

# SECTION 1 FINANCIAL OVERVIEW

The purpose of this section is to review the principal financial components of the 2001/02 Budget Plan. The programmatic elements are addressed in the next section, and the Capital Plan is discussed in Section 3.

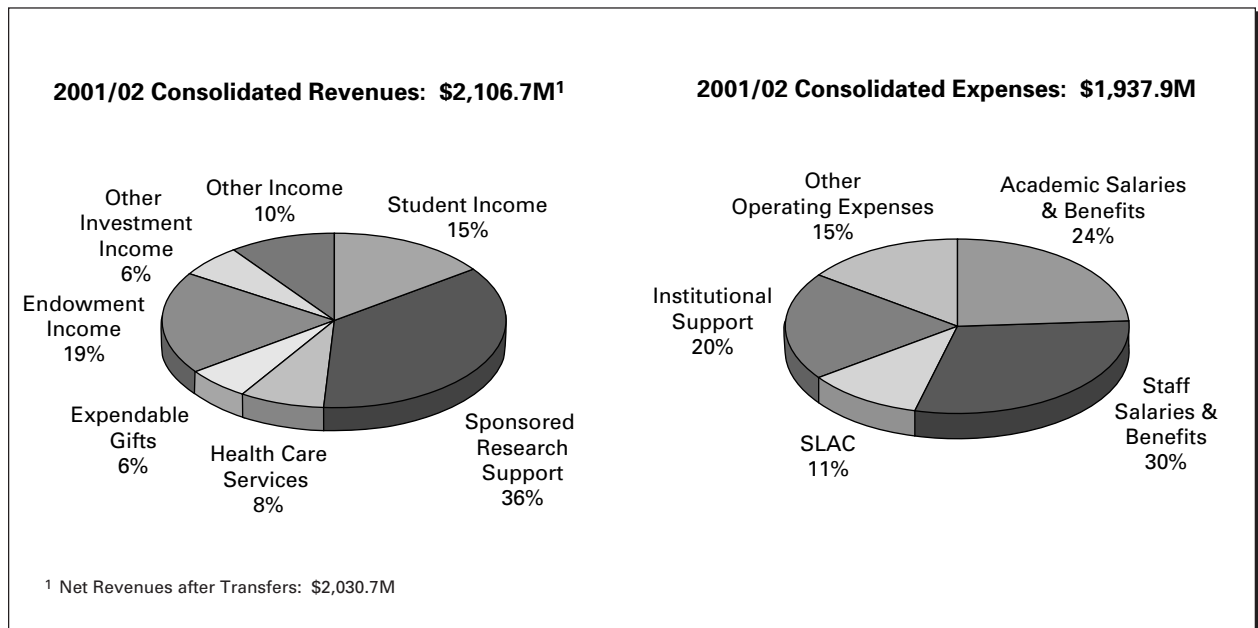
In this section we will review the Consolidated Budget from three perspectives: through an analysis of revenues and expenses, by type of funding source (e.g. general funds, restricted funds, etc.), and by organizational unit.

Unlike the Statement of Activities in the Annual Report, the Consolidated Budget for Operations is presented on a cash basis as opposed to an accrual basis, and it only shows those revenues and expenses 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. At the end of 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 translation allows us to show how the projected budget would look if it were displayed in the Annual Report.

## 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 expenses for 2001/02. For comparison purposes, this table also shows the actual revenues and expenses for 1999/00 and both the budget and the year-end projections for the



## PROJECTED CONSOLIDATED BUDGET FOR OPERATIONS, 2001/02

(in millions of dollars)

1999/00 Actuals	2000/01 Budget June 2000	2000/01 Projected Year-End	General Funds	Designated	Restricted	Grants and Contracts	Auxiliary Activities	Total Current Funds
<b>Revenues and Other Additions</b>								
<i>Student Income:</i>								
154.2	162.0	162.1	171.8					171.8
149.0	156.7	155.1	163.5					163.5
65.8	67.1	70.7					75.3	75.3
(89.2)	(94.7)	(94.6)	(23.9)	(1.6)	(70.7)	(8.3)		(104.5)
279.8	291.1	293.3	311.4	(1.6)	(70.7)	(8.3)	75.3	306.1
<i>Sponsored Research Support:</i>								
379.1	392.4	402.0				422.1		422.1
179.9	197.7	203.9				208.5		208.5
115.4	120.6	121.1	127.2					127.2
674.4	710.7	727.0	127.2			630.6		757.8
156.9	160.0	161.6		30.0			134.3	164.3
113.2	87.0	116.6	2.8		117.2			120.0
<i>Investment Income:</i>								
315.0	315.1	359.4	105.1					407.1
120.6	99.3	111.9	36.0	28.6		0.2		127.0
435.6	414.4	471.3	141.1	28.6		0.2		534.1
187.5	205.0	203.8	31.3	86.8	(7.0)	0.4	112.9	224.4
<b>1,847.4</b>	<b>1,868.2</b>	<b>1,973.6</b>	<b>613.8</b>	<b>143.8</b>	<b>403.7</b>	<b>622.9</b>	<b>322.5</b>	<b>2,106.7</b>
<b>Transfers and Other Adjustments</b>								
51.4	25.0	40.0						40.0
(74.6)	(24.4)	(45.0)		(20.0)				(40.0)
(80.6)	(80.6)	(76.9)	(21.9)	(30.0)	(6.7)		(17.4)	(76.0)
			(33.2)	48.5			(15.3)	
<b>1,743.6</b>	<b>1,788.2</b>	<b>1,891.7</b>	<b>558.7</b>	<b>142.3</b>	<b>417.0</b>	<b>622.9</b>	<b>289.8</b>	<b>2,030.7</b>
<b>Expenses</b>								
396.9	414.5	444.8	85.7	33.7	153.2	116.0	86.3	474.5
474.4	504.4	529.1	233.9	37.7	39.6	105.4	169.6	586.2
179.9	197.7	203.9				208.5		208.5
317.4	313.5	345.3	170.2	31.9	31.3	125.8	27.3	386.5
239.6	330.8	261.9	68.9	48.3	73.4	67.2	24.4	282.2
<b>1,608.2</b>	<b>1,760.9</b>	<b>1,785.0</b>	<b>558.7</b>	<b>151.2</b>	<b>297.5</b>	<b>622.9</b>	<b>307.6</b>	<b>1,937.9</b>
<b>135.4</b>	<b>27.3</b>	<b>106.7</b>		<b>(8.9)</b>	<b>119.5</b>		<b>(17.8)</b>	<b>92.8</b>

current fiscal year, 2000/01. In addition, definitions of key terms are provided on page 3.

The 2001/02 Consolidated Budget for Operations shows net revenues after transfers of \$2,030.7 million and expenses of \$1,937.9 million, resulting in a bottom line surplus of \$92.8 million, or 4.8% of total expenses.

Net revenues after transfers in 2001/02 are projected to increase 7.3% over the expected 2000/01 levels. This increase is consistent with the actual increase in our last audited fiscal year and is led by the expectation for continued strength in investment income. Total expenses are expected to grow by 8.6% over the estimated year-end results for 2000/01. The growth in expense is driven primarily by the recommendation for a continued strong salary program, the expectation for incremental faculty and staff, and growth in auxiliary activities.

## The Consolidated Budget by Principal Revenue and Expense Categories

REVENUES (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. Overall, total student income is expected to increase by 4.4% in 2001/02.

**TUITION** – The general tuition rate increase for 2001/02, which was approved by the Trustees in February, is 6.0%. With a second above-average increase in tuition in as many years, it is important to note that the University continues its strong commitment to the student financial aid program

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## KEY TERMS

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

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

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

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

**Auxiliaries:** Self-contained entities such as Housing and Dining Services and Intercollegiate Athletics that generate income and charge directly for their services. These entities usually pay the University for central services provided.

**Net Assets Released from Restrictions:** Under Financial Accounting Standards Board (FASB) 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. In the future, when the restrictions are released, these funds become available for use. At this time, these funds are considered “released from restrictions” and are included as part of the Consolidated Budget in the line Net Assets Released from Restrictions.

**Financial Aid:** Includes expenses for undergraduate and graduate student aid. Consistent with the University financial statements, these expenses are reported as an offset to student income. Student stipends and tuition allowance are not considered to be financial aid and are classified as expenses in the Consolidated Budget.

**Formula Areas:** Budget units whose allocations of general funds are predetermined by a formula agreed to by the Provost and the unit. In most cases, the formula is tied to tuition and indirect cost recovery generated by the unit. Principal formula units include the Graduate School of Business, the School of Medicine, and the Hoover Institution.

and has made incremental investments in the program for the fourth year in a row. Undergraduate tuition revenue is on target to grow with the increase in the tuition rate. However, graduate tuition revenue is expected to increase by only 5.4% due to a planned reduction in the number of Engineering masters students in 2001/02.

**ROOM AND BOARD** – In February, the Trustees approved a combined room and board rate increase of 3.4% for 2001/02. This increase, for the first time in three years, is slightly above the projected rate of inflation due to large and unexpected increases in utility costs. In addition, the housing rates in 2001/02 continue to include the costs of the Capital Improvements Program, representing the tenth year of a sixteen year effort to renovate student residences. While the increases in the room and board rates remain moderate, the overall room and board revenue will grow by 6.5%. This increase is the result of the opening of new graduate housing in Escondido Village and the growth in subsidized off-campus rental housing.

**STUDENT FINANCIAL AID** – Stanford expects to spend a total of \$104.5 million in student financial aid for undergraduate and graduate students, \$23.9 million of which will come from general funds. As

the table below indicates, designated and restricted funds (\$72.3 million) and grants and contracts (\$8.3 million) will support the remainder. The total financial aid numbers are 10.5% above the projected total for 2000/01. This reflects an anticipated increase in the number of undergraduate students who receive scholarship aid, further investments in the scholarship budget intended to reduce self-help, and a significant increase in the undergraduate athletic scholarship budget due, in large part, to the unanticipated under-usage of available athletic aid in 2000/01 and the addition of nine new scholarships for women.

**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 continued enhancements to our undergraduate scholarship program. We estimate that in 2001/02, Stanford students will receive \$56.1 million in need-based scholarships, of which \$45.6 million will be from Stanford resources. Of the \$45.6 million, only \$8.5 million will need to be general funds, including an incremental \$905,000 planned to lower self-help for "special recognition" students, as well as for

### 2001/02 Financial Aid and Other Graduate Student Support from Stanford Resources (in millions of dollars)

Projected 2000/01 Year-End		General Funds	Designated and Restricted	Grants & Contracts	Total
<b>Student Financial Aid</b>					
40.2	Undergraduate	8.5	37.1		45.6
10.3	Undergraduate Athletic		12.2		12.2
44.1	Graduate	15.4	23.0	8.3	46.7
94.6	<b>Total</b>	23.9	72.3	8.3	104.5
<b>Other Graduate Student Support</b>					
53.8	Stipends	5.1	29.3	22.4	56.8
35.4	Tuition Allowance	21.8	5.3	11.0	38.1
74.3	RA and TA Salaries	20.1	6.6	51.7	78.4
163.5	<b>Total</b>	47.0	41.2	85.1	173.3
<b>258.1</b>	<b>Total Student Support</b>	<b>70.9</b>	<b>113.5</b>	<b>93.4</b>	<b>277.8</b>

### Financial Aid Awarded to Undergraduates Who Receive Need-Based Scholarship Aid

(in millions of dollars)

Source of Aid	1996/97 Actual	1997/98 Actual	1998/99 Actual	1999/00 Actual	2000/01 Projected	2001/02 Budget
Restricted	15.9	18.5	19.0	20.2	24.7	28.3
Stanford Fund/Presidential Funds	4.5	4.3	5.6	7.8	9.0	8.8
General Funds	13.6	12.2	12.4	7.9	6.5	8.5
Subtotal Stanford Funded Scholarship Aid	34.0	35.0	37.0	36.0	40.2	45.6
Government and Outside Awards	8.0	8.9	9.0	10.1	10.3	10.5
Total Undergraduate Scholarship Aid	42.0	43.9	46.0	46.0	50.5	56.1
General Funds as a Share of Total Aid	32%	28%	27%	17%	13%	15%
General Funds and Stanford Fund as a Share of Total Aid	43%	38%	39%	34%	31%	31%
Number of Students	2,584	2,610	2,573	2,519	2,500	2,520

standard aid category students. These changes will allow Stanford to approach Harvard's level of self-help.

The proportion of Stanford funded scholarship aid supported by general funds has decreased dramatically over the past five years, from 32% in 1996/97 to only 15% in 2001/02, due to the success of Stanford's fundraising and the tremendous growth in investment income over this time period. The Campaign for Undergraduate Education (CUE) is essential to reducing this fraction even more, allowing the University to redirect general funds to other purposes. Endowment income will provide \$27.6 million, and The Stanford Fund will provide \$8.8 million towards this portion of the budget. Along with a very small amount of expendable gifts, Stanford restricted funding will represent a full two-thirds of the total need-based scholarship budget. Government and outside awards will contribute \$10.5 million. Athletic scholarships, none of which are need-based, will be awarded to undergraduate students in the amount of \$12.2 million.

The table above shows the detail of undergraduate need-based scholarship aid. Between 1997/98 and 2000/01, the number of students on aid has fallen by 4.2%, largely due to the strong economy

of the past few years. We anticipate a slight increase in the number of students receiving scholarship aid in 2001/02. The additional number of students on aid, reductions in self-help expectations, and a 6% increase in tuition combine to push up the expected cost of our need-based scholarship program by 13.4%. Most of this increase will be paid for by incremental restricted funds that will become available as a result of the CUE. 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 \$220 million. As the table on page 4 indicates, this includes the tuition component of fellowships in the amount of \$46.7 million, which are reflected in the student financial aid line of the Consolidated Budget. It also includes funding, not shown in the student financial aid line of the budget, for stipends, tuition allowance, and Research and Teaching Assistant salaries of \$173.3 million. Consistent with the presentation of Stanford's financial statements, tuition allowance and RA and TA salary 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.

The minimum rate for RA and TA salaries and stipends again will increase above the nominal salary increase for faculty and staff. In 2001/02, this increase will be 5.5% and is intended to help mitigate the impact of the high cost of living in the Bay Area.

### *Sponsored Research Support and Indirect Cost Recovery*

The total budget for Sponsored Research Support is expected to be \$757.8 million in 2001/02, or 36% 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 (\$422.1 million for University research and \$208.5 million for SLAC), as well as reimbursement for the indirect costs (\$127.2 million) incurred by the University in support of sponsored activities.

Consistent with our pre-determined agreement on indirect cost rates with the federal government, we are budgeting a 57% rate for 2001/02. However, the overall indirect cost recovery is only 30% of total university research as a result of off campus research and indirect cost waivers on specific projects.

Direct research volume in the Medical School, which makes up more than half of the University's total volume, has experienced double-digit growth in each of the last four years. We expect the Medical School to realize strong but slightly slower growth of 8.2% in 2000/01 and 6.2% in 2001/02. Research volume in the non-medical area declined by 2% in 1999/00 but is on pace to increase by about 2% in 2000/01. For 2001/02, we are budgeting a 2.5% growth in non-medical research volume.

Total direct costs for SLAC are expected to increase by about 2.3% in 2001/02. The Department of Energy (DOE) still provides almost all of the funding for SLAC. However, in 1999, the National Institutes of Health (NIH) entered into an agreement with the DOE for enhancing the capabilities at the Stanford Synchrotron Radiation Laboratory (SSRL) to provide better support to the structural molecular biology community. The NIH agreed to

fund half of the cost to upgrade SPEAR, the existing synchrotron radiation facility. Most of the NIH funding for the SPEAR upgrade has been received in the last two years. Since 1999, NIH has also provided some operations support for the Structural Molecular Biology User Program at SSRL.

### *Investment Income*

ENDOWMENT INCOME – Total endowment income in 2001/02 is expected to total \$407.1 million, an increase of 13.3% over 2000/01. This includes income from the Merged Endowment Pools, specifically invested endowment, and rental income from the Stanford Research Park and other endowed lands. In 1999/00, Stanford received a record \$242 million in gifts to endowment principal, up from \$96 million in 1998/99. The budgeted endowment income assumes \$200 million in new gifts in both 2000/01 and 2001/02.

Of the total endowment income, only \$105.1 million, or 26.1%, is unrestricted. This 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 \$27.9 million in 1999/00 and is projected to be \$32.7 million in 2001/02. Half of the income from this activity will support the general unrestricted budget; the other half will be transferred to designated funds where it will be used to support the new faculty housing programs and graduate student housing subsidies.

The estimate of endowment payout from the Merged Endowment Pool 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 5.15%, and the smoothed payout rate projected for 2001/02 is 4.68%.

Even so, endowment income from the merged pools is expected to increase 11.3% in 2001/02. While this may not seem possible when the market value is expected to be down by as much as 8% by August 31, 2001, the growth in the payout results from the delaying effect provided by our payout rate smoothing rule. If the market continues to decline, we will experience a significantly slower growth in endowment income in 2002/03 and beyond.

**OTHER INVESTMENT INCOME** – Other Investment Income consists primarily of earnings on the Expendable Funds Pool, the investment pool for non-endowment funds. The Expendable Funds Pool consists of the University's general operating funds, non-government grants, expendable gifts and designated funds belonging to various schools and departments, as well as other short-term funds. The EFP is invested approximately 50% in the Merged Endowment Pool, and 50% in 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. If total return exceeds 6.0%, then the excess return is invested in the principal of the Tier II Buffer endowment fund, which is controlled by the President. The 2001/02 Consolidated Budget assumes a 5.5% return will be achieved. Total income from this source is expected to be \$127 million.

#### *Health Care Services*

Health Care Services income is budgeted to be \$164.3 million in 2001/02. This includes \$134.3 million paid to the Medical School for the Professional Services net revenues from the Stanford Hospital and Clinics and the Lucille Salter Packard Children's Hospital, the Stanford Blood Center, and

hospital service payments. In addition, there is \$30 million that comes to the University to cover activities such as communications services, legal services, operations and maintenance, and utilities.

#### *Expendable Gifts*

Non-capital gift income is expected to total \$120 million in 2001/02. 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 were up significantly in 1999/00 at \$113.2 million. Expendable gift receipts had averaged \$90 million over the five preceding years. We have assumed that gift income will continue at the higher fiscal year 1999/00 level, increased at an inflationary rate in 2000/01 and 2001/02.

#### *Special Program Fees and Other Income*

This category includes the revenues of several different types of activities. The first is a variety of special programs such as patent and royalty income, fees from the executive education programs in the Graduate School of Business, the Stanford Center for Professional Development, and revenues from summer camps sponsored by Athletics. Also, included in this category is more than \$20 million from corporate affiliates, mostly in the schools of Earth Sciences and Engineering.

A major component of this category is the revenue from auxiliary activities, excluding room and board fees and the Professional Services Agreement in the School of Medicine. These include revenues in Housing and Dining Services from conference activity, concessions, and other operating income, the activities of the Stanford Alumni Association, athletic event ticket sales and television income, HighWire Press, and several other smaller auxiliaries.

Overall, special program fees and other income is budgeted to increase by 10.1% to \$224.4 million in 2001/02.

#### **TRANSFERS AND OTHER ADJUSTMENTS**

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

- **Net Assets Released from Restrictions:** This represents the portion of funds previously classified as temporarily restricted that will become available for spending as specific restrictions are satisfied. In 2001/02, we anticipate that schools and departments will be able to use \$40 million of gifts received in previous years that had been classified as temporarily restricted. Temporarily restricted funds are University gifts and pledges that contain specific donor-imposed restrictions preventing their spending in the fiscal year in which they are received. Until they are released from restrictions, they are not included in the Consolidated Budget for Operations.
- **Additions to Funds Functioning as Endowment:** This line reflects our assumption that individual budget units will continue the practice of transferring some of their unspent revenues from designated and restricted funds to Funds Functioning as Endowment (FFE). We expect a total of \$40 million will be transferred to FFE in 2001/02, which is down from the 1999/00 actual of \$74.6 million.
- **Transfer to Plant:** These funds will move to the plant division to be used for capital projects. The total amount projected for next year, \$74.4 million, is comparable to previous years and is in keeping with the overall level of the capital program. In particular, we are budgeting \$21.9 million in general funds for academic facilities renovation and debt principal repayments. The academic units are budgeting nearly \$20 million from designated and restricted funds for a variety of capital projects. Another significant amount will come out of the auxiliaries, primarily Housing and Dining Services as they undertake another year in the Capital Improvement Plan.
- **Other Transfers:** These are transfers between fund types within the Consolidated Budget for Operations. They include the transfer of Stanford lands rental income to the housing reserve and to Housing and Dining Services to support faculty and graduate housing subsidies, the transfer of revenue from the President's

Tier II income fund to designated funds for approved projects and programs, and other similar transfers.

#### EXPENSES (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 2001/02 for faculty salaries is 4.5%. We believe that this increase, when applied appropriately by Deans, will be sufficient to maintain Stanford's current competitive position. Total expenses for academic salaries and benefits are expected to increase 6.7% in 2001/02, reflecting the 4.5% increase in the base faculty salary program, additional targeted increases to address equity and retention issues, a 5.5% increase in Research and Teaching Assistant salaries, and a 7.6% increase in tuition allowance, which is reported in this expense category. In addition, we expect continued growth in the number of faculty billets of about 1.8% overall, concentrated mostly in the auxiliaries due to the addition of faculty members in the Medical School participating in clinical activities at the Stanford Hospital and Clinics and the Lucille Salter Packard Children's Hospital.

##### *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 had trouble maintaining 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. The salary program implemented in



the current year, 2000/01, took a big step toward addressing this problem, and we have closed the gap in our salary position in some areas. In this Budget Plan we are recommending a second year of a strong staff salary program aimed at further improving our market position.

The staff salary program for 2001/02 includes growth of 4% in our cost base and an additional 2% for a broad-based market/equity/retention component. We expect these allocations to bring our overall staff salary program to the mid-market position. There still will be job families that lag the market, and we will continue to narrow these gaps when possible. In addition to these salary allocations, there will be an authorization for units to reallocate other resources to fund additional base increases up to 2% of the continuing salary base and/or one-time, non-base performance bonuses up to 2% of the continuing salary base of the unit. Besides improving Stanford's competitive position in the marketplace, these program components will allow more flexibility to address differences in individual performance.

Total staff salaries and benefits expenses are projected to increase by 10.8% in 2001/02. The increase results from the various components of the staff salary program described above and assumed head count growth of roughly 2.5%.

### *Fringe Benefits*

The fringe benefits rate for faculty and staff is budgeted to drop minimally from 24.1% to 24.0%. This small change incorporates some significant increases in costs, including two new programs, two enriched training and education programs for staff, and substantially increased costs for some insurance plans. Those increases will be offset by reductions in life insurance costs, the Faculty Early Retirement Program, and an over-recovery carry-forward from 1999/00, which results in a credit to the 2001/02 benefits pool.

The most important new benefits program for 2001/02 is the Child Care Affordability Program, designed to assist both faculty and regular benefits-eligible staff with one of the most vexing problems

associated with the cost of living in the Stanford area: the cost of day care for young children. For the first year, this support will be limited to care for children aged six and under, but the program is expected to expand later to include older children as well. The cost of the program for 2001/02 is budgeted at \$1.7 million. Additionally, funds are budgeted in the coming year to assist faculty and staff families with the cost of adoption. This adoption assistance program is budgeted at \$69,000 for 2001/02 and will be administered by the Work Life Office.

In the Staff Development area, the limits for both the Staff Training Assistance Program (STAP) and the Staff Tuition Reimbursement Program (STRP) are being increased. The new annual limits will be \$1,500 per employee for STAP (compared with \$800 this year) and \$5,000 per employee for STRP (compared with \$2,000). These limits are being increased in recognition of the increased cost of training, particularly for certificate programs, and of the tuition assistance offered by other local employers with which Stanford competes for staff. The total budgeted increase in Staff Development costs due to these changes is about \$800,000; the cost of other Staff Development programs is budgeted to increase by about \$400,000.

After several years of low to moderate increases, health insurance costs are on the rise again. As a result, University contributions towards the health plans for both active and retired employees will increase significantly. Because of the substantial increase in Stanford's liability for future retiree health costs, the actuarial expense for retiree medical costs in 2001/02 is more than 90% higher than the cost budgeted for 2000/01. The budgeted health insurance cost for active employees incorporates a 15% rate increase from vendors. Partially offsetting these increases are projected reductions in costs for Workers' Compensation (due in large part to growth of reserve assets in prior years) and Group Life Insurance (due to plan redesign).

The growth in total expenditures for retirement programs is slightly below the growth in the University's salary base. However, costs for the

Faculty Early Retirement Program (FERP) are decreasing, since there have been no new participants in that plan since 1994. The coming fiscal year is the last in which FERP payments will be made, as all participants will have reached the age of 70 by the end of next year.

Total costs in the benefits pool are budgeted to increase 8.1% from negotiated 2000/01 costs. Despite large increases in several cost areas, the overall rate shows a decrease because of the nearly 9% rate of growth in the overall salary base.

The benefits rates for post-doctoral research affiliates and contingent (casual or temporary) employees will decline in the coming year. These reductions are primarily due to over-recoveries in 1999/00, which result in credit carry-forwards that reduce the 2001/02 cost pools. In addition, Workers' Compensation costs are reduced, as noted above, and those costs are allocated to all three employee categories.

The actual 2000/01 and the recommended 2001/02 fringe benefits rates are as follows:

<b>Fringe Benefits Rates</b>	2000/01 Negotiated Budget	2001/02 Proposed Rates
Regular Benefits- Eligible Employees	24.1%	24.0%
Post-Doctoral Research Affiliates	13.5%	11.6%
Casual/Temporary Employees	8.5%	8.1%
Students	0.0%	0.0%
Average Blended Rate	23.2%	23.0%
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 \$668.7 million and comprise one-third of the expenses of the Consolidated Budget for Operations. The principal components include: materials and supplies (\$129 million), maintenance and utilities for campus buildings (\$101 million), equipment purchases (\$76.6 million), student stipends (\$56.8 million), administrative and professional services (\$75 million), subcontracts (\$68.5 million), travel (\$25.2 million), and interest payments (\$18.7 million). Some of these categories are among the University's fastest growing expenses, resulting in an expected overall growth in institutional support and other operating expenses of 10.1%. A few of these areas warrant further comment.

**MAINTENANCE AND UTILITIES** – Stanford has experienced significant increases in energy costs attributable to the current energy crisis in California. Most of Stanford's energy needs are supplied by our third party owned cogeneration facility, and the provisions of our contract have the effect of passing on market rate changes in two different ways. The contract ties the price Stanford pays for electricity to the costs we would have paid to PG&E if we had not installed the plant. For that reason, the Governor's original intent to shelter ratepayers had the effect of delaying significant rate hikes for several months. However, the recent decision by the Public Utilities Commission to pass along increased costs to ratepayers will significantly increase our electric rates in the latter half of 2000/01 and into 2001/02. Final rate schedules have not yet been approved, but the budget reflects outside experts' best estimates for next year's costs.

Purchased energy prices are expected to be about 34% higher in 2001/02 than our expected year-end actual costs. These costs comprise about 60% of Stanford's total utility bill. The remaining 40% is the cost of maintenance, distribution, and overhead for the campus utility system. Those costs are expected to remain constant in 2001/02. We also expect that conservation measures will help to mitigate the total cost. The result is that Stanford's

utility costs are budgeted to increase by 16% in 2001/02 over the 2000/01 projected year-end.

In addition to the cost increases associated with running the existing campus facilities, an additional \$1 million is budgeted for incremental operations and maintenance, and utilities, primarily for the new Mechanical Engineering lab, the Frances C. Arrillaga Alumni Center, and other small projects.

**DEBT SERVICE** – The 2001/02 debt service is projected to be \$94 million. This number reflects the total external principal and interest payments on notes and bonds, including commercial paper. For internal purposes, 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 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 \$94 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 projects associated with Service Centers, such as utilities and networking, is included in the Institutional Support line.

**ADMINISTRATIVE SYSTEMS** – This Budget Plan includes \$24.5 million for administrative systems replacement and infrastructure using marketplace solutions. Nearly all of the budgeted amount is for projects already underway in 2000/01, including the second phase of the financial system replacement, a new student system, a new human resources system, and a student calendar and web portal project that will allow a common point of entry for students to a wide variety of student information. Two of these projects will be completed during 2001/02. The first is the new student system project, known as Axess 2000, a large-scale,

multi-year project that is using PeopleSoft's Student Administration system to replace the legacy Network for Student Information (NSI). Project implementation began in March 2000, and functionality will be released in a series of nine rollouts ending in early 2002. The second, the new human resources system, Persona, is an implementation of PeopleSoft's Human Resources Management System, which will replace Stanford's existing human resource information, payroll, salary management, leave, faculty affairs, and medical faculty systems. This project is scheduled to go into production by the end of calendar year 2001. While the funding for these projects comes from a variety of sources in the Consolidated Budget, including general funds and Presidential funds, the expenses 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 student income, indirect cost recovery, unrestricted expendable gifts, unrestricted endowment income, and income from the expendable funds pool. Total general funds revenue is projected to be \$613.8 million in 2001/02. In previous years, the Budget Plan has included a \$10 million unrestricted general funds reserve to buffer against future income shortfalls. The 2001/02 budget does not include this reserve, but instead provides for \$10 million in funding for one-time expenses

**2001/02 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 2001/02 continuing base budget for each unit, assuming growth factors for salaries, student aid, library acquisitions, operations and maintenance, and other expenses. After many years of no increase for general non-salary expense, this budget provides an inflationary growth factor in this category. The estimated

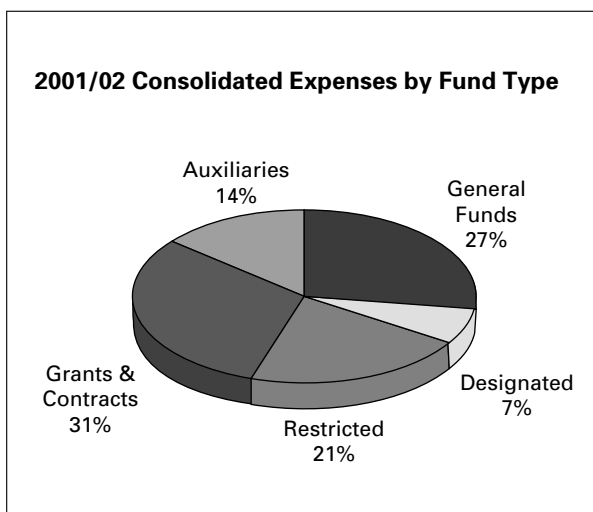
2001/02 continuing base budget reflects the cost of conducting this year's business at next year's cost, without any additional funds for innovation. However, the general funds forecast for 2001/02 allowed for an allocation of \$19.3 million in incremental general funds beyond the funds needed for normal inflation of expenses to the non-formula units to cover obligations such as incremental debt service, operations and maintenance, and utilities on new structures.

The total 2001/02 general funds allocations for each non-formula unit are detailed in the table below, and some of the incremental base allocations are highlighted in the description that follows:

- \$750,000 has been distributed to the School of Engineering for TA salaries and TA tuition allowance.
- Approximately \$3.4 million was allocated to the School of Humanities and Sciences. Of this, \$1 million will help reduce the School's operating deficit. The remainder provides funding for a variety of needs such as faculty salaries, the Cantor Center for Visual Arts, school-wide technology issues, teaching support to address increased student demand, and general support for departments and academic programs.
- The Law School will receive \$1 million for support of the Law Library, academic programs,

student services, faculty salaries, and general administration.

- Almost \$550,000 has been allocated to the Office of the Dean of Research for administrative support in the Independent Labs, Centers, and Institutes. Additionally, funding has been provided to the Research Compliance Office for staffing, training, and systems development.
- \$1.75 million has been allocated to the Vice Provost for Undergraduate Education as part of the University's planned build-up of the undergraduate program.
- Effective September 1, 2001, the Hoover Library collections will become part of the Stanford University Libraries/Academic Information Resources (SUL/AIR). As a result, approximately \$3.1 million in base funding has been removed from the Hoover Institution, \$2.4 million of which has been redirected to SUL. The remaining \$700,000 will be held centrally and used to cover the transition costs associated with this organizational change.
- The Vice Provost for Student Affairs will receive about \$900,000. This allocation includes incremental funds for enhancements to the undergraduate financial aid program, improved technology in the classrooms, Dean of Students staffing issues, and participation in a graduate student on-line application system.
- \$1.7 million in additional base funding was allocated to the Office of Development and the Alumni Association as part of a multi-year plan to enhance our overall fundraising capacity and to strengthen the Alumni Association's "core" business such as regional programs and volunteer relations. An additional \$500,000 was allocated to the Office of Development to augment the Stanford Fund budget.
- ITSS will receive \$1.0 million in funding for management and operations of the Campus Card ID program, academic hardware upgrades, network internet usage, and infrastructure support.



**Summary of 2001/02 General Funds Allocations (excluding Formula units)**

(in thousands of dollars)

	Fully Funded Allocation <sup>1</sup>	Incremental Programmatic Additions <sup>2</sup>	Total General Funds Allocation
School of Earth Sciences	1,967	200	2,167
School of Education	8,641	140	8,781
School of Engineering	35,173	788	35,961
School of Humanities and Sciences	87,553	3,370	90,923
School of Law	10,335	1,000	11,335
Undergraduate Education	8,351	1,750	10,101
Dean of Research	17,709	538	18,247
Hoover Institution	4,223	(3,153)	1,070
Academic Total	173,950	4,634	178,584
Stanford University Libraries	32,316	3,000	35,316
Student Affairs	29,661	920	30,581
Academic Support Total	61,977	3,920	65,897
President and Provost's Office	12,223	580	12,803
Business Affairs	43,329	1,325	44,654
ITSS	36,473	1,025	37,498
Development and Alumni Association	16,007	2,240	18,247
Land & Buildings	59,372	90	59,462
Debt Service	17,067	2,372	19,439
O&M and Utilities on New Buildings		825	825
Other Administrative Units <sup>3</sup>	3,579	662	4,241
Central Obligations <sup>4</sup>	53,647	1,652	55,299
Administrative Total	241,697	10,771	252,468
<b>Total Allocations</b>	<b>477,625</b>	<b>19,325</b>	<b>496,950</b>

## Notes:

- 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, commencing in 2001/02.
- 3 Other Administrative Units includes General Counsel, and SLAC general funds allocations.
- 4 Central Obligations include tuition allowance, the housing allowance program, graduate student housing support, the systems reserve, and the university reserve.

- Allocations to administrative areas include \$580,000 to the Office of the President and Provost for organization staffing, \$1.3 million to Business Affairs for staffing and non-salary costs in the Controller's Office, Human Resources, and the Office of Research Administration. In addition, \$650,000 has been provided to the Office of the General Counsel to offset increasing outside legal fees and litigation services.
- New and renovated buildings anticipated to come on-line in 2001/02 require incremental base general funds of \$825,000 for utilities and



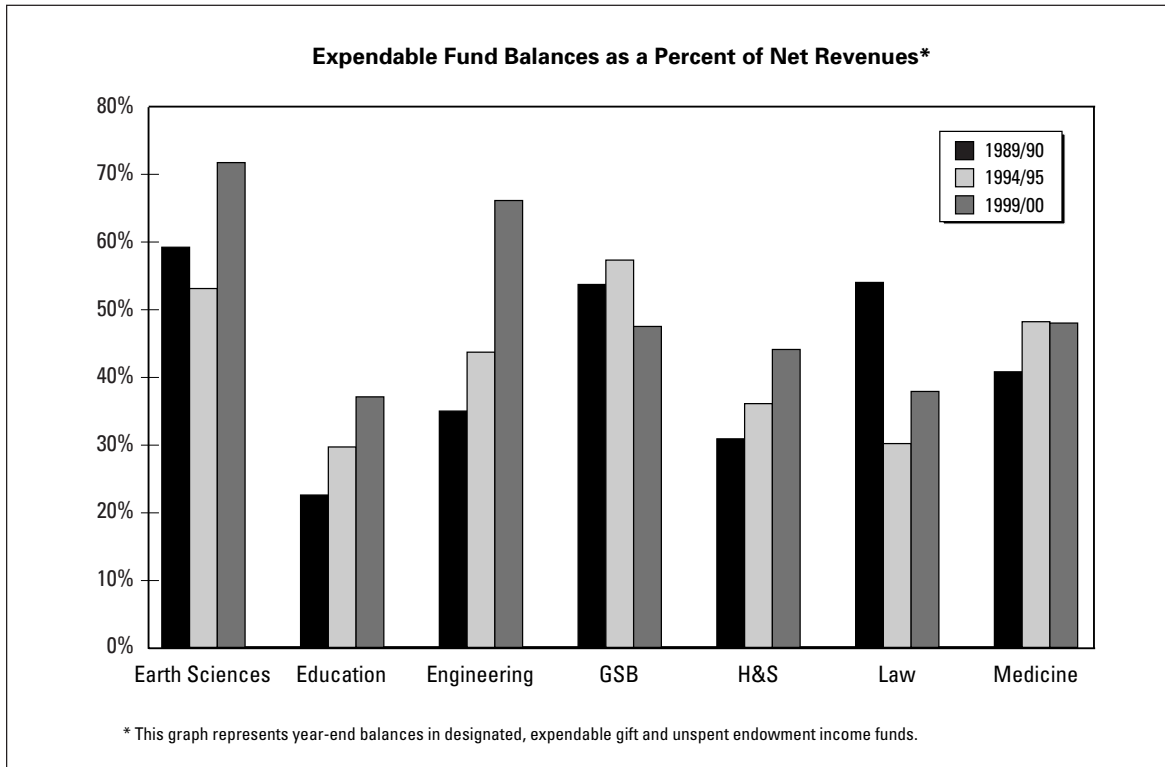
maintenance and almost \$2.4 million for debt service. These amounts reflect only a portion of the total charges resulting from Capital Budget projects. The other project-related expenses are included in the 2001/02 base budget, of which a portion is paid from auxiliary, service center, and formula school budgets.

**DESIGNATED AND RESTRICTED FUNDS BUDGET**

Funds in these budgets are controlled primarily by the schools, departments and programs, and individual faculty members. Of the total combined net revenues of \$559.3 million, \$302 million is endowment income and \$90.8 million is other investment income. Another \$112.6 million is special program fees, such as patent and royalty income, corporate affiliates payments, 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.

Designated and restricted fund balances have grown in every academic unit in nearly every year over the past ten years. In fact, the annual average compound growth rate of designated and restricted fund balances for the academic areas between 1989/90 and 1999/00 was 8.9%. By the end of 1999/00, the total fund balances in these areas was \$617.4 million; it is expected that this trend will continue in both 2000/01 and 2001/02. Schedule 15 in Appendix B shows the academic area fund balances by unit.

Expendable fund balances are controlled by the schools, departments, and individual faculty members. School-controlled fund balances represent funds set aside to cover new initiatives, faculty housing payments, and research support. Department and faculty controlled funds are reserved to cover potential shortfalls in sponsored research funding, to supplement existing research funding, and to provide student support that cannot be met from other funding sources. The chart below shows expendable fund balances as a percentage of each school's net revenues over the past decade.



## GRANTS AND CONTRACTS BUDGET

The grants and contracts budget of \$622.9 million (net of \$8.3 million for student aid) represents \$422.1 million of direct sponsored activity under the direction of individual faculty principal investigators and \$208.5 million in direct costs for SLAC. The University direct cost totals are formulated based upon the projected actuals for 2000/01. Total University research volume is expected to grow by 4.2% in 2001/02.

## AUXILIARY ACTIVITIES

The principal auxiliary activities are the Stanford Alumni Association, Athletics, HighWire Press, Housing and Dining Services (H&DS), Medical School Professional Services, and the Stanford University Press. In addition, there are several other small auxiliaries such as the campus radio station. 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 the auxiliaries are projecting a deficit of \$17.8 million in 2001/02.

**ALUMNI ASSOCIATION** – With the \$2.2 million increase in general funds over the past two years, the Stanford Alumni Association (SAA) plans to expand significantly its alumni relation activities, capitalizing on some major events and initiatives that began in 2000/01. The commencement of the Campaign for Undergraduate Education (CUE) coupled with the opening of the Frances C. Arrilaga Alumni Center provide the Association an opportunity to reach more alumni than ever before and to educate them about the University's goals and priorities. In addition, the Association will also be increasing its presence on the Web by helping to generate and facilitate information flow with the University. The increase in general funds allows the Association to experience significant staff and program growth and to project a 2001/02 balanced budget on revenues of \$37.2 million.

A key component of the Association's strategy is to use the Campaign for Undergraduate Education as

a springboard for work in the regions. SAA will invest over \$500,000 to increase staff and augment programs for its regional alumni relations area. The continued development of the Association's online capabilities will allow staff and key volunteers to reach alumni more effectively. An additional \$300,000 will be spent on activities such as providing free e-mail addresses to assure continued traffic to our website and developing a new online registration system (to SAA, and for regional events) that will greatly improve the capacity to capture more alumni information.

**ATHLETICS** – For 2001/02, Athletics is projecting a balanced operating budget and a \$296,000 surplus in its financial aid budget. The operating budget income includes an increase in football gate receipts due to a more favorable home schedule. There will also be an increase in income from the NCAA and Pacific 10 Conference, primarily from the resumption of the post-season conference basketball tournaments. Athletics will also receive a \$400,000 increase in its general funds allocation to help cover increased operating costs associated with facilities used by students, faculty, and staff.

Athletic Department compensation expenses have risen significantly in the past two years, consistent with the University's overall goal of making salary levels competitive with other Silicon Valley organizations. In addition, Athletics, which operates a large number of facilities, has been greatly impacted by California's rising utility costs and expects utilities increases of roughly \$500,000.

**HIGHWIRE PRESS** – The conversion of HighWire Press as a department of SUL/AIR to an auxiliary of SUL/AIR will occur in 2001/02. It is anticipated that there will be continued growth in clients and titles delivered through HighWire's services. More knowledge environments are in development to join existing ones in cellular signal transduction, cancer research and therapy, and bone research. The staff has moved to new facilities on Page Mill Road and continues to serve a constantly growing number of scholarly society publishers. HighWire's new expenses in occupying its building on Page Mill Road will affect pricing to publishers for

**Total Auxiliary Activities, 2001/02**

(in millions of dollars)

	Revenues and Transfers	Expenses	Excess of Revenues Over Expenses
Alumni Association	37.2	37.2	
Athletics <sup>1</sup>	36.5	36.5	
HighWire Press	14.6	14.6	
Housing & Dining Services	102.2	106.1	(3.9)
Medical School Professional Services	134.3	143.7	(9.4)
Press	3.4	5.2	(1.8)
Other	18.0	20.7	(2.7)
<b>Total<sup>2</sup></b>	<b>346.2</b>	<b>364.0</b>	<b>(17.8)</b>

## NOTES:

1 Financial Aid activity is not included.

2 This table represents gross revenues and expenses. When incorporated into the Consolidated Budget on page 2, interdepartmental transactions of \$56.4 million have been netted out.

services rendered, as well as potentially posing a challenge in balancing the 2001/02 budget. HighWire Press is projecting a balanced budget on revenues of \$14.6 million.

**HOUSING AND DINING SERVICES** – Student Housing and Dining Services is budgeting a 2001/02 net operating deficit of \$3.9 million on revenues of \$102.2 million.

The operating loss will be funded from Student Housing and Dining reserves as part of an approved long-term strategy to finance the debt associated with the Capital Improvement Program (CIP) for renovations of facilities. 2001/02 is the tenth year of the 16 year CIP. Projects to be initiated and/or completed this year include the Wilbur kitchen and food servery renovation, Phase II of the Mirrieles apartments renovation, miscellaneous capital projects on the row and in Escondido Village, and the opening of the new Frances C. Arrillaga Alumni Center Cafe.

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.

**MEDICAL SCHOOL PROFESSIONAL SERVICES** – This category represents payments of \$134.3 million from Stanford Hospital and Clinics to the School of Medicine for physicians and staff services and hospital services payments (\$120.8 million), and the Stanford Blood Center (\$13.5 million). This auxiliary operation is projecting a deficit of \$9.4 million due principally to a negotiated reduction in hospital service payments.

Nearly 74% of the expenses and income are for faculty or staff physician salaries and benefits; another 14% is for staff expense. The non-salary expenses primarily reflect the materials and supplies and other operating expenses of the Stanford Blood Center.

With the difficult financial situation of the hospital and the continuing stress on the professional practice due to poor reimbursement for services, this source of funds to pay faculty compensation is at greater risk than in prior years. The projected deficits will be covered out of school and departmental reserves or negotiated agreements with the hospital. As Stanford Hospital and Clinics strives to balance its budget it will also be necessary to reach agreements on approaches to support faculty or staff physician compensation through the development of new or revitalized clinical programs.

**STANFORD UNIVERSITY PRESS** – In response to the continuing marketplace and financial pressures being experienced by all university presses, Stanford University Press has developed an aggressive plan for the future; a plan that will ensure the continuation of its long time commitment to scholars, while reducing its reliance on the University for financial support.

First, the Press has begun concentrating its scholarly program into fewer disciplines, focusing on its core strengths in the humanities and social sciences. Second, new programs are being developed that will take the Press into markets that are larger and less price-sensitive than its current markets.

These new programs will eventually generate enough profit to underwrite the costs of the scholarly programs. Books will be aimed at professionals and upper level students in Business, Economics, Law, Policy, Political Science, and Education. Third, the Press is building a more sophisticated sales and marketing department that will be able to maximize sales of the scholarly list while building a strong position in the new markets. Fourth, production processes are being re-engineered to improve efficiency and cut publishing times.

Financial projections show the Press breaking even in five years, and generating ongoing surpluses thereafter. Phased investment in the Press to underwrite this plan began in 2000/01, and performance to date has tracked to the plan. The 2001/02 budget shows a deficit of \$1.8 million, and reflects the continuation of the University's commitment and investment in the Press.

### **The Consolidated Budget by Organizational Unit**

The table on page 18 shows the Consolidated Budget for Operations displayed by organizational unit. Detailed budgets by unit are found in Appendix A. A brief discussion of selected unit budgets follows.

#### **SCHOOL OF EARTH SCIENCES**

The School of Earth Sciences plans a surplus of \$791,000 on revenues and transfers of \$26.4 million. The bulk of this surplus is in restricted funds. The School continues to experience significant growth in its endowment income stream, allowing it to sustain reductions in general funds over the past six years. Funds supporting school activities come from a variety of sources: income from endowment (33%); grants and contracts (31%); industrial affiliate programs (17%); gift and other income (10%); and general funds (9%). Revenue from affiliate income continues to decline due to changes in the oil industry. However, the loss of income has been less than expected. Income from federally sponsored research has increased slightly, thereby offsetting the decline in affiliate income. Significant investments will be made in

faculty salaries, which have become less competitive over the last decade. Increases in our salary base, along with significant costs related to faculty recruitment (laboratory renovation, equipment, etc.) and school infrastructure, will place increasing pressure on school-restricted funds, utilizing any unrestricted revenue surpluses the School may experience.

#### **SCHOOL OF EDUCATION**

The School of Education consolidated budget projects an excess of \$505,000 on revenues and transfers of \$27.8 million. This small surplus will be combined with existing reserves to provide future support for faculty recruitment, continued student support during external funding gaps, capital improvements, and funding for new initiatives such as the new Learning and Technology Center.

#### **SCHOOL OF ENGINEERING**

The School of Engineering anticipates a surplus of more than \$9 million, driven almost entirely by growth in restricted expendable and endowment funds. Much of the surplus will be used over time to support the School's initiatives in photonics, bioengineering, and materials.

While restricted fund sources have grown, the School's ongoing sources of core support have weakened. Growing student interest in Engineering programs has stretched general funds. The Stanford Center for Professional Development (SCPD) income—the traditional Engineering backstop for core program support—declined by 20% over the past year, and recent trends suggest that SCPD revenue will stabilize at the reduced level in 2001/02.

#### **SCHOOL OF HUMANITIES & SCIENCES**

As reported in the previous two years, H&S continues to be challenged by operational funding shortfalls. Unrestricted School reserves will be nearly exhausted by the end of 2000/01. In the short term, the School is addressing shortfalls through better use of its funds coupled with close partnering with the Provost and President.

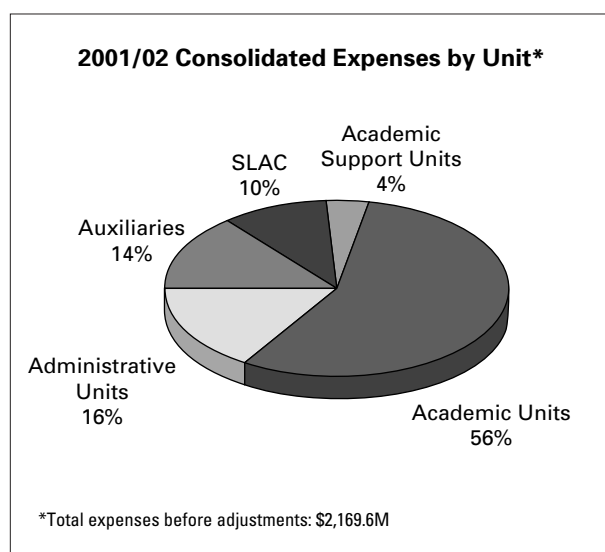
**Projected Consolidated Budget for Operations by Unit, 2001/02**

(in millions of dollars)

	Total Revenues and Transfers	Total Expenses	Excess of Revenues Over Expenses
<b>Academic Units:</b>			
School of Earth Sciences	26.4	25.6	0.8
School of Education	27.8	27.3	0.5
School of Engineering	177.2	167.4	9.8
School of Humanities & Sciences <sup>1</sup>	211.8	202.9	8.9
School of Law	32.4	32.5	(0.2)
Undergraduate Education	19.3	20.3	(1.0)
Dean of Research	125.7	123.2	2.6
Hoover Institution	29.4	29.4	
Graduate School of Business <sup>1,2</sup>	83.8	93.1	(9.3)
School of Medicine <sup>1,2</sup>	517.2	505.3	11.9
<b>Total Academic Units</b>	<b>1,251.1</b>	<b>1,227.0</b>	<b>24.1</b>
<b>Academic Support Units:</b>			
Stanford University Libraries	46.3	46.3	
Student Affairs	34.9	39.2	(4.3)
<b>Total Academic Support Units</b>	<b>81.2</b>	<b>85.5</b>	<b>(4.3)</b>
<b>Total Administrative<sup>3</sup></b>	<b>393.2</b>	<b>341.0</b>	<b>52.3</b>
<b>Auxiliary Activities</b>	<b>289.8</b>	<b>307.6</b>	<b>(17.8)</b>
SLAC	208.5	208.5	
Indirect Cost Adjustment <sup>4</sup>	(127.2)	(127.2)	
Student Financial Aid Adjustment <sup>5</sup>	(104.5)	(104.5)	
<b>Grand Total from Units</b>	<b>1,992.1</b>	<b>1,937.9</b>	<b>54.2</b>
<b>Other Anticipated Income<sup>6</sup></b>	<b>38.6</b>		<b>38.6</b>
<b>Total Consolidated Budget</b>	<b>2,030.7</b>	<b>1,937.9</b>	<b>92.8</b>

## NOTES:

- 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 Auxiliary Activities line. These auxiliary operations include Medical School Professional Services, the Schwab Center of the GSB, and Overseas Studies, Stanford In Washington, and Bing Nursery School in H&S. These auxiliary activities are shown in more detail in the Schools' Consolidated Forecasts in Appendix A.
- This budget reflects a direct allocation of tuition revenue in those units operating under a formula funding arrangement.
- The surplus of \$52.3 million in the Administrative areas primarily reflects the income from Presidential expendable and endowment funds. The associated expenses are included in the unit Consolidated Budgets.
- 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 \$127.2 million received by the schools is taken out in the "Indirect Cost Adjustment" line.
- In accordance with the University financial statement format, certain types of student financial aid are shown as a reduction against student income in the Consolidated Budget. Because it appears in the revenue and expense of the academic units, \$104.5 million is removed in the "Student Financial Aid Adjustment" line.
- The \$38.6 million shown in Other Anticipated Income is based on historical experience and reflects the expectation that the University will receive additional unrestricted and/or restricted income that cannot be specifically identified by unit at this time.





Longer-term solutions include implementation of better financial controls, a new budgeting process, and extensive fundraising plans. The volume of faculty recruitment has been greatly decreased from that of prior years, primarily in order to reduce one-time costs associated with hiring. For the next three years, the School plans to hire at a rate equal to anticipated faculty exits.

Operating projections show a \$5 million shortfall, which will be covered by incremental funding from the recent \$300 million Hewlett Foundation gift in addition to other University sources as needed. While operations continue to deplete reserves, the School's consolidated fund balances are projected to grow by \$8.9 million. Growth is comprised primarily of increases in department and faculty-controlled funds plus endowed chair funds with restrictive fund authorizations. The School, Budget Office, and University Development Office recently began a two-year review of H&S funds targeted at making restrictive funds more usable and aligning unusable funds with current School activities. As a result of this process, \$3 million in one-time funds have been incorporated into 2001/02 projections.

#### **SCHOOL OF LAW**

The Law School consolidated forecast shows a slight deficit of \$187,000. This deficit may increase as the School hires new faculty, develops its international program, expands and intensifies its clinical offerings, and invests in technology infrastructure and support. The deficit will be met, initially, with accumulated expendable gifts. Fundraising success will be critical for the continuation of these programs.

The Law School classroom buildings are in need of repair and are becoming technologically obsolete. To address the inadequacy of the School's physical plant, \$7 million will be withdrawn from Funds Functioning as Endowment. The School plans to reduce non-salary budgets throughout the Law School and to use a significant portion of its 2001/02 general fund allocation increase to replace the loss of income from these endowment funds.

#### **DEAN OF RESEARCH**

The consolidated budget of the Vice Provost and Dean of Research and Graduate Policy projects an overall increase in fund balances of \$2.6 million. As pledges for the Stanford Graduate Fellowship program are fulfilled and program expense grows more slowly than expected, endowment income fund balances have increased. Additionally, the Institute for International Studies is reserving endowment income to support Korean studies and Japanese economics programs in 2002/03.

#### **GRADUATE SCHOOL OF BUSINESS**

The Graduate School of Business (GSB) proposes investments in additional faculty, technology infrastructure and staffing, the internet, electronically-mediated learning (including a potential joint venture with Harvard Business School), and classroom and facility improvements result in total net use of fund balances and reserves of about \$9.25 million. Funds raised during the recent 75th Anniversary fundraising for critical innovative and competitive investments, as well as budget savings, will support the operating deficit and some capital investment, and gifts and/or the Stanford Business School Trust will support investment in a joint venture with Harvard Business School. Over time, the expectation is that investments in electronically-mediated learning and the joint venture may generate revenue to replenish reserves used in 2001/02 and for future investment, on their own or by leveraging faculty time to facilitate the delivery of more executive education programs.

#### **SCHOOL OF MEDICINE**

The Medical School is continuing its program investments resulting in a consolidated plan that shows significant growth in expenses and revenue. The consolidated plan projects revenues and transfers of \$651.5 million (including professional services), and total expenses of \$648.9 million. The 2001/02 Consolidated Plan assumes a 13.6% increase in revenues and transfers and an 11.3% increase in expenses over the 2000/01 Consolidated Plan.

*Revenue Growth:* The increase in revenues, before transfers, over the 2000/01 Consolidated Plan is 11.9%. It is related to continuing refinement of designated and restricted income forecasting, more complete tracking of clinical income and strong growth in sponsored projects. Year-end projections for 2000/01 show sponsored activities 5% higher than the 2000/01 plan, and the School's 2001/02 Consolidated Plan anticipates an additional increase of almost 6.6%.

*Expense Growth:* The School expects to recruit approximately 25 new tenure line faculty and 32 new medical center line faculty during 2001/02. The expenses related to all faculty growth, including incremental support and staff, are included in the consolidated plan. This anticipated increase in faculty and staff, when added to salary increases and changes in benefits rates, accounts for more than 48% of the anticipated increase in expenses in the 2001/02 consolidated plan. For the first time in 2001/02, the Dean's tax on clinical revenue is an expense on the books of the School. This accounts for 12% of the expense increase. Incremental investments in programs include approximately \$15.6 million to satisfy commitments made to recently appointed department leaders.

*Transfers to Plant and Endowment:* The 2001/02 Consolidated Plan reflects the recent decision to redefine the scope and program of the planned renovation of portions of the E.D. Stone Buildings. There will be some investment in planning activities during the period but significant transfers to plant will not occur until after August 2002. Transfers to endowment have been made in recent years by clinical departments with surpluses and by basic science departments with accumulated reserves as a mechanism to earn some return on the funds while holding them for future investments in new faculty or programs. These transfers are expected to continue in 2001/02 although in reduced amount.

#### **STANFORD UNIVERSITY LIBRARIES/ACADEMIC INFORMATION RESOURCES**

SUL/AIR projects a balanced Consolidated Budget for 2001/02. This results from a combination of

reductions in staffing and expendables in 2000/01 and increased use of reserves. SUL/AIR continues to have difficulty recruiting specialized staff in both library and academic computing roles due to the cost of housing in the Bay Area and the associated problems of long distance commuting.

The realignment of the Hoover Library with SUL/AIR will take place over the next several years, with staffing and service levels to be finalized by 2003/04. SUL/AIR anticipates a need for one-time funding for the retrospective conversion of the card catalog for the East Asia Library, as well as for remedial collection building based on the needs of the East Asia Studies program and other teaching and research programs formerly supported by the Hoover Institution. SUL/AIR continues to seek funding for the completion of two important initiatives. The Green Library East Information Center, a service that has only partly realized its fullest possibilities, needs a lot more technology support. And the project to digitize the archive of the General Agreement on Tariff and Trades at the World Trade Organization headquarters in Geneva will continue, but foundation or corporate funding is needed for its support and development.

#### **IMPACT OF THE CAPITAL BUDGET ON THE CONSOLIDATED BUDGET FOR OPERATIONS**

The 2001/02 Capital Budget calls for \$316 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 2001/02 or which had less than a full year of debt service incurred in 2000/01. The second is \$1 million for the incremental operations, maintenance, and utilities costs required to run those facilities. The details of the Capital Budget for 2001/02 are included in Section 3 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 2001/02 Statement of Activities, shown on page 22, 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 22 only represents the operating 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 Statement of Activities for Unrestricted Net Assets<sup>1</sup>. 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. 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<sup>2</sup> to All Types of Funds (Lettering Below, a-e, Refers to Line Items on Page 22):
  - a) Other Investment Income: This \$5 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 \$40 million to the endowment division, as FFE to be invested in the merged endowment pool. As explained above, the 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.

<sup>1</sup> 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 22.

<sup>2</sup> 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, and as such, they are held for other specific purposes.

**Comparison of Consolidated Budget and Projected Statement of Activities,  
2001/02 for Unrestricted Net Assets**  
(in millions of dollars)

Statement of Activities			Fiscal Year 2001 / 2002		
1999/00 Actuals	2000/01 Budget	2000/01 Projected Year-End		Projected Consolidated Budget	Projected Statement of Activities
			<b>Revenues and Other Additions</b>		
			<i>Student Income:</i>		
154.2	162.0	162.1	Undergraduate Programs	171.8	171.8
149.0	156.7	155.1	Graduate Programs	163.5	163.5
65.8	67.1	70.7	Room and Board	75.3	75.3
(89.1)	(94.7)	(94.6)	Student Financial Aid	(104.5)	(104.5)
279.9	291.1	293.3	<b>Total Student Income</b>	<b>306.1</b>	<b>306.1</b>
			<i>Sponsored Research Support:</i>		
379.1	392.4	402.0	Direct Costs—University	422.1	422.1
179.9	197.7	203.9	Direct Costs—SLAC	208.5	208.5
115.4	120.6	121.1	Indirect Costs	127.2	127.2
674.4	710.7	727.0	<b>Total Sponsored Research Support</b>	<b>757.8</b>	<b>757.8</b>
156.7	160.0	161.6	Health Care Services	164.3	164.3
113.2	87.0	116.5	Expendable Gifts In Support of Operations	120.0	120.0
			<i>Investment Income:</i>		
315.0	315.1	359.4	Endowment Income	407.1	407.1
175.4	104.3	111.9	Other Investment Income <sup>a</sup>	127.0	132.0
490.4	419.4	476.3	<b>Total Investment Income</b>	<b>534.1</b>	<b>539.1</b>
191.2	205.1	203.8	Special Program Fees and Other Income	224.4	224.4
<b>1,905.8</b>	<b>1,873.3</b>	<b>1,978.5</b>	<b>Total Revenues</b>	<b>2,106.7</b>	<b>2,111.7</b>
			<b>Transfers</b>		
51.4	25.0	40.0	Net Assets Released from Restrictions	40.0	40.0
			Additions to Funds Functioning as Endowment <sup>b</sup>	(40.0)	40.0
			Transfer to Plant/Student Loan <sup>c</sup>	(76.0)	76.0
<b>1,957.2</b>	<b>1,898.3</b>	<b>2,018.5</b>	<b>Total Revenues and Transfers</b>	<b>2,030.7</b>	<b>2,151.7</b>
			<b>Expenses</b>		
394.2	413.2	444.8	Academic Salaries and Benefits	474.5	474.5
479.8	501.7	529.2	Staff Salaries and Benefits	586.2	586.2
171.3	156.6	175.0	Depreciation <sup>d</sup>		161.9
179.9	197.7	203.9	SLAC	208.5	208.5
317.3	342.1	338.9	Institutional Support	386.5	386.5
187.8	232.6	192.2	Other Operating Expenses <sup>e</sup>	282.2	205.6
<b>1,730.3</b>	<b>1,843.9</b>	<b>1,884.0</b>	<b>Total Expenses</b>	<b>1,937.9</b>	<b>2,032.2</b>
<b>226.9</b>	<b>54.4</b>	<b>134.5</b>	<b>Surplus / (Deficit)</b>	<b>92.8</b>	<b>128.5</b>
<b>(48.0)</b>			<b>Hospital Deficit</b>		<b>NA</b>
<b>178.9</b>	<b>54.4</b>	<b>134.5</b>	<b>Excess of Revenues Over Expenses</b>	<b>92.8</b>	<b>128.5</b>

c) Transfer to Plant/Student Loan: \$76 million of current funds are expected to be used to fund capital expenditures. For Financial Statement purposes, these are considered capital expenditures and are not reflected as expenses in the Statement of Activities.

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

d) Depreciation: on all capital assets is projected to be \$161.9 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 \$161.9 million of depreciation in the Statement of Activities.

There has been a significant increase in depreciation expense since 1999/00 due primarily to the adoption 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 \$76.6 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 \$76.6 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 \$35.7 million, from a \$92.8 million surplus in the Consolidated Budget projection to a \$128.5 million surplus in the Statement of Activities projection.



