CONSOLIDATED BUDGET FOR OPERATIONS

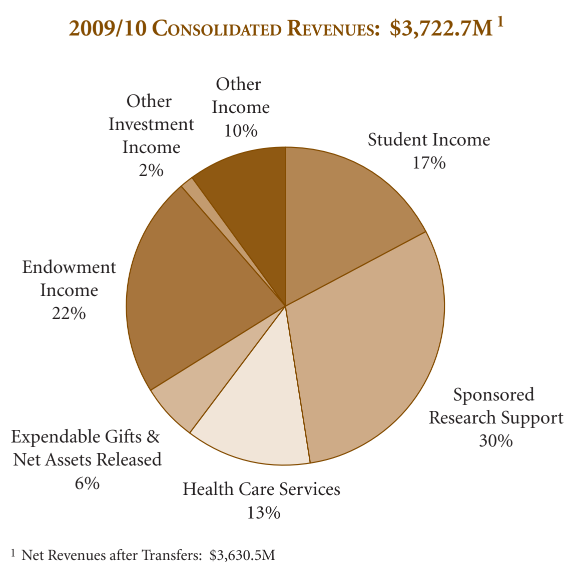
In this section we review the details of the 2009/10 Consolidated Budget for Operations, describe the general funds allocation process and results, and present a forecasted Statement of Activities.

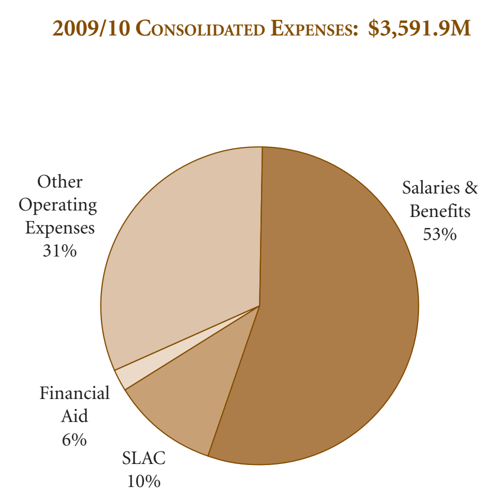
CONSOLIDATED BUDGET FOR OPERATIONS

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 payout of endowment income.

The 2009/10 Consolidated Budget for Operations shows total revenues of $3,723 million and expenses of $3,592 million, resulting in a net operating result of $131 million. However, after estimated transfers, primarily to plant funds, the Consolidated Budget shows a surplus of $38.6 million.

Total revenues in 2009/10 are projected to be virtually unchanged from the expected 2008/09 levels, decreasing by only $16 million. However, the real story of revenue change is revealed when the individual sources of revenue are considered. Total sponsored research is expected to increase substantially with the availability of federal stimulus funds; student income will rise at levels comparable to previous years; special program fee income will remain fairly constant; and expendable gifts and investment income are expected to decrease substantially. These changes are described in the revenue section below. Total expenses are expected





Consolidated Budget for Operations, 2009/10

[in millions of dollars]

2007/08 Actuals	2008/09 Budget June 2008	2008/09 Projected Actuals		General Funds	Designated	Restricted	Grants and Contracts	Auxiliary & Service Center Activities	Total
			Revenues						
			Student Income:						
241.3	251.6	252.4	Undergraduate Programs	265.6					265.6
235.1	243.1	247.6	Graduate Programs	256.9	4.0				260.9
105.0	107.6	109.9	Room and Board					118.3	118.3
581.4	602.3	609.9	Total Student Income	522.5	4.0			118.3	644.8
			Sponsored Research Support:						
526.8	555.3	529.4	Direct Costs–University				566.5		566.5
351.0	318.4	325.1	Direct Costs–SLAC				370.2		370.2
169.0	185.9	172.6	Indirect Costs	192.5					192.5
1,046.8	1,059.6	1,027.1	Total Sponsored Research Support	192.5			936.7		1,129.2
418.1	418.3	461.5	Health Care Services	21.6	378.5	11.3		61.1	472.5
185.0	200.0	150.0	Gifts In Support of Operations	2.0		148.0			150.0
92.3	80.0	75.0	Net Assets Released from Restrictions			75.0			75.0
			Investment Income:						
881.5	977.1	933.1	Endowment Income	113.2		716.4			829.6
136.4	136.0	124.1	Other Investment Income	2.0	49.2	4.9	0.7		56.8
1,017.9	1,113.1	1,057.2	Total Investment Income	115.2	49.2	721.3	0.7		886.4
353.5	350.7	357.8	Special Program Fees and Other Income	9.5	243.0	0.9		111.4	364.8
3,695.0	**3,824.0**	**3,738.5**	**Total Revenues**	**863.3**	**674.7**	**956.5**	**937.4**	**290.8**	**3,722.7**
			Expenses						
1,723.2	1,851.8	1,859.9	Salaries and Benefits	498.0	474.6	396.2	327.3	207.1	1,903.2
350.8	318.4	325.1	SLAC				370.2		370.2
176.5	204.0	205.6	Financial Aid	11.1	4.0	185.2	18.0		218.3
1,081.5	1,144.8	1,085.1	Other Operating Expenses	213.2	236.6	195.3	194.7	260.4	1,100.2
3,332.0	**3,519.0**	**3,475.7**	**Total Expenses**	**722.3**	**715.2**	**776.7**	**910.2**	**467.5**	**3,591.9**
363.0	**305.0**	**262.8**	**Operating Results**	**141.0**	**(40.5)**	**179.8**	**27.2**	**(176.7)**	**130.8**
			Transfers						
(0.8)	(6.4)	(79.2)	Additions to Endowment Principal	0.6	(16.5)	38.5		0.8	23.4
(296.9)	(193.9)	(140.3)	Other Transfers to Assets	(14.4)	(65.0)	(55.2)			(134.6)
33.3	25.4	39.6	Net Internal Revenue / Expense	(86.8)	115.5	(159.5)	(27.3)	177.2	19.0
(264.4)	**(174.9)**	**(179.9)**	**Total Transfers**	**(100.6)**	**34.0**	**(176.2)**	**(27.3)**	**178.0**	**(92.2)**
98.6	**130.1**	**82.9**	**Operating Results after Transfers**	**40.4**	**(6.5)**	**3.6**	**(0.1)**	**1.3**	**38.6**
			Beginning Fund Balances	59.8	957.7	776.0	(4.0)	4.8	1,794.3
			Ending Fund Balances	100.2	951.2	779.6	(4.1)	6.1	1,832.9

to grow by 3.3% over the estimated year-end results for 2008/09 due to increased sponsored research activity and financial aid. But total transfers are expected to be down by nearly fifty percent, allowing for the forecast surplus. The table on the facing page shows the projected consolidated revenues and expenses for 2009/10. For comparison purposes, it also shows the actual revenues and expenses for 2007/08 and both the budget and the year-end projections for the current fiscal year, 2008/09. In addition, definitions of key terms are provided below.

The Consolidated Budget by Principal Revenue and Expense Categories

Revenues

Student Income

Student income is expected to increase by 5.7% in 2009/10 to $644.8 million. Increases in student charges for next year were guided by a number of considerations: the impact of the economic downturn on Stanford's budget, the impact of the economy on the families of our students, and our pricing position against our peers.

Tuition and fees – Stanford expects to generate $526.5 million in tuition and fee revenue in 2009/10, a 5% increase over 2008/09. This increase is higher than the 3.75% general tuition rate increase due to a small increase in student numbers and the implementation of a health service fee for students.

Starting with the fall 2009 quarter, Stanford will charge all resident students a Campus Health Service Fee of $167 per quarter. The mandatory fee will apply to all undergraduate and graduate students—as well as visiting researchers—enrolled at the university. This includes students participating in high school summer programs that result in course credit at Stanford. The fee will cover basic services at Vaden Health Center, including primary care medical visits, psychological evaluation and short-term therapy, and access to health and wellness programs. Fees for campus health services are common at many universities, including many of Stanford's peer institutions.

Tuition and fees represent only 17.3% of Stanford's total revenue but 61% of general funds. In addition to supporting faculty and staff salaries and other direct academic program needs, tuition plays a crucial role in funding infrastructure, support services, and other operational activities.

The general tuition rate increase for 2009/10 is 3.75%, which results in a rate of $37,380 for undergraduates and most graduate students, and was approved by the Board of Trustees in February. While the rate increase

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.

is slightly higher than the previous year, we expect it will not significantly affect our position relative to the competition. After a 3.5% tuition increase in 2008/09, Stanford moved down five positions to 43rd in a ranking of tuition charges in a survey of 95 private institutions by Cambridge Associates. Among the tuition rates of the highly selective private colleges and universities that comprise the Consortium on Financing Higher Education (COFHE), Stanford's tuition currently ranks 15th among the 17 COFHE universities. The 3.75% 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, Law, and Medicine. The Graduate School of Business (GSB) will increase the rate for entering MBA students by 4.9%, continuing its practice of holding second year MBA tuition constant. For the third consecutive year, terminal graduate registration (TGR) will not increase.

Tuition revenue from undergraduate programs is expected to grow 5.2%, and graduate program revenue is expected to increase by 5.4%. Total fee income will increase from $10.3 million in the current year to $16.9 million in 2009/10, a 63.8% increase.

Room and Board – In February, the Trustees approved a combined room and board rate increase of 2.5% for 2009/10, bringing the undergraduate rate to $11,463. The room rate will increase by 3.4%, and the board rate will increase by 1.4%. We expect that these rates will sustain Stanford's cost of housing ranking in the lower quartile of the COFHE institutions and will continue to lower Stanford's dining ranking, bringing it closer to the median. The lower combined room and board rate will provide a greater perceived value to students and parents. The 2009/10 recommended increases in room and board rates were developed under the following Residential and Dining Enterprises (R&DE) guiding principles and operational goals: sustain operations with a reserve-to-expense ratio of at least 2.0%; fund modest increases for the asset renewal and preservation program; and renovate and repurpose Crothers Hall and Crothers Memorial Hall in support of the Housing Master Plan. The proposed rates will allow R&DE to operate with a balanced budget, but only after they make a number of budget reductions that will be roughly comparable to those of other organizations in the university. Overall room and board revenue will grow by 7.6%, driven up by the impact of the new 600-bed Munger Graduate Residences.

Sponsored Research Support and Indirect Cost Recovery

The budget for sponsored research support is projected to be $1,129.2 million in 2009/10. This figure includes the direct costs of externally supported grants and contracts ($566.5 million for university research and $370.2 million for SLAC), as well as partial reimbursement for indirect costs ($192.5 million) incurred by the university in support of sponsored activities. Sponsored research is projected to generate 30% of the university's consolidated operating revenues in 2009/10, significantly higher than the 27% ratio projected for 2008/09. Unfortunately, part of the reason sponsored research revenues will be a larger share of total revenues is that the largest source of non-sponsored revenue (investment income) is expected to decline in 2009/10. Still, as shown in the chart on the next page, non-SLAC research volume is expected to experience a healthy 7% increase in 2009/10, following a handful of years with declining or essentially flat sponsored research activity.

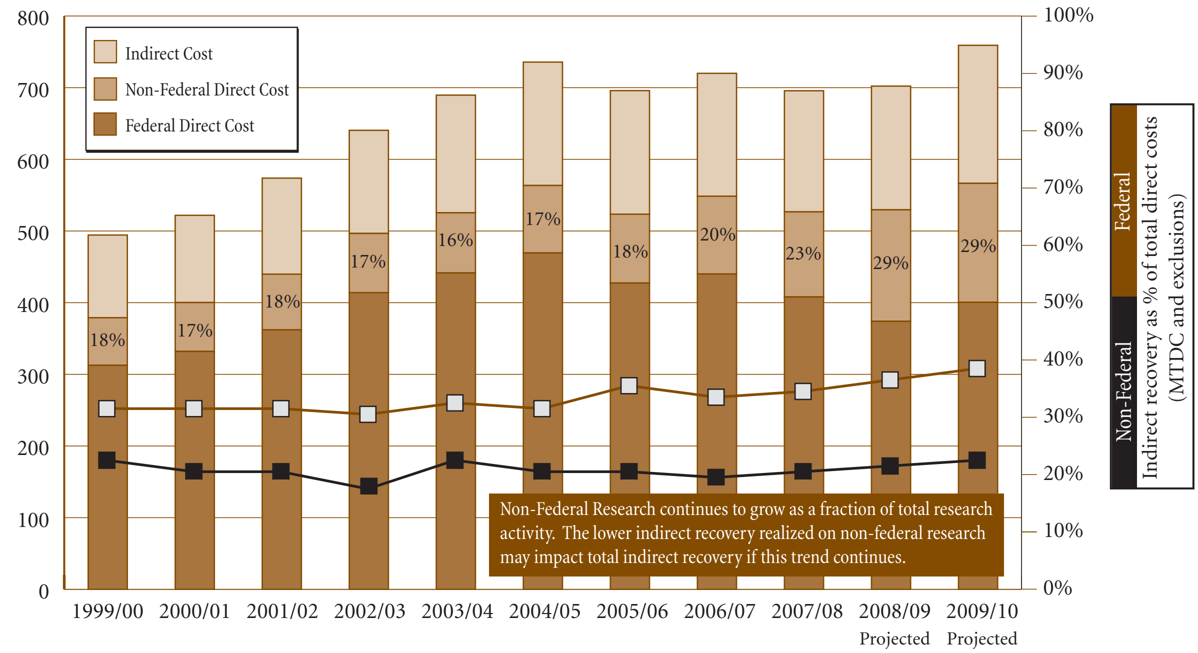
The federal economic stimulus bill, the American Recovery and Reinvestment Act (ARRA), is a major driver in the projected upsurge in sponsored research volume. ARRA funding flowing through the National Institutes of Health (NIH) is expected to increase research activity in the School of Medicine, and SLAC has already received a $68 million allocation of stimulus funds from the Department of Energy. Other units are less sanguine about their opportunities for ARRA funding, partly due to limits on the number of proposals that can be submitted from each institution.

One bright spot in the realm of non-federal support is the California Institute for Regenerative Medicine (CIRM), from which the School of Medicine has received new awards for stem cell research. With this CIRM funding and the NIH stimulus funding mentioned above, the school is anticipating a nearly 14% increase in research volume in 2009/10. The medical school comprises nearly 60% of non-SLAC research; the large increases there will counterbalance the modest growth (approximately 1%) in Non-Medicine direct research, leading to the overall direct research increase of 7%.

The chart on the next page shows Stanford's non-SLAC research funding over the past ten years and highlights a recent trend: the increasing percentage of direct research support coming from non-federal sources. That ratio was 17% as recently as 2004/05

University Sponsored Research Activity (Excluding SLAC)

[in millions of dollars]



but is expected to be 29% in the current year. We do not expect the fraction to continue to increase in 2009/10 because of the declines in granting foundations' endowments and the offsetting availability of federal stimulus funding. Nonetheless, this shift could have important implications on future indirect cost recovery, as most non-federal research sponsors either pay no or greatly reduced indirect costs compared to the federally negotiated rate. In the short run, we expect stronger indirect recovery for two reasons: 1) the federal indirect recovery rate on new awards increased from 58% to 60% in 2008/09, so an increasing percentage of research activity will recover indirect costs at this higher rate in 2009/10, and 2) the increases in overall direct research volume mentioned above. The combination of these factors will yield non-SLAC indirect cost recovery in 2009/10 of $192.5 million, an 11% increase over 2008/09.

The Department of Energy continues to provide virtually all of the funding for SLAC (97%). Total direct costs for SLAC are expected to increase by about $45 million in 2009/10, which means that absent $68 million of stimulus funding, SLAC research volume would be decreasing. This decline is not unexpected, though, as recent volume was inflated by the construction of the Linac Coherent Light Source facilities. SLAC research activity is discussed in more detail in Section 2.

Health Care Services

Health Care Services income is budgeted to be $472.5 million in 2009/10, a 2.4% increase over the projection for 2008/09. The majority of this income ($421.6 million) is in the School of Medicine, including $356.8 million paid by Stanford Hospital and Clinics and Lucile Packard Children's Hospital related to the clinical practices of the faculty and $11.3 million paid by Lucile Packard Children's Hospital for the Children's Health Initiative Gift and Match programs. Another $35.8 million is generated by the Stanford Blood Center. Also included are $17.7 million of hospital payments to the Medical School for rent and use of the library and other non-clinical programs and services. In addition, the hospitals pay the university for a number of university provided services, including $16.7 million to Business Affairs IT primarily for communications services; $7.2 million to the Office of the General Counsel for legal services; $11.6 million to Land, Buildings and Real Estate for operations and maintenance and utilities; and $15.4 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 $150.0 million in both the current year and 2009/10, a drop of nearly 20% from the actual gift revenue in 2007/08. The drop in gift receipts reflects the current economic climate and our expectation of a slow recovery. Expendable gifts are those immediately available for purposes specified by the donor and do 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 2009/10, 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.

Investment Income

This is a complicated category to project in the current economic environment due to the uncertainty of the financial markets and to the intricacies of both Stanford's internal financial policies and how donor restrictions affect payout in a down market.

Endowment Income – Endowment payout to operations in 2009/10 is expected to be $829.6 million, a decrease of 11.1% over 2008/09. In 2008/09 Stanford's endowment is expected to lose at least 30% of its market value, the largest single year decline in our recent history. For many years Stanford has used a smoothing formula to dampen the impact on the budget of large annual fluctuations in the market value. While the smoothing rule would slowly force the payout to decrease commensurate with the decline in the endowment market value, the full effect of the decline would be drawn out over the next five years, even with a return to normal investment returns. Due to the severity of the drop in the market value and the likelihood of a slow recovery, we suspended use of the smoothing rule for the next two years. Because a reduction in the payout of 25-30% is all but inevitable given the decline in market value, we believe it is wiser to take more of the decrease in the early years, so that we can reach a new baseline as quickly as possible. Therefore, we set the payout per share from funds invested in the Merged Pool so that endowment payout will decrease 10.0% for an individual fund. It is currently our intention to recommend a further decrease in the payout in 2010/11 of 15%, resulting in a two-year decline of roughly 25%.

Another factor affecting endowment payout in a down market is the potential loss of payout from funds whose market value drops below the historic value of the original gift. These "underwater" funds may only yield the fraction of the approved payout that is generated from current income, since there is no appreciation in the fund to make up the remainder of the payout. It is not unusual for a new fund in its first year to have insufficient appreciation to make the full, approved payout. However the recent investment losses have spread this problem to older funds as well. Approximately 1,000 funds are projected to be underwater in the current year, creating a projected shortfall in payout in the current year of about $70 million.

Recent changes in the California law relating to endowment funds allow the university to distribute the full payout from an endowment fund regardless of the amount of income and appreciation in the fund, provided the gift terms do not otherwise prohibit such action. We are in the process of contacting donors to request payout from their funds according to the new funds management act. We expect this effort will take time, so we have assumed 25% of currently underwater funds will be able to pay out fully in 2008/09, and 50% will make full payout in 2009/10, reducing the payout shortfall to $50 million.

Total endowment income includes payout from funds invested in the Merged 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 decline to $210 million in 2008/09 and to reach $225 million in 2009/10.

Of the total endowment income, $113.2 million, or 13.6%, is unrestricted. The fraction of endowment that is unrestricted will drop significantly in 2009/10 with the assumed loss of the Tier I Buffer. The Tier I Buffer is a collection of unrestricted funds functioning as endowment valued at roughly $550 million at the end of 2008/09. These funds serve as a buffer against shortfalls in investment returns in the expendable funds pool (EFP). Due to this years' investment loss we expect them to be exhausted to make whole the EFP payout in the current year and to maintain the value of the funds invested in the EFP. Elimination of the Tier I Buffer will result in the loss of $42.1 million in unrestricted endowment payout in 2009/10. More detail on the university's EFP payout policy and the financial impact on the consolidated budget are in the next section.

Unrestricted endowment income includes payout from unrestricted merged pool funds as well as most of the income generated from Stanford endowed lands. The unrestricted portion of endowment payout is expected to decrease by 32.6% in 2009/10, due to the loss of the Tier I Buffer payout and the 10% decline in the remaining unrestricted merged funds

Other Investment Income – Other investment income comes from 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 distributed to support the Stanford Management Company and the real estate division of Land, Buildings and Real Estate. 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 $2.0 billion.

Payout from the EFP is governed by a trustee policy with recently approved revisions effective September 1, 2009. Under the new policy between 70% and 90% of the EFP will be cross-invested in the merged pool, with the remaining portion invested in money market instruments. The full policy is outlined in the Expendable Funds Investment, Payout and Buffer Policy adopted by the Board of Trustees in April 2009.

Approximately 75% of the funds in the EFP receive no payout directly to the fund. Rather, a variable payout of 0% to 5.5% on these zero-interest accounts is paid to general funds both centrally and in the formula schools. The rate paid is based on the actual EFP investment returns during the prior fiscal year. Certain types of funds invested in the EFP receive an annual payout equal to a money-market return. These so-called money-market accounts include the debt recycling pool, insurance and benefits reserves, student loan funds, plant funds, agency funds, gifts pending designation, and certain restricted gifts. Differences between the stipulated payout and actual investment returns are buffered by the Tier I and Tier II Buffers.

EFP payout is expected to drop 6.2% to $78.4 million in 2008/09 under the current payout policy, which guarantees a payout rate of 5.5% on the zero-interest accounts. The decline in payout is due to a drop in the rate paid to the money-market accounts. In 2009/10 total EFP payout drops precipitously to $8.8 million under the revised payout policy, due to the losses in the EFP anticipated in 2008/09.

The EIFP is approximately $200 million and is invested entirely in money market instruments. Income from this source is budgeted at $4.4 million in 2009/10 assuming a money-market rate of 2.0%. Remaining investment income, including SHAC and the Stanford Management Company, is expected to add $48.0 million in 2009/10.

Total other investment income is expected to decrease by 54.2% to $56.8 million in 2009/10.

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, other than 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 $364.8 million in 2009/10, a modest increase of 2.0% over the expected level in 2008/09.

Expenses

Salaries and Benefits

The salary and benefits line in the Consolidated Budget for Operations represents total compensation, which includes academic, staff, and bargaining unit salaries, fringe benefits, tuition benefits for research and teaching assistants, and other non-salary compensation such as bonuses and incentive pay. Total compensation in 2009/10 is budgeted to be $1,903.2 million, a 2.3% increase over the year-end projection of $1,859.9 million. The salaries and benefits line does not include

$199.7 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 – Total salary expense is expected to grow by 1.3% in 2009/10 to $1,352.3 million. We expect total employee headcount to remain flat as the result of layoffs due to budget reductions, offset by anticipated increases in staff supported by additional research funding.

Due to the severity of the budget outlook, the competitive merit salary program was eliminated for both faculty and staff. However, a small amount of funding is budgeted for faculty promotions and retentions. Ordinarily, the annual salary program is guided by the university's compensation philosophy, which is to set faculty salaries at a level that will maintain Stanford's competitive position both nationally and internationally for the very best faculty and to set staff salaries to be competitive within the local employment market. We do not expect, however, that the salary freeze will significantly impact our competitive position in the current economic environment.

Fringe Benefits – The benefits rate for regular benefits-eligible employees, which covers most university employees and comprises most of Stanford's benefits costs, is projected to increase from 28.1% to 30.5% in 2009/2010. The underlying rate, without carry-forward, is projected to increase by 1.6 points. The rate for post-doctoral affiliates will increase from 20.7% to 21.6%. The rate for graduate research and teaching assistants will increase from 4.6% to 5.0%. The rate for contingent employees will increase from 7.7% to 8.5%.

The increase in the benefits rate for regular benefits-eligible employees in 2009/2010 is mainly due to the continuing increase in health care costs, which will add nearly 1.3 points to the rate in 2009/2010. The medical cost for active regular employees is expected to increase by 10% or $10.3 million. The retiree medical insurance cost is expected to grow from $15.3 million to $22.8 million.

The costs for the retirement programs are expected to grow by 6% or $11.3 million, which results in an increase in the rate of 0.3 points. Contributions to the Stanford Contributory Retirement Program (SCRP) are expected to grow by 5% or $4.4 million. Stanford's basic contribution to the retirement program begins at 1% after one year of employment and increases 1% per year until it reaches 5%. The increase in retirement costs is mainly due to the continued increase in the basic contributions and the increase in the 403(b) contribution cap. The Faculty Retirement Incentive Plan is expected to increase by 48% or $3.9 million as a result of a one-time transition retirement program implemented in February 2009, which provides an additional six months to one year of salary to faculty who retire before March 2010, depending on years of service. There is also an increase in Social Security taxes due to a slight growth in the employee population and an increase in the Social Security earning cap from $106,800 to $109,500.

The increase in the benefits rate for post-doctoral research affiliates is primarily due to increased health insurance costs, along with smaller increases in workers' compensation and other health and welfare benefits (dental, disability, vision, life).

The increase in the benefits rate for contingent (casual or temporary) employees is mainly due to an increase in workers' compensation and Social Security taxes.

The increase in the benefits rate for graduate research and teaching assistants is due to an increase in health insurance costs. The cost of Cardinal Care is projected to increase by about 4.8% in the coming year. This benefit 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%. Other student salaries such as pay for part-time clerical work during the school year do not incur benefits.

The negotiated 2008/09 and the recommended 2009/10 fringe benefits rates are as follows:

Fringe Benefits Rates

	2008/09 Negotiated Budget	2009/10 Projected Rates
Regular Benefits-Eligible Employees	28.1%	30.5%
Post-Doctoral Research Affiliates	20.7%	21.6%
Casual/Temporary Employees	7.7%	8.5%
Graduate RAs and TAs	4.6%	5.0%
Other Students	0.0%	0.0%
Average Blended Rate	25.9%	28.1%
Tuition Grant Program Recovery Rate	1.75%	1.4%

The Tuition Grant Program (TGP) is charged separately against regular benefits-eligible salaries only. In order

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

Source of Aid	2004/05 Actuals	2005/06 Actuals	2006/07 Actuals	2007/08 Actuals	2008/09 Projected	2009/10 Budget
Department Funds and Expendable Gifts	1.9	1.1	0.9	2.0	2.1	1.2
Endowment Income	32.7	37.2	45.0	67.9	73.9	68.2
President's Funds	9.5	9.8	10.3	5.3	26.4	42.0
General Funds	14.3	12.7	10.2	0.0	0.0	0.0
Subtotal Stanford Funded Scholarship Aid	58.4	60.8	66.4	75.2	102.3	111.5
Government and Outside Awards	13.8	12.1	12.1	12.4	12.2	12.7
Total Undergraduate Scholarship Aid	72.2	72.9	78.5	87.6	114.6	124.2
General Funds as a Share of Total Aid	20%	17%	13%	0%	0%	0%
President's Funds as a Share of Total Aid	13%	13%	13%	6%	23%	34%
Endowment funds as a Share of Total Aid	45%	51%	57%	77%	65%	55%
Number of Students	2,870	2,789	2,769	2,811	3,130	3,235

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 2009/10 are expected to be $370.2 million, about $45 million higher than the projection for 2008/09, due to SLAC's receipt of $68 million of stimulus funds from the American Recovery and Reinvestment Act. The funding will enable SLAC to accelerate the schedule for the Linac Coherent Light Source (LCLS) Scientific Instruments project and deliver LCLS science to the users sooner. Also, an accelerator research project called FACET, that uses the first two-thirds of the Linac to study plasma wakefield acceleration, will move forward. These two projects are of tremendous strategic importance to the Laboratory. Other stimulus funds will be targeted towards seismic upgrades and utilities infrastructure modernization that have been long in the planning, thereby enhancing site infrastructure and safety. The total SLAC budget consists of $199.7 million in salaries and benefits, a 9.0% increase from the $183.2 million projected for 2008/09, and of $170.5 million in other operating expenses, a 20.2% increase from the current year's level.

Financial Aid

Stanford expects to spend a total of $218.3 million on student financial aid for undergraduate and graduate students in 2009/10, $11.1 million of which will come from general funds. Designated and restricted funds ($189.2 million) and grants and contracts ($18.0 million) will support the remainder. The total financial aid numbers are 6.2% above the projected total for 2008/09. This increase is driven by the increases in tuition rates for both undergraduate and graduate students and the impact of the economic downturn on the families of our students.

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, and we are retaining all of the enhancements made to our financial aid program in 2008/09. We estimate that in 2009/10 Stanford students will receive $124.2 million in need-based scholarships, of which $111.5 million will be from Stanford resources, an increase of 7.9% over the projected year-end. The remaining $12.7 million will come from government and outside awards, a slight increase over the current year. It is important to note that undergraduate aid has almost doubled over the past five years, entirely from internal Stanford funds.

While Stanford's financial aid program remains unchanged, we anticipate a substantially larger increase in the cost of the program in 2009/10 than the increase in the cost of attendance. The impact of the challenging economic times on our families means

2009/10 Financial Aid and Other Graduate Student Support from Stanford Resources

[in millions of dollars]

Projected 2008/09 Year-End		General Funds	Designated and Restricted	Grants & Contracts	Total
	Student Financial Aid				
110.1	Undergraduate		111.7	8.0	119.7
17.6	UG Athletic		17.8		17.8
77.9	Graduate	11.1	59.7	9.9	80.8
205.6	Total	11.1	189.2	18.0	218.3
	Other Graduate Support				
52.6	Stipends	7.4	29.2	17.8	54.3
57.1	Tuition Allowance	34.9	6.1	18.3	59.3
72.4	RA/TA Salaries & Benefits	8.4	31.0	35.4	74.8
182.2	Total	50.7	66.3	71.4	188.3
75.6	Postdoc Support	0.6	22.7	54.7	78.0
463.4	Total Student Support	62.5	278.1	144.0	484.6

that we will have more students on aid than ever before: 3,235 students, 105 more than in 2008/09. In addition, simply maintaining our current scholarship programs in 2009/10 will require a 7.9% increase in overall funding, but the mix of that funding will change dramatically. Restricted endowment income is projected to decrease 7.7%, requiring a nearly 60% increase in presidential funds from the Stanford Fund and the Tier II Buffer. Once again, general funds will not be used to support the scholarship budget.

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.

Athletic scholarships, which are not need-based, will be awarded to undergraduate students in the amount of $17.8 million, an increase that reflects the cost of tuition.

Graduate Aid – Stanford provides several kinds of financial support to graduate students that are expected to total $269.1 million in 2009/10. As the table above indicates, this includes the tuition component of fellowships in the amount of $80.8 million, which is reflected in the Financial Aid line of the Consolidated Budget. Financial aid for graduate students is expected to increase by 3.7%, consistent with the planned increases in tuition in the various graduate programs. The table also includes funding, not shown in the Financial Aid line of the budget, for stipends, tuition allowance, and RA and TA salaries of $188.3 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 4. The minimum rate for TA and RA salaries and stipends will increase by 3.2% in 2009/10; tuition allowance expense is expected to increase by 3.75%.

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 29%, restricted funds support about 41%, 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 5 in Appendix B shows graduate student support by source of funds.

Other Operating Expenses

This expense category includes all external non-salary expenditures in the Consolidated Budget for Operations except financial aid, which is detailed separately above. It does not include the internal charges between units (such as the internal billings for IT services and utilities), although it does include the internal allocations of principal amortization and interest expense which are transferred from plant funds. This category makes up about one-third of the total expenditures in the Consolidated Budget and is projected to increase slightly by 1.4% to just over $1.1 billion in 2009/10. The principal components include: materials and supplies ($288 million, of which about one-third are laboratory supplies); contracted outside services, which includes research subcontracts ($249 million); internal debt service ($144 million); food, entertainment, and travel ($88 million); capital equipment and library materials purchases ($70 million); external payments for telecommunications and utilities for campus buildings ($50 million); student stipends ($54 million); services purchased from the hospitals ($44 million); external payments for facilities and equipment operations and maintenance ($30 million); rentals and leases ($29 million); and employee-related expenses ($13 million).

Utilities and Operations & Maintenance – The delivery of utilities to the campus involves three significant components: 1) purchased utilities from outside of the university; 2) capital expenditures; and 3) other expenditures.

Purchased utilities include electricity and natural gas from Cardinal Cogen for generating steam, chilled water, and electricity. Domestic water is purchased from the San Francisco Water District. These purchased utilities represent approximately 58% of the total utilities cost.

Capital expenditures are necessary for system expansion, replacement, controls, and regulatory requirements. The amortization on these capital projects represents approximately 18% of the total utilities cost.

Other expenditures include maintenance, materials, supplies, and staff to operate the utilities systems. These expenses are about 24% of the utilities costs.

Fluctuations in utilities costs are largely related to purchased utilities prices and changes in consumption. Utilities consumption is impacted by weather variations, campus growth, and conservation efforts. Historically, depreciation and other cost components have remained relatively stable.

For 2008/09, budgeted campus utilities of $71.3 million were reforecasted to $63.2 million due to recent significant decreases in the purchase prices of natural gas and electricity. For 2009/10, budgeted campus utilities are expected to increase to $67.7 million. This increase is due to an expected rise in natural gas prices. While electricity prices have increased slightly, the natural gas market remains volatile and difficult to predict over the long-term.

Operations and Maintenance (O&M) includes grounds maintenance, custodial, trash, recycling, elevator repair, gutter maintenance, re-lamping, and other services along with preventive and reactive maintenance on buildings, roads, and infrastructure. Total budgeted O&M for the university is $82 million in 2008/09 and forecasted to be $84 million in 2009/10.

Several areas oversee O&M campus-wide. Land, Buildings and Real Estate (LBRE) provides most of the grounds services for the campus, approximately 54% of the building maintenance and 100% of the infrastructure maintenance (e.g. storm drains and roads). Residential & Dining Enterprises (R&DE) provides the operations and maintenance for approximately 29% of the campus, School of Medicine (SoM) for about 11%, and the Department of Athletics, Physical Education and Recreation (DAPER) for approximately 6% of the campus.

The 2009/10 budget reductions and their impact on O&M vary by group. LBRE plans to reduce the cost of O&M without compromising service levels. Goals to achieve these cost reductions include outsourcing warehouse operations, implementing a new system to drive efficiencies through improved maintenance scheduling, and reducing overtime on reactive maintenance.

R&DE anticipates increased O&M as a result of the completion of the Munger Graduate Residences. These increases will be largely offset with cost savings and efficiency strategies, the implementation of which will not affect student life safety and health in the residences.

The budget reductions will adversely impact DAPER's O&M expenditures, bringing them below 2005/06 levels.

An incremental $3.4 million was allocated in general funds for maintenance and utilities for new buildings and renovations. Included in this amount is funding for the Huang Engineering Center and the Center for Nanoscale Science and Technology (including connective elements), the Gunn Building, the Peterson Renovation, the Visitor Center/Track Bleachers, the Automotive Innovation Facility, and other facilities.

Internal Debt Service – The 2009/10 internal debt service is projected to be $143.8 million, a 4.0% increase over 2008/09. It excludes debt service incurred to bridge finance the receipt of gifts and annual lease payments. The year-over-year increase is due primarily to the debt service on the Rosewood Sand Hill Hotel and the completion of the Munger Graduate Residences.

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 interest expense on debt Issued for capital projects, bond issuance costs, and administrative costs, and is reset annually. The projected blended rate for 2009/10 is 5.0%, which is a decrease from the current year's rate of 5.2%.

Debt for Liquidity – In order to ensure adequate liquidity and working capital in light of the estimated decline in the overall value of the university's investments, Stanford issued $1.0 billion of new taxable debt in late April. While the proceeds are not required today, having them available provides the university with the capacity to address potential changes in economic conditions. Approximately $200 million of the $1.0 billion will be used to convert taxable commercial paper to fixed rate debt, which will restore capacity to the $350 million authorized taxable commercial paper program. The $800 million balance will be invested in an instrument, separate from other university funds, which is expected to earn a modest income and partially offset the $36 million of incremental debt service. Because the specific funding source for the amount of debt service not offset by the investment income has not yet been identified, neither the income nor the debt service expense is included in the forecast for the Consolidated Budget for Operations.

Transfers

Once current expenses are netted from current revenues, funds are also transferred between units, between fund types, and out of the Consolidated Budget for Operations. The end results are the changes in fund balances, representing what is expected to happen to available fund balances.

The schools, administrative departments, and central administration authorize movements of funds out of operations to create other types of assets. These assets include student loan funds, funds functioning as endowment (FFE), capital plant projects or reserves, and funds held in trust for independent agencies such as the Howard Hughes Medical Institute, the Carnegie Institution, and the Associated Students of Stanford University. These transfers to and from Assets vary widely from year to year, and a single transaction can greatly affect these numbers. Using information provided by budget units, and combining that information with our own knowledge of central administration commitments, the Consolidated Budget for Operations adds or subtracts these transfers from the operating results (revenues less expenses).

- Additions to Endowed Principal: This line includes transfers of either expendable funds to endowment principal which creates funds functioning as endowment (FFE), or withdrawals of FFE to support operations. In 2009/10 we are projecting that a net $23.4 million will be withdrawn from FFE to support current operating needs. This compares to a projected $79.2 million transfer from current funds to FFE in 2008/09, a swing of $102.6 million. The 2009/10 amount represents $24.5 million of current funds or fund balances transferred to FFE, offset by an anticipated $45 million needed to be transferred from the president's Tier II Buffer for a variety of university priorities. The majority of the $24.5 million transferred to FFE are in the School of Medicine, where $18.0 million is expected to be transferred primarily from designated funds (including $10.0 million of Capital Facilities Fund to be invested in FFE), with another $4.5 million being transferred by the Hoover Institution, and $2.5 million transferred from the School of Earth Sciences (representing reinvestment of Pooled Income Fund income). The difference from 2008/09 is primarily attributable to three things: there is no anticipated drawdown of Tier II Buffer principal to cover commitments for 2008/09; $20 million was transferred in 2008/09 from the Google Proceeds to create an endowed chair and there is no anticipation for this in 2009/10; and the School of Medicine is projecting a transfer of $31.3 million in 2008/09, compared to the $18.0 million figure for 2009/2010.

- Other Transfers to Assets: The transfers in this category are primarily to plant for capital projects. Total transfers of $134.6 million to plant and other assets are planned for 2009/10. Transfers to Plant will decrease slightly from the amount projected for 2008/09. Included in this is $20.0 million in anticipated transfer from the Central Facilities Fund (CFF) to support plant projects (see more on the CFF in Section 4). Additionally, the President and Provost anticipate transferring $50.0 million from their discretionary funds (principally the Tier II Buffer income fund) to support plant projects. Land, Buildings and Real Estate traditionally transfers about $9.0 million from the Planned Maintenance Program into plant improvement projects, while the School of Medicine expects to transfer over $17.1 million in funds for FIM #1 Building design, Freidenrich Center planning and design, Academic Walk, and strategic capital projects. The remainder is made up of a $9.1 million general funds transfer for Academic Facilities Renovation, $7.0 million transferred by the School of Engineering, $7.5 million transferred by the Graduate School of Business, $5.0 million transferred by the School of Humanities & Sciences, $4.5 million transferred by the Dean of Research, and $3.0 million transferred by the School of Law.

The combination of these two types of transfers from current funds to other forms of assets in 2009/10 at $111.2 million is down substantially from our projection of $219.5 million in 2008/09, due to the significant difference in Transfers to or from Endowment Principal.

- 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 $19.0 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. Additionally, this line includes movements of current funds between different operating fund types, principally movements of general funds to designated funds.

GENERAL FUNDS

The general funds budget is a critical component of the Consolidated Budget because general funds can be used for any university purpose, and they provide the necessary administration and infrastructure for all core activities at the university. 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 2009/10 is projected to be $863 million of which $151 million flows to the formula schools per the negotiated formula arrangements.

Last year we foreshadowed the current economic downturn when we projected a decline in the growth rate of general funds for 2008/09, and, indeed, the year-end projection shows a modest 2.5% increase over the 2007/08 actual general funds. However, because most of the sources of general funds are based on rates and other factors that are set in advance of the fiscal year, the full impact of the decline in the financial markets and other economic indicators will not be felt until 2009/10, when total general funds are projected to decrease $62 million or 6.7%. It is significant to note that the general funds for the formula areas, most notably the Graduate School of Business and the School of Medicine, are expected to increase by 16% led by tuition increases in both schools and substantial growth expected in indirect cost recovery in the School of Medicine. While tuition and indirect cost recovery are expected to grow modestly in the non-formula schools as well, it is the loss of $58 million in expendable funds pool income and a sharp drop in unrestricted endowment that are the cause of the decline in non-formula general funds for 2009/10. The EFP income loss will be offset by redirection of funds that would otherwise have been allocated to the Capital Facilities Fund, in accordance with the new EFP policy.

Non-Formula General Funds

The university uses a long-range forecasting model (the LRF) to estimate future years' non-formula general funds. The model projects the sources of general funds and the base expenses they support. A year ago the LRF projected a $2.4 million surplus in general funds for 2009/10 and shortfalls of $5.7 million in 2010/11 and $10.1 million in 2011/12, respectively. The outlook for 2009/10 worsened significantly when the financial markets collapsed, signaling the need to plan for reductions in the general funds allocation to budget units. The table below summarizes the impact on the bottom line of revenue and expense changes that occurred during the planning process and the ultimate size of the general funds shortfall to be solved.

Non-Formula General Funds Forecasted Shortfall

[in millions of dollars]

	Forecast		
	2009/10	2010/11	2011/12
Bottom Line Forecast – June 2008	**2.4**	**(5.7)**	**(10.1)**
Revenue Forecast Changes	(79.3)	(122.7)	(142.3)
Expense Forecast Changes	(1.4)	(1.5)	(1.1)
Total Problem to be Solved	**(78.2)**	**(129.8)**	**(153.5)**
Central Actions	39.1	44.8	48.1
Reductions to Budget Units	79.5	85.0	90.7
Bottom Line Forecast – June 2009	**40.4**	**0.0**	**(14.7)**

Central Actions

Several actions were taken centrally to mitigate the size of the gap to be closed. First, salary increases for staff were eliminated, and faculty salary increases were limited to promotion raises and retention cases, saving $16.5 million. Second, delays in the capital plan reduced the call on general funds for operations and maintenance, utilities, and debt service for new buildings in 2009/10 ($4.8 million). We also reduced allocations for minor facilities projects, the faculty housing reserve, and the university's central reserve, which is used to fund one-time initiatives ($8.6 million). Finally, we introduced a mandatory campus health service fee so that basic, vital services at Vaden could be maintained ($7.2 million). In total, central actions reduced the expected deficit in 2009/10 by $39 million.

Planning Process and Budget Reductions

Initially, units were asked to plan for three scenarios of general funds reductions: 3%, 5%, and 7%. Before the end of the 2008 calendar year, the targets were increased to 5%, 7%, and 10% for 2009/10 and an additional 5% in 2010/11. Throughout the winter, budget units met individually with the Budget Group, which comprises representatives from both faculty and administration, to discuss the details of their reduction scenarios and the impact they would have on their respective organizations. Units also brought forward requests for incremental general funds for unavoidable expenses, most of which were compliance related.

Most of the academic units support their operations with a combination of funding sources. They do this through the mechanism of the operating budget, wherein they can pool different resources for like expenses. The operating budget funds the unit's core, on-going expenses. For example restricted endowment for faculty salaries is generally brought into the operating budget and pooled with general funds to support the school's faculty salary budget.

Because of the importance of the operating budget, all sources of funds supporting it must be considered when general funds allocation decisions are made. In the planning for 2009/10, the expected decline in unrestricted endowment income affected available general funds, but the loss of restricted endowment payout used by the schools to support core expenses made the general funds allocation process more complex and difficult. Ultimately, the provost decided to mitigate the impact of the expected loss of restricted endowment supporting the operating budget with an allocation of $20 million in base general funds. The mitigation funds were distributed almost entirely to the academic units, since other units do not rely on restricted endowment for their core operations. The general funds reduction scenarios described above were applied to each unit's base general funds adjusted for price inflation and mitigation of endowment losses.

By the end of the process, it became evident that the overall size of the problem required deeper cuts sooner than had been anticipated. Moreover, the Budget Group and the provost decided that it was essential to take more base reductions than would be required to balance the general funds budget in 2009/10 in anticipation of shortfalls in the following years. As a

Summary of 2009/10 General Funds Reductions and Additions (Excludes Formula Units)

[in thousands of dollars]

	2008/09 Base GF Allocation	Inflation and Other Additions[1]	GF Mitigation of endowment payout decline	Reductions	2009/10 Base GF Allocation	2008/09 to 2009/10 Change
School of Earth Sciences	2,030	120	1,589	(455)	3,284	1,254
School of Education	12,099	295	452	(1,713)	11,133	(966)
School of Engineering	48,682	1,225	1,853	(7,764)	43,997	(4,686)
School of Humanities & Sciences	119,301	4,264	10,877	(16,394)	118,049	(1,252)
School of Law	12,899	1,143	2,959	(2,448)	14,552	1,654
Vice Provost and Dean of Research	32,874	942	55	(3,801)	30,070	(2,803)
Vice Provost for Graduate Education	3,865	1,107	56	(705)	4,323	458
Vice Provost for Undergraduate Education	15,717	508	1,406	(2,142)	15,489	(228)
Stanford University Libraries	44,324	931	814	(5,551)	40,518	(3,806)
Total - Academic	291,791	10,536	20,062	(40,973)	281,416	(10,376)
Office of Admission and Financial Aid	9,510	182		(1,316)	8,375	(1,135)
Student Affairs	22,746	872	26	(3,079)	20,566	(2,180)
Office of the President & Provost	16,317	222	8	(2,275)	14,272	(2,045)
Office of Public Affairs	6,056	127		(784)	5,399	(657)
Business Affairs[2]	53,476	1,817		(5,373)	49,920	(3,556)
Business Affairs - Information Technology	59,967	1,490		(9,111)	52,347	(7,621)
Development and Alumni Association	42,237	1,201	6	(6,255)	37,189	(5,048)
Land, Buildings and Real Estate[2]	53,608	1,004	4	(8,275)	46,340	(7,267)
Other Administrative Units[3]	13,726	841		(2,046)	12,522	(1,205)
Total - Administrative	277,643	7,757	43	(38,514)	246,929	(30,714)
Incremental O&M and Utilities		3,434			3,434	3,434
Debt Service	32,439	(1,993)			30,446	(1,993)
Central Obligations[4]	87,682	(7,369)			80,313	(7,369)
Total - Other	120,120	(5,928)	0	0	114,193	(5,928)
Total Non-Formula Units	689,555	12,365	20,105	(79,487)	642,538	(47,017)
Unallocated Surplus	6,169				40,268	34,099
Capital Facilities Fund	85,220				20,586	(64,634)
Total Non-Formula General Funds[5]	780,944				703,392	(77,552)

Notes:

[1] Inflation and Other Additions includes $8.6 million of price and salary inflation, $5.3 million of unavoidable base additions, $3.4 million of incremental O&M and utilities expenses, and a $5.0 million reduction in the university reserve.

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

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

[4] Central Obligations include tuition allowance, and the university reserve. In addition, for this table, utilities, insurance and fire contract allocations have been included in this line.

[5] Includes $23 million of internal revenue from the infrastructure charge.

result, the decision was made to take the full 15% (10% requested in 2009/10 and 5% requested in 2010/11) in 2009/10 from most units in an effort to avoid further cuts in 2010/11. Even with these cuts, we are forecasting a $15 million deficit in general funds in 2011/12.

In total we eliminated $79.5 million from the non-formula general funds budget in 2009/10 increasing to $90.7 million by 2011/12. These reductions will result in the loss of roughly 350 staff positions and the freezing of 49 faculty searches. There will be no faculty layoffs. Half of the reductions will be in salary expense, and half will come from non-salary. Within the non-salary, significant cuts will be made in expenditures on food, travel, and general supplies, and many units will eliminate paper publications in favor of on-line editions. Significant restructuring will take place in VPUE and in Land, Buildings and Real Estate, with smaller efforts occurring across campus. There will be some programmatic losses including a reduction in undergraduate seminars, and undergraduate research grants, and less outreach by Admissions, Development, and the Alumni Association. Reductions were also made in IT infrastructure and systems development funding. Sections 2 and 3 include more detail on the impact of the reductions on individual budget units.

PROJECTED 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. To comply with external reporting requirements, 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 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 table on the facing page compares the Consolidated Budget for Operations with the projected operating results section of the Statement of Activities. 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. In both these instances, these funds are no longer available for other use to support operations, so they decrease the Consolidated Budget for Operations operating results. These transfers, however, have no impact on the Statement of Activities operating results, as the net assets of the university have not changed.

Converting the Consolidated Budget into the Statement of Activities

To convert the Consolidated Budget to the Statement of Activities under GAAP, certain revenue and expense reclassifications, transfers, and adjustments are necessary.

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

Comparison of Consolidated Budget and Statement of Activities, 2009/10
Unrestricted Net Assets
[in millions of dollars]

Statement of Activities				Fiscal Year 2009/10		
2007/08 Actual	2008//09 June 2008 Budget	2008/09 Projected Year-End		Projected Consolidated Budget	Adjustments	Projected Statement of Activities
			Revenues and Other Additions			
			Student Income:			
241.3	251.6	252.4	Undergraduate Programs	265.6		265.6
235.0	243.1	247.6	Graduate Programs	260.9		260.9
105.0	107.6	109.9	Room and Board	118.3		118.3
(176.4)	(204.0)	(205.6)	Student Financial Aid[e]		(218.3)	(218.3)
404.8	398.3	404.3	Total Student Income	644.8	(218.3)	426.5
			Sponsored Research Support:			
555.9	555.3	529.4	Direct Costs—University	566.5		566.5
351.0	318.4	325.1	Direct Costs—SLAC	370.2		370.2
169.0	185.9	172.6	Indirect Costs	192.5		192.5
1,075.9	1,059.6	1,027.1	Total Sponsored Research Support	1,129.2		1,129.2
372.1	388.7	410.5	Health Care Services[f,k]	472.5	(54.8)	417.7
182.4	200.0	150.0	Expendable Gifts In Support of Operations	150.0		150.0
92.3	80.0	75.0	Net Assets Released from Restrictions	75.0		75.0
			Investment Income:			
881.6	981.8	933.1	Endowment Income	829.6		829.6
110.9	103.5	97.8	Other Investment Income[g]	56.8	(27.3)	29.5
992.5	1,085.3	1,030.9	Total Investment Income	886.4	(27.3)	859.1
355.4	359.4	362.8	Special Program Fees and Other Income[j]	364.8	5.0	369.8
3,475.5	**3,571.3**	**3,460.6**	**Total Revenues**	**3,722.7**	**(295.4)**	**3,427.3**
			Expenses			
1,706.1	1852.6	1,895.4	Salaries and Benefits[d,g,j]	1,903.2	23.6	1,926.8
350.8	318.4	325.1	SLAC	370.2		370.2
			Capital Equipment Expense[b]	70.3	(70.3)	
223.1	224.0	224.0	Depreciation[c]		235.4	235.4
			Financial Aid[e]	218.3	(218.3)	
895.8	974.1	907.7	Other Operating Expenses[f,g,h,j]	1,029.9	(109.4)	920.5
3,175.9	**3,369.1**	**3,352.2**	**Total Expenses**	**3,591.9**	**(139.0)**	**3,452.9**
299.6	**202.2**	**108.4**	**Revenues less Expenses**	**130.8**	**(156.4)**	**(25.6)**
			Transfers			
			Additions to Assets[a]	(111.2)	111.2	
			Net Internal Revenue/Expense[i]	19.0	(19.0)	
		0.0	**Total Transfers**	**(92.2)**	**92.2**	**0.0**
299.6	**202.2**	**108.4**	**Excess of Revenues Over Expenses After Transfers**	**38.6**	**(64.2)**	**(25.6)**

a) Eliminate Fund Transfers. The Consolidated Budget includes transfers of $111.2 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, $70.3 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 $235.4 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 rate may include over- or under-recovery from prior years. The Statement of Activities reflects actual expenses for fringe benefits, so the over- or under-recovery amount has to be removed from Salaries and Benefits. The Statement of Activities also 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 2009/10, GAAP expenses are expected to be higher than budgeted expenses by $42.3 million.

e) Reclassify Financial Aid. GAAP requires that the tuition portion of student financial aid be shown as a reduction of revenue. In the Consolidated Budget, financial aid is reported as an operating expense. Accordingly, $218.3 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 $43.5 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 $27.8 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 reducing $21.2 million from compensation and $6.6 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 $50.9 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 $19.0 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 million in Salaries and Benefits and $2.5 million in Other Operating Expenses).

k) Eliminate Hospital Equity transfers: Payments received from the hospitals for which no services are required to be provided by the University are considered transfers of equity between the University and the Hospitals and are not included in operating revenue in the Statement of Activities. In the Consolidated Budget, these show as health care services income. This adjustment removes $11.3 million of revenue.

In summary, the impact of these adjustments decreases the Consolidated Budget's projected $38.6 million surplus by $64.2 million, resulting in a projected deficit of $25.6 million in the Statement of Activities.