STANFORD UNIVERSITY
BUDGET PLAN
2006/07

This Budget Plan was approved by the Stanford University Board of Trustees June 15, 2006. Distribution of this document is made in the interest of greater understanding of the University's Budget and the processes through which it is annually determined.

This publication can also be found at:
http://www.stanford.edu/dept/pres-provost/budget/plans/plan07.html

SECTION 1

FINANCIAL OVERVIEW

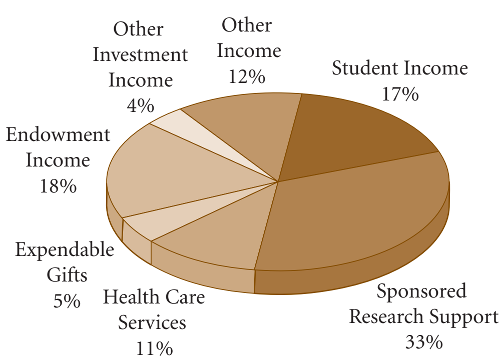
In this section we will review the details of the 2006/07 Consolidated Budget for Operations, discuss the impact of the Capital Budget on the Consolidated Budget, and present a forecasted Statement of Activities.

CONSOLIDATED BUDGET FOR OPERATIONS

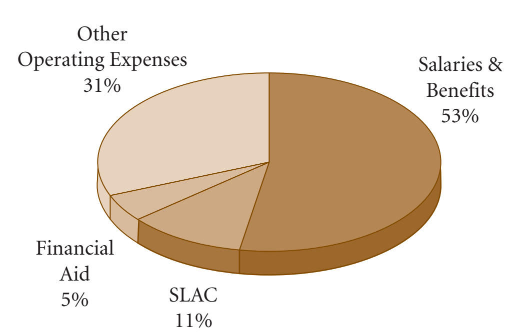
The Consolidated Budget for Operations provides a management oriented overview of all non-capital revenues and expenditures for Stanford University in the fiscal year. It is based on forecasts from the schools and the administrative areas. These forecasts are then merged with the general funds budget forecast and adjusted by the University Budget Office for consistency.

The Consolidated Budget is shown on a modified cash basis and reflects the legal restrictions of fund accounting. Unlike the Statement of Activities in the Annual Report, which is presented in accordance with Generally Accepted Accounting Principles (GAAP), the Consolidated Budget for Operations more closely reflects the uses and movements of funds as managed internally by schools and departments. It reflects capital equipment expenditures (which reduce available fund balances) rather than reflecting only the current year's depreciation charge. Also, it reflects benefits as they are charged through the benefits burden rate rather than the actual payments to providers outside the university. The Consolidated Budget shows only those revenues and expenses available for current operations. It does not include plant funds, student loan funds, or endowment principal funds, although it does reflect endowment payout. The table on the next page shows the projected consolidated revenues and expenses for 2006/07. For comparison purposes, this table also shows the actual revenues and expenses for 2004/05 and both the budget and the year-end projections for the current fiscal year, 2005/06. In addition, definitions of key terms are provided on page 3.

2006/07 Consolidated Revenues: $3,191.1M [1]



2006/07 Consolidated Expenses: $3,066.4M



[1] Net Revenues after Transfers: $3,129.3M

Consolidated Budget for Operations, 2006/07

[in millions of dollars]

2004/05 Actuals	2005/06 Budget June 2005	2005/06 Projected Actuals		General Funds	Designated	Restricted	Grants and Contracts	Auxiliary & Service Center Activities	Total
			Revenues and Other Additions						
			Student Income:						
197.8	213.2	212.4	Undergraduate Programs	224.9					224.9
204.3	206.3	210.0	Graduate Programs	220.1					220.1
90.9	93.8	95.7	Room and Board					98.8	98.8
493.0	513.3	518.1	Total Student Income	445.0				98.8	543.8
			Sponsored Research Support:						
563.6	587.7	552.3	Direct Costs--University				541.3		541.3
237.3	318.0	295.0	Direct Costs--SLAC				345.4		345.4
172.2	180.4	172.2	Indirect Costs	175.6					175.6
973.1	1,086.1	1,019.5	Total Sponsored Research Support	175.6			886.7		1,062.3
282.1	295.4	322.3	Health Care Services	15.6	289.2	4.7		44.5	354.0
143.9	130.0	145.0	Current Year Gifts in Support of Operations	2.0		150.0			152.0
			Investment Income:						
451.9	492.6	523.6	Endowment Income	111.5		474.3			585.8
76.7	91.6	88.3	Other Investment Income	47.0	61.2	12.2	0.3		120.7
528.6	584.2	611.9	Total Investment Income	158.5	61.2	486.5	0.3		706.5
291.9	263.4	285.6	Special Program Fees and Other Income	12.6	171.6	0.9	0.8	111.6	297.5
73.9	50.0	75.0	Net Assets Released from Restrictions			75.0			75.0
2,786.5	**2,922.4**	**2,977.4**	**Total Revenues**	**809.3**	**522.0**	**717.1**	**887.8**	**254.9**	**3,191.1**
			Expenses						
1,397.3	1,474.4	1,509.7	Salaries and Benefits	391.9	422.8	297.3	298.7	198.0	1,608.7
237.3	318.0	295.0	SLAC				345.4		345.4
136.9	142.0	143.0	Financial Aid	18.9	2.4	116.3	15.1		152.7
864.8	888.7	920.2	Other Operating Expenses	210.0	160.3	133.5	213.5	242.3	959.6
2,636.3	**2,823.1**	**2,867.9**	**Total Expenses**	**620.8**	**585.5**	**547.1**	**872.7**	**440.3**	**3,066.4**
150.2	**99.3**	**109.5**	**Revenues less Expenses**	**188.5**	**(63.5)**	**170.0**	**15.1**	**(185.4)**	**124.7**
			Transfers						
(107.9)	(65.1)	(81.7)	Transfers to Assets (Plant, Endowment, etc.)	(26.5)	(26.9)	(35.0)		2.8	(85.6)
16.6	15.0	15.5	Net Internal Revenue / Expense	(85.3)	(9.7)	(38.5)	(15.1)	163.6	15.0
34.0		17.3	Operating Transfers	(64.5)	88.3	(29.8)		14.8	8.8
(57.3)	**(50.1)**	**(48.9)**	**Total Transfers**	**(176.3)**	**51.7**	**(103.3)**	**(15.1)**	**181.2**	**(61.8)**
92.9	**49.2**	**60.6**	**Revenues less Expenses and Transfers**	**12.2**	**(11.8)**	**66.7**		**(4.2)**	**62.9**
			Beginning Operating Equity	68.0	728.7	654.5	(3.2)	5.0	**1,453.0**
			Ending Operating Equity	80.2	716.9	721.2	(3.2)	0.8	**1,515.9**

The 2006/07 Consolidated Budget for Operations shows total revenues of $3,191.1 million and expenses of $3,066.4 million, resulting in excess revenues over expenses of $124.7 million. However, after estimated transfers, primarily to plant funds but also converting expendable funds to funds functioning as endowment, the Consolidated Budget shows a surplus of $62.9 million.

Total revenues in 2006/07 are projected to increase 7.2% over the expected 2005/06 levels, somewhat faster than the 6.8% expected growth rate for the 2005/06 levels over the 2004/05 actuals. The revenue growth in 2006/07 is once again aided by very strong growth in endowment income, other investment income, health care services, and SLAC. Total expenses are expected to grow by 6.9% over the estimated year-end results for 2005/06.

To explain 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); 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, student income is expected to increase by 5.0% in 2006/07.

Tuition – The general tuition rate increase for 2006/07, which was approved by the Trustees in February, is 5.75%, a notable increase over the rate increases during the past five years. Although tuition represents only about 14% of Stanford's total revenue, it is our largest source of unrestricted income. In the budgeting process for 2006/07 there were compelling and significant needs for incremental unrestricted funding for compliance costs, systems, enhanced student and library services, as well as important academic priorities. Moreover, Stanford has increased its prices more modestly than its competitors in recent years, and our tuition rate is relatively low when compared to the highly selective private colleges and universities that comprise the Consortium

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 endowment income 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 & Dining Enterprises and Intercollegiate Athletics that generate income and charge directly for their services. These entities usually pay the university for central services provided.

Service Centers: Entities that provide services primarily for internal clients for which they charge rates to recover expenses.

Net Assets Released from Restrictions: Under GAAP, gifts and pledges that contain specific donor restrictions preventing their spending in the current fiscal year are classified as "temporarily restricted," and are not included in the Consolidated Budget for Operations. When the restrictions are released, these funds become available for use and are included as part of the Consolidated Budget on the line Net Assets Released from Restrictions. These funds include cash payments on prior year pledges and funds transferred from pending funds to gift funds.

Financial Aid: Includes expenses for undergraduate and graduate student aid. Student stipends and tuition allowance are not considered to be financial aid and are included in other lines 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. Principal formula units include the Graduate School of Business, the School of Medicine, and the Hoover Institution.

on Financing Higher Education (COFHE). While the Stanford tuition increase for 2006/07 will provide additional funding for some of the most compelling budget needs, it is likely that, based on publicly announced tuition increases, we will still be below the COFHE median for tuition. This increase applies to the undergraduate tuition rate, the general graduate rate, and the full-time tuition rates for graduate students in the schools of Engineering and Law. The School of Medicine will increase its tuition by 4.0%, and the Graduate School of Business (GSB) will increase the rate for entering MBA students by 4.9%. Last year the GSB adopted a new tuition structure in which entering MBA students pay the same tuition in each of their two years starting with the class which entered in the fall of 2005. As a result, second year MBA students will see no increase in their tuition rate in 2006/07.

Tuition revenue from undergraduate programs is expected to grow 5.9%, slightly higher than the approved increase in the tuition rate due to a very modest increase in the total number of undergraduate students. Graduate program revenue is expected to increase by 4.8%, which reflects the lower increases adopted for the School of Medicine and the Graduate School of Business.

Room and Board – In February, the Trustees approved a combined room and board rate increase of 4.4% for 2006/07. The room rate will increase by 5.6% and the board rate by 3.0%. The 2006/07 recommended increases in room and board rates were developed under the following Residential and Dining Enterprises (R&DE) guiding principles and operational goals: to sustain operations with a reserve-to-expense ratio of at least 2.0%; to continue to build an asset renewal/preservation program that will annually fund building infrastructure projects and improvements; to complete life safety and seismic projects as part of the ongoing capital improvement program; to rigorously manage debt obligations; to provide programmatic funding to support graduate and undergraduate residential education programs and residential computing initiatives; to offer simplified meal plan options; and to ensure that students receive high quality services that are provided in a fiscally responsible manner. Overall room and board revenue will grow by only 3.2%, despite the larger approved increase in room and board rates. This is due primarily to a continued reduction in revenue associated with off-campus subsidies for graduate student housing.

Sponsored Research Support and Indirect Cost Recovery

The budget for total sponsored research support is expected to be $1,062.3 million in 2006/07, or one-third 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 ($541.3 million for university research and $345.4 million for SLAC), as well as reimbursement for indirect costs ($175.6 million) incurred by the university in support of sponsored activities.

After enjoying a long stretch of very strong research growth, Stanford is facing the sobering prospect that the recent flattening or declining budgets for federal agencies that fund research activities may be impacting research volume on campus. Most dramatically, the National Institutes of Health (NIH), whose budget doubled from 1997/98 to 2002/03, has seen budget declines over the past two years. The National Science Foundation (NSF) budget also decreased from 2002/03 to 2005/06, but is expected to have a 7.9% increase in 2006/07, the first year of a planned ten-year doubling effort. It is worth noting, however, that a prior plan to double the NSF budget from 2001/02 to 2006/07 failed to materialize.

With the flow of federal research dollars stagnating, as has been the case over the past few years, it is unclear how directly this correlates to the volume of funding received by Stanford's world-class researchers. What is clear is that over the final half of 2004/05 through the first half of 2005/06, the rate of growth of research at Stanford has been at its lowest level in recent history.

Non-SLAC direct research activity is projected to decline 2.0% in both 2005/06 and 2006/07. This is in stark contrast to the over 8% average annual growth in research volume from 1999/00 to 2004/05. The Medical School is projecting a modest 2.1% growth in direct research for 2006/07, but the rest of the university is projected to decline by about 6%, primarily due to the completion of several very large projects (mostly in subcontract activity) at the Hansen Experimental Physics Laboratory (HEPL), as discussed in the insert on the next page. Aside from HEPL, non-medical direct research is expected to grow 2.0%, roughly the same rate as medical research.

The negotiated predetermined indirect cost rate is anticipated to remain at 56% for 2006/07, although negotiations with the government will not be concluded

HEPL and Fluctuations in Research Volume at Stanford

In 2004/05, Stanford had $736 million of (non-SLAC) research activity, including indirect costs. While thousands of individual research projects contributed to this total volume, four very large projects at the Hansen Experimental Physics Laboratory (HEPL) comprised about one-tenth of the university total. University research over the past several years has been buoyed by these HEPL projects. Now, as they are winding down, we see the opposite effect.

HEPL forecasts a drop of $24 million in total research volume for 2006/07 due to tightening NASA budgets and the phasing down of the four projects; Gravity Probe B (GP-B), which is coming to a close in 2005/06; the Gamma Large Area Space Telescope (GLAST) project, for which the instrument fabrication phase will be complete in 2006 and the instrument will launch in 2007; the Helioseismic and Magnetic Imager for Solar Dynamics Observatory (HMI), whose instrument fabrication is also nearing completion, with a target launch date in 2008; and the Gravitational Reference Sensor (GRS) project, which was canceled. It is important to note that while this represents a significant decrease in overall research volume as shown in the Consolidated Budget, nearly all of this decline will occur in the off-campus subcontract components of these projects. Thus, the on-campus impact will be minimal.

HEPL faculty will continue to propose projects to NASA and also to prepare large project proposals to alternate funding agencies such as NSF and the Department of Energy.

until this summer. While direct research activity is projected to decrease by 2.0% next year, this decrease is primarily due to a significant drop in subcontracts that do not draw indirect cost recovery. Thus, we project a slight increase in indirect cost recovery for 2006/07.

The Department of Energy (DOE) provides most of the funding for SLAC. Total direct costs for SLAC are expected to increase by about $50 million from $295.0 million in 2005/06 to $345.4 million in 2006/07, including $105.0 million for the ongoing construction of the Linac Coherent Light Source (LCLS) program, which will be the world's first x-ray free electron laser.

Since the inception of SLAC, funding for the operation of the SLAC linac, which is currently being used as an injector for the PEP-II B Factory and other experiments, has been the responsibility of the DOE Office of High Energy Physics (DOE-HEP). 2006/07 will be the second year of a four-year transition of the programmatic ownership for SLAC linac operations from DOE-HEP to the DOE Office of Basic Energy Sciences (DOE-BES). As a result of the transition, beginning in 2006/07 DOE-BES will be providing the majority of the funding to SLAC.

Health Care Services

Health Care Services income is budgeted to be $354.0 million in 2006/07, a 9.8% increase over the projection for 2005/06. It includes $269.1 million paid to the Medical School by Stanford Hospital and Clinics and Lucile Packard Children's Hospital related to physician services of its faculty, a 11.1% increase over the expected 2005/06 level. It also includes revenue of $10.3 million from external healthcare entities like the Palo Alto Veteran's Administration and the Santa Clara Valley Medical Center, and $25.5 million in the Blood Center. Other components include $5.5 million of hospital payments to the Medical School for rent, use of the library, and research support. The hospitals also pay the university for a number of university provided services, including communications services, legal services, operations and maintenance, and utilities, totaling $43.6 million.

Expendable Gifts

Expendable gift income in support of operations is expected to total $152.0 million in 2006/07, about a 5% increase over the anticipated level for 2005/06. Expendable gifts are those that are immediately available for purposes specified by the donor. While total gift receipts are expected to be very strong as Stanford increases its efforts to raise funds for several large interdisciplinary programs, much of the total raised by the Office of Development is not immediately available and is not reflected on this income line. In particular, expendable gift income in support of operations does not include gifts to endowment principal, gifts for capital projects, gifts pending designation, or non-government grants. The estimate for 2006/07 represents the university's highest expendable gifts total ever.

Investment Income

Endowment Income – Endowment payout to operations in 2006/07 is expected to be $585.8 million, a 12.0% increase over 2005/06. The merged endowment pool experienced another year of strong growth in its market value and is the driver for the strong increase in endowment payout.

The estimate of endowment payout from the merged endowment pool is a product of a forecast of the endowment market value during 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 smoothed payout rate trends up when the market declines and down when the market value increases. The target payout rate is 5.0%, and the smoothed payout rate projected for 2006/07 is 4.35%.

Total endowment income includes payout from funds invested in the merged endowment pool as well as specifically invested endowments and rental income from the Stanford Research Park and other endowed lands. Total endowment income is also impacted by new gifts to endowment. Gifts to endowment are expected to reach new highs of $295 million in the current year and $325 million in 2006/07.

Of the total endowment income, $111.5 million, or 19.1%, is unrestricted. The unrestricted endowment income includes payout from unrestricted merged endowment funds and most of the income generated from Stanford endowed lands. This unrestricted portion is expected to increase by only 3.0% over the 2005/06 amount, substantially slower than the growth expected in total endowment income. Vacancies, turnover, and lower rents are expected to produce a $5 million decrease in revenue from the Stanford Research Park.

Other Investment Income – Other investment income consists of four main sources of income: the payout on the expendable funds pool (EFP), income earned on unexpended endowment payout separately invested in the endowment income funds pool (EIFP), income on the Stanford Housing Assistance Center portfolio, and investment income supporting the Stanford Management Company. The largest of these sources is the EFP, the investment pool for non-endowment funds. The EFP comprises the university's general operating funds, non-government grants, expendable gifts, and designated funds belonging to various schools and departments, as well as student loan funds, plant funds, and other short-term funds. This pool of funds represents a significant component of university investment capital, with a current average balance of approximately $1.5 billion. The EFP is invested approximately 87.5% in the merged endowment pool and 12.5% in money market instruments. An additional $267 million in unspent endowment payout, invested in the EIFP, is invested entirely in money market instruments.

Total other investment income is budgeted to increase substantially from $88.3 million in 2005/06 to $120.7 million in 2006/07, a 36.6% increase. There are several contributing factors to this significant increase. The first is the recently approved revision to the EFP payout policy adopted at the April 2006 Board of Trustees meeting. The revision calls for an increase from 4.5% to 5.5% in the guaranteed payout rate on the majority of funds held in the EFP. This group of funds receives no return directly into the funds themselves; rather, a return of 5.5% is paid on the prior year's average balance of these funds to support the unrestricted operations of the Graduate School of Business, the School of Medicine, and the non-formula general funds. A second change in the EFP payout policy eliminates the smoothing of the guaranteed payout, which has a significant effect on the growth in other investment income in 2006/07, because the average balance of the EFP has increased substantially due to the inclusion of the Google proceeds received through the Office of Technology Licensing.

Special Program Fees and Other Income

This category includes the revenues from several different types of activities, such as technology licensing income, conference and symposium revenues, fees from the executive education programs in the Graduate School of Business and the Stanford Center for Professional Development, fees from travel/study programs, and revenues from corporate affiliates, mostly in the schools of Earth Sciences and Engineering.

Another major component of this category is the revenue from auxiliary activities, excluding student room and board fees. This includes revenues from conference activity, concessions, rent, and other operating income in Residential & Dining Enterprises, athletic event ticket sales and television income, HighWire Press, the University Press, Stanford West Apartments, and several other smaller auxiliaries.

Total special program fees and other income are budgeted at $297.5 million in 2006/07, an increase of 4.2% over the expected level in 2005/06.

Net Assets Released from Restrictions

This represents funds previously classified as temporarily restricted that will become available for spending as specific donor restrictions are satisfied. These include cash payments on pledges made in prior years and pending gifts whose designation has been determined. In 2006/07, we anticipate that schools and departments will be able to use $75.0 million of gifts and pledges received in previous years that had been classified as temporarily restricted.

Expenses

Salaries and Benefits

Total salaries and benefits are budgeted to be $1,608.7 million in 2006/07, a 6.6% increase over the projected amount for 2005/06. Included in this total are academic, staff, and bargaining unit salaries, as well as fringe benefits, tuition benefits for research and teaching assistants, and other non-salary compensation such as bonuses and incentive pay.

Salaries – The 2006/07 Budget Plan includes a competitive merit salary program for faculty and staff. The program also provides special market adjustment funding for those faculty and staff groups that are below their relevant markets. 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. For staff, the salary program is designed to target salaries in the mid-range of the local employment market.

The recommendation for faculty salary increases is based on a review of data supporting particular recommendations from each school, internal comparisons, comparisons with peer institutions using data that is publicly available, and consideration of available resources. Based on this analysis, the general salary program increase in 2006/07 for faculty salaries is 3.5%. Added to this will be targeted increases to address equity and retention issues. Total academic salary expenditures, which include faculty, clinical educators, lecturers, graduate research and teaching assistants, and other academic salaries, are projected to grow by 7.0% in 2006/07, driven by the base faculty salary program, the special market adjustment funding, and modest headcount growth.

Total staff salary expenditures are expected to increase by 5.5% as a result of increases in headcount and compensation comparable to those of the past several years. As in previous years, the approved staff salary program takes into consideration the financial condition of the university as well as the current labor market status. The approved salary program for 2006/07 is expected to allow the university to maintain its competitive position in the local market. The program authorizes base merit increases, an incremental allocation to address a combination of issues including equity with the local market and within Stanford as well as retention, targeted funding for specific job groups that lag the market by 10% or more, and non-base performance bonus/incentive programs. Taken together, the 2006/07 authorizations for central and local funding offer management substantial flexibility to reward top performers, to recognize differences in individual performance, and to address the documented cases where pay for specific jobs lags the overall market.

Fringe Benefits – The benefits rate for regular benefits-eligible employees, which covers most university employees and comprises most of Stanford's benefits costs, will decrease, from 30.5% in 2005/06 to 29.7% in 2006/07; although the proposed rate is roughly five points higher than the 2001/02 rate. The rates for postdoctoral affiliates and graduate research and teaching assistants will increase, while the rate for contingent employees will remain unchanged.

The decrease in the regular-benefits-eligible (RBE) rate is the result of a significant drop in the carry-forward from prior years. If the fringe rate charged during the year is insufficient to recover the actual costs, the under-recovery, known as the carry-forward, is added to a future rate, usually two years forward. However, due to substantial under-recovery of actual costs in both 2001/02 and 2002/03, we distributed each of those carry-forwards over three years. The third and last year of the 2001/02 carry-forward is a part of the current year's rate and drops out of the fringe rate in 2006/07. The total carry-forward included in the RBE rate for 2006/07 is $6.6 million, a drop of $9.4 million, resulting in a decrease of nearly one point on the rate.

The underlying rate, without the carry-forward, is projected to increase by only one-tenth of a point, because total costs are increasing at roughly the same rate as the salary and wage base. However, the university's expenses for employee health insurance continue to increase at an alarming rate. The cost of health insurance for active regular employees is projected to increase 18.3% in 2006/07 and add 0.8 points on the RBE rate. This increase is offset by a 0.7 point decrease in the cost of funding Stanford's retiree medical plan, due to the actuarial assumptions used in calculating the 2006/07 costs, primarily the assumption on how many employees will retire during the coming year. All other insurance programs together will contribute an increase of 0.3 points on the rate.

The benefits rate for post-doctoral research affiliates will increase substantially in the coming year, from 18.4% to 20.2%. This is primarily due to increased health insurance costs for post-docs, with smaller increases in workers' compensation and the other health and welfare benefits (dental, disability, vision, life) offered to post-docs. The rate for contingent (casual or temporary) employees will remain unchanged at 8.5%.

The rate for graduate teaching and research assistants will increase from 3.7% to 3.8%. This rate will continue to fund half the cost of Cardinal Care insurance for RAs and TAs with appointments of 25% or more, with a smaller contribution for appointments between 10% and 25%. The cost of Cardinal Care will increase in the coming year, by just under 10%. Other student salaries, such as pay for part-time clerical work during the school year, are not charged for benefits, and the students holding those jobs are not eligible for the university contribution toward the cost of Cardinal Care insurance.

Total costs in the benefits pool are budgeted to increase 3.1% from negotiated 2005/06 costs. If there were no carry-forward from prior years holding the rate down, the increase would be 6.2%. The total salary base on which benefits are charged is projected to grow by 5.8%.

The negotiated 2005/06 and the recommended 2006/07 fringe benefits rates are as follows:

Fringe Benefits Rates

	2005/06 Negotiated Budget	2006/07 Provisional Rates
Regular Benefits-Eligible Employees	30.5%	29.7%
Postdoctoral Research Affiliates	18.4%	20.2%
Casual/Temporary Employees	8.5%	8.5%
Graduate RAs and TAs	3.7%	3.8%
Other Students	0.0%	0.0%
Average Blended Rate	27.7%	26.9%
Tuition Grant Program Recovery Rate	1.45%	1.75%

The Tuition Grant Program (TGP) rate is charged separately against regular benefits-eligible salaries only. In order to comply with OMB Circular A-21, all government-sponsored accounts are exempt from the charge. Academic service centers are also exempt. The TGP rate will increase to 1.75% for 2006/07 as the overall cost of tuition grants have continued to outpace the growth in Stanford's salary base.

Financial Aid

Stanford expects to spend a total of $152.7 million on student financial aid for undergraduate and graduate students, $18.9 million of which will come from general funds. As the first table on the next page indicates, designated and restricted funds ($118.6 million) and grants and contracts ($15.2 million) will support the remainder. The total financial aid numbers are 6.8% above the projected total for 2005/06. This increase is driven by the approved increases in tuition rates for both undergraduate and graduate students and the high growth in endowment income, which will provide for additional athletic scholarships.

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 2006/07, Stanford students will receive $78.8 million in need-based scholarships, of which $66.0 million will be from Stanford resources. The remaining $12.8 million will come from government and outside awards. The following sources support Stanford's $66.0 million commitment:

- General funds will cover $10.6 million, virtually unchanged from 2005/06 and the lowest level of general funds support since 2001/02. This decrease is significant because we are introducing two important enhancements to our need-based aid program. Families with annual incomes of less that $45,000 will no longer be expected to contribute to the cost of tuition and room and board. Moreover, the amount of parental contribution for middle-income families will be cut in half. These two enhancements, which add $3.1 million in financial aid expense, were approved as part of the overall general funds allocation process. The total general funds required to cover need-based aid are flat, however, for two reasons. The first is that endowment income is growing substantially faster than the overall scholarship budget and continues to cover an increasing share of that budget, reaching

2006/07 Financial Aid and Other Graduate Student Support from Stanford Resources[1]

[in millions of dollars]

Projected 2005/06 Year-End		General Funds	Designated and Restricted	Grants & Contracts	Total
	Student Financial Aid				
66.6	Undergraduate	10.6	55.4	4.6	70.6
14.9	Undergraduate Athletic		16.1		16.1
61.5	Graduate	8.3	47.1	10.6	66.0
143.0	Total	18.9	118.6	15.2	152.7
	Other Graduate Student Support				
70.0	Stipends	7.9	37.0	28.0	72.9
51.0	Tuition Allowance	30.2	6.1	17.3	53.6
67.8	RA and TA Salaries	7.8	28.2	34.6	70.6
188.8	Total	45.9	71.3	79.9	197.1
331.8	Total Student Support	64.8	189.9	95.1	349.8

[1]Excludes postdoctoral salaries

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

[in millions of dollars]

Source of Aid	2001/02 Actuals	2002/03 Actuals	2003/04 Actuals	2004/05 Actuals	2005/06 Projected	2006/07 Budget
Expendable Gifts	0.6	1.0	1.2	1.9	0.9	0.9
Endowment Income	25.8	28.2	29.4	32.7	38.7	44.2
Stanford Fund/Presidential funds	9.3	9.5	10.9	9.5	9.7	10.3
General Funds	10.3	13.6	13.8	14.3	10.7	10.6
Subtotal Stanford Funded Scholarship Aid	46.1	52.2	55.3	58.4	59.9	66.0
Government and Outside Awards	12.3	12.4	14.0	13.8	13.3	12.8
Total Undergraduate Scholarship Aid	58.4	64.5	69.3	72.2	73.1	78.8
General Funds as a Share of Total Aid	18%	21%	20%	20%	15%	13%
General Funds and Stanford Fund as a Share of Total Aid	34%	36%	36%	33%	28%	27%
Endowment funds as a Share of Total Aid	44%	44%	42%	45%	53%	56%
Number of Students	2,663	2,803	2,896	2,870	2,830	2,750
Restricted and Stanford Fund	61.3%	59.8%	59.8%	61.1%	67.2%	70.3%

56% in 2006/07. The second reason for the stability in general funds is that the total number of students on aid is expected to decline somewhat from 2,830 in 2005/06 to 2,750 in 2006/07;

- Restricted income will provide $45.1 million; and
- The Stanford Fund will provide $10.3 million.

Stanford restricted funding, including endowment income and the Stanford Fund, will contribute slightly more than 70% of the total need-based scholarship budget, up from 67% in 2005/06, due to the tremendous success of the Campaign for Undergraduate Education and stellar endowment returns. A continuing area of concern is that federal and state sources of undergraduate assistance are declining in relation to our costs. Federal, state and other outside awards will total $12.8 million for need-based aid, down from a high of $14.0 million in 2003/04. As a fraction of the total budget, these sources will contribute 16.2% in 2006/07, down from 20.2% in 2003/04.

Athletic scholarships, which are not need-based, will be awarded to undergraduate students in the amount of $16.1 million, an increase that reflects the cost of tuition and several new scholarships.

The second table on the prior page shows the detail of undergraduate need-based scholarship aid. Schedules 6 and 7 in Appendix B provide supplemental information on undergraduate financial aid.

Graduate Aid – Stanford provides several kinds of financial support to graduate students expected to total $263.1 million in 2006/07. As the first table on the prior page indicates, this includes the tuition component of fellowships in the amount of $66.0 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 RA and TA salaries of $197.1 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 Salaries and Benefits line, and the stipend amount is in the Other Operating Expenses line of the Consolidated Budget for Operations on page 2.

The minimum rate for RA and TA salaries and stipends will increase by 4.0% in 2006/07; tuition allowance expense is expected to increase by 4.5%.

Other Operating Expenses

This expense category includes all non-salary expenditures in the Consolidated Budget for Operations except financial aid, which is detailed separately above. This category makes up nearly one-third of the total expenditures in the Consolidated Budget and is projected to increase by 4.3% to $959.6 million in 2006/07. The principal components include materials and supplies ($125 million, of which close to half are laboratory supplies), professional services ($86 million), other services ($39 million), maintenance and utilities for campus buildings ($151 million), internal debt service ($126 million), research subcontracts ($45 million), equipment purchases ($63 million) student stipends ($73 million) and travel ($45 million). Research subcontracts have decreased from $80 million in 2004/05 as Gravity Probe B and other major experiments in Hansen Experimental Physics Laboratory wind down.

Utilities and Maintenance – The total cost of utilities is expected to increase from $59 million in 2005/06 to $66 million in 2006/07, primarily due to a 36% increase in the cost of natural gas. Natural gas is used for chilled water and steam. As a result, the chilled water costs are expected to increase by 13% ($16.5 million) and steam costs by 24% ($20.0 million). The increase in natural gas was unexpected and was a result of the natural disasters in the fall of 2005 and fluctuating market conditions. Gas prices remain extremely volatile as the gas market has become more like a commodities market rife with opportunities for investor speculation.

Purchased electricity prices have stabilized and are expected to have slight increases into 2006/07 ($21 million). Domestic water prices from Hetch Hetchy are expected to increase 9% in 2006/07 ($4.6 million) over current costs, and lake water costs ($1.3 million) are expected to increase by 3% primarily related to an increase in the pump tax from the Santa Clara Valley Water District. Sewer prices from the City of Palo Alto are expected to increase 10% in 2006/07 ($2 million) and then about 5% in the following two years as they build capital and system improvements into their rates.

Maintenance and repair costs are budgeted at $85 million in 2006/07, a 3.9% increase over the current year's level. The facilities operations group within the Land and Buildings organization provides building maintenance and repair services to nearly 60% of the campus. The School of Medicine contracts with the hospital for most of these services. Residential & Dining Services provides the services internally. The budget for these services may be affected by the salary increases for the bargaining unit workers after a new three-year contract is negotiated later this summer. In addition to inflationary increases, the O&M budget will increase by $0.8 million with the addition of the completed Astrophysics building and renovations, and by $1.3 million in a continued effort to build an adequate planned maintenance reserve.

Internal Debt Service – The 2006/07 internal debt service is projected to be $128.3, a $4.6 million decrease over 2005/06. The year-over-year decrease is attributable to internal loans maturing and a one-time $10.4 million early principal repayment, offset by increases for the new Astrophysics building and the renovation of the Old Union. The university issues debt in the public markets to finance capital projects and programs. Internal loans are then applied to projects, which amortize the debt over the project life in equal installments (principal and interest). The budgeted interest rate used to calculate internal debt service is a blended rate of all external interest expense, bond issuance costs, and administrative costs, and is reset annually. The projected blended rate for 2006/07 is 5.74%, which is unchanged from the current year.

Transfers

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

- Transfers to Assets (Plant, Endowment, etc): This line includes transfers of expendable funds to both plant funds and student loan funds. It also includes the net of transfers from designated and restricted funds to funds functioning as endowment (FFE) and withdrawals from these endowment reserves. Of the total $85.6 million, $61.8 million is budgeted to be transferred to plant funds to be used for capital projects. We expect $21.7 million will be invested in FFE and an additional $2.1 million will move to the student loan division or agency funds.
- Net Internal Revenue/Expense: Internal revenue and internal expense are generated from those charges that are made between departments within the university for services provided through charge-out mechanisms. Communication services provided by Business Affairs-IT to university departments is one example of internal revenue and expense. Another is the charge that the Department of Project Manage-

The Role of the Infrastructure Charge

For more than ten years, Stanford has assessed a charge against some types of expenditures from restricted funds in an attempt to recover a portion of the infrastructure and administrative costs that the activities supported by these funds impose on the university. For the most part, general funds are the only source available to pay the infrastructure and administrative costs, and, over the past ten years, the growth of restricted and designated funds have outpaced the growth of general funds four to one, creating a significant general funds burden.

In October 2004, the Board of Trustees approved a revised infrastructure charge policy with several goals in mind: to generate additional general funds, to clarify and simplify the application of the charge, to reduce exceptions, and to return a portion of the funds to the schools and departments that generate the charge.

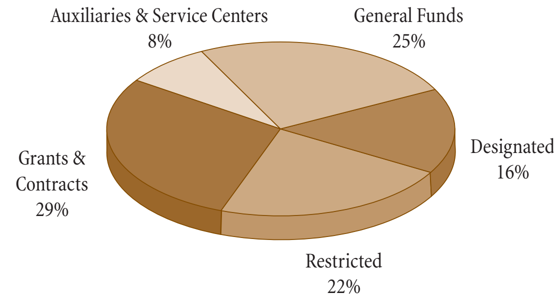
The new policy, which took effect on September 1, 2005, increases the infrastructure charge from 6% to 8% for both new and existing funds. For designated funds, the infrastructure charge is applied to all funds that are received from external sources. For restricted gifts and endowment funds, the infrastructure charge is applied at the time funds are expended or transferred. Endowment payout from funds that are restricted by the donor for faculty chairs, student aid, or undergraduate research is exempt from the infrastructure charge. Under the new policy, 25% of the revenue generated by the charge is returned to the school where it was generated; formula schools and auxiliaries retain the full amount of the charge.

We expect that revenue from the infrastructure charge will increase from $7.2 million in 2004/05 to roughly $35 million in 2005/06. The general funds portion of the infrastructure charge revenue will increase from $4.4 million in 2004/05 to about $15 million in the current year. In future years, we expect the revenue from the infrastructure charge to increase with the use of restricted funds throughout the university, approximately 9% in 2006/07.

ment (the group that manages construction projects on campus) allocates to capital projects that use their services. These charges contribute to the revenue and expense of individual departments and fund types but, ultimately, are netted against each other in the presentation of the Consolidated Budget to avoid double counting. There is, however, a net $15 million of internal revenue flowing into the Consolidated Budget, primarily from capital plant funds, that are outside the Consolidated Budget, into service centers and other funds within the Consolidated Budget.

- Other Transfers: These are transfers between fund types within the Consolidated Budget for Operations. They include the transfer of roughly $65 million of general funds to reserves or activities that are held primarily in designated funds. These include the transfer of $15 million from rental income from the Stanford endowed lands to a housing reserve, $11 million to the planned maintenance reserve, $11 million to a Provost reserve, $9 million to insurance reserves, $8 million for the Alumni Association, and $5 million for systems projects. The expenditures associated with these funds are reflected in the expense lines in the designated funds column. Ordinarily these transfers are made between fund types within the Consolidated Budget for Operations and net to zero. However, this line also includes $8.8 million for the academic grants that Stanford Hospital and Clinics (SHC) will transfer to the School of Medicine.

2006/07 Consolidated Revenues by Fund Type



The Consolidated Budget by Fund Type

General Funds

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 tuition, indirect cost recovery from sponsored activity, unrestricted endowment income, and income from the expendable funds pool. Every university unit receives general funds, which support both academic and administrative functions. Total general funds revenue is projected to be $809.3 million in 2006/07, of which $123.6 million flows to the formula schools per the negotiated formula arrangements.

The 2006/07 budget process began with a significant projected general funds surplus, marking the second consecutive year of strong general funds growth following a three year span of general funds shortfalls and painful budget cuts. This positive outlook was due, in large part, to the strong performance of the university endowment. For 2006/07, university budget units were not required to submit general funds reduction proposals. However, in order to practice continued fiscal diligence, the Provost directed all budget units to incorporate internal reallocations and other co-investments into their funding plans for new programs and initiatives. In addition, the academic units were asked to discuss the financial impact of the new general funds allocation methodology, now in its second year. About $9 million of general funds will flow into the academic units in 2006/07 as the result of this new methodology.

During the 2005/06 budget process, the Provost set aside funds as an unallocated base surplus to serve as a buffer against any unfavorable economic developments. As 2005/06 has progressed with continued strong financial results, these funds have been used to support one-time activities. For 2006/07 the unallocated surplus will be $12.2 million. These funds will be used both as a reserve and a resource for the myriad demands on general funds. In addition, due in part to the recent revision in the EFP payout policy, which was approved after the general funds allocations to the budget units were finalized, the Provost was able to double the level of the university reserve that funds one-time commitments. In recent years, the demand for such funds has far exceeded the $10.75 million of annual funding.

Throughout the winter, each budget unit met individually with the Budget Group, which comprises representatives from both faculty and administration, to discuss strategic plans, fund balances, and financial reports. In total, the units identified over $23 million in internal

Summary of 2006/07 Base General Funds Additions (Excludes Formula Units)

[in thousands of dollars]

	2005/06 Base GF Allocation	Price & Salary Inflation	Additions	2006/07 Base GF Allocation	2005/06 to 2006/07 Increase
School of Earth Sciences	3,930	182	250	4,362	11.0%
School of Education	10,561	525	175	11,261	6.6%
School of Engineering	46,280	2,350	842	49,472	6.9%
School of Humanities & Sciences	118,284	5,986	6,863	131,133	10.9%
School of Law	14,174	985	177	15,336	8.2%
Dean of Research	26,443	945	4,014	31,402	18.8%
Undergraduate Education	12,002	493	581	13,076	8.9%
Stanford University Libraries	39,921	1,311	992	42,224	5.8%
Total - Academic	271,595	12,777	13,894	298,266	9.8%
Office of Admission and Financial Aid	7,598	270	500	8,368	10.1%
Student Affairs	18,414	675	586	19,675	6.8%
Office of the President & Provost	12,732	446	340	13,518	6.2%
Vice President for Public Affairs	5,078	191	450	5,719	12.6%
Business Affairs[1]	44,487	1,210	1,659	47,356	6.4%
Business Affairs - Information Technology	46,536	1,256	3,594	51,386	10.4%
Development and Alumni Association	30,374	1,149	2,861	34,384	13.2%
Land & Buildings[2]	41,554	1,475	1,460	44,489	7.1%
Other Administrative Units[3]	11,082	349	273	11,704	5.6%
Total - Administrative	217,855	7,021	11,723	236,599	8.6%
Undergraduate Scholarship Aid	12,814	(5,267)	3,100	10,647	(16.9%)
Incremental O&M and Utilities			1,123	1,123	
Debt Service	25,822		2,370	28,192	9.2%
Central Obligations[4]	75,525	2,290	10,550	78,365	17.0%
Unallocated Surplus	12,769		(569)	12,200	
Total - Other	126,930	(2,977)	16,574	140,527	10.7%
Total Non-Formula Units	616,380	16,821	42,191	675,392	9.6%

Notes:

[1] For this table, insurance and fire contract allocations have been moved to Central Obligations.

[2] For this table, utilities allocations have been moved to Central Obligations.

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

[4] Central obligations include tuition allowance, graduate student health insurance contribution, and the university reserve, which funds one-time commitments and was doubled in 2006/07. In addition, for this table, utilities, insurance and fire contract allocations have been included in this line.

reallocations and co-investments, which enabled them to self-fund many programmatic initiatives. However, the units also requested $45 million in incremental base general funds. This large volume of requests for new funds may be the result of pent-up demand after several years of very constrained budgets.

In making its funding decisions, the Budget Group looked first at possible fundraising opportunities and then to general funds. The group was challenged to balance the desire to fund compelling academic initiatives with the need to fund necessary compliance, systems, and facilities costs. Through this process, the Provost funded about half of the $45 million requested, in addition to $10 million of prior year commitments. The total $32.8 million of incremental allocations for 2006/07 (not including the $10 million increment to the one-time reserve) represents about a 5% increase in general funds beyond the salary program and inflation cost rise.

The 2006/07 incremental general funds allocations can be grouped into the following categories.

Academic Support: About $12 million of incremental general funds will be allocated in 2006/07 for new programs, initiatives, and other support within the academic units. Of this $12 million, $5.3 million had been committed during last year's budget cycle, most of which will go to H&S for debt service on their new Astrophysics building and overall school program support. Base increases approved during this budget process include:

- $250,000 for analytic support in Earth Sciences,
- $500,000 for departmental support in Engineering,
- $190,000 for the Bioengineering Department,
- $2.0 million for faculty recruitment and retention in Humanities and Sciences,
- $400,000 for undergraduate research opportunities,
- $250,000 for the Stanford Institute for the Environment,
- $729,000 for library materials, and
- $1.2 million at the discretion of the Dean of Research in support of the most compelling needs within that unit.

Funds were also allocated in support of introductory course projects, undergraduate tutoring, Stanford in Washington, a Korean Studies cataloger, as well as dozens of other academic functions.

Compliance: Research activity at Stanford increased almost 50% from 1999/00 to 2004/05. This jump in volume, along with the Medical School's increasing emphasis on translational medicine and the increases in undergraduate, non-medical human subjects research has put tremendous strain on the Institutional Review Boards that review protocols for human and animal subjects. To address this pressing university need, $2.0 million was allocated to the Research Compliance Office. An additional $500,000 was allocated to the Dean of Research office in support of other compliance-related activities, including Environmental Health and Safety programs and conflict of interest software development.

Systems: A significant investment was made in ongoing administrative systems maintenance and support, which had previously been covered by one-time project funding. The $3.6 million of incremental funds represents part of the total projected systems base funding gap. For 2006/07, an additional $2.9 million will be provided on a one-time basis, with the intention of scrutinizing the longer-term viability of the information technology budget during the next budget cycle.

Facilities/Maintenance: $1.3 million was allocated to Land and Buildings for planned maintenance for academic buildings and infrastructure. This incremental $1.3 million follows $3 million of increments over the past two years and is part of a multi-year effort to bring base funding to the level necessary to sustain Stanford's physical plant. This effort should be completed in the next three years. Another $1.1 million supports incremental O&M and utilities for new buildings and $2.4 million will cover incremental debt service.

Development/Alumni Association: A total of $2.9 million was allocated to the Office of Development and the Alumni Association, including $1.36 million for the final installment of a multi-year build-up of base support. The remaining funds support school and unit development needs, additional staffing, and an effort to expand major and principal gifts programs.

Student Support: As discussed in the financial aid section, $3.1 million was allocated to improve Stanford's financial aid package for lower-income families. In addition, funds were provided to improve the quality of the Counseling and Psychological Services Fellows program ($130,000) and to address salary shortfalls at the Vaden Health Center ($300,000).

Other Areas: A total of about $1.1 million was allocated for various outreach activities: to prospective students (Admissions), to the greater community (Public Affairs), and to expand the *Stanford Magazine* (Alumni Association). The remaining $2.5 million supports a variety of administrative needs across campus, including $500,000 for research administration.

Designated Funds

Designated income comes into the university as unrestricted, but is directed to particular units for specific purposes by management agreement. The main sources of designated income are special program fees such as technology licensing income, corporate affiliates payments, and executive education programs; payments from the hospitals to the departments in the Medical School through the clinical practice; and other investment income, including income generated by the Stanford housing portfolio and investment income supporting the Stanford Management Company. Also included in designated funds are most activities of the Stanford Alumni Association, including all of the income and expenses associated with the travel/study programs. Other designated funds are set aside for university-sponsored research and cost sharing. Schools, departments, programs, and individual faculty members control the majority of the funds in these budgets, but the university manages some designated funds as reserves, such as self-insurance reserves.

Total designated income is expected to be $522.0 million in 2006/07, an increase of 10.4% over the 2005/06 year-end projection. This growth is fueled by a 13.1% projected growth in designated clinical revenue paid by the hospitals to the School of Medicine for physician services and a 23.3% projected increase in the budget of the Stanford Management Company. The remaining designated funds are expected to grow about 3.0%.

Total expenses charged to designated funds are budgeted to be $585.5 million, yielding an operating loss of $63.5 million. An additional $26.9 million of designated funds, primarily existing fund balances, is expected to be transferred to funds functioning as endowment and to cover plant projects, and $9.7 million of designated funds will be used to cover net internal expenses. We expect $88.3 million of operating transfers, mostly from unrestricted funds, will be transferred into designated funds, yielding a deficit of $11.8 million in this fund type, which will be covered by fund balances in the units.

Restricted Funds

The restricted funds budget represents income, expenditures, and transfers for both restricted expendable funds and restricted endowment income funds. Together, revenue from these sources is projected to be $717.1 million in 2006/07. Of this total, $474.3 million is from endowment income and the remaining $242.8 million is from expendable gifts, payments on prior-year pledges, and EFP payout on restricted fund balances. $547.1 million is budgeted to be spent from restricted funds for a variety of activities, including endowed professorships, fellowships, and general expense supporting research and teaching. $116.3 million of this amount will be used to cover financial aid. $35.0 million in restricted funds is expected to be transferred to support plant projects and to invest in endowment principal, while an additional $68.3 million will be transferred to designated funds and auxiliary activities as well as to cover internal expenses. Total restricted revenues less expenses and transfers net a projected surplus of $66.7 million, most of which will be added to the fund balances in the schools. This sizable surplus is attributable to the fact that many restricted funds are given to the university with the expectation that they well be spent over a number of years.

The schools, which control nearly two-thirds of the university's total expendable (designated and restricted) fund balances, have historically generated more restricted revenue than can be spent in a given year, resulting in growth of fund balances. Some of the annual revenue is not used because the terms of the funds are so restrictive as to preclude its use. Efforts continue to review and possibly ease the restrictiveness of some funds as well as to split some large endowed chair funds, which generate much more income than is required to cover a single faculty member's salary and benefits, to allow them to support more than one faculty member.

It is regular practice to reserve designated and restricted revenue to pay for planned capital projects or other large purchases, 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. Schedule 17 in Appendix B shows the academic area fund balances by unit.

Grants and Contracts

The grants and contracts budget for 2006/07 of $887.8 million represents $541.3 million of direct sponsored activity under the oversight of individual faculty principal investigators and $345.4 million in direct costs for SLAC. The university direct cost totals are formulated based upon the projected year-end results for 2005/06 and through consultations with individual research areas. Total university research volume is expected to decrease by 2.0% in the current year and another 2.0% in 2006/07, due to substantial decreases in subcontracts. A more detailed explanation of this decrease can be found earlier in this section under the heading Sponsored Research Support and Indirect Cost Recovery. SLAC is projecting a 17.1% increase over its current year budget with the continued ramp up of its major construction project, the Linac Coherent Light Source.

Auxiliary and Service Center Activities

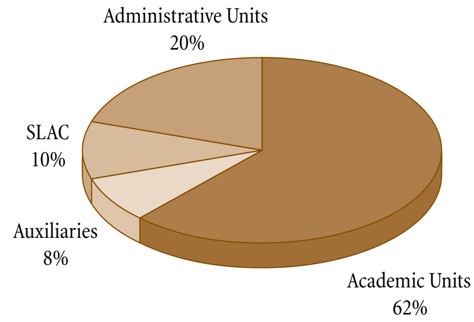
The total budget for auxiliary and service center activities is projected to be $254.9 million in 2006/07. Auxiliary operations are self-contained financial entities supporting the broader purposes of the university. The principal auxiliary activities of the university are Athletics, the Blood Center, HighWire Press, Residential & Dining Enterprises, the Stanford West/Welch Road Apartments, and the Stanford University Press. In addition, there are several other small auxiliary enterprises, such as the Residential Subdivisions, the Bing Nursery School, the Stanford in Washington and Overseas Studies campus residences, and the Schwab Residential Center.

Service Centers are entities that provide a common service, primarily for internal clients, for which they charge both internal and external clients/customers. The principal service centers are the Shared Services and Computer Resource Center within Business Affairs-IT, which provides telephone, internet, and computer support services; the utilities division; and the operations and maintenance shops. Together the auxiliaries and service centers are projecting a deficit of $4.2 million.

The Consolidated Budget by Organizational Unit

The Consolidated Budget is the aggregation of all the budget units that make up the university. In addition to the seven schools, there are the additional academic areas of the Dean of Research, the Vice Provost for Undergraduate Education, the Hoover Institution and University Libraries. There also are several administrative and auxiliary units. The budget plans for some of these units are highlighted in this section and in tables on pages 17, 23, and 25.

2006/07 Consolidated Expenses by Unit



Graduate School of Business

The Graduate School of Business (GSB) is projecting to break even for 2006/07. Revenues are expected to grow 7.7% over the projected year-end for 2005/06 due to increased tuition, growth in executive education revenues, and a projected 14% growth in the school's endowment income.

GSB expenses are projected to be $124.0 million in 2006/07, a 5.2% increase over the 2005/06 year-end projection. The projected growth in spending will support the new Bass Seminars, additional faculty and faculty development in response to the GSB's increasingly wider role in the university, faculty salary increases, and continuing investment in its centers and its student and alumni services.

School of Earth Sciences

The School of Earth Sciences is forecasting a decline of about $1.2 million in current funds balances by the end of 2006/07. This is due in large part to donor-mandated reinvestment (approximately $2.5 million) in principal of specifically held assets. Before transfers to assets, the school forecasts to end the year with a positive balance of about $1.5 million. Restricted revenues in 2006/07 are expected to grow by about 15%, largely as a result of growth in endowment income from the merged funds pools and from funds held in the school's Petroleum Investment Fund. The school also expects an increase

Consolidated Budget for Operations by Unit, 2006/07

[in millions of dollars]

	Total Revenues and Transfers	Total Expenses	Result of Current Operations	Transfers (to)/from Assets	Change in Expendable Fund Balance
Academic Units:					
Graduate School of Business[1,2]	117.7	117.8	(0.1)	(0.1)	(0.2)
School of Earth Sciences	46.0	44.5	1.5	(2.7)	(1.2)
School of Education	33.0	33.3	(0.3)	0.4	0.1
School of Engineering	237.5	229.6	7.9	(23.9)	(16.0)
Hoover Institution	38.3	38.7	(0.4)		(0.4)
School of Humanities and Sciences[1]	341.0	326.0	15.0	(6.4)	8.6
School of Law	52.5	46.7	5.8	(7.2)	(1.4)
School of Medicine[1,2]	1,026.2	1,008.4	17.8	(23.9)	(6.1)
Dean of Research	157.7	156.8	0.9	(1.0)	(0.1)
Vice Provost for Undergraduate Education	29.9	32.5	(2.6)		(2.6)
Stanford University Libraries [1]	60.6	60.7	(0.1)	0.7	0.6
Total Academic Units	2,140.4	2,095.0	45.4	(64.1)	(18.7)
Total Administrative (details on page 23)	681.7	675.1	6.6	(8.9)	(2.3)
Total Auxiliary Activities (details on page 25)	264.8	270.7	(5.9)	1.7	(4.2)
SLAC	345.4	345.4			
Internal Transaction Adjustment[3]	(266.6)	(251.6)	(15.0)	15.0	
Indirect Cost Adjustment[4]	(175.6)	(175.6)			
Grand Total from Units	2,989.9	2,959.0	30.9	(56.3)	(25.2)
Central Accounts[5]	161.8	107.4	54.4	(5.5)	48.9
Central Adjustment[6]	39.2		39.2		39.2
Total Consolidated Budget	3,191.1	3,066.4	124.7	(61.8)	62.9

Notes:

1 The budget lines for the School of Medicine, Graduate School of Business, School of Humanities and Sciences (H&S), and Libraries do not include auxiliary revenues and expenses. These items are shown in the Auxiliary Activities line. These auxiliary operations include Medical School Blood Center, the Schwab Center of the GSB, HireWire Press and University Press in Libraries, 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 Internal revenues and expenses are included in the unit budgets. This adjustment backs out these internal activities from the Consolidated Budget to avoid double counting them. There is a net $15 million balance in internal activity due to payments from Plant funds.

4 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 $175.6 million received by the schools is taken out in the "Indirect Cost Adjustment" line.

5 Central Accounts encompass funds not belonging to any particular budget unit that are used for university-wide activities, such as academic debt service payments, research assistant and Stanford Graduate Fellowship tuition allowance payments, and miscellaneous university expense; Presidential and Provostial discretionary funds; and the general funds surplus.

6 The $39.2 million of revenue 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.

in general funds from the university in support of the school's strategic plan implementation. As in past years, income from corporate affiliate partners is projected to remain flat.

Expenses are projected to grow 17.1% over 2005/06. Much of the growth in expenses can be attributed to activities in support of strategic objectives. Specifically, the school will be investing in improved analytical facilities and staffing, new faculty hires in the areas of climate science and computational geosciences, and improvements in undergraduate teaching. Additional funds are also earmarked for the continued expansion of the school's outreach and communication program initiated in 2005/06. In addition, expenditures in sponsored research activity will pick up in 2006/07 as one major project (San Andreas Fault Observatory at Depth - SAFOD) increases activity levels after some slow down in 2005/06.

The school forecasts a nominal investment in facilities for 2006/07, although this should increase substantially in subsequent years as plans for improved laboratories and space utilization are executed. Funds from school reserves have been identified to partially support these capital activities.

School of Education

The School of Education projects a $100,000 surplus for 2006/07. Fundraising efforts will focus on new endowed chairs, general support for the Elementary Teacher Education Program, unrestricted funding for faculty research, and fellowship funds, particularly for students in the teacher education programs.

Expendable gift revenue and expenses relate primarily to four areas: new fellowships for the teacher education programs and other Masters programs; expenses related to the Center for Educational Leadership; continuing expenses for the John Gardner Center for Youth and Their Communities; and expenses related to the new Center for Educational Policy Research. Faculty recruitment will remain heavy, with associated costs. Non-federal sponsored project expenses are expected to remain constant in 2006/07 and federal project expenses will decline slightly.

School of Engineering

The School of Engineering projects a $16.0 million deficit in 2006/07 after $23.9 million in transfers to assets. Thus, the school anticipates a $7.9 million surplus from operations before transfers. Transfers include $10.2 million to plant, in anticipation of two major capital projects which will be moving from design to construction in 2006/07 (the renovation of engineering buildings in the Panama Mall corridor and the Environment and Energy building, the first of four new buildings in the Science and Engineering Quad II); $3.6 million to endowment principal, as part of a three year program in which the school agreed to match donors' gifts to endow new graduate fellowships; and $10 million for the endowment of the new Hasso Plattner Institute of Design.

2006/07 revenues are forecast at $238 million, up 4.4% from the previous year's budget. Sponsored research will constitute 49% of the school's income, up by 14.5% from 2005/06, driven by a strong showing in non-federal grants with a number of new contracts from Boeing, aided by a new master agreement between Boeing and the university. Designated funds will contribute about 11.4% of the school's income, expendable gifts 3.2%, endowment income 7.2% and general funds 23%. Expenses are projected to increase 8.8% from 2005/06, driven substantially by spending against increased research funding as well as an expansion of the fellowship program.

The school's primary financial challenges lie in continuing to rebuild departmental reserves to recommended levels, after a period of spend-down which bottomed out in 2002/03; fundraising and strategic management of reserves in support of the above-mentioned major capital projects; and fundraising for ongoing strategic academic initiatives including the Bioengineering department, the Institute for Computational and Mathematical Engineering, the Institute for the Environment, and the Nanoscience Initiative.

School of Humanities & Sciences

The School of Humanities and Sciences (H&S) projects an $8.6 million consolidated budget surplus for 2006/07 after a $6.4 million transfer to assets. The general funds component of the Consolidated Budget remains very tight. Last year, H&S successfully reduced expenditures by slowing the rate of faculty hiring and reducing the size of the incoming graduate cohort. Over the longer-term, increased revenues from new Hewlett-related gifts coupled with continued controls on expenditures will close budget gaps.

During the past year, H&S has made significant progress in instituting better cost controls in several areas. A new graduate aid program implemented for 2006/07 returns the school to a more traditional funding model that stabilizes school funding levels while increasing department control and creating incentives for the use of restricted and external funds. Faculty recruitment costs are being better managed through the reestablishment of an annual search planning process emphasizing junior-level searches and overall hiring at a rate which maintains the school's faculty. Establishment of the International, Comparative and Area Studies (ICA) division has consolidated the administration of thirteen programs and centers. Creation of the Institute for Research in the Social Sciences (IRiSS) has established a centralized social sciences funding model for multi-disciplinary research.

The school continues to deal with financial challenges that impact the operating budget and school reserves. The frequency and size of faculty retentions continue to increase dramatically, particularly with newly tenured faculty. Similarly, funding needs for faculty recruitment packages continue to increase at rates greater than university cost rise, largely driven by competing offers from other universities and Bay-Area housing costs. The Provost has provided additional base funding to H&S to begin addressing these issues. Longer term, H&S plans to set aside endowed funding sources to support these costs in order to better match revenue and expense growth rates. H&S has also received $2 million of incremental general funds to support structural deficit issues. The school will continue to analyze its infrastructure needs, and determine how to more rationally allocate funding and establish adequate reserves at the school level.

Law School

The Law School projects a $1.4 million deficit in 2006/07 due to its continuing commitment to its Loan Repayment Assistance Program (LRAP) and other transfers to assets. The cost or transfer to student loans in 2006/07 for LRAP will be $1.6 million. In addition, the Law School will transfer about $2 million to plant as it renovates the second floor of the Crown Library and starts planning for a new academic building. Lastly, the school estimates an investment of $1.5 million in faculty housing loans for recruitment and retention, and will move about $1 million to endowment principal.

The Law School's estimated revenue and expenditures represent a 20% increase over the past two years. The rapid growth is the result of high endowment returns, a successful executive education program, and academic program and clinic support from law firms, corporations, and alumni.

The new revenues are being focused on the academic mission of the school. The school has increased faculty salaries 17% over the past three years. Its salaries still lag as much as 8-15% behind top-paying law schools like Harvard, Chicago, and Yale – the latter two being key rivals due to similarities in size and program. The school has managed, barely, to maintain a competitive salary program, but these schools are now offering packages significantly above Stanford's to attract new faculty and to retain their own. The Law School will need to continue an aggressive campaign to increase faculty salaries.

The school recently added two new clinics: a Capital Defense Clinic and an International Community Lawyering Clinic (through which students work with indigent populations in Ghana). A Non-Profit General Counsel Clinic will be added in 2006/07. With these additions, the school will offer a total of ten clinics. Together with the expansion of two other clinics, Prosecution Clinic and Supreme Court Litigation Clinic, the school will add an additional $700,000, increasing its clinic budget by 25%.

The Law School has been successful in fund raising for its academic programs and continues to grow the programs in Law, Economics and Business; Law, Science and Technology; Environmental Law; International Law; and Constitutional Law. The school received a $10 million endowment to establish a new Corporate Governance Center.

School of Medicine

In 2006/07, the School of Medicine is projecting a surplus from operations of $17.5 million and a transfer of $23.9 million to plant and endowment, netting to a $6.4 million deficit. Following are key components of this projection.

- Expenses are projected to increase 6.1% over the projected 2005/06 results, while revenues are projected to increase 6.9%.
- Of the school's total revenue and transfers, sponsored research comprises 36.5%, healthcare services and tuition contribute 30.4% and 2.6% respectively. Expendable gifts, endowment income, and other designated income, such as patent income and investment income, constitute the majority of the remaining total revenue and transfers.

- The school will transfer $10.0 million from expendable gifts and $4.2 million from reserve fund balances to fund the build out of leased space for the temporary home of its interdisciplinary Institute of Stem Cell Biology and Regenerative Medicine and the Neuroscience Institute at Stanford. The school will also transfer $5.6 million to fund small capital projects for renovations and recruitments.

Revenue Growth

There are several key drivers of revenue growth.

- Expendable gift revenue is expected to increase 16.7% in 2006/07 to $84 million as a result of amplified development efforts focused in the areas of the interdisciplinary initiatives.
- Endowment income is projected to increase 19.8% from 2005/06 to 2006/07, reflecting the growth in endowment principal and an anticipated increase in the payout rate.
- EFP payout will increase from 4.5% to 5.5% in 2006/07, and is largely responsible for the 10.8% increase in the designated fund class.
- The double-digit percentage increases in expendable gift, endowment income, and investment income are balanced by a slower rate of growth of 2.1% in research revenue. Research revenue has slowed primarily due to reductions in the growth of funding from the National Institutes of Health (NIH) as a result of slowed growth in the NIH budget. The growth in research activity has slowed considerably from historical levels. The projected growth in research activity in 2005/06 from 2004/05 is 3.2%.
- Income from clinical operations is projected to increase 7.6% in 2006/07. The two major components of this income stream are the payments for professional services generated from patient care services and service payments from the hospitals.

Expense Growth

The school's 2006/07 budget plan includes the recruitment of approximately 34 incremental faculty. The expenses related to new faculty, including program support and staff, are included in the budget plan. The incremental faculty will primarily be in the interdisciplinary institutes, as well as supporting the continued growth in the clinical practices.

Expenses are projected to increase 6.1% or $59.7 million in the 2006/07 budget plan as compared to projected 2005/06 results. The major components of this increase are:

- $26.0 million – increase in annual compensation levels for academic salaries; this includes a projected average merit increase of 3.5%, plus the associated increases in compensation related to the recruitment of incremental faculty
- $8.6 million – increase in employee benefits for academic and staff employees
- $23.1 million – increase in non-compensation expenditures

Transfers to Plant, Endowment and Other Entities

The projected transfers to plant of $19.8 million include a $10.0 million gift and $4.2 million of school's reserve funds for the build out of leased space at 1050 Arastradero Road, temporary home of Stem Cell Biology and Regenerative Medicine and the Neuroscience Institute at Stanford. The remainder includes the school's continued expenditure on small capital projects to accommodate changes in program and recruitment of faculty within the existing facilities.

Vice Provost for Undergraduate Education

In 2006/07, the Office of the Vice Provost for Undergraduate Education (VPUE) will be operating for the first time since its creation without the support of one-time startup funding. The funding gap created by the exhaustion of those one-time funds will eventually vanish as pledges from the recently-completed Campaign for Undergraduate Education (CUE) are fulfilled. In the meantime, incremental base and one-time resources from the university, combined with the use of built-up reserves will allow the VPUE to sustain and further develop the enhancements in undergraduate education accomplished over the last decade and to embark on several new initiatives. The use of local reserves will lead to a consolidated deficit of $2.6 million in 2006/07.

The expanded efforts for 2006/07 will serve to augment learning opportunities for students throughout their entire undergraduate residency. For instance, the VPUE expects to provide incremental support to improve the learning environment in large, introductory courses taken early in students' careers. Undergraduate Research Programs and Bing Honors College are two opportunities largely benefiting upper-division students, and the VPUE will increase its base support of both programs in 2006/07. All undergraduates will benefit from additional resources VPUE will dedicate to support interdisciplinary course development and to help Resident Fellows increase creative, intellectually stimulating programming in their dorms.

Initiatives for 2006/07 will focus on providing academic support outside of the classroom and ensuring students are well-informed about the academic resources available to them. A new Academic Director (AD) will be appointed in Stern Hall, joining the ADs already in place in Wilbur and Florence Moore Halls and providing on-site coordinated and informed advice to the students in those residences. While continuing to improve advising about courses of study, additional academic support will be made available through new tutoring and learning skills resources.

Another exciting development for 2006/07 is the arrival of the Bing Overseas Studies Program (BOSP) in the VPUE as it moves from its former home in H&S. BOSP finances are essentially a microcosm of the VPUE as a whole. As CUE receipts continue arriving for that program, BOSP will be able to provide more overseas opportunities for students, beginning with the preparation of a new program in Spain during 2006/07.

Projected CUE receipts should lead to a balanced budget for VPUE during 2008/09. The unit must shepherd its dwindling reserves carefully in the intervening years, keeping a vigilant eye on endowment performance, maintaining fiscal discipline and carefully transitioning from one-time to base support for new initiatives only when appropriate. This will allow the improvements to date in undergraduate education to continue uninterrupted.

Dean of Research and Graduate Policy

The Vice Provost and Dean of Research and Graduate Policy (DoR) projects a slight deficit of $200,000 in fiscal year 2006/07, after $1 million in transfers to assets. The DoR budget is supported by many funding sources. More than half of the DoR income is obtained through sponsored research.

Research volume within the Dean of Research is expected to decrease 9.1% in 2005/06 and 14.3% in 2006/07 due to the phase down or completion of several very large subcontracts at the Hansen Experimental Physics Laboratory (HEPL). Aside from these subcontracts, the DoR projects about a 2% increase in sponsored research volume for 2006/07.

The DoR is excited about increasing collaborations across schools and disciplines. The Global Climate and Energy Project, the Human Sciences and Technologies Advanced Research Institute (a new institute formed by the merger of the Center for the Study of Language and Information and the Stanford Center for Innovation in Learning), Bio-X, the Woods Institute for Environment at Stanford University, and the Freeman Spogli Institute for International Studies have programs that award grants for interdisciplinary research on a competitive basis. The amount projected to be spent across the university in fiscal year 2006/07 is $17 million.

Over the past year, the Dean's Office has committed approximately $4.0 million of its reserves to fund renovations and laboratory moves, including renovation at HEPL's end station III, the move of the Gravity Probe B program, and the new Astrophysics building. The funds will be spent in fiscal years 2005/06 and 2006/07.

Hoover Institution

Hoover Institution projects a slight deficit of $400,000 in 2006/07. In response to tightening revenue streams during the last few years, the institution developed and implemented a contingency that reduced annual base budget expenditures by $2.8 million over the period 2003/04 through 2005/06. The cuts were accomplished by a smooth reduction in staff through attrition and retirement, and some curtailment of programs in research, communications and outreach. The Hoover Institution Library and Archives was not affected by these cutbacks.

The long-range outlook is for a balanced budget, with no reliance on reserves. In order to achieve this goal the contingency plan, which calls for a final $500,000 in cuts, must be completed, and fundraising must continue to grow at historical levels. Recent successful fundraising and the recovery of the endowment have allowed the institution to plan for some modest and focused growth. Included in this plan is the construction of a modern preservation facility for the Library and Archives to be completed by the fall of 2007, the expansion of collecting activities in China and elsewhere, the addition of one new Senior Fellow each year, and an upgrade of the institution's website to assist in making the research and archival holdings of the institution accessible to a wider community.

SLAC

The Department of Energy (DOE) Office of Science (DOE-SC) provides most of the funding for SLAC. As part of the President's American Competitiveness Initiative, in 2006/07 SLAC looks forward to a healthy increase in its operating budget, in addition to the increases expected for the Linac Coherent Light Source (LCLS) program. The operating budget increases will primarily be supporting the operation of SPEAR3, the pre-operations activities of LCLS, the fabrication of the LCLS Ultrafast Science Instruments (LUSI), and the R&D program for the International Linear Collider. Because of the LCLS construction and the expected increases in the operating programs, the total direct costs for SLAC are expected to be $345 million, about $50 million (17%) higher than 2005/06. However, the proposed DOE budget for SLAC awaits Congressional action on the 2007 Energy and Water Development Appropriations.

The LCLS project will utilize the last third of the SLAC linear accelerator (linac) to build the world's first x-ray free electron laser, a fourth generation x-ray light source. The total funding for construction is $315 million, with $105 million expected in 2006/07. Operation is expected to begin in 2009. The LCLS project is a collaboration with Argonne National Laboratory (ANL) and Lawrence Livermore National Laboratory (LLNL). The LCLS Project Office resides at SLAC and DOE provides all project funding to SLAC. Therefore, costs at SLAC include those costs associated with the passed through funding to ANL and LLNL.

Since the inception of SLAC, funding for the operation of the SLAC linac, which is currently being used as an injector for the PEP-II B Factory and other experiments, has been the responsibility of the DOE Office of High Energy Physics (DOE-HEP). The B Factory experimental operation will conclude in 2008. In preparation for the operation of the LCLS in 2009, the DOE Office of Basic Energy Sciences (DOE-BES) has been providing partial funding for the operation of the linac. 2006/07 will be the second year of a four-year transition of the programmatic ownership for SLAC linac operations from DOE-HEP to the DOE-BES. As a result of the transition, beginning in 2006/07 DOE-BES will be providing the majority of the funding to SLAC.

Stanford University Libraries & Academic Information Resources (SULAIR)

SULAIR projects a slight surplus for 2006/07. Incremental and one-time allocations to SULAIR will enable several much needed improvements. First, there will be an increase in the Library Materials Budget (LMB). In spite of this increase, SULAIR remains concerned that Stanford has not been acquiring sufficient monographs across the many fields and disciplines now in the Stanford curricular and research enterprises. Second, much needed base support for a Korean Studies library cataloger has been provided as a match to the term support provided by both SULAIR and the Korean Studies Program for a Korean Studies Librarian for collections and services.

Additionally, there is support for improvements in the digital library infrastructure, demands upon which have been accumulating. SULAIR will also make significant one-time expenditures on the next generation of CourseWork, the course management systems preferred by a substantial majority of Stanford faculty. SULAIR will invest significant one-time funds on the part of the Stanford Digital Repository devoted to ingesting the digital copies of books made as part of the Google Book Search project, and by SULAIR's own internal digitization projects in support of faculty programs.

Vice Provost for Student Affairs

Student Affairs projects a slight ($200,000) deficit in 2006/07 after $400,000 of transfers to assets. This deficit is the net result of spending down a major gift in a transition to endowment funding, use of funds carried forward from prior years, and a projected growth of medical care costs exceeding that of contracted health care income.

The 2006/07 allocation of general funds includes significant increases to help address structural funding needs and escalating student medical service costs in Vaden Health Center, and to add resources to critical safety-net services.

Operating Budget fund balances will be drawn down by about $500,000 as funds carried forward from 2005/06 to cover transactions at year-end and ongoing obligations are expended.

Endowment fund balances are projected to increase, reflecting primarily the completion of funding the endowment for the Schwab Learning Center in the Office of Accessible Education. Gifts which have supported the center to date will be spent down in 2006/07.

The Haas Center for Public Service will reinvest about $75,000 in anticipated unspent income from the Haas

Summary of Administrative Activities, 2006/07
[in millions of dollars]

	Revenues and Transfers	Expenses	Results of Current Operations	Transfers (to)/from Assets	Change in Fund Balance
Land & Buildings	188.7	179.7	9.0	(8.6)	0.4
Business Affairs - Information Technology	120.2	120.5	(0.3)		(0.3)
Business Affairs	75.8	78.7	(2.9)	(0.8)	(3.7)
Development	32.4	32.4			
Alumni Association	34.0	35.5	(1.5)	0.7	(0.8)
President & Provost Office	36.6	37.0	(0.4)		(0.4)
Student Affairs	34.0	33.8	0.2	(0.4)	(0.2)
Office of Admissions (Includes Fin'l Aid)	94.0	91.7	2.3	0.1	2.4
Stanford Management Company	25.9	25.9			
General Counsel	8.8	8.8			
Athletic Camps and Student Aid	21.3	20.6	0.7		0.7
Public Affairs	10.0	10.5	(0.5)	0.1	(0.4)
Total	681.7	675.1	6.6	(8.9)	(2.3)

Professorship, consistent with the strategy of providing adequate funding for future chair holders.

Longer-range financial issues include continued structural funding needs in Vaden Health Center, reorganization of the Student Affairs division, the operation of Tresidder and the renovated Old Union as a lively combined student union, and recommendations resulting from the review of education in the residences currently in process.

Stanford Alumni Association

Stanford Alumni Association (SAA) is projecting a $0.8 million deficit for 2006/07. SAA anticipates a continued slow and steady recovery from its many external revenue sources, and will use available resources to continue to build and maintain its alumni relations activities.

In 2006/07, SAA will make new efforts to leverage the university's alumni relations efforts across campus to maximize the benefits to both Stanford and its graduates. By coordinating and partnering with each of Stanford's seven schools, SAA will work to create a more cohesive approach to alumni relations that will better serve the university's many alumni constituencies. As an initial step, SAA will expand the circulation of *Stanford Magazine* to reach all undergraduate and graduate alumni.

SAA will continue to identify and capture valuable information about alumni interests and involvement. This information will be used to inform SAA decisions about which program investments will have the most significant alumni relations impact.

Business Affairs (excluding IT)

Business Affairs projects a deficit of $3.7 million in 2006/07, after $800,000 million in transfers to assets. This deficit is due almost entirely to the return of aggregate annual premiums paid in excess of actuarially determined reserve balances and actual claims paid during the current year. Business Affairs is funded primarily by general funds. Of the $76 million in total revenues and transfers, approximately $9 million, or 12%, is received from other internal and external sources, including the hospitals, Stanford Management Company, SLAC, trademark and royalty income, and fees for services provided.

Compensation costs represent over 60% of total Business Affairs expenses. Another $10 million (13%) is paid to third parties for the fire contract and general liability and property insurance premiums. The provision for insurance claims is $11 million for 2006/07.

A 2006/07 base general funds increase of $1.7 million and $400,000 of one-time funds will enable Business

Affairs to support growing institutional activity while maintaining current service levels and address new or expanded compliance regulations.

Other major initiatives include the following:

- The Office of Research Administration and Administrative Systems are embarking on the discovery phase for a new research administration system which encompasses proposal tracking, clinical trials, and proposal development/submission modules. Faculty and research administrators from across campus have been and will continue to be involved in the discovery and evaluation process. The forecasted cost of a new system is currently $11 - $13 million, plus $2 million of annual ongoing maintenance costs.
- Public Safety is working with Land and Buildings to design a new facility adjacent to the existing location, which will also house a new Emergency Operations Center. The Capital Budget for this project is $6 million.
- Business Affairs is also working closely with Land and Buildings and other campus departments and schools on the concept planning for the new Redwood City campus. The long term funding for the new campus, including build out, debt service, moving, and operating costs, will become a campus-wide challenge over the next few years.

Business Affairs – Information Technology

IT Services is projecting to be breakeven in the operating budget and have a slight deficit in the total Service Center Operations. The 2006/07 deficit is mostly caused by ongoing challenges in the Computer Resource Center.

Business Affairs-IT receives approximately $120 million in funding, of which 55% comes from the hospitals, students, and other external and internal customers from its service center charges. The remaining 45% of the funding comes from general funds, 55% of which is allocated to Administrative Systems to provide development, support and enhancement services for student and human resources systems, middleware and integration, financial systems, and data management and reporting. 32% of the general funds received flows to IT Services in support of campus networking, software licensing, campus card infrastructure, email, calendar, web authentication, backbone and desktop security, help desks, and academic computing services. The remaining 13% of general funds are provided to complete vendor required version upgrades, minor application enhancements, minor compliance projects, and middleware and other software infrastructure projects, as prioritized annually through the System Governance Group.

New initiatives and major goals for Business Affairs IT in 2006/07 include:

- Defining a long-term comprehensive strategy for a data center. This is vital for Stanford's continued leadership in research as well as the ability to provide efficient and robust administrative applications.
- Continuing to enhance the Oracle experience and deliver accurate, timely, and useful information to support decision-making.
- Developing a strategy for institution-wide access to administrative information.

Funding a new University Data Center, and related disaster resiliency options and plans will be a significant challenge in the upcoming years. A new data center is expected to be funded with debt and serviced by a combination of service center rates and general funds. These new costs may have a significant impact on both funding sources over time.

Athletics

The Department of Athletics, Physical Education and Recreation (DAPER) is projecting an auxiliary operating deficit of $1.7 million in 2006/07, following a projected deficit of $2.6 million in 2005/06. The renovation of the football stadium is expected to increase ticket revenue by $1.2 million. This will be offset, however, by modest expense increases for stadium operations and departmental administration.

Residential & Dining Enterprises

The Residential & Dining Enterprises (R&DE) strategic financial plan projects a planned operating deficit for 2006/07 of $1.3 million on revenues and transfers of $122.8 million. R&DE will use reserves to cover the shortfall.

The R&DE Capital Improvement Program (CIP) projects planned in 2006/07 include replacing the first two of sixteen Row House kitchens as part of a multi-year effort, the continued seismic and life safety upgrades of Row Houses (Roth), Florence Moore kitchen infrastructure and code improvements, and addressing Escondido Village seismic code issues.

Summary Auxiliary Activities, 2006/07
[in millions of dollars]

	Revenues and Transfers	Expenses	Results of Current Operations	Transfers (to)/from Assets	Change in Fund Balance
Athletics[1]	48.4	52.1	(3.7)	2.0	(1.7)
Blood Center	31.4	31.8	(0.4)		(0.4)
HighWire Press and University Press	30.1	30.1			
Residential & Dining Enterprises	122.8	124.1	(1.3)		(1.3)
Stanford West/Welch Road	15.9	16.3	(0.4)		(0.4)
Other	16.2	16.3	(0.1)	(0.3)	(0.4)
Total	264.8	270.7	(5.9)	1.7	(4.2)

Notes:
[1] Financial Aid activity and Camps are not included.

In 2005/06, R&DE implemented a phased reduction in budgeted room income to reflect actual occupancy rate declines in recent years (from 98.5% to approximately 93.5%) due in large part to greater undergraduate student participation in overseas studies programs, especially during spring quarter. There have also been more resident contract terminations in recent years. It is expected that university policy changes to student contracts will help reduce contract terminations, thereby stabilizing student income. Occupancy is projected at 95% in this second year of our goal to align the budget with actual occupancy rates.

Stanford University's Off-Campus Graduate Student housing program, managed by Housing Assignments, has been reduced in scope each year since 2002/03 as new construction has provided more graduate students with the opportunity to live on campus. The phase-out continues in 2006/07 and will end with the implementation of the Housing Master Plan and completion of the Munger Graduate Residences in 2008.

On the expense side, natural gas and steam rates have increased 36%, or $570,000, in 2005/06. The impact of higher rates by 2006/07 is forecast to be $925,000.

Other incremental expenses in 2006/07 include higher cost of energy and oil products, compounded by shortages that continue to increase prices; increased cost and demand for construction materials; and the continuing initiative to build an asset preservation program to fund building infrastructure renewal.

R&DE has approved $167,000 in additional programmatic funding in 2006/07 to support graduate and undergraduate residential education programs and residential computing initiatives.

Stanford University Press

The University Press projects a balanced budget for 2006/07. Press revenues are budgeted to increase by 8.7% in 2006/07 to $7.5 million from a projected $6.9 million for 2005/06. Building on anticipated growth of 12% in revenue from book sales in 2005/06, income from this source is expected to grow by a further 15.8% in 2006/07, from $5.2 million to $6.0 million, equaling the record 16% growth achieved in the 2003/04 year. At the same time, income from rights and other sources will fall by 14.6% in 2006/07.

Achievement of the $6.0 million sales target will represent cumulative sales growth of 51% over the past five years. At the same time, gross margin on sales will have risen from 51% to 60%, while production costs will have risen by only 28%, and other business expenses will have increased by only 0.5%.

As in the last few years, this income growth will allow the Press to continue investing in scholarly programs in the Humanities and Social Sciences while accelerating growth of newer programs in Law, Economics, Business, Education, and Policy.

HighWire Press

HighWire remains financially stable and projects a balanced 2006/07 budget after a transfer of $500,000 to SULAIR in support of academic initiatives. HighWire continues to experience modest increases in applications and systems programming staff in support of its publisher customers' need for continued innovation. Technology improvements have allowed the online posting of several million pages of previously digitally unavailable scholarly content without a proportionate increase in staffing levels.

In 2006/07 the organization faces the challenge of absorbing the costs of an aging physical plant while investing in innovation, launching several significant new projects on behalf of major customers, and addressing increased customer awareness of, and demand for, business continuity services. A modest (3%) price increase was implemented in September 2005, but no further increases are anticipated through September 2007. HighWire's customers remain cost-conscious; thus HighWire must continue to differentiate itself from low-cost competitors through innovation while maintaining moderate price levels.

PROJECTED STATEMENT OF ACTIVITIES

The table on the next page compares the Consolidated Budget for Operations with the projected operating results section of the Statement of Activities. The Statement of Activities summarizes all changes in net assets during the year (both operating and non-operating). It is similar to a corporate income statement and is prepared in accordance with Generally Accepted Accounting Principles (GAAP). It is part of the audited financial statements published in the university's Annual Report.

Stanford University, as a not-for-profit institution and a recipient of restricted donations, manages itself internally according to the principles of fund accounting. Cash resources are classified into fund groups, which are subject to different legal and management constraints.

There are four different categories of funds:

1) Current Funds, which include revenue to be used for operating activities — e.g., tuition revenue, sponsored research support, endowment payout, and other investment income;

2) Endowment Principal Funds, which include all of Stanford's endowment funds, both those restricted by the donor, and those designated as endowment funds by university management;

3) Plant Funds, which include all funds to be used for capital projects, such as construction of new facilities or retirement of indebtedness; and

4) Student Loan Funds, which include those funds to be lent to students.

The Consolidated Budget for Operations follows the principles of fund accounting. It includes only current funds, and reflects the sources and uses of current funds on a modified cash basis that more closely matches the way that the university is managed internally. Within these current funds, funds are further classified by their purpose and level of restriction. The Consolidated Budget also reflects the transfer of current funds for investment in other fund groups: funds functioning as endowment, student loan funds, and plant funds. For example, a school may choose to transfer operating revenue to fund a future capital project. Similarly, a department may decide to move unspent current funds to the endowment, either to build capital for a particular purpose, or to maximize the return on those funds as a long-term investment.

Converting the Consolidated Budget into the Statement of Activities

In addition to its requirement to manage funds in accordance with donor imposed restrictions, Stanford also has external reporting requirements. To convert the Consolidated Budget to the Statement of Activities format, certain revenue and expense reclassifications and adjustments are necessary. For example, the Consolidated Budget reports as expense the use of funds to acquire equipment. For GAAP purposes the acquisition of capital equipment is recorded as an increase in capital assets in the Statement of Financial Position (similar to a corporate balance sheet), with a corresponding annual amount of expense required to depreciate the cost of the capital equipment over its useful life in the Statement of Activities.

The following adjustments are made to the Consolidated Budget to convert it to the GAAP basis Statement of Activities format:

a) Eliminate Fund Transfers. The Consolidated Budget includes transfers of $85.6 million of current funds to other fund groups, including plant, student

Comparison of Consolidated Budget and Statement of Activities, 2006/07
Unrestricted Net Assets
[in millions of dollars]

Statement of Activities 2004/05 Actuals	2005/06 June 2005 Budget	2005/06 Projected Year-End		Fiscal Year 2006/07 Projected Consolidated Budget	Adjustments	Projected Statement of Activities
			Revenues and Other Additions			
			Student Income:			
204.3	213.2	212.4	Undergraduate Programs	224.9		224.9
197.9	206.3	210.0	Graduate Programs	220.1		220.1
90.9	93.8	95.7	Room and Board	98.8		98.8
(137.2)	(142.0)	(143.0)	Student Financial Aid[e]		(152.7)	(152.7)
355.9	371.3	375.1	Total Student Income	543.8	(152.7)	391.1
			Sponsored Research Support:			
564.0	587.7	552.3	Direct Costs–University	541.3		541.3
237.3	318.0	295.0	Direct Costs–SLAC	345.4		345.4
172.1	180.4	172.2	Indirect Costs	175.6		175.6
973.4	1,086.1	1,019.5	Total Sponsored Research Support	1,062.3		1,062.3
266.9	274.7	303.1	Health Care Services[f]	354.0	(26.8)	327.2
144.3	130.0	145.0	Current Year Gifts in Support of Operations	152.0		152.0
			Investment Income:			
452.0	492.6	522.6	Endowment Income	585.8		585.8
62.3	91.6	68.2	Other Investment Income[g]	120.7	(25.9)	94.8
514.3	584.2	590.8	Total Investment Income	706.5	(25.9)	680.6
291.5	263.4	290.7	Special Program Fees and Other Income[j]	297.5	5.1	302.6
82.5	50.0	75.0	Net Assets Released from Restrictions	75.0		75.0
2,628.8	**2,759.7**	**2,799.2**	**Total Revenues**	**3,191.1**	**(200.3)**	**2,990.8**
			Expenses			
1,323.9	1,471.1	1,489.3	Salaries and Benefits[d,g,j]	1,608.7	(14.6)	1,591.1
237.3	318.0	295.0	SLAC	345.4		345.4
			Capital Equipment Expense[b]	62.6	(62.6)	
191.6	192.0	203.0	Depreciation[c]		203.0	203.0
			Financial Aid[e]	152.7	(152.7)	
746.0	751.2	784.5	Other Operating Expenses[f,g,h,j]	897.0	(93.4)	803.6
2,498.8	**2,732.3**	**2,771.8**	**Total Expenses**	**3,066.4**	**(120.3)**	**2,946.1**
130.0	**27.4**	**27.4**	**Revenues less Expenses**	**124.7**	**(80.0)**	**44.7**
			Transfers			
			Additions to Assets[a]	(85.6)	85.6	
			Net Internal Revenue/Expense[i]	15.0	(15.0)	
			Operating Transfers[a]	8.8	(8.8)	
			Total Transfers	**(61.8)**	**61.8**	
130.0	**27.4**	**27.4**	**Excess of Revenues Over Expenses After Transfers**	**62.9**	**(18.2)**	**44.7**

loans, and funds functioning as endowment, as well as $8.8 million for the academic grants that Stanford Hospital and Clinics will transfer to the Medical School.

b) Remove Capital Equipment purchases. The Consolidated Budget includes the projected current year's purchases of capital equipment as expense. For GAAP purposes, the cost of capital equipment is recorded on the Statement of Financial Position. As a result, $62.6 million is eliminated from Consolidated Budget expenses.

c) Record Depreciation expense for the current year's asset use. The Statement of Activities includes the current year's depreciation expense related to capital assets being depreciated over their useful lives. Depreciation expense includes the depreciation of capital equipment and other capital assets, such as buildings and land improvements. This adjustment adds $203.0 million of expense.

d) Adjust Fringe Benefit expenses. The Consolidated Budget reflects the fringe benefits cost based on the fringe benefit rate charged on all salaries. The Statement of Activities reflects actual expenses for fringe benefits, which includes accruals for certain benefits, such as pension and post-retirement benefits that are required by GAAP to be shown as expense in the period the employee earns the benefit. For 2006/07, GAAP expenses are expected to exceed budgeted expenses by $3.1 million.

e) Reclassify Financial Aid. GAAP requires that student financial aid be shown as a reduction of revenue. In the Consolidated Budget, financial aid is reported as an operating expense. Accordingly, $152.7 million of student financial aid expense is reclassified as a reduction of revenues in the Statement of Activities.

f) Adjust Health Care Services. For GAAP purposes, Health Care Services revenues received from the hospitals are reported net of expenses that the university charges the hospitals. The Consolidated Budget presents these revenues and expenses on a gross basis. This adjustment reclassifies $26.8 million from Other Operating Expenses to Health Care Services revenues.

g) Adjust for Stanford Management Company Activity. Included in the Consolidated Budget revenues and expenses are $25.9 million of activity of the Stanford Management Company. For GAAP purposes, these expenses incurred as part of the generation of investment returns are netted against investment earnings. This adjustment reduces revenue from Other Investment Income, as well as $19.4 million from compensation and $6.5 million from non-compensation expenses, with no net change in the bottom line.

h) Adjust Other Operating Expenses. The Consolidated Budget includes all debt service. It reflects as Other Operating Expenses the use of funds to cover repayment of the principal component of indebtedness. On a GAAP basis these transactions are reflected in the Statement of Financial Position. Therefore, Other Operating Expenses must be reduced by the amount of debt principal amortization. In addition, adjustments must be made to account for the difference between internal and external interest payments. These adjustments reduce expense by $61.8 million.

i) Eliminate Net Internal Revenue/Expense. The Statement of Activities excludes all internal revenues and expenses. However, the Statement of Activities includes the activity of all fund types, while the Consolidated Budget does not include plant funds. Therefore, the net inflow of $15.0 million from plant funds into the Consolidated Budget for purchases of internal services must be eliminated.

j) Stanford Sierra Camp, Limited Liability Corporation (LLC). The Statement of Activities includes the revenue and expense of the Sierra Camp that the Alumni Association runs as a separate LLC. $5.1 million in revenue and $3.4 million in expense gets added ($1.7 in Salaries and Benefits and $1.7 in Other Operating Expenses).

In summary, the impact of these adjustments decreases the Consolidated Budget's projected $62.9 million surplus by $18.2 million, resulting in a projected surplus of $44.7 million in the Statement of Activities.