Section 1
Financial Overview

In this section we will review the details of the 2002/03 Consolidated Budget for Operations, provide a five year forecast of the Consolidated Budget, discuss the impact of the Capital Budget on the Consolidated Budget, and present a projected Statement of Activities.

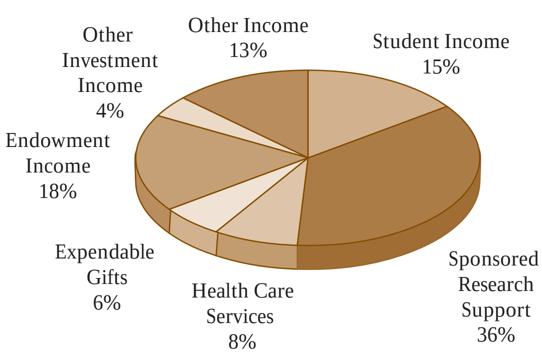
CONSOLIDATED BUDGET FOR OPERATIONS

The Consolidated Budget for Operations includes all non-capital revenues and expenses. 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. 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. The table on the next page shows the projected consolidated revenues and expenses for 2002/03. For comparison purposes, this table also shows the actual revenues and expenses for 2000/01 and both the budget and the year-end projections for the current fiscal year, 2001/02. In addition, definitions of key terms are provided on page 3.

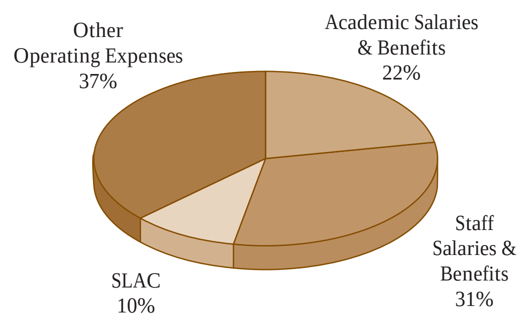
The 2002/03 Consolidated Budget for Operations shows net revenues after transfers of $2,180.0 million and expenses of $2,134.1 million, resulting in a bottom line surplus of $45.9 million, or 2.2% of total expenses.

Net revenues after transfers in 2002/03 are projected to increase 5.3% over the expected 2001/02 levels. This growth is lower than the past several years due to a lower increase in our overall tuition rate, significantly slower growth expected in endowment income, and an expected drop in the negotiated indirect cost recovery rate. Total expenses are expected to grow by 4.5% over the estimated year-end results for 2001/02. The growth in expense is expected to be somewhat slower than in recent years, consistent with a less aggressive salary program, a lower expectation for incremental faculty and staff, and generally a more constrained economic environment.

2002/03 Consolidated Revenues: $2,287.1M[1]



2002/03 Consolidated Expenses: $2,134.1M



[1] Net Revenues after Transfers: $2,180.0M

PROJECTED CONSOLIDATED BUDGET FOR OPERATIONS, 2002/03
[IN MILLIONS OF DOLLARS]

2000/01 Actuals	2001/02 Budget June 2001	2001/02 Projected Yr-End Acts		General Funds	Designated	Restricted	Grants and Contracts	Auxiliaries/ Other	Total Current Funds
			Revenues and Other Additions						
			Student Income:						
161.2	171.8	175.0	Undergraduate Programs	181.8					181.8
157.2	163.5	166.8	Graduate Programs	174.6					174.6
73.0	75.3	80.2	Room and Board					90.0	90.0
(91.7)	(104.5)	(102.0)	Student Financial Aid	(21.7)	(1.5)	(77.8)	(7.8)		(108.8)
299.7	306.1	320.0	Total Student Income	334.7	(1.5)	(77.8)	(7.8)	90.0	337.6
			Sponsored Research Support:						
400.3	422.1	452.3	Direct Costs—University				472.7		472.7
205.5	208.5	219.8	Direct Costs—SLAC				219.9		219.9
121.7	127.2	134.1	Indirect Costs	135.1					135.1
727.5	757.8	806.2	Total Sponsored Research Support	135.1			692.6		827.7
163.3	164.3	170.4	Health Care Services		26.7			161.2	187.9
125.3	120.0	130.0	Expendable Gifts In Support of Operations	2.0		138.0			140.0
			Investment Income:						
354.4	407.1	392.7	Endowment Income	89.5		314.1			403.6
65.4	127.0	69.7	Other Investment Income	38.6	26.5	20.5	0.5		86.1
419.8	534.1	462.4	Total Investment Income	128.1	26.5	334.6	0.5		489.7
226.7	224.4	236.5	Special Program Fees and Other Income	26.8	161.5		0.4	65.5	254.2
51.0	40.0	50.0	Net Assets Released from Restrictions			50.0			50.0
2,013.3	2,146.7	2,175.5	Total Revenues	626.7	213.2	444.8	685.7	316.7	2,287.1
			Transfers						
(47.0)	(40.0)	(40.0)	Additions to Funds Functioning as Endowment			(41.0)		1.0	(40.0)
(84.0)	(76.0)	(65.7)	Transfer to Plant/Student Loan	(22.6)	(20.6)	(6.8)		(17.1)	(67.1)
			Other Transfers	(29.4)	20.1	(14.7)		24.0	
1,882.3	2,030.7	2,069.8	Net Revenues after Transfers	574.7	212.7	382.3	685.7	324.6	2,180.0
			Expenses						
409.0	474.5	444.2	Academic Salaries and Benefits	107.5	41.2	116.1	119.8	81.3	465.9
570.9	586.2	631.2	Staff Salaries and Benefits	244.7	54.7	65.1	128.3	174.7	667.5
205.5	208.5	219.8	SLAC				219.9		219.9
686.7	668.7	746.4	Other Operating Expenses	222.5	138.6	134.9	217.7	67.1	780.8
1,872.1	1,937.9	2,041.6	Total Expenses	574.7	234.5	316.1	685.7	323.1	2,134.1
10.2	92.8	28.2	Surplus/(Deficit)		(21.8)	66.2		1.5	45.9
			Beginning Expendable Funds		395.0	721.0	30.5	19.7	1,166.2
			Ending Expendable Funds		373.2	787.2	30.5	21.2	1,212.1

In order to understand the different dimensions of the Stanford budget, in the following sections we will review the Consolidated Budget from three perspectives:

- By principal revenue and expense categories,
- By type of funding source (e.g., general funds, restricted funds, etc.), and
- By organizational unit.

The Consolidated Budget by Principal Revenue and Expense Categories

Revenues

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, net student income is expected to increase by 5.5% in 2002/03.

Tuition – The general tuition rate increase for 2002/03, which was approved by the Trustees in February, is 5.0%, down from the 6.0% increases in each of the past two years. While the budgetary needs to enhance and improve our academic program and the physical and human infrastructures that support them remain high, the downturn in the economy and our market position compelled us to hold the increase to a lower level. Both undergraduate and graduate tuition revenue are expected to grow slightly less than the increase in the tuition rate due to slight declines in enrollment and in the number of students paying full-time tuition.

Room and Board – In February, the Trustees approved a combined room and board rate increase of 4.5% for undergraduates in 2002/03. The room rate will increase by 6.5%, and the board rate by 2.5%. For graduate students, the cost of housing will increase between 4.5% and 12.5%. The higher increases will be for studios and for two-bedroom double-occupancy apartments, which are currently 25-50% below market rates. The higher rates budgeted for 2002/03 result from to the loss in revenue due to Branner Hall being off line for renovations, the plan to build the budget to support infrastructure renewal, and the increases in program costs for residential education and residential computing. In addition, the housing rates in 2002/03 continue

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 Residential and Dining Enterprises 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.

to include the costs of the Capital Improvement Program (CIP), representing the eleventh-year of an eighteen-year effort to renovate student residences. Overall room and board revenue will grow by 12.2% as a result of the higher rate increases for housing as well as from the opening of 260 new beds in Escondido Village in September and December and an additional 50 beds in Mirrielees.

STUDENT FINANCIAL AID – Stanford expects to spend a total of $108.8 million in student financial aid for undergraduate and graduate students, $21.7 million of which will come from general funds. As the table below indicates, designated and restricted funds ($79.3 million) and grants and contracts ($7.8 million) will support the remainder. The total financial aid numbers are 6.6% above the projected total for 2001/02. This increase is somewhat higher than the growth rate in the student budget because we anticipate an increase in the number of undergraduates receiving need-based aid due to a change in the overall financial profile of our student body.

UNDERGRADUATE AID – This Budget Plan reflects Stanford's long-held commitment to need-blind admissions supported by a financial aid program that meets the demonstrated financial need of all admitted undergraduate students. We estimate that in 2002/03, Stanford students will receive $64.4 million in need-based scholarships, of which $52.0 million will be from Stanford resources. The remaining $12.4 million will come from government and outside awards. The following sources support Stanford's $52.0 million commitment:

- General funds will cover $14.1 million, the highest level of general funds support since 1995/96. The proportion of Stanford funded scholarship aid supported by general funds decreased to as low as $4.6 million in 2000/01 due to the success of Stanford's fundraising, the tremendous growth in investment income over this time period, and the extraordinary strength in the economy overall. However, with a changing undergraduate student body and the slowing of the economy, this trend has reversed itself in 2001/02 and 2002/03.
- Restricted income will provide $29.1 million, and
- The Stanford Fund will provide $8.8 million.

Stanford restricted funding, including endowment income and the Stanford Fund, will represent nearly 60% of the total need-based scholarship budget. We anticipate the success of the Campaign for Undergraduate Education (CUE) will provide new restricted funds in the future that will offset the need for additional large increases in general funds. Athletic scholarships, none of which are need-based, will be awarded to undergraduate students in the amount of $12.3 million.

2002/03 FINANCIAL AID AND OTHER GRADUATE STUDENT SUPPORT FROM STANFORD RESOURCES

[IN MILLIONS OF DOLLARS]

Projected 2002 Year-End		General Funds	Designated and Restricted	Grants & Contracts	Total
	Student Financial Aid				
48.2	Undergraduate	14.1	37.9		52.0
11.4	Undergraduate Athletic		12.3		12.3
42.4	Graduate	7.6	29.1	7.8	44.5
102.0	Total	21.7	79.3	7.8	108.8
	Other Graduate Student Support				
59.9	Stipends	6.9	33.4	24.3	64.6
39.2	Tuition Allowance	24.0	4.3	12.9	41.2
83.7	RA and TA Salaries	25.4	14.0	54.2	93.6
182.8	Total	56.3	51.7	91.4	199.4
284.8	Total Student Support	78.0	131.0	99.2	308.2

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

[in millions of dollars]

Source of Aid	1997/98 Actual	1998/99 Actual	1999/00 Actual	2000/01 Actual	2001/02 Projected	2002/03 Budget
Restricted	18.5	19.0	20.2	25.9	28.7	29.1
Stanford Fund/Presidential Funds	4.3	5.6	7.8	11.5	8.8	8.8
General Funds	12.2	12.4	7.9	4.6	10.8	14.1
Subtotal Stanford Funded Scholarship Aid	35.0	37.0	35.9	42.0	48.3	52.0
Government and Outside Awards	8.9	9.0	10.1	10.6	11.6	12.4
Total Undergraduate Need-Based Scholarship Aid	43.9	46.0	46.0	52.6	59.9	64.4
General Funds as a Share of Total Aid	28%	27%	17%	9%	18%	22%
General Funds and Stanford Fund as a Share of Total Aid	38%	39%	34%	31%	33%	35%
Restricted funds as a Share of Total Aid	42%	44%	44%	49%	48%	45%
Number of Students	2,584	2,573	2,519	2,516	2,652	2,710

The table above shows the detail of undergraduate need-based scholarship aid. There had been a steady decline in the number of students on aid between 1997/98 and 2000/01, consistent with a very strong economy during this period. However, with a weaker economy, the number of students on aid increased substantially in 2001/02 and is expected to increase again in 2002/03. The additional students on aid will push up the expected cost of our need-based scholarship program by 7.5%. Much of this increase will be paid for by incremental general funds. Appendix B (Schedules 5 and 6) includes supplemental information on undergraduate financial aid.

Graduate Aid – Stanford provides several kinds of financial support to graduate students totaling $243.9 million in 2002/03. As the table on page 4 indicates, this includes the tuition component of fellowships in the amount of $44.5 million, which is 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 (RA and TA) salaries of $199.4 million. Consistent with the presentation of Stanford's financial statements, tuition allowance (tuition benefits for RAs and TAs), 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 substantially higher than the salary increase for faculty and staff. In 2002/03, this increase will be 8.0% and is intended specifically to mitigate the impact of the increases in graduate housing.

Sponsored Research Support and Indirect Cost Recovery

The budget for sponsored research support is expected to be $827.7 million in 2002/03, or 36% of the total revenues projected in the Consolidated Budget for Operations. Included in this figure are the direct costs of externally supported grants and contracts ($472.7 million for university research and $219.9 million for SLAC), as well as reimbursement for the indirect costs ($135.1 million) incurred by the university in support of sponsored activities.

Direct research volume in the Medical School, which makes up more than half of the university's total volume, continues to show strong growth with an expected increase of roughly 14.0% in 2001/02. We expect the Medical School to realize somewhat slower growth of 5.0% in 2002/03. After two years of negative growth, research volume in the non-medical area increased by more than 5.0% in 2000/01 and is on pace to increase by about 8.5% in 2001/02. For 2002/03, we are budgeting a 3.0% growth in non-medical research volume.

Total direct costs for SLAC in 2002/03 are expected to be flat compared to 2001/02. Funding from the Department of Energy (DOE), which still provides almost all of the funding for SLAC, is expected to increase minimally. Funding from other sponsors, who provide less than 5.0% of SLAC's direct costs, is expected to decline slightly in 2002/03 with the completion of the joint NIH/DOE project SPEAR3. This project upgrades SPEAR, the existing synchrotron radiation source for the Stanford Synchrotron Radiation Laboratory (SSRL). After the completion of the SPEAR3 project in 2003, the direct costs from other sponsors are expected to drop from the current level of about $10.3 million to $3-4 million in future years.

While the indirect cost rate for 2002/03 has not yet been negotiated, the budget for indirect cost recovery is based on an assumed indirect cost rate of 55%. This rate would be a decline of two points over the two-year predetermined rate in 2000/01 and 2001/02. Consequently, budgeted indirect cost recovery is expected to increase only 0.7% in spite of strong increases in research volume.

Health Care Services

Health Care Services income is budgeted to be $187.9 million in 2002/03. This includes $161.2 million paid to the Medical School for the Professional Services net revenues from the Stanford Hospital and Clinics and the Lucile Salter Packard Children's Hospital, the Stanford Blood Center, and hospital service payments. In addition, there is $26.7 million that comes to the university to cover activities such as communications services, legal services, operations and maintenance, and utilities.

Investment Income

Endowment Income – Endowment income in 2002/03 is expected to be $403.6 million, an increase of only 2.8% over 2001/02, the first single digit increase in endowment revenue since 1995/96. This relatively small increase in endowment income is due to the fact that the share price of the Merged Endowment Pool (MEP) is expected to be down at the end of 2001/02 for the second year in a row. However, continued strength in gifts to endowment principal and use of the endowment smoothing rule yield an overall increase in income generated from the endowment.

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 a smoothed payout rate. Stanford uses a smoothing rule to dampen the impact on the budget of large annual fluctuations in the market value, thereby providing stability to budget planning. The smoothing rule sets the coming year's payout rate to be a weighted average of the current year's payout rate and the target rate. The target payout rate is 5.1%, and the smoothed payout rate projected for 2002/03 is 5.13%.

Total endowment income includes payout from funds invested in the Merged Endowment Pools as well as specifically invested endowments, and rental income from the Stanford Research Park and other endowed lands. Total income is also impacted by new gifts to endowment. In 1999/00, Stanford received a record $242 million in gifts to endowment principal, up from $96 million in 1998/99. Unfortunately, we have not been able to sustain the 1999/00 gift level. We raised $158 million in new gifts to endowment in 2000/01, and we expect to raise $125 million in 2001/02. We anticipate that level rising to $151 million in new gifts to endowment in 2002/03.

Of the total endowment income, only $89.5 million, or 22.2%, 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. Net rental income from Stanford lands has increased from $7.7 million in 1996/97 to $29.8 million in 2000/01 and is projected to be $32.2 million in 2002/03. 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 faculty housing programs and graduate student housing subsidies.

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 is comprised of the university's general operating funds, non-government grants, unspent endowment income funds, 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 the Tier I Buffer reserve, which consists of unrestricted Funds Functioning as Endowment (FFE), 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 2002/03 Consolidated Budget assumes a 5.0% return will be achieved. Total income from this source is expected to be $86.1 million. This amount is a 23.4% increase over 2001/02 because investment returns in the current year are expected to yield the 4.0% minimum payout level.

Expendable Gifts

Expendable gift income is expected to total $140 million in 2002/03. This amount does not include gifts to endowment principal, gifts for capital projects, or gifts that are otherwise temporarily restricted. Gift receipts in support of current operations were up 10.7% in 2000/01 at $125.3 million and are projected to be $130 million in the current year. Expectations for a return to a stronger economy result in a budget for expendable gifts of $140 million in 2002/03.

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 and 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 from conference activity, concessions, and other operating income in Residential and Dining Enterprises (R&DE), 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 are budgeted to increase by 7.5% to $254.2 million in 2002/03.

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 2002/03, we anticipate that schools and departments will be able to use $50 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.

Transfers

Several adjustments and transfers are made to reflect accurately the net income available 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. We expect a total of $40 million will be transferred to FFE in 2002/03, which is down slightly from the 2000/01 actual of $47 million.

- Transfer to Plant/Student Loan: The vast majority of these funds will move to the plant division to be used for capital projects and repayment of debt. The total transfer to plant projected for next year, $65.6 million, is down compared to a transfer of $82.2 million in 2000/01 but is in keeping with a slowdown in the overall level of the capital program. In particular, we are budgeting $22.6 million in general funds for academic facilities renovation and debt principal repayments. The academic units are budgeting $18 million from designated and restricted funds for a variety of capital projects. Another significant amount will come out of the auxiliaries, primarily Residential and Dining Enterprises as they undertake another year in the Capital Improvement Plan. Additionally, $1.5 million is expected to move to the student loan division, an amount comparable to previous years.

- 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 R&DE to support faculty and graduate housing subsidies, the transfer of general funds revenue to support programs in the Alumni Association and Athletics, and other similar transfers. Because these transfers are made between fund types within the current division, the net is zero.

Expenses

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 2002/03 for faculty salaries is 3.5%. We believe that this increase, when applied appropriately by Deans, will be sufficient to maintain Stanford's current highly competitive position. Total expenses for academic salaries and benefits are expected to increase 4.9% in 2002/03. This increase reflects the 3.5% increase in the base faculty salary program, additional targeted increases to address equity and retention issues, an 8.0% increase in Research and Teaching Assistant salaries, and a 5.0% 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 1.0% overall, principally in medical center line faculty.

Staff Salaries

Two years of strong staff salary programs have improved Stanford's overall market position so that our staff salaries are now, on average, in line with the local marketplace. Significant improvement in market position was achieved for staff in the most populous job groups — administration, finance, information technology, libraries and research.

While the current economic climate dictates a more modest program this year, we expect to retain a favorable market position. Silicon Valley companies and higher education institutions with which we compete for talented staff have been, in many cases, significantly impacted by this year's adverse economic conditions, forcing them to cut back in various areas including merit programs.

The staff salary program for 2002/03 includes central funding of 2.7% for merit increases and 0.5% for non-base performance bonuses and incentive, as well as targeted funding for specific job groups that lag the market by 10% or more. Central funding for non-base performance bonus and incentive programs is new this year and is intended to highlight the increasing importance of variable pay as a component of Stanford's salary program. In addition units may use up to 1.0% of locally controlled resources to fund additional base increases to address salary equity and retention. The final component of the program authorizes up to 2.0% of locally controlled funds to enhance the non-base performance bonuses and incentives. These program components provide flexibility to recognize differences in individual performance.

Total staff salaries and benefits expenses are projected to increase by 5.8% in 2002/03. The increase results from the various components of the staff salary program described above plus an assumed head count growth of roughly 1.5%.

Fringe Benefits

The benefits rate for eligible employees is budgeted to increase from 24.0% to 24.8%. This marked change from the stability experienced in the rate over the past several years is due almost entirely to dramatic increases in health insurance costs, both for active employees and for retirees. Cost pressures in health insurance, which began building last year, contribute to an increase of more than 33% in total insurance costs from 2001/02 to 2002/03. The largest percentage increase (nearly 90%) is in the Retirement Medical program, mostly because of the large increase in Stanford's actuarial expense for future retiree costs. The budgeted health insurance cost for active employees incorporates a 20% rate increase from vendors beginning in January 2003.

The cost of Workers' Compensation insurance is also expected to increase substantially in the coming year, due in part to higher medical costs and in part to higher rates demanded by insurers in the wake of last September 11.

Total retirement program costs are budgeted to increase by about 11% from 2001/02, but the number of points on the rate represented by retirement programs is actually down slightly, by one-tenth of a point. The impact on the rate is negligible because most retirement programs are increasing at approximately the same rate as the growth of the salary base.

Total costs in the benefits pool are budgeted to increase 10% over projected year-end costs and 16% over

2001/02 budgeted costs, net of a credit carry-forward (representing an over-recovery in 2000/01) of more than $4 million.

The benefits rate for post-doctoral research affiliates will also increase in the coming year, from 11.6% to 14.8%. This is due in large part to rising medical costs as discussed previously, but also to the fact that a new package of dental, disability and life insurance for post-docs is being added to the post-docs' benefits pool. The benefits rate for contingent (casual and temporary) employees will remain unchanged at 8.1%.

A new rate for graduate teaching and research assistants is being proposed. This will contribute about half the cost of Cardinal Care health insurance for RAs and TAs with appointments of 25% or more, with a smaller contribution for appointments between 10% and 25%. Other student salaries, such as pay for part-time clerical work during the school year, will not be assessed this benefits rate, nor will the students holding those jobs be eligible for the university contribution toward their Cardinal Care insurance premiums.

Fringe Benefits Rates

	2001/02 Negotiated Budget	2002/03 Proposed Rates
Regular Benefits-Eligible Employees	24.0%	24.8%
Post-Doctoral Research Affiliates	11.6%	14.8%
Casual/Temporary Employees	8.1%	8.1%
Graduate RAs and TAs[1]	0.0%	3.4%
Other Students	0.0%	0.0%
Average Blended Rate	23.0%	23.8%
Tuition Grant Program Recovery Rate	1.45%	1.45%

[1]2002/03 proposed rate of 3.4% is estimated.

The Tuition Grant Program (TGP) rate of 1.45% is charged separately against regular benefits-eligible salaries only and will be unchanged in 2002/03. In order to comply with federal government rules, all federal government sponsored accounts are exempted from the TGP. Academic service centers also are exempted.

Other Operating Expenses

This non-salary category, which totals $780.8 million, includes institutional support and other operating expenses, and comprises more than one-third of the expenses of the Consolidated Budget for Operations. The principal components include: materials and supplies ($186.4 million), maintenance and utilities for campus buildings ($102 million), equipment purchases ($92.4 million), student stipends ($64.6 million), administrative and professional services ($93.8 million), subcontracts ($60.2 million), travel ($28.9 million), and interest payments ($20.3 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 4.6%. A few of these areas warrant further comment.

Maintenance and Utilities – While Stanford endured substantial increases in utilities costs in 2000/01 and anticipated further jumps in 2001/02, we have seen some significant decreases in utilities costs in the current year, led by a 26% drop in the cost of natural gas. The projection of year-end expense for the utilities systems is expected to be down by $3.6 million over the budgeted level to $55.1 million. In turn, flat natural gas prices and reductions in electricity rates will allow us to hold down the growth in utilities in 2002/03 to $57.8 million, a figure which includes $1.4 million in utilities for new buildings. Maintenance costs are expected to increase at an inflationary level and include $1.5 million for new buildings. The result is that Stanford's total maintenance and utilities costs are budgeted at $102 million, an increase of 4.1% over the 2001/02 projected year-end.

Debt Service – The 2002/03 internal debt service is projected to be $85.3 million, a $10.2 million increase over 2001/02. The university borrows funds from capital markets and uses the proceeds to fund capital projects and programs. These projects and programs are required to repay the funds plus interest over the remaining life of the project. These payments are known as internal debt service. Stanford is responsible for accumulating these funds for repayment to the external lenders. The rate charged to projects is calculated annually as a blended interest rate of all interest expense and bond issuance costs.

The $85.3 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.

ADMINISTRATIVE SYSTEMS – This Budget Plan includes $15.3 million for administrative systems replacement and infrastructure using marketplace solutions. All of the budgeted amount is for projects already underway in 2001/02, including the second phase of the financial system replacement, a new student system, and a university calendar and web portal project that will allow a common point of entry for faculty, staff, and students to a wide variety of Stanford information. All of these projects will be completed during 2002/03. 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 not reflected in the Consolidated Budget for Operations, but 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 (including non-formula units and formula schools) is projected to be $626.7 million in 2002/03.

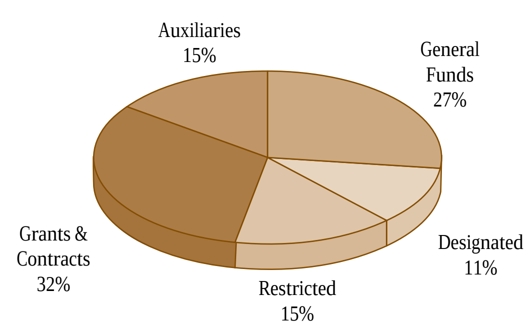
2002/03 GENERAL FUNDS ALLOCATIONS – The process of allocating general funds to non-formula budget units begins with a forecast of available revenue. Then an estimate is made of the 2002/03 continuing base budget for each unit, assuming growth factors for salaries, student aid, library acquisitions, operations and maintenance, and other expenses. This year's process was more arduous than in past years. Early projections of general funds revenue and estimates of university priorities and obligations led to the request that all budget units propose ways in which to reduce their general funds by 5% and 3% in 2002/03 and 2003/04, respectively. Over a span of several months, the Provost's Budget Group evaluated historical and current financial reports, fund balances, and the reduction proposals for all major budget units. After a thorough review process, we have built into next year's budget a set of reductions averaging about 4% across most academic and support units. These reductions will allow us to deliver a balanced budget while providing funds to cover commitments made in prior years and for reallocation to some of our most critical priorities.

In the schools and academic support areas the impact of the reductions will be felt in two ways. First, there will be across-the-board trimming of expenses accompanied by some delays in planned purchases or program enhancements. Second, there will be a greater reliance on restricted funds within departments and schools to support programs. We are not anticipating major reductions in programs.

Administrative units also are planning to trim general expenses. More significant cuts will occur in the maintenance and computer systems budgets. Specifically, planned maintenance budgets will be reduced for roads and in several building maintenance areas, and efficiencies will be found in the operations of central computing systems in ways that will not affect service to university users.

Within the general funds portion of the budget, we are reducing base budget funding allocations to budget units by $16.3 million or approximately 4%. A significant portion of these reductions was necessary to fund $11.5 million of commitments made in prior years to cover critical incremental program initiatives and to provide continuing funding for programs on one-time money. An additional $5.5 million will be allocated for other new and vital needs.

2002/03 CONSOLIDATED EXPENSES BY FUND TYPE



Summary of 2002/03 General Funds Allocations (Excluding Formula Areas)

[in thousands of dollars]

	Fully Funded Allocation[1]	Incremental Base Allocations Previous[2]	Reduction[3]	Addition[4]	Total GF Allocation
School of Earth Sciences	2,600.4		(131.0)		2,469.4
School of Education	9,390.3		(470.0)	150.0	9,070.3
School of Engineering	37,926.2	38.0	(1,501.0)	93.0	36,556.2
School of Humanities & Sciences	96,355.1	1,000.0	(2,200.0)	950.0	96,105.1
School of Law	12,078.6		(605.0)	250.0	11,723.6
Dean of Research	18,901.9		(850.0)	160.0	18,211.9
Undergraduate Education	10,540.6	1,000.0	(529.0)		11,011.6
Admissions & Financial Aid	16,527.9		(235.0)	1,660.0	17,952.9
Stanford University Libraries	36,620.5	600.0	(1,831.0)	200.0	35,589.5
Student Affairs	17,099.5		(494.0)	350.0	16,955.5
Total - Academic	258,041.0	2,638.0	(8,846.0)	3,813.0	255,646.0
Office of the President & Provost	13,283.1		(665.0)		12,618.1
Business Affairs	46,310.2		(1,250.0)	1,159.0	46,219.2
ITSS	38,782.2		(1,500.0)		37,282.2
Development and Alumni Association	18,625.1	2,300.0	(1,312.0)		19,613.1
Land & Buildings	61,808.7		(2,500.0)	150.0	59,458.7
Other Administrative Units[5]	12,442.9		(216.0)	56.0	12,282.9
Total - Administrative	191,252.2	2,300.0	(7,443.0)	1,365.0	187,474.2
Debt Service	19,438.5	3,567.5			23,006.0
O&M and Utilities on New Buildings		2,204.0			2,204.0
Central Obligations[6]	38,215.7	500.0		350.0	39,065.7
Total - Other	57,654.2	6,271.5		350.0	64,275.7
Total General Funds Allocations	506,947.4	11,209.5	(16,289.0)	5,528.0	507,395.9

Notes:

[1]The Fully Funded Allocations support the continuation of ongoing academic and administrative programs and do not include any incremental allocations.

[2]Previous Incremental Base Allocations reflect commitments made prior to or separate from the 2002/03 budget process.

[3]General Fund Allocations Reductions represent a planning directive of a 5% reduction in General Funds support.

[4]General Fund Allocations Additions reflect commitments made during from the 2002/03 budget process, and are funds allocated for implementation of new ongoing academic or administrative programs, commencing in 2002/03.

[5]Other Administrative Units includes general funds allocations for General Counsel, Procurement, SLAC, Athletics, Stanford University Press, and the Stanford Faculty Club.

[6]Central Obligations include Tuition Allowance, Graduate Student health insurance contribution, the systems reserve, and the university reserve.

The total 2002/03 general funds allocations for each non-formula unit are detailed on the previous page, and some of the allocations are highlighted below:

- The School of Education will take a $470,000 reduction in its general funds allocation, which will be achieved by eliminating or updating programs that are outdated, as well as through substitution of restricted funds. $150,000 has been added back to the School of Education to support first year fellowships in the doctoral program and for information technology support.
- The School of Engineering's general funds allocation will be reduced by $1.5 million, most of which will be offset by the use of school restricted funds. A small incremental general funds allocation was made to provide support for faculty salaries.
- The School of Humanities and Sciences allocation will be reduced by $4.2 million in a combination of base ($2.2 million) and one-time ($2 million) reductions. Also, $1 million in incremental base funds have been added to offset the school's structural deficit as well as $950,000 to support growth in the Division of Literatures, Cultures and Languages and computer support services.
- The Vice Provost for Undergraduate Education has been allocated $1.0 million as part of the university's planned build-up of the undergraduate program.
- $1.25 million in additional base funding along with $2.0 million in one-time funding will be added to the undergraduate scholarship budget and will allow us to meet the demonstrated need required by the changing demographics of our undergraduates. Another $410,000 will be added to the base budget of the Office of Admissions and Financial Aid for staffing increases and to cover the increasing costs of postage.
- Stanford University Libraries/Academic Information Resources (SUL/AIR) will manage a general funds reduction of $1.8 million by freezing 25 open positions and reducing non-salary expenses. Incremental general funds of $600,000 will be allocated to SUL/AIR to complete the transition of the Hoover library collection and $200,000 specifically for the library materials budget.
- Information Technology Systems & Service (ITSS) is being asked to take a $1.5 million reduction in general funds, which will necessitate reduced services to the campus. While the full extent of the cuts have not been identified, infrastructure support, local area network support, and the level of monitoring and reporting on the network will all be reduced. $850,000 in one-time general funds have been allocated to help ITSS transition to a new base level of support.
- $2.3 million was allocated to the Office of Development and the Alumni Association as part of a multi-year plan to build-up base budget support, enhance our overall fundraising capacity, and to strengthen regional programs and volunteer relations within the Alumni Association. Even though we are providing continued support of the multi-year plan, these areas will implement the plan at a slower rate in order to accommodate a reduction of $1.3 million.
- Land and Buildings will manage a $2.5 million reduction in its general funds allocation, which will result in staff layoffs as well as the elimination of the paving planned maintenance program. Planned maintenance project funding for buildings will be preserved as the demand for these projects is expected to increase during the slowdown in the Capital Plan
- New and renovated buildings anticipated to come on-line in 2002/03 require incremental base general funds of $2.2 million for utilities and maintenance and $3.6 million for debt service. These amounts reflect only the general funds impact of the Capital Budget. The other project-related expenses in the 2002/03 base budget will be paid from auxiliary, service center, and formula school budgets.

Designated Funds Budget

Designated funds are technically unrestricted funds, but they have been directed to particular units or for specific purposes by management agreement. The schools, departments and programs, and individual faculty members control the majority of the funds in these budgets.

In 2002/03, net revenues and transfers in the Designated Funds budget are projected to be $212.7 million, most of which is generated through special program fees. These include revenue, across the schools, from patents and royalties, corporate affiliates, and executive education programs. Other sources of designated funds are Expendable Funds Pool payout on designated fund balances and payments from the Stanford Hospital to areas of the university other than the Professional

Services agreement in the Medical School. Designated fund balances are the result of excess designated revenue over expense as well as operating budget surpluses that are saved to designated reserves.

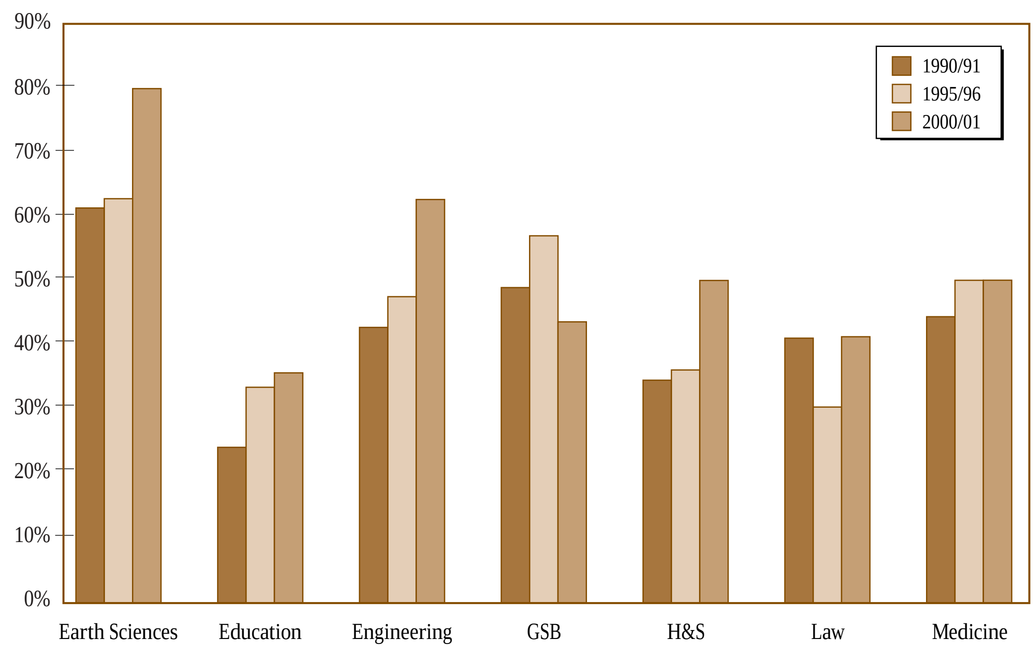
Total expenses charged to designated funds are budgeted to be $234.5 million, yielding a deficit in 2002/03 of $21.8 million. The deficit primarily represents a planned use of the university's nearly $400 million in designated fund balances for capital projects. These funds, $20.6 million, show as a transfer to plant in the table on page 2.

Restricted Funds Budget

The restricted funds budget represents income and expense for both restricted expendable funds and restricted endowment funds. Together, net revenue and transfers for these funds are projected to be $382.3 million in 2002/03, net of $77.8 million for financial aid. Of this total, $314.1 million is endowment income, $138 million is from expendable gifts, and $20.5 million is other investment income, primarily expendable funds payout on restricted fund balances. The budget for total restricted expenses is $316.1 million, resulting in a bottom line surplus of $66.2 million in restricted funds.

The schools, which control nearly two-thirds of the university's total expendable (designated and restricted) fund balances, have consistently generated more restricted revenue than can be spent, resulting in significant growth in fund balances year after year. Some of the annual revenue is not used because the terms of the funds are so restrictive as to preclude their use. Efforts are underway to review and possibly ease the restrictiveness of some funds as well as to split some large endowed chair funds to allow them to support more than one faculty member. Sometimes designated or restricted revenue is deliberately reserved to pay for planned capital projects or other large purchases, to cover potential shortfalls in sponsored research funding, to supplement existing research funding, or to provide student support that cannot be met from other funding sources. Schedule 15 in Appendix B shows the academic area fund balances by unit. The chart below shows expendable fund balances as a percentage of each school's net revenues over the past decade.

Expendable Fund Balances as a Percent of Net Revenues[1]



[1] This graph represents year-end balances in designated, expendable gift and unspent endowment income funds.

Given the pressure on general funds, it is more important than ever to find a way to utilize restricted fund balances more effectively and possibly to substitute the use of general funds with restricted funds as we are forecasting continuing deficits in the general funds budget as described on page 22.

Grants and Contracts Budget

The grants and contracts budget of $685.7 million (net of $7.8 million for student aid) represents $472.7 million of direct sponsored activity under the direction of individual faculty principal investigators and $219.9 million in direct costs for SLAC. The university direct cost totals are formulated based upon the projected year-end results for 2001/02. Total university research volume is expected to grow by 4.5% in 2002/03.

Auxiliary Activities

The principal auxiliary activities are the Stanford Alumni Association, Athletics, HighWire Press, Residential and Dining Enterprises , Medical School Professional Services, and the Stanford University Press. In addition, there are several other small auxiliaries such as the campus radio station, KZSU. 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 surplus of $1.5 million in 2002/03.

TOTAL AUXILIARY ACTIVITIES, 2002/03

[IN MILLIONS OF DOLLARS]

	Revenues and Transfers	Expenses	Surplus/ Deficit
Alumni Association	35.2	35.2	
Athletics[1]	38.4	38.0	0.4
Highwire Press	16.3	16.3	
Medical School Professional Services	161.2	158.9	2.3
Press	3.8	5.1	(1.3)
Residential & Dining Enterprises	116.7	116.7	
Other	17.4	17.3	0.1
Total[2]	389.0	387.5	1.5

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, departmental transactions of $64.4 million have been netted out.

ALUMNI ASSOCIATION – The Stanford Alumni Association (SAA) will continue to focus its priorities on building Stanford's image around the country, further integrating Stanford alumni into life of the university, and strengthening class identity. SAA anticipates its travel program and other revenue sources will begin to rebound in 2002/03 allowing the organization to maintain and possibly expand its efforts. SAA is projecting a balanced budget with revenues of $35.2 million.

With the hugely successful "Think Again" tour, SAA is well positioned to take advantage of new relationships forged regionally. By the end of the tour in June 2002, SAA will have touched 7,600 alumni and engaged nearly 1,400 (many for the first time) as regional Stanford volunteers. SAA is developing individualized follow up plans for each region, taking into account demographic differences and volunteer energies.

SAA will use a portion of its $400,000 incremental general funds to add a marketing communications manager to help coordinate outreach to alumni. With the explosion of e-mail communication to alumni, ensuring that this (and direct mail) communication is done properly becomes incredibly important. SAA has already begun to work more closely with colleagues in Athletics, Development, Overseas Studies and the schools on this issue. SAA also plans to enhance its use of the Alumni Center and to expand reunion and homecoming activities.

ATHLETICS – Athletics is projecting a balanced consolidated budget in 2002/03, with a small operating budget gain being offset by a slight financial aid loss.

The Athletic operating budget income includes a decrease in football gate receipts due to a less favorable home schedule, which for the first time in many years includes only five home football games. More than compensating for the decrease in gate revenue will be an increase in income from the NCAA and Pacific 10 Conference, primarily as the result of an increased payout from the new CBS NCAA basketball contract. Athletics also expects small increases in Golf Course, Summer Camp, and Restricted Funds income.

Athletic department compensation expenses have risen significantly in the past two years, as the department's policy has been consistent with the university's overall goal of making salary levels competitive with other Silicon Valley organizations. This trend will be slowed in 2002/03, consistent with increases across the university. However, in order to continue to grow compensation, as well as to afford rising operational costs for facilities and to support new program growth, Athletics has reduced budgets by 5% in many operational and administrative areas not directly related to sport programs or the well being of student-athletes.

The total number of full scholarships, for which commitments are made well in advance, increases from 306 in 2001/02 to 315 in 2002/03. Even with the Athletic department's CUE success, the slowed rate of endowment payout, combined with increased scholarships and tuition costs, will cause 2002/03 financial aid expenses to exceed financial aid income. Athletics will draw upon its financial aid reserve to cover this gap.

HighWire Press – HighWire Press, SUL/AIR's Internet service provider of on-line publishing services to scholarly publishers, has made the transition to being an auxiliary enterprise of SUL/AIR with ease. However, pressure from low-cost competitors has mitigated against a stiff, single price increase to the not-for-profit publishers making up the bulk of HighWire's customer base. The result is a 2002/03 budget in balance at $16.3 million, but only barely so. On the expense side, space costs for its off-campus location on Page Mill Road add additional pressure to the budget. In 2002/03, HighWire is adding several important and high profile customers, developing with a secondary not-for-profit publisher an entirely new product, and working on the means to offer a low-cost production system with reduced functionality to potential customers. This last endeavor will allow HighWire to reach customers whose circulation rates are too low to afford the usual HighWire services. HighWire will also launch an additional searching capacity called concept searching.

Residential and Dining Enterprises – Consistent with its long term Capital Improvement Program (CIP), Residential and Dining Enterprises is forecasting a small deficit of $1.1 million in 2002/03. The shortfall will be funded with a transfer from R&DE reserves, as part of the Board-approved long-term strategy to finance the debt associated with the CIP for renovations of housing and dining facilities. R&DE will realize increased revenues from the opening of Escondido Village Studios 5&6 in September and December, additional beds in Mirrielees, and the opening of the SLAC lodging project in April 2003. The increased revenues will be offset by a loss of revenues from Branner Hall's housing and dining operations during its closure for major renovations. In order to maintain Residential and Dining Enterprises' expense to reserve ratio and to continue its efforts to enhance efficiencies, while maintaining quality service, R&DE will reduce direct operating expenses by $1.5 million.

Next year is the eleventh year of the 18 year CIP plan. Major projects this current year include the completion of EV (Escondido Village) Studios 5 & 6, Mirrielees Phase II apartment renovations, McFarland mid-rise CIP renovation, and several EV deferred maintenance projects. Major project initiations for 2002/03 are the Branner Hall housing and dining renovation, fire sprinkler and general CIP renovations in three Row houses and several significant deferred maintenance life safety projects across Housing and Dining.

Medical School Professional Services – This auxiliary includes four components:

- The Professional Services Practice at Stanford Hospital and at Packard Children's Hospital at Stanford, ($103.1 million),
- Service payments and an academic grant from SHC and LPCH ($40 million),
- A transfer from the Dean's Office of $2 million to help fund a portion of the academic grant that the hospitals are not funding in the next year, and
- The Blood Center ($16 million).

Nearly 73% of the expenses are for faculty of staff physician salaries and benefits; another 18% are for staff expense.

An overall surplus of $2.3 million is projected in 2002/03, and reflects the combination of the surplus generated by a number of the clinical departments less the deficits generated by others. Thus, while some departments will see a net transfer to their designated reserves after the end of the year, some departments will need to cover the deficits using their own reserves. For that reason the school is taking steps to establish departmental, as well as school, contingency reserves that will be necessary to cover the losses. Under the new management structure of the Medical Center, the two hospitals and the school are working together to develop new or revitalized clinical programs. This growth and revitalization should strengthen the financial situation as well as the clinical and teaching programs of the clinical departments.

Stanford University Press – In 2002/03 the Press moves into the second full year of its long-term plan to reduce its reliance on the university for financial support. The foundations to achieve this plan were firmly laid in the first half of the current year, with the signing of 18 new titles in the new programs in business, economics, law, and policy, and 26 scholarly titles in the established social sciences and the humanities programs. These numbers should double by year-end. In addition, 132 new books are scheduled for publication this fiscal year, a record for the Press. On the other hand, there has been less to celebrate in the Press's main market channels, where both the recession and the events of September 11 have had a significant negative impact on sales, for scholarly and commercial publishers alike.

The 2002/03 budget assumes that this imbalance between increased productivity within the Press and the sluggish performance in the marketplace will continue until the recession is over. While both signing and publication rates in all disciplines are expected to continue to increase, and staff productivity is expected to continue to rise, sales in the library and retail channels will be difficult. This will be exacerbated by a short selling hiatus early in the fiscal year following a switch to new distribution and representation partners around the world. Taking these factors into account, year-on-year revenue growth of 10% is expected. In addition, increased production efficiencies should improve gross margin by about 5 percentage points, while it should be possible to hold growth in direct costs to 2.0%. Together, these factors should improve the bottom line by about 20% over the current year.

Financial projections show the Press will break even by 2005/06 and will generate moderate surpluses thereafter. Until that time, the university will continue to underwrite the costs of implementing the long-term plan by providing general funds for a general subsidy and to support new strategic initiatives. The 2002/03 budget for the Press includes $1.2 million of general funds support but still shows a deficit of $1.3 million, which will be covered by central funding, reflecting 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 consolidated budgets by unit are found in Appendix A. A brief discussion of selected unit follows.

School of Earth Sciences

The School of Earth Sciences projects a surplus of $1.5 million on revenues and transfers of approximately $28.9 million. The largest source of that surplus is in restricted endowment funds. The make-up of the school's consolidated budget remains basically the same as in previous years with general funds comprising 9% of total expenses. The remainder of the budget is: industrial affiliate income (designated) at 15%; gifts and other income (expendable) at 9%; endowment income at 38%; and grants and contracts at 29%. The reduction in general funds for 2002/03 will require spending some unrestricted school reserves, in particular in the student fellowship area. Increased spending is anticipated in both the faculty and staff salary areas. This is due to two faculty searches currently underway, as well as some additional staffing added in late 2001/02.

School of Education

The School of Education projects a small surplus of $384,000 on revenues and transfers of $29.8 million. This results primarily from new endowment and expendable funds related to the John Gardner Center. The remaining endowment surplus results from two new unfilled professorship chairs.

To meet its general funds budget reduction targets the school will:

- Examine its masters programs with the intention of consolidating some of the program director positions,
- Restrict visiting faculty appointments,
- Limit facilities projects,
- Reduce non-salary expenses,
- Fill a new endowed professorship chair with an internal faculty member, and
- Fund the professional development program with restricted funds.

Because some of these items will be phased in over several years, the school expects to use $150,000 in reserves in 2002/03.

School of Engineering

The School of Engineering projects a 3.2% surplus in 2002/03 on expected consolidated revenues of slightly more than $188.6 million. Both revenues and expenses, from all sources, remain steady. Stanford Center for Professional Development revenues have stabilized, and we expect continued modest growth in sponsored research.

The school has opted to increase its dependence on restricted funds for on-going budget support rather than reduce the size or strength of its programs. In addition, expendable and designated funds increasingly provide critical support for our research programs. Surplus funds will be reinvested in academic programs and facilities.

School of Humanities & Sciences

The School of Humanities and Sciences continues to be challenged by structural funding issues, yet has made significant strides towards greater financial stability using a combination of strategies outlined in last year's Budget Plan and innovative new approaches. In 2002/03, the general funds allocation from the Provost will be reduced by $4.2 million in a combination of base and one-time reductions. The reduction will be offset by $1 million in incremental base to support the school's structural deficit in addition to $950,000 designed to support growth in the Division of Literatures, Cultures and Languages and computer support services.

In developing its response to 2002/03 funding reductions, the school factored in leadership changes, its weak financial position, and the need for renewal of its academic plan. The resulting plan is two-phased. During the past five years, department-controlled fund balances have grown by $30 million, to a total of $60 million. The initial phase uses an estimated $10 million of these accumulated balances to bridge the funding gap in 2002/03. This process allows adequate time to develop academic and strategic plans, which will lead to sound financial decisions for the long-term. Planning will focus primarily on review of current programs and projection of new program needs, but will also include development of an information technology plan, and the linking of academic programming to facilities and financial planning processes. Additional fundraising plans for Hewlett gift matches will also be developed, but will be complementary to planning for the school's base infrastructure needs as the Hewlett gift will not be used to fund current structural deficits.

H&S fund balances are projected to grow by $2 million, in contrast to last year's projected growth of $9 million. However, this $2 million surplus masks a continued problem in the general funds component of the H&S consolidated budget. In that part of the budget, H&S projects an $8.6 million operating deficit for 2002/03. This deficit will be funded largely through the use of department-controlled fund balances. This use, coupled with an approximately $3 million investment in construction of the Chem/Bio building will reduce designated fund balances by $12 million. These reductions will be offset by $14 million growth in restricted endowment fund balances. Growth is concentrated in department-controlled funds and endowed chairs with restrictive authorizations.

In addition to the new strategies outlined above, the school has continued to make significant improvements to financial management through successful implementation of a new budgeting system and improved financial controls. The school is in the second year of a three-year faculty recruitment plan, which targets hiring at a rate equal to anticipated faculty exits in order to minimize one-time costs associated with recruitment. On the revenue side, the school and Development Office are in the second year of reviewing restrictive funds to make them more usable and to align them with current school activities. Use of the Hewlett gift as matching funding has been a very successful fundraising strategy. To date, fifteen new endowed chairs have been raised in addition to other new student and program support endowments.

School of Law

The Law School's projected expenses will closely match anticipated revenue. To meet its budget reduction goal of $612,000 the school is reducing visitors and lecturers, consolidating student service staff, reconfiguring faculty support staff, reducing information technology staff, and decreasing event spending. The school will also start drawing down expendable gifts that have been raised during past years to fund start-up programs and clinics.

While administrative expenses will be reduced, the Law School's consolidated budget continues to grow. Through fund raising efforts and university support the school will strengthen five key areas: public law and

PROJECTED CONSOLIDATED BUDGET FOR OPERATIONS BY UNIT, 2002/03

[IN MILLIONS OF DOLLARS]

	Total Revenues and Transfers	Total Expenses	Surplus/ (Deficit)
Academic Units:			
School of Earth Sciences	28.9	27.4	1.5
School of Education	29.8	29.4	0.4
School of Engineering	188.6	182.5	6.1
School of Humanities & Sciences[1]	227.4	225.3	2.1
School of Law	34.1	34.6	(0.5)
Dean of Research	135.2	133.0	2.2
Undergraduate Education	22.1	23.4	(1.3)
Continuing Studies/Summer Session	7.1	7.4	(0.3)
Hoover Institution	32.4	32.4	
Graduate School of Business[1,2]	82.7	89.6	(6.9)
School of Medicine[1,2]	548.0	549.3	(1.3)
Total Academic Units	1,336.3	1,334.3	2.0
Academic Support Units:			
Admissions & Financial Aid	20.6	20.6	
Stanford University Libraries	46.4	46.4	
Student Affairs	24.5	24.7	(0.2)
Total Academic Support Units	91.5	91.7	(0.2)
Total Administrative	409.2	409.0	0.2
Auxiliary Activities	324.6	323.1	1.5
SLAC	219.9	219.9	
Indirect Cost Adjustment[3]	(135.1)	(135.1)	
Student Financial Aid Adjustment[4]	(108.8)	(108.8)	
Grand Total from Units	2,137.6	2,134.1	3.5
Other Anticipated Income[5]	42.4		42.4
Total Consolidated Budget	2,180.0	2,134.1	45.9

NOTES:

[1]The budget lines for H&S, Graduate School of Business, and the School of Medicine do not include auxiliary revenues 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.

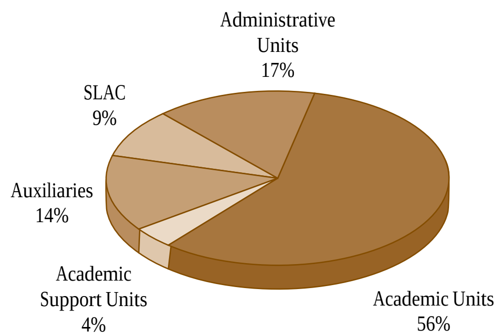
[2]This budget reflects a direct allocation of tuition revenue in those units operating under a formula funding arrangement.

[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 $135.1 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 a reduction against student income in the Consolidated Budget. Because it appears in the revenue and expense of the academic units, $108.8 million is removed in the Student Financial Aid Adjustment line.

[5]The $42.4 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.

2002/03 CONSOLIDATED EXPENSES BY UNIT[1]



[1]Total expenses before adjustments: $2,378.0M

public policy; environmental and natural resource law and policy; international law; in-house clinical education; the empirical study of law. The school will also begin the process of reclassifying its library system in order to participate in on-line databases and integrate with the University Library system.

Dean of Research

The independent labs and other research units and programs reporting to the Vice Provost and Dean of Research and Graduate Policy project a $2.2 million surplus in 2002/03 on expected consolidated revenues of $135.2 million. This surplus is generated fairly evenly across designated, restricted expendable, and endowment funds. While we anticipate incremental expenses associated with new programs, centers and activities in 2002/03, revenues from affiliate programs and patent income are also expected to increase. In addition, as in 2001/02, we project an increase in Stanford Graduate Fellowship endowment income from matching funds.

Graduate School of Business

The Graduate School of Business (GSB) projects a planned deficit of about $6.9 million. The deficit will be funded by using school reserves and other accumulated funds that provide the Dean with support for critical innovative and competitive investments.

The 2002/03 proposed budget assumes investments in faculty driven research and course development initiatives, technology infrastructure to support teaching, research and business processes, electronically mediated learning (including joint efforts with Harvard Business School), and new programs for alumni lifelong learning. The 2002/03 capital budget provides for modest renovations to utilize existing space more effectively, planned mechanical system upgrades in the older, core GSB South Building and upgrades in classroom technologies.

Over the next three-years, the expectation is that operating expenses will remain relatively flat while revenues are projected to increase through executive education programs, electronically mediated learning and continued fundraising initiatives.

School of Medicine

In 2002/03 the school is continuing its program investments resulting in a consolidated budget that shows significant growth in expenses and revenue. The consolidated plan projects revenues and transfers of $709.2 million (including professional services), and total expenses of $708.1 million. The budget assumes an 8.5% increase in revenues and transfers and a 9.1% increase in expenses over 2001/02.

Revenue Growth: The increase in revenues, before transfers, over the 2001/02 consolidated plan is 7.2%. It is related to continuing refinement of designated and restricted income forecasting, more complete tracking of clinical income and continuing growth in sponsored projects. Year-end projections for 2001/02 show sponsored activities almost 14% higher than year-end 2000/01, and the school's 2002/03 consolidated plan anticipates an additional increase of almost 5%.

Expense Growth: The school expects to recruit approximately 21 tenure line faculty and 26 medical center line faculty during 2002/03. The expenses related to all faculty growth, including 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 98% of the anticipated increase in expenses in the 2002/03 consolidated plan.

Transfers to Plant and Endowment: The 2002/03 consolidated plan reflects one of the impacts of the decision not to pursue the planned renovation of portions of the E.D. Stone Buildings. A number of planned maintenance activities were deferred in order to accommodate the renovation. Since the renovation will not go forward, approximately $4 million per year for the next four to five years will be required to deal with these deferred items. This is in addition to the ongoing planned maintenance of approximately $2 million required each year for the rest of the buildings. Transfers to endowment have been made in recent years by clinical departments with surpluses and 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 2002/03 although in reduced amounts.

Vice Provost for Undergraduate Education

The Vice Provost for Undergraduate Education (VPUE) began implementing substantial undergraduate education reforms in 1994/95. These reforms have been funded through a variety of one-time funds, with the long-term goal of permanent funding through base general funds increments and new endowment gifts.

While base funding for the VPUE has increased through endowment gifts from the Campaign for Undergraduate Education and through base general funds increments, there is still a structural gap between the ongoing cost of the undergraduate programs and base permanent funding.

The VPUE continues to rely on one-time expendable and general funds to close the gap in its budget. In 2002/03 one-time funds constitute a full 40% of total forecast expenditures. This reliance on term funding creates a precarious financial backdrop that is exacerbated by the unpredictable revenue stream from the Campaign for Undergraduate Education and the 5% base general funds reduction imposed in 2002/03.

In order to achieve the general funds reduction and also nourish limited innovation in areas of highest priority, such as the new writing requirement in the Program in Writing and Rhetoric, the VPUE budget plan reduces expenditures by $741,000. This amount exceeds the 5% target of $529,000, thereby permitting the reallocation of funds internally to support new initiatives. The VPUE budget plan also relies on its modest accumulated reserves, which are projected to decline by 15%, to close the unit's projected deficit of $1.3 million. While this short-term financial context presents significant challenges, long-term forecasts project that by the conclusion of the Campaign, the VPUE will have permanent endowment and general funds support for its consolidated budget.

Stanford University Libraries/Academic Information Resources

SUL/AIR, like other Stanford units, took an approximate 5% cut in its general funds allocation for 2002/03. The cut will be taken primarily from the personnel budget and the equipment, maintenance and service budget. There will be a reduction in the size of the library materials budget too. Cuts in the personnel budget have been accomplished by leaving about 25 staff positions vacant. Nevertheless, certain senior level positions will be jettisoned. However, SUL/AIR has taken steps to ensure that the range of staff expertise and experience necessary to run the organization and perform in reduced forms its many functions and services. Books and serials will be coming to Stanford in reduced numbers in 2002/03 and beyond and when they get here, they will be processed more slowly. SUL/AIR will also move to a longer replacement cycle for computers and related technologies, both for public and for staff use. There will be less work done in minor capital projects in the libraries, and all discretionary spending will come under increased scrutiny.

Vice Provost for Student Affairs

Student Affairs is funded largely (approximately 70%) by general funds, with most of the rest of the funding accounted for by revenues and fees related to student health insurance, endowment income and gifts to the Haas Center, and fees for such activities as new student orientation. The residential education program is funded almost entirely by room rent and is accounted for in Residential and Dining Enterprises rather than in the Student Affairs consolidated budget. Student Affairs plans to run a modest deficit of $222,000 on revenues and transfers of $24.5 million.

During 2001/02, Student Affairs will use about $3.7 million of designated reserves, accumulated over the last several years, to fund the portion of the cost of construction of the new Vaden Health Services building not funded by gifts. It will also draw on significant gifts made in 2000/01 to support the Disability Resource Center and the Native American Cultural Center.

The new Vice Provost for Student Affairs, arrived at Stanford in early December. Over the next year, he expects to work with the division's deans and directors to review programs and operations, to establish a comprehensive strategic plan for the division, and to identify future funding needs. In the meantime, the division will make a number of general funds reductions that minimize impact on programs and services to students: selective fee increases, belt-tightening and staffing consolidations, and returning funds previously allocated for costs expected to end this year. Unrestricted reserves will be used again in 2002/03 to support the additional staff for increases in disability and judicial affairs caseloads and for programs for parents of students, with a net use of about $222,000 in reserves. The comprehensive strategic planning process will include a proposal for a longer-term funding strategy.

The consolidated forecast includes additional base general funds support provided in 2002/03 for increased staffing in Counseling and Psychological Services, to serve the increase in student visits evident over the last several years; for additional support for health service costs in excess of standard inflation; and for part of the cost of reorganization of the Registrar's Office. One-time commitments to program funds for the community centers and to graduate student programs have been renewed for another year, and the President's Fund and Stanford Fund continue to support computer clusters in the community centers and a variety of programs supporting student activities. Financial commitments to support classroom technology were also renewed, and the number of classrooms with standard technology support will increase by fifteen when the seminar rooms in Wallenberg Hall open in September 2002.

CONSOLIDATED BUDGET FORECAST, 2002/03–2006/07

Stanford's financial forecast for the next five years shows modest surpluses in the Consolidated Budget for Operations. The forecast, which is displayed in the table below, was built using a top-down approach based on a set of key assumptions. (These assumptions are used solely for the purposes of necessary forecasting and do not represent decisions regarding specific planning parameters; those specific decisions will be made in the future based on then-current facts and circumstances, and may be higher or lower.) Tuition is forecast to grow by 4.0% annually beginning in 2003/04, a slower rate of growth than we are budgeting for 2002/03 or our actual rates of growth since 1998/99. Sponsored research is expected to grow between 4.0% and 5.0% a year, assuming a projected indirect cost rate of 56% in 2003/04 and 57% in subsequent years. Total return on the endowment is projected to achieve 9.25% in each year of the forecast period. Other income sources are projected to realize inflationary increases.

Key assumptions for expense growth include salary program growth of 3.5%, academic head count of 0.75%, and staff headcount growth of 1.0% annually. Non-salary expense is projected to increase at an inflationary rate over the forecast period.

CONSOLIDATED BUDGET FORECAST, 2002/03 – 2006/07

[IN MILLIONS OF DOLLARS]

	Projected	Budget	Forecast			
	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
Revenues and Other Additions						
Student Income	320.0	337.6	352.8	369.2	384.5	398.8
Sponsored Research Support	806.2	827.7	863.2	900.4	936.7	974.5
Health Care Services	170.4	187.9	194.3	203.4	213.0	223.1
Expendable Gifts in Support of Operations	130.0	140.0	144.1	148.4	152.8	157.3
Investment Income	462.4	489.7	516.0	543.5	574.5	608.9
Other Income	236.5	254.2	263.1	272.3	281.9	291.9
Net Assets Released from Restrictions	50.0	50.0	50.0	50.0	50.0	50.0
Total Revenues	2,175.5	2,287.1	2,383.5	2,487.3	2,593.4	2,704.5
Transfers						
Additions to Endowed Equity	(40.0)	(40.0)	(40.0)	(40.0)	(40.0)	(40.0)
Transfers to Plant/Student Loan	(65.7)	(67.1)	(69.0)	(70.7)	(72.8)	(75.0)
Total Transfers	(105.7)	(107.1)	(109.0)	(110.7)	(112.8)	(115.0)
Total Revenues after Transfers	2,069.8	2,180.0	2,274.5	2,376.6	2,480.6	2,589.5
Expenses						
Academic Salaries and Benefits	444.2	465.9	489.6	511.6	535.4	560.2
Staff Salaries and Benefits	631.2	667.5	704.7	739.9	776.1	813.5
SLAC	219.8	219.9	226.5	233.3	240.3	247.5
Other Operating Expenses	746.4	780.8	818.5	858.4	894.9	928.7
Total Expenses	2,041.6	2,134.1	2,239.2	2,343.2	2,446.8	2,549.9
Surplus / (Deficit)	28.2	45.9	35.3	33.4	33.8	39.6

GENERAL FUNDS BUDGET FORECAST, 2002/03 – 2006/07 (EXCLUDES FORMULA AREAS)

[IN MILLIONS OF DOLLARS]

	Base	Budget	Forecast			
	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
Revenue						
Tuition	283.5	297.1	309.0	321.4	334.2	347.6
Indirect Cost Recovery	76.5	81.4	85.6	90.1	93.2	96.5
Unrestricted Endowment	88.3	89.5	93.2	96.1	98.0	101.4
Other Investment Income	40.4	38.6	40.1	41.7	43.4	45.1
Gifts/Other	20.8	25.4	25.7	26.1	26.6	27.1
Total Revenue	509.5	532.0	553.6	575.3	595.4	617.6
Total Transfers	(24.5)	(24.6)	(28.0)	(31.3)	(33.5)	(34.3)
Total Revenue and Transfers	485.0	507.4	525.6	544.0	561.9	583.3
Expenses						
Ongoing Base	485.0	507.0	524.8	555.9	581.6	608.2
Incremental Additions		16.7	12.9	5.9	6.6	5.0
Reductions		(16.3)				
Total Expenses	485.0	507.4	537.7	561.8	588.2	613.2
Surplus/(Deficit)			(12.1)	(17.8)	(26.3)	(29.9)

While the outlook for the Consolidated Budget appears strong, the general funds component of the budget continues to show shortfalls over the next five years, using the assumptions described above. Moreover, the general funds budget includes only minimal funding for new program initiatives. The details of the general funds forecast are shown in the table above. We fully expect to address these shortfalls in the budgeting process in future years. It is likely that further budget reductions will be required in order to close the gap and provide funds to be reallocated to new programs and initiatives.

IMPACT OF THE CAPITAL BUDGET ON THE CONSOLIDATED BUDGET FOR OPERATIONS

The 2002/03 Capital Budget calls for $266 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 $10.2 million in incremental internal debt service for those projects that will be coming on-line in 2002/03 or which had less than a full year of debt service incurred in 2001/02. Of this total, $3.3 million will be borne by the unrestricted (general funds and designated funds) portion of the Consolidated Budget. The second is $2.9 million for the incremental operations, maintenance, and utilities costs required to run those facilities, $2.2 million of which will be funded by general funds. The details of the Capital Budget for 2002/03 are included in Section 3 of this document.

PROJECTED STATEMENT OF ACTIVITIES

In order to provide a clear linkage between the Consolidated Budget for Operations and the financial reports in the University's Annual Report, we include here a projected 2002/03 Statement of Activities, shown on page 23, 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.

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.[1]

Comparison of Consolidated Budget and Consolidated Statement of Activities for Unrestricted Net Assets, 2002/03

[in millions of dollars]

Statement of Activities: 2000/01 Actuals	Statement of Activities: 2001/02 June 2001 Budget	Statement of Activities: 2001/02 Projected Year-End		Fiscal Year 2002/03: Projected Consolidated Budget	Fiscal Year 2002/03: Adjustments	Fiscal Year 2002/03: Projected Statement of Activities
			Revenues and Other Additions			
			Student Income:			
161.2	171.8	175.0	Undergraduate Programs	181.8		181.8
157.2	163.5	166.9	Graduate Programs	174.6		174.6
73.0	75.3	80.2	Room and Board	90.0		90.0
(91.7)	(104.5)	(102.0)	Student Financial Aid	(108.8)		(108.8)
299.7	306.1	320.1	Total Student Income	337.6		337.6
			Sponsored Research Support:			
400.3	422.1	452.3	Direct Costs—University	472.7		472.7
205.5	208.5	219.8	Direct Costs—SLAC	219.9		219.9
121.7	127.2	134.1	Indirect Costs	135.1		135.1
727.5	757.8	806.2	Total Sponsored Research Support	827.7		827.7
163.3	164.3	170.4	Health Care Services	187.9		187.9
125.3	120.0	130.0	Expendable Gifts in Support of Operations	140.0		140.0
			Investment Income:			
354.4	407.1	392.7	Endowment Income	403.6		403.6
65.4	132.0	74.7	Other Investment Income	86.1		86.1
419.8	539.1	467.4	Total Investment Income	489.7		489.7
232.0	224.4	236.6	Special Program Fees and Other Income	254.2		254.2
51.0	40.0	50.0	Net Assets Released from Restrictions	50.0		50.0
2,018.6	2,151.7	2,180.7	Total Revenues	2,287.1		2,287.1
			Transfers			
			Additions to Funds Functioning as Endowment[a]	(40.0)	40.0	
			Transfer to Plant/Student Loan[b]	(67.1)	67.1	
2,018.6	2,151.7	2,180.7	Total Revenues and Transfers	2,180.0	107.1	2,287.1
			Expenses			
409.5	474.5	444.2	Academic Salaries and Benefits	465.9		465.9
571.9	586.2	631.2	Staff Salaries and Benefits	667.5		667.5
143.8	161.9	175.0	Depreciation[c]		194.8	194.8
205.5	208.5	219.8	SLAC	219.9		219.9
628.5	592.1	663.6	Other Operating Expenses[d]	780.8	(92.4)	688.4
1,959.2	2,023.2	2,133.8	Total Expenses	2,134.1	102.4	2,236.5
59.4	128.5	46.9	Excess of Revenues Over Expenses	45.9	4.7	50.6

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 (lettering below, a-d, refers to line items on page 23):

1. Adjustments to move from current funds[2] only to all types of funds:

a) 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. Transfers between current and other funds are not specifically identified in the Statement of Activities. However, these amounts are included as part of the surplus in the Financial Statements.

b) Transfer to Plant/Student Loan: $67.1 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:

c) Depreciation: on all capital assets is projected to be $194.8 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 $194.8 million of depreciation in the Statement of Activities.

d) Equipment Expenditures: Of the total capital asset additions, approximately $92.4 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 $92.4 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 $4.7 million, from a $45.9 million surplus in the Consolidated Budget projection to a $50.6 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 23.

[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, and as such, they are held for other specific purposes.