SECTION 1

CONSOLIDATED BUDGET FOR OPERATIONS

In this section we review the details of the 2007/08 Consolidated Budget for Operations, describe the general funds allocation process and results, and present a forecasted Statement of Activities.

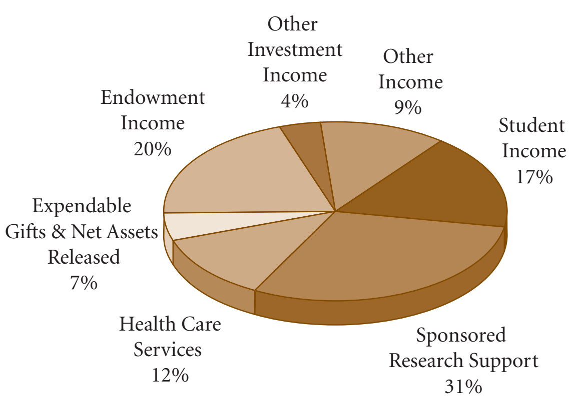
CONSOLIDATED BUDGET FOR OPERATIONS

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 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 includes 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 2007/08 Consolidated Budget for Operations shows total revenues of $3,449.8 million and expenses of $3,265.8 million, resulting in net operating results of $184.0 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 $58.8 million.

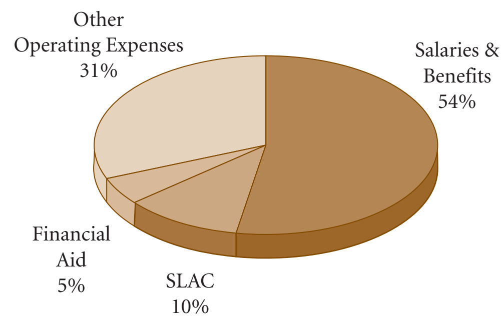
Total revenues in 2007/08 are projected to increase 3.4% over the expected 2006/07 levels, an increase that is moderated by continued slow growth in sponsored research and an expected decrease in the SLAC budget. Total expenses are expected to grow by 4.2% over the estimated year-end results for 2006/07. The table on the next page shows the projected consolidated revenues and expenses for 2007/08. For comparison purposes, it also shows the actual revenues and expenses for 2005/06 and both the budget and the year-end projections for the current fiscal year, 2006/07. In addition, definitions of key terms are provided on page 5.

2007/08 Consolidated Revenues: $3,449.8M [1]



[1] Net Revenues after Transfers: $3,324.6M

2007/08 Consolidated Expenses: $3,265.8M



Consolidated Budget for Operations, 2007/08

[in millions of dollars]

2005/06 Actuals	2006/07 Budget June 2006	2006/07 Projected Actuals		General Funds	Designated	Restricted	Grants and Contracts	Auxiliary & Service Center Activities	Total
			Revenues and Other Additions						
			Student Income:						
213.4	224.9	225.4	Undergraduate Programs	237.8					237.8
210.4	220.1	222.7	Graduate Programs	232.9					232.9
95.4	98.8	99.4	Room and Board					103.2	103.2
519.2	543.8	547.5	Total Student Income	470.7				103.2	573.9
			Sponsored Research Support:						
523.5	541.3	523.5	Direct Costs–University				534.0		534.0
298.0	345.4	379.0	Direct Costs–SLAC				338.1		338.1
172.4	175.6	177.7	Indirect Costs	185.9					185.9
993.9	1,062.3	1,080.2	Total Sponsored Research Support	185.9			872.1		1,058.0
367.4	354.0	377.9	Health Care Services	15.8	328.4	6.9	0.2	50.8	402.1
167.7	152.0	170.0	Gifts In Support of Operations	2.0		173.0			175.0
92.5	75.0	95.0	Net Assets Released from Restrictions			80.0			80.0
			Investment Income:						
536.8	585.8	612.6	Endowment Income	126.4		573.3			699.7
91.7	120.7	127.6	Other Investment Income	54.1	64.2	9.3	0.3		127.9
628.5	706.5	740.2	Total Investment Income	180.5	64.2	582.6	0.3	0.0	827.6
313.6	297.5	325.0	Special Program Fees and Other Income	6.9	215.6	0.7	0.8	109.2	333.2
3,082.8	**3,191.1**	**3,335.8**	**Total Revenues**	**861.8**	**608.2**	**843.2**	**873.4**	**263.2**	**3,449.8**
			Expenses						
1,498.2	1,608.7	1,611.3	Salaries and Benefits	538.4	406.8	299.2	306.0	191.9	1,742.3
297.9	345.4	379.0	SLAC				338.1		338.1
142.9	152.7	155.0	Financial Aid	21.5	1.9	130.1	15.9		169.4
921.1	959.6	987.4	Other Operating Expenses	200.7	178.2	195.3	189.6	252.2	1,016.0
2,860.1	**3,066.4**	**3,132.7**	**Total Expenses**	**760.6**	**586.9**	**624.6**	**849.6**	**444.1**	**3,265.8**
222.7	**124.7**	**203.1**	**Operating Results**	**101.2**	**21.3**	**218.6**	**23.8**	**(180.9)**	**184.0**
			Transfers						
(65.5)	(85.6)	(150.4)	Transfers to Assets (Plant, Endowment, etc.)	(21.2)	(103.7)	(13.7)		0.5	(138.1)
25.2	15.0	23.9	Net Internal Revenue / Expense	(61.0)	(13.6)	(38.6)	(22.8)	148.9	12.9
(12.5)	8.8	0.0	Operating Transfers	(9.0)	63.1	(79.6)	(1.0)	26.5	0.0
(52.8)	**(61.8)**	**(126.5)**	**Total Transfers**	**(91.2)**	**(54.2)**	**(131.9)**	**(23.8)**	**175.9**	**(125.2)**
169.9	**62.9**	**76.6**	**Operating Results and Transfers**	**10.0**	**(32.9)**	**86.7**	**(0.0)**	**(5.0)**	**58.8**
			Beginning Fund Balances	68.0	728.7	654.5	(3.2)	5.0	1,453.0
			Ending Fund Balances	78.0	695.8	741.2	(3.2)	(0.0)	1,511.8

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 4.8% in 2007/08.

Tuition – The general tuition rate increase for 2007/08, which was approved by the Trustees in February, is 5.5%. Stanford expects to receive $470.7 million in tuition in 2007/08, and while this amount represents only about 14% of Stanford's total revenue, it accounts for nearly 55% of general funds. In addition to supporting faculty and staff salaries and other direct academic program needs, tuition plays a significant role in funding infrastructure, support services, and other operational activities. The increase approved for 2007/08 is roughly 1.5% above the inflationary increase in our costs and is intended to contribute to the investments being made in both undergraduate and graduate financial aid. With the exception of the 2006/07 increase, Stanford has raised 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 on Financing Higher Education (COFHE). The tuition rate increased by 5.75% in 2006/07. It had a limited impact on Stanford's place among the seventeen COFHE institutions, causing our tuition rank to increase only one spot from 17th to 16th. We do not anticipate that the 2007/08 tuition rate increase will substantially alter our overall position relative to the other COFHE schools, and we are confident that we will remain below the median for this group. The 5.5% 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 4.5%, and the Graduate School of Business (GSB) will increase the rate for entering MBA students by 5.9%, continuing its practice of holding second year MBA tuition constant.

Tuition revenue from undergraduate programs is expected to grow 5.5%, consistent with the tuition rate increase. Graduate program revenue is expected to increase by 4.6%, which reflects the lower increase adopted for the School of Medicine and no increase for terminal graduate registration fees.

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 salaries, 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.

Room and Board – In February, the Trustees approved a combined room and board rate increase of 4.25% for 2007/08. The room rate will increase by 5.25% and the board rate by 3.1%. The 2007/08 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 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 reduce the occupancy base in undergraduate housing by 1.4% in recognition of the increased number of undergraduate students attending fall and spring Overseas Studies programs; to reduce projected income from guest rooms and lower commissions from vending in the residences; 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 3.8%, 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. The combined room and board rate of $10,808 supports compensation increases of union staff, anticipated cost increases in food, energy, and maintenance, and debt service to support a number of renovation and deferred maintenance projects.

Sponsored Research Support and Indirect Cost Recovery

The budget for sponsored research support is projected to be $1,058.0 million in 2007/08. This figure includes the direct costs of externally supported grants and contracts ($534.0 million for university research and $338.1 million for SLAC), as well as reimbursement for indirect costs ($185.9 million) incurred by the university in support of sponsored activities. Sponsored research currently generates 31% of the university's consolidated revenues, down from 36% five years ago. While other university revenue sources have increased dramatically over the past three years, sponsored research has been flat. As discussed in last year's budget plan, after enjoying a long stretch of very strong research growth, Stanford is feeling the impact of recent flattening or declining budgets for federal agencies that fund research on campus.

The 2008 federal research funding outlook is not promising. While the National Science Foundation and the Department of Energy's Office of Science are planning significant funding increases as part of the administration's American Competitiveness Initiative, the National Institutes of Health and many other funding agencies are facing funding decreases. It appears that the recent government trend of funding development at the expense of research will continue into 2008.

It is unclear how directly the stagnation in available federal research dollars correlates to the volume of funding received by Stanford's world-class researchers. What is clear is that over the second half of 2004/05 through the first half of 2006/07, research at Stanford has grown at the slowest rate in recent memory. However, as Stanford's research agenda moves into new areas, new opportunities arise. For example, the School of Medicine is expecting relatively strong research growth in 2007/08, driven primarily from funding from the California Institute for Regenerative Medicine, as discussed in Section 2.

We project that direct research activity outside of SLAC and the School of Medicine will be flat in 2007/08. Anticipated growth in the School of Engineering is offset by projected declines in Humanities & Sciences and the Dean of Research (DoR). While new research opportunities will continue to arise for the independent labs under the DoR, the Hansen Experimental Physics Laboratory will continue to phase down or complete several very large subcontracted projects in 2007/08. This change was discussed in detail in last year's budget plan.

Overall, we project a modest 2.0% increase in non-SLAC direct research volume in 2007/08. Indirect cost recovery is expected to grow somewhat faster as the indirect cost rate increases from 56.5% in 2006/07 to 58.0% in 2007/08.

The Department of Energy continues to provide most of the funding for SLAC. Total direct costs for SLAC are expected to increase by about $81 million in 2006/07, but then to decline by about $50 million to $338.1 million in 2007/08 as the construction of the $105 million Linac Coherent Light Source facility is completed in early 2008, and the project progresses to the phase of installing technical components. SLAC research activity is discussed in more detail in Section 2.

Health Care Services

Health Care Services income is budgeted to be $402.1 million in 2007/08, a 6.4% increase over the projection for 2006/07. The majority of this income ($347.3 million) is in the School of Medicine, including $302.8 million paid by Stanford Hospital and Clinics and Lucile Packard Children's Hospital related to the clinical practices of the faculty, and $11.0 million from external healthcare entities like the Palo Alto Veteran's Administration and the Santa Clara Valley Medical Center. Another $28.0 million is generated by the Blood Center. Also included is $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 $13.0 million to Business Affairs IT primarily for communications services, $5.4 million to the Office of the General Counsel for legal services, $12.5 million to Land, Buildings and Real Estate for operations and maintenance and utilities, and $16.5 million to the central administration for items such as debt service and general overhead payments.

Expendable Gifts

Expendable gift income in support of operations is expected to total $175.0 million in 2007/08, about a 3% increase over the anticipated level for 2006/07. 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 continues to raise funds as part of the Stanford Challenge, 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.

Net Assets Released from Restrictions

This category 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 2007/08, we anticipate that schools and departments will be able to use $80.0 million of gifts and pledges received in previous years that had been classified as temporarily restricted.

Investment Income

Endowment Income – Endowment payout to operations in 2007/08 is expected to be $699.7 million, a 14.2% increase over 2006/07. 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 (MEP) 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 2007/08 is 4.33%.

Total endowment income includes payout from funds invested in the MEP 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 $400 million in the current year and in 2007/08.

Of the total endowment income, $126.4 million, or 18.1%, 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 9.0% over the 2006/07 amount, somewhat slower than the growth expected in total endowment income due to the expectation of flat 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 (SHAC) portfolio, and investment income supporting the Stanford Management Company and the real estate division of Land, Buildings and Real Estate. The largest of these sources is the EFP, the investment pool

Proposed Change in Endowment Policy

Stanford senior administration and the Board of Trustees have engaged in discussions regarding increasing Stanford's target endowment payout rate from 5.0% to 5.5% and resetting the actual payout rate in 2007/08 to 5.5%. The Stanford Management Company's ability to achieve an expected 10% annual return while minimizing volatility through the diversity of its investments, combined with average institutional inflation of 4.0% to 4.5%, support the reasonableness of increasing the target rate to 5.5%. Stanford's annual MEP investment returns have averaged over 15% for the past 25 years, and inflation has been moderate. Moreover, when investment returns are high, the smoothing rule has the effect of dropping the actual payout rate significantly below the target rate. The actual rate in 2006/07 is 4.04%. The combination of rapidly rising MEP balances and low payout rates has raised the question of intergenerational equity, in particular whether our present policy disadvantages the current generation of Stanford students in favor of future generations.

Not only does an increase in the payout rate seem reasonable from the standpoint of intergenerational equity, it would permit the completion of Stanford's ambitious capital plan without impacting the quality of our existing programs and faculty. As is explained elsewhere, the fundraising assumptions included in the capital plan exceed $1 billion, and there is no guarantee that this challenging target will be reached. Furthermore, even if all fundraising goals are achieved, the plan requires an additional $1.2 billion in combined reserves, debt and other resources yet to be identified. Since we believe the facilities in the capital plan are required to support 21st century research and teaching, funding them will inevitably retard the support that can be given current programs.

If the Trustees approve the proposed payout increase, we estimate that it will generate approximately $160 million in additional MEP payout. Of this total, about $120 million will be in the non-formula areas. This increased flow of funds will allow us to protect schools and programs, keeping them whole while general funds are devoted to the completion of needed capital projects. We estimate that the amount of general funds that will be released due to the payout increase is between 80% and 85% of the increase. The released general funds would be sequestered in a special fund to be allocated toward the completion of capital projects and other infrastructure needs. An additional $42 million would be generated in the formula schools and auxiliaries. These units, particularly the School of Medicine and the GSB, will also use the released general funds for their facility and infrastructure projects.

for most 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. For the majority of the funds held in the EFP, the payout that is available for operations is set at 5.5%. The remaining funds receive a money fund rate. Investment returns above this payout are invested in the merged endowment pool as funds functioning as endowment and are controlled by the President. EFP payout in 2007/08 is expected to be $76.2 million, virtually unchanged from 2006/07.

The EIFP is approximately $200 million and is invested entirely in money market instruments. Income from this source is budgeted at $8.4 million, down from $9.6 million in 2006/07. Other investment income, including SHAC and the Stanford Management Company is expected to add $43.4 million in 2007/08.

Total other investment income is expected to be flat between 2006/07 and 2007/08 at $127.9 million. While we assume a 2.0% increase in the average balance of the EFP, this slight increase is expected to be offset by moderating money market rates.

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 $333.2 million in 2007/08, an increase of 2.5% over the expected level in 2006/07.

Expenses

Salaries and Benefits

The salary and benefits line in the Consolidated Budget for Operations corresponds to total compensation, which includes 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. Total compensation is budgeted to be $1,742.3 million in 2007/08, an 8.1% increase over the year end projection for 2007/06. Total salary expense is expected to grow by 8.7% as a result of the approved merit programs for faculty and staff, additional salary adjustments for equity and retention, as well as projected headcount growth of 2% for faculty and 4% for staff. Total compensation will grow at a slower rate than salary expense, because the fringe rate in 2007/08 will decrease substantially from 29.7% to 28.1%. The salaries and benefits line does not include $183.1 million of salaries and benefits that are included in the total for the Stanford Linear Accelerator Center (SLAC), which is discussed on the next page.

Salaries – The 2007/08 Budget Plan includes a competitive merit salary program for faculty and staff. The program also provides additional funding so that adjustments can be made for those faculty and staff salaries that lag their respective markets, for equity adjustments among similar positions, and for retaining our best faculty and staff. The annual salary program is guided by the university's compensation philosophy. 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 each job category to the competitive marketplace average in 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 2007/08 for faculty salaries is 4.5%. Added to this will be targeted increases to address discipline-specific faculty salaries that lag the competition, particularly in the schools of Humanities & Sciences, Law, Medicine, and the Graduate School of Business. Total academic salary expenditures, which include faculty, clinical educators, lecturers, graduate research and teaching assistants, and other academic salaries, are projected to grow by 8.2% in 2007/08, driven by the base faculty salary program, the special market and retention funding, and expected headcount growth of approximately 2%.

Total staff salary expenditures are expected to increase by 8.9% as a result of the approved salary program and larger than usual headcount growth. 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 2007/08 is expected to allow the university to maintain its competitive position in the local market, which is somewhat stronger than in the recent past. 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 2007/08 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. We expect substantial headcount growth in 2007/08 in a variety of areas. Staff will be added in the Office of Development and in other units in support of The Stanford Challenge. Permanent staff will be hired in several areas within Business Affairs to fill currently vacant positions and to replace contractors and other part time workers. Overall, we expect that headcount will grow by approximately 4%.

Fringe Benefits – The benefits rate for regular benefits-eligible employees, which covers most university employees and comprises most of Stanford's benefits costs, will go down for the second year in a row, from 29.7% in 2006/07 to 28.1% in 2007/08. The rates for post-doctoral affiliates and graduate research and teaching assistants will increase, while the rate for contingent employees will decrease.

The reduction in the regular benefits-eligible (RBE) rate for 2007/08 is the result of a significant change in the carry-forward from prior years. The carry-forward is the under- or over-recovery that occurs when the fringe rate charged during the year either is insufficient to recover the actual costs or causes an over-recovery of the actual costs. The carry-forward is added to (or subtracted from) a future rate, usually two years forward. The drop in the RBE rate in 2007/08 is due primarily to a substantial swing in the carry-forward, which will be a credit of $5.8 million, compared to a charge of $6.3 million in 2006/07. The effect of this $12.1 million dollar reduction in the total benefits pool on the RBE rate is 1.1 points.

The underlying rate, without the carry-forward, is projected to decrease by 0.5 points, because the total overall fringe benefits costs are not expected to increase as fast as the salary and wage base. Nonetheless, the university's expenses for employee health insurance continue to rise at double-digit rates. The cost of health insurance for active regular employees is projected to increase by 15.4% in 2007/08 and add 0.3 points on the RBE rate. This increase is offset by a 0.4 point decrease in the cost of funding Stanford's retiree medical plan, even though the cost of health insurance for this group is increasing at a rate similar to that for active employees. The decrease is due to the actuarial assumptions used in calculating the 2007/08 costs, driven primarily by a reduction in the portion of the liability that Stanford has yet to fund.

All other insurance programs together will contribute a decrease of 0.4 points on the rate, led by a 0.2 point drop for workers' compensation. Retirement programs, which make up 52.3% of the total costs in the fringe benefits pool, are expected to increase commensurate with the increase in the salary and wage base, and therefore not contribute to any change in the RBE rate. There are some noteworthy changes for specific retirement programs: the faculty retirement incentive program is forecast to increase by 0.2 points, due to an expected increase in participation, and Social Security is expected to increase by 0.3 points. These increases are offset by a reduction of 0.5 points in the Stanford contributory retirement plan resulting from the reduction in the basic contribution for new employees, implemented January 1, 2006. No other program in the RBE rate will change by 0.1 point or more. The total net decrease in the RBE rate from 2006/07 to 2007/08 is 1.6 points.

The benefits rate for post-doctoral research affiliates will increase substantially in the coming year, from 20.1% to 20.9%. 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 decline to 7.7%, due mainly to an over-recovery carry-forward from 2005/06.

The rate for graduate teaching and research assistants will increase from 3.8% to 4.0%. 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 is projected to increase in the coming year by about 5%. Other student salaries, such as pay for part-time clerical work during the school year, are not charged for benefits, nor are the students holding those jobs eligible for the university contribution toward their Cardinal Care.

The negotiated 2006/07 and the recommended 2007/08 fringe benefits rates are as follows:

Fringe Benefits Rates

	2006/07 Negotiated Budget	2007/08 Proposed Rates
Regular Benefits-Eligible Employees	29.7%	28.1%
Post-Doctoral Research Affiliates	20.1%	20.9%
Casual/Temporary Employees	8.5%	7.7%
Graduate RAs and TAs	3.8%	4.0%
Other Students	0.0%	0.0%
Average Blended Rate	26.9%	25.7%
Tuition Grant Program Recovery Rate	1.75%	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.

SLAC

Total SLAC costs in 2007/08 are expected to be $338.1 million, about $40 million lower than the projection for 2006/07, due to the completion during the year of the Linac Coherent Light Source (LCLS) construction project. This is made up of $181.6 million in salaries and benefits (a slight increase from $180.3 million projected for 2006/07) and of $156.5 million in other operating expense (for a 19.1% decrease from $198.7 million in 2006/07).

Financial Aid

Stanford expects to spend a total of $169.4 million on student financial aid for undergraduate and graduate students on tuition and room and board (not including stipends), $21.5 million of which will come from general funds. Designated and restricted funds ($132.0 million) and grants and contracts ($15.9 million) will

Financial Aid Awarded to Undergraduates Who Receive Need-Based Scholarship Aid
[in millions of dollars]

Source of Aid	2002/03 Actuals	2003/04 Actuals	2004/05 Actuals	2005/06 Actuals	2006/07 Projected	2007/08 Budget
Department Funds and Expendable Gifts	1.0	1.2	1.9	1.1	0.9	0.9
Endowment Income	28.2	29.4	32.7	37.2	45.0	51.7
Stanford Fund	9.5	10.9	9.5	9.8	10.3	11.1
General Funds	13.6	13.8	14.3	12.7	10.2	12.9
Subtotal Stanford Funded Scholarship Aid	52.2	55.3	58.4	60.8	66.4	76.5
Govt. and Outside Awards	12.4	14.0	13.8	12.0	12.1	12.8
Total Undergraduate Scholarship Aid	64.5	69.3	72.2	72.9	78.5	89.3
General Funds as a Share of Total Aid	21%	20%	20%	17%	13%	14%
General Funds and Stanford Fund as a Share of Total Aid	36%	36%	33%	31%	26%	27%
Endowment funds as a Share of Total Aid	44%	42%	45%	51%	57%	58%
Number of Students	2,803	2,896	2,870	2,789	2,769	2,787

support the remainder. The total financial aid numbers are 9.3% above the projected total for 2006/07. This increase is driven by the approved increases in tuition rates for both undergraduate and graduate students and the approved enhancements to the undergraduate scholarship program intended to improve affordability for students from middle-income families.

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 2007/08, Stanford students will receive $89.3 million in need-based scholarships, of which $76.5 million will be from Stanford resources, an increase of 15.2%. The remaining $12.8 million will come from government and outside awards, which have remained essentially unchanged for the past five years.

The sizable increase in the undergraduate scholarship program is the result of three major policy changes aimed at reducing the proportion of total costs that middle-income families are asked to cover from parent and student contributions as well as student borrowing. These changes follow the significant enhancements in the financial aid program made last year that improved accessibility for families with annual incomes below $60,000. The first policy change reduces the standard self-help expectation for students from $5,500 to $4,000, bringing Stanford's self-help policy to a level comparable to its peers. This change will directly increase scholarship funds by $1,500 for individual students and, thereby, reduce student borrowing. The second change lowers the amount of home equity assessed in the calculation of parental contribution from the current cap of 2.0 times family income to 1.5 times family income. This policy change will affect roughly thirty percent of the financial aid population. We will also implement a renter's allowance that will have a similar impact on parent contributions for families in the middle-income range that do not own homes. The third change lowers the expected student contributions from assets held in the student's name from the current 35% to 25%. These three significant policy enhancements will add $5.5 million to the cost of the undergraduate scholarship program in 2007/08 and result in slightly more students on aid. An additional $4.6 million will be needed to cover the increased costs of our current scholarship program.

The following sources support Stanford's overall $76.5 million commitment:

- General funds will cover $12.9 million, a 26.5% increase over 2006/07 due to the policy changes described above.
- Restricted income will provide $52.6 million, a 15.0% increase over 2006/07 due to another sizable increase in endowment income.

2007/08 Financial Aid and Other Graduate Student Support from Stanford Resources

[in millions of dollars]

Projected 2006/07 Year-End		General Funds	Designated and Restricted	Grants & Contracts	Total
	Student Financial Aid				
70.7	Undergraduate	12.9	63.6	4.3	80.9
15.5	UG Athletic		16.3		16.3
68.8	Graduate	8.6	52.1	11.6	72.2
155.0	Total	21.5	132.0	15.9	169.4
	Other Graduate Support				
65.0	Stipends	9.7	38.0	19.9	67.6
55.4	Tuition Allowance	30.3	10.0	17.9	58.1
71.8	RA/TA S&B	8.2	30.5	36.3	75.0
192.2	Total	48.2	78.4	74.1	200.8
68.1	Postdoc Support	0.3	20.6	49.9	70.8
	Total Student Support	70.0	231.0	140.0	441.0

- The Stanford Fund will provide $11.1 million, a 7.8% increase over 2006/07.

Athletic scholarships, which are not need-based, will be awarded to undergraduate students in the amount of $16.3 million, an increase that reflects the cost of tuition.

The table on the previous page shows the detail of undergraduate need-based scholarship aid. Schedules 7 and 8 in Appendix B provide supplemental information on undergraduate financial aid.

Graduate Aid – Stanford provides several kinds of financial support to graduate students which is expected to total $273.0 million in 2007/08. As the table above indicates, this includes the tuition component of fellowships in the amount of $72.2 million, which is reflected in the Financial Aid line of the Consolidated Budget. Financial aid for graduate students is expected to increase by 5.0%, consistent with the planned increases in tuition in the various graduate programs. It also includes funding, not shown in the Financial Aid line of the budget, for stipends, tuition allowance, and RA and TA salaries of $200.8 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 4.4% in 2006/07; tuition allowance expense is expected to increase by 5.0%.

Graduate student support is funded by all of Stanford's various fund types, with the exception of auxiliary funds. In aggregate, unrestricted funds (general funds and designated funds) contribute a little less than 30.0%, restricted funds support about 40.0%, and grants and contracts supply the remaining 30%. However, the patterns of funding vary substantially within the schools. Not surprisingly, grants and contracts provide a significantly higher proportion of graduate student funding in the research intensive schools like Medicine and Engineering. The professional schools rely almost exclusively on restricted funds. Schedule 4 in Appendix B shows graduate student support by school and by source of funds.

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 about 31% of the total expenditures in the Consolidated Budget and is projected to increase by 2.9% to just over $1 billion in 2007/08. The principal components include materials and supplies ($181 million, of which about one-third is laboratory supplies); professional services ($125 million); other services ($74 million); maintenance and utilities for campus buildings ($155 million); internal debt service ($112 million); research subcontracts ($40 million); capital equipment purchases ($75 million); student stipends ($78 million); and food, entertainment and travel ($76 million).

Utilities and Maintenance – The total cost of utilities is expected to increase from $66.9 million in 2006/07 to $69.1 million in 2007/08. The majority of the cost increase is due to the purchase price of natural gas, which is used in the production of chilled water and steam and is projected to increase almost 17% in 2007/08. Increased debt service for the $10.7 million replacement of Chillers 3 and 4 also contributed to the increase. Due to the experience last summer with the unexpected heat wave, costs have been budgeted for a temporary chiller plant in the summer as a contingency measure. These expense increases were offset by savings in overhead expenses charged to utilities service centers due to a revised methodology of allocating these expenses across facilities operations.

Maintenance and repair costs are budgeted at $86 million in 2007/08. The facilities operations group within the Land, Buildings and Real Estate 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, while Residential & Dining Services provides the services internally.

An incremental $3.2 million was allocated in general funds for maintenance and utilities for new buildings and renovations. The majority ($2.2 million) is related to the new Environment and Energy Building, which is projected to be completed in November, 2007. Other new buildings funded include Parking Structure 6, the East Campus Childcare building, and the Public Safety building.

Internal Debt Service – The 2007/08 internal debt service is projected to be $135.2 million, a $3.9 million increase over 2006/07. The year-over-year increase is due primarily to two large projects completing in 2007/08. The first is the Environment and Energy building, which is located in the new science and engineering quad and is one of eight new buildings planned as part of the Science, Engineering, and Medical Campus. The second is the renovation of the Old Union complex.

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 2007/08 is 5.7%, which is a four basis point decrease from the current year's rate.

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 endowment principal as funds functioning as endowment (FFE), to plant funds, and to student loan funds. Total transfers of $108.0 million are planned in 2007/08. Of this total, $61.4 million will be transferred to (or withdrawn) from FFE, led by the Provost's intention to transfer $40.0 million from his designated reserves to FFE in the School of Humanities and Sciences and the School of Medicine's plan to transfer $21.7 million. Collectively, the schools will transfer $38.5 million to plant funds to be used to help build the Sciences, Engineering, and Medicine Campus, and the remainder of the university will transfer an additional $35.4 million to plant funds for a variety of capital projects. We expect an additional $2.7 million will move to student loan 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 Management (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 $12.7 million of internal revenue flowing into the Consolidated Budget, primarily from capital plant funds, which 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 and generally net to zero.

GENERAL FUNDS

The general funds budget is an important element of the Consolidated Budget because general funds can be used for any university purpose. The main sources of these 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 in 2007/08 is projected to be $861.8 million, of which $133.8 million flows to the formula schools per the negotiated formula arrangements.

The 2007/08 budget process began with a projected general funds surplus. As was the case last year, this strong positive outlook is due in large part to the continued strong performance of the university endowment. It is also bolstered by the new infrastructure charge policy, which will be in its third year in 2007/08, and by the growth in tuition revenue due to the 5.5% tuition rate increase. Offsetting these positive trends somewhat is a flat indirect cost recovery forecast.

Strong endowment returns are also providing additional revenue for the schools and other units that control significant endowments of their own. Thus, many new or expanded academic activities can be funded with local resources rather than with incremental general funds. The Provost therefore directed all budget units to incorporate internal reallocations and other coinvestments into their funding plans for new programs and initiatives. In addition, schools were asked to discuss the role of the $4.3 billion Stanford Challenge in their short-term and long-term funding models. General funds were allocated only after fund raising opportunities were considered.

For the third consecutive year, the Provost set aside funds as an unallocated base surplus to serve as a buffer against any unfavorable economic developments and also to be used to support one-time demands on general funds. For 2007/08 the budgeted unallocated surplus is $10.0 million.

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. This year there was particular focus on local resources. In total, the units requested $40 million in incremental base general funds.

As always, the Budget Group was challenged to balance the desire to fund compelling academic initiatives with the need to fund necessary compliance, systems, and facilities costs. The need of the administrative units in comparison to that of the academic units has grown in recent years. While the schools are able to leverage endowment payout to grow their operations, administrative units typically rely entirely on general funds. In addition, the growth of the academic programs puts added pressure on the administrative side as the volume of support activities increases.

The budgeting process has resulted in the Provost funding about two-thirds of the $40 million requested, in addition to $6 million of prior-year incremental commitments and $14.8 million of inflation cost rise. In total, non-formula general funds allocations will increase $46.9 million (7.1%) in 2007/08.

Significant funds are being directed to several areas of focus in 2007/08.

Faculty Recruitment, Retention, and Salary Support: Beyond the 4.5% competitive faculty salary program, nearly $6.0 million of incremental general funds has been allocated in 2007/08 to address the rapidly intensifying competition to recruit and retain Stanford's world-class faculty. About half of this total will augment faculty salaries in targeted fields. The remainder will be used to structure competitive recruitment and retention packages. In recent years, some schools have had to use a significant portion of their faculty salary funds just to retain a relatively small fraction of their faculty. These incremental general funds will help Stanford's schools to retain faculty without compromising their overall faculty salary structure. The Provost has also funded a new child care subsidy program for junior faculty.

Compliance: Last year, the Provost allocated about $2.5 million for a variety of compliance needs across campus. This year, another $2 million has been allocated. As Stanford continues to move into new fields such as stem cell research, the need to expand compliance-related support functions will be ongoing.

Summary of 2007/08 Base General Funds Additions (Excludes Formula Units)

[in thousands of dollars]

	2006/07 Base GF Allocation	Price & Salary Inflation	Additions	2007/08 Base GF Allocation	2006/07 to 2007/08 Increase
School of Earth Sciences	4,527	53	100	4,680	3.4%
School of Education	11,289	380	614	12,283	8.8%
School of Engineering	48,921	1,611		50,532	3.3%
School of Humanities & Sciences	126,911	3,711	4,685	135,307	6.6%
School of Law	15,334	391	546	16,271	6.1%
Dean of Research	29,780	916	1,802	32,498	9.1%
Undergraduate Education	17,872	457	132	18,461	3.3%
Graduate Education			750	750	
Stanford University Libraries	42,224	1,265	1,343	44,832	6.2%
Total - Academic	296,858	8,784	9,972	315,614	6.3%
Office of Admission and Financial Aid	8,392	271	640	9,303	10.9%
Student Affairs	19,615	690	346	20,651	5.3%
Office of the President & Provost	13,796	440	180	14,416	4.5%
Office of Public Affairs	5,719	182	568	6,469	13.1%
Business Affairs[1]	47,356	1,496	1,465	50,317	6.3%
Business Affairs - Information Technology	51,935	1,612	3,390	57,487	10.7%
Development and Alumni Association	36,402	1,165	1,862	39,429	8.3%
Land & Buildings[2]	45,203	1,440	419	47,062	4.1%
Other Administrative Units[3]	11,503	364	867	12,734	10.7%
Total - Administrative	239,921	7,660	10,287	257,868	7.5%
Undergraduate Scholarship Aid	10,648	(3,137)	5,475	12,986	22.0%
Incremental O&M and Utilities			3,188	3,188	
Debt Service	28,192		1,547	29,739	5.5%
Central Obligations[4]	89,304	1,533	1,597	92,434	3.5%
Total - Other	128,144	(1,604)	11,807	138,347	8.0%
Total Non-Formula Units	664,923	14,840	32,066	711,829	7.1%
Unallocated Surplus	9,917			10,000	
Total Non-Formula General Funds	674,840			721,829	

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. In addition, for this table, utilities, insurance, and fire contract allocations have been included in this line.

Systems: For 2007/08, systems-related activities have been allocated $4.1 million of incremental funds. Of this amount, $3.0 million completes a multiyear process to fund adequately the administrative systems group. In addition, $550,000 will fund proposal development and proposal tracking for the Stanford Electronic Research Administration project, and a commitment management system.

Outreach: About $3.1 million has been allocated for outreach activities, including over $1.5 million for base buildup of the Office of Development in anticipation of the Stanford Challenge fund-raising campaign. Other outreach funding includes $640,000 for admissions outreach programs, about $600,000 for the Office of Public Affairs (mostly to provide additional base support of Lively Arts), and $300,000 for the Alumni Association to expand its marketing efforts.

Undergraduate Financial Aid: As discussed in detail under Financial Aid, enhancements to the financial aid program for middle-income students will require incremental general funds of $5.5 million.

Other: Approximately $4.4 million is being allocated to a variety of academic and student support activities. Highlights include $1.3 million to Stanford University Libraries & Academic Information Resources (SULAIR) for library materials, e-books, digitalization, and staffing; $800,000 for graduate aid funding in support of the new Vice Provost for Graduate Education; and a block allocation to be used, in part, to fund activities in the independent labs.

As always, general funds have been committed to cover the incremental debt service, O&M, and utilities on new buildings. For 2007/08, this amount totals $4.7 million.

PROJECTED STATEMENT OF ACTIVITIES

In addition to its requirement to manage funds in accordance with donor imposed restrictions, Stanford also presents a Statement of Activities, prepared in accordance with Generally Accepted Accounting Principles (GAAP), to comply with external reporting requirements. The Statement of Activities summarizes all changes in net assets during the year (both operating and non-operating)and is similar to a corporate income statement. The table on the facing page compares the Consolidated Budget for Operations with the projected operating results section of the Statement of Activities.

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

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

Comparison of Consolidated Budget and Statement of Activities, 2007/08
Unrestricted Net Assets
[in millions of dollars]

Statement of Activities 2005/06 Actual	Statement of Activities 2006/07 June 2006 Budget	Statement of Activities 2006/07 Projected Year-End		Fiscal Year 2007/08 Projected Consolidated Budget	Fiscal Year 2007/08 Adjustments	Fiscal Year 2007/08 Projected Statement of Activities
			Revenues and Other Additions			
			Student Income:			
213.4	224.9	225.4	Undergraduate Programs	237.8		237.8
210.4	220.1	222.7	Graduate Programs	232.9		232.9
95.3	98.8	99.4	Room and Board	103.2		103.2
(142.9)	(152.7)	(155.0)	Student Financial Aid[e]		(169.4)	(169.4)
376.2	391.1	392.5	Total Student Income	573.9	(169.4)	404.5
			Sponsored Research Support:			
523.9	541.3	523.5	Direct Costs–University	534.0		534.0
298.0	345.4	379.0	Direct Costs–SLAC	338.1		338.1
172.2	175.6	177.7	Indirect Costs	185.9		185.9
994.1	1,062.3	1,080.2	Total Sponsored Research Support	1,058.0		1,058.0
316.3	327.2	349.6	Health Care Services[f]	402.1	(29.6)	372.5
167.7	152.0	170.0	Expendable Gifts In Support of Operations	175.0		175.0
94.1	75.0	95.0	Net Assets Released from Restrictions	80.0		80.0
			Investment Income:			
534.7	585.8	612.6	Endowment Income	699.7		699.7
74.1	94.8	97.5	Other Investment Income[g]	127.9	(32.5)	95.4
608.9	680.6	710.1	Total Investment Income	827.6	(32.5)	795.1
318.5	302.6	329.4	Special Program Fees and Other Income[j]	333.2	5.0	338.2
2,875.7	**2,990.8**	**3,126.8**	**Total Revenues**	**3,449.8**	**(226.5)**	**3,223.3**
			Expenses			
1,472.5	1,594.1	1,602.8	Salaries and Benefits[d,g,j]	1,742.3	(16.0)	1,726.3
298.0	345.4	379.0	SLAC	338.1		338.1
			Capital Equipment Expense[b]	74.6	(74.6)	
198.0	203.0	209.0	Depreciation[c]		222.1	222.1
			Financial Aid[e]	169.4	(169.4)	
765.5	803.6	805.7	Other Operating Expenses[f,g,h,j]	941.4	(115.4)	826.0
2,735.0	**2,946.1**	**2,996.5**	**Total Expenses**	**3,265.8**	**(153.3)**	**3,112.5**
140.7	**44.7**	**130.3**	**Operating Results**	**184.0**	**(73.2)**	**110.8**
			Transfers			
			Additions to Assets[a]	(138.1)	138.1	
			Net Internal Revenue/Expense[i]	12.9	(12.9)	
			Total Transfers	**(125.2)**	**125.2**	
140.7	**44.7**	**130.3**	**Operating Results After Transfers**	**58.8**	**52.0**	**110.8**

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 $138.1 million of current funds to other fund groups, including plant, student loans, and funds functioning as endowment.

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 as an asset on the Statement of Financial Position. As a result, $74.6 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 $222.1 million of expense.

d) Adjust Fringe Benefit expenses. The Consolidated Budget reports 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 2007/08, GAAP expenses are expected to be higher than budgeted expenses by $5.8 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, $169.4 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 $29.6 million from Other Operating Expenses to Health Care Services revenues.

g) Adjust for Internal Investment Management Expenses. Included in the Consolidated Budget revenues and expenses are $32.5 million of internal expenses of the Stanford Management Company, Real Estate Operations and the Investment Accounting department. For GAAP purposes, these expenses incurred as part of the generation of investment returns are netted against investment earnings. This adjustment reduces Other Investment Income, as well as $24.3 million from compensation and $8.2 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 repayments of debt are reported as reductions in Notes and Bonds Payable 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 $80.1 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 $12.9 million from plant funds into the Consolidated Budget for purchases of internal services must be eliminated.

j) Include Stanford Sierra Camp. The Statement of Activities includes the revenues and expenses of the Sierra Camp that the Alumni Association runs as a separate limited liability corporation. $5.0 million in revenues and $5.0 million in expenses gets added ($2.5 in Salaries and Benefits and $2.5 in Other Operating Expenses).

In summary, the impact of these adjustments increases the Consolidated Budget's projected $58.8 million surplus by $52.0 million, resulting in a projected surplus of $110.8 million in the Statement of Activities.