0	104.3
402.8	336.7	390.3	Total Investment Income	414.4	5.0	419.4
			Other Income:			0.0
136.8	122.0	140.0	Special Programs Fees	143.5		143.5
146.4	153.4	159.5	Auxiliaries (excluding Room & Board)	163.8		163.8
40.6	40.2	56.0	Other	57.8		57.8
323.7	315.6	355.5	Total Other Income	365.1		365.1
1,735.8	**1,711.8**	**1,804.2**	**Total Revenues**	**1,879.3**	**5.0**	**1,884.3**
			Transfers			
32.9	25.5	25.0	Net Assets Released from Restrictions	25.0		25.0
			Transfer to Funds Functioning as Endowment[b]	(24.4)	24.4	0.0
			Transfer to Plant/Student Loan[c]	(80.6)	80.6	0.0
1,768.7	**1,737.3**	**1,829.2**	**Net Revenues After Transfers**	**1,799.3**	**110.0**	**1,909.3**
			Expenditures			
318.1	310.0	348.5	Academic Salaries and Benefits	367.7		367.7
329.8	374.6	359.5	Staff Salaries and Benefits	386.0		386.0
93.9	96.8	156.0	Depreciation[d]		136.6	136.6
170.7	193.0	186.8	SLAC	197.7		197.7
211.7	213.3	219.5	Auxiliary Activity	229.7		229.7
293.6	291.5	302.8	Institutional Support	313.4		313.4
201.9	185.4	196.0	Other Operating Expenses[e]	277.5	(73.6)	203.9
1,619.6	**1,664.6**	**1,769.1**	**Total Expenditures**	**1,772.0**	**63.0**	**1,835.0**
		(20.0)	**Stanford Hospital and Clinics***			Not Available
149.1	**72.7**	**40.1**	**Surplus/(Deficit)**	**27.3**	**47.0**	**74.3**

* Stanford Hospital and Clinics (SHC), a separate corporation, is not included in the Consolidated Budget. However, SHC 1999/00 financial results from April 1, 2000, the date of the dissolution of UCSF/Stanford Health Care, will be consolidated with the University's financial statements. The $20.0M deficit is a projection for the five months ending August 31, 2000.

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 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:

1. Adjustments to Move from Only Current Funds[2] to All Types of Funds (Lettering Below, a-e, Refers to Line Items on Page 19):

a) Other Investment Income: This $5.0 million adjustment 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 projects that the schools will transfer $24.4 million to the endowment division, as FFE 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/Student Loan: $80.6 million of current funds are expected to be used to fund capital expenditures. These amounts are added back to the Consolidated Budget for the same reason as in b), above.

2. Adjustments To Move From A Cash Basis To An Accrual Basis:

d) Depreciation: Depreciation on all non -auxiliary capital assets is projected at $136.6 million. Because it is a non-cash charge, depreciation expense is not included in the Consolidated Budget for Operations. Therefore, an adjustment is made to reflect $136.6 million of depreciation in the Statement of Activities. (Auxiliary asset depreciation is included in the auxiliary activity line.)

The significant increase in depreciation expense in the 1999/00 projected year end actual compared to budget is due primarily to the adoption during 1999/00 of a revised set of estimated useful lives for the University's assets. Government regulations now require that useful lives and methods used for indirect cost recovery purposes conform to those used in financial statements.

e) Equipment Expenditures: Of the total capital asset additions, approximately $73.6 million of equipment expenditures will be funded from current operating funds. These expenditures are included in other operating expenses in the Consolidated Budget for Operations. For financial statement purposes, these expenditures are capitalized and are not reflected as expenses in the Statement of Activities. An adjustment is made to remove the $73.6 million for equipment expenditures from the other operating expenses line.

In summary, the impact of capitalization and the flow of funds for plant purposes described above result in a change in the bottom line of $47.0 million, from a $27.3 million surplus in the Consolidated Budget projection to a $74.3 million surplus in the Statement of Activities projection.

[1] Certain non-operating components of Unrestricted Net Assets or gains in funds functioning as endowment, are not included in the Statement of Activities on page 19.

[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.