CHAPTER 1

CONSOLIDATED BUDGET FOR OPERATIONS

In this chapter we review the details of the 2010/11 Consolidated Budget for Operations, describe the general funds allocation process and results, and present a forecasted Statement of Activities.

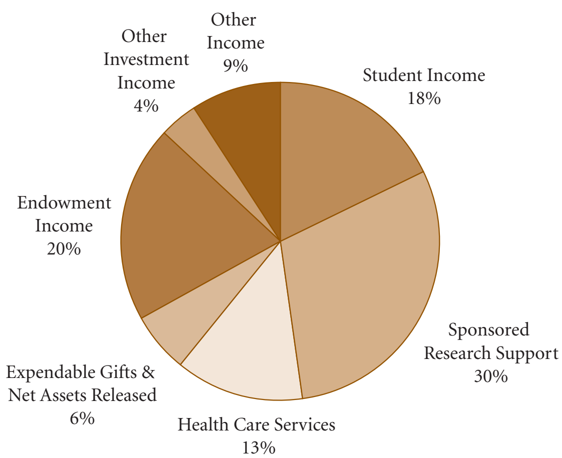
CONSOLIDATED BUDGET FOR OPERATIONS

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 2010/11 Consolidated Budget for Operations shows total revenues of $3,842.7 million and expenses of $3,650.8 million, resulting in a net operating result of $191.9 million. However, after estimated transfers, primarily to plant funds, the Consolidated Budget shows a surplus of $84.5 million.

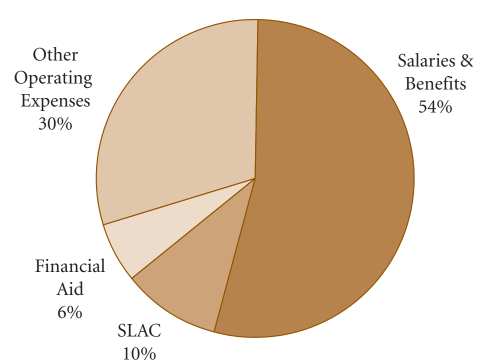
Total revenues in 2010/11 are projected to increase 2.8% over the expected 2009/10 levels, increasing by $105.9 million. This moderate growth comes surprisingly quickly following one of Stanford's most difficult fiscal years. While endowment payout will decline for a second year in a row, every other source of revenue is expected to increase, albeit at different rates. Student income increases are driven by both an increase in the tuition rate and the total number of students; SLAC revenue will improve; and expendable gifts are expected to be up ten percent. Total expenses are expected to grow by 4.1% over the estimated

2010/11 Consolidated Revenues: $3,842.7M [1]



[1] Net Revenues after Transfers: $3,735.3 million

2010/11Consolidated Expenses: $3,650.8M



Consolidated Budget for Operations, 2010/11

[in millions of dollars]

2008/09 Actuals	2009/10 Budget June 2009	2009/10 Projected Actuals		General Funds	Designated	Restricted	Grants and Contracts	Auxiliary & Service Center Activities	Total
			Revenues						
			Student Income:						
252.3	265.6	267.6	Undergraduate Programs	278.4					278.4
249.4	260.9	266.7	Graduate Programs	271.8	4.2				276.0
110.1	118.3	120.5	Room and Board					125.7	125.7
611.8	644.8	654.8	Total Student Income	550.2	4.2			125.7	680.1
			Sponsored Research Support:						
532.7	566.5	596.6	Direct Costs–University				607.1		607.1
293.7	370.2	325.7	Direct Costs–SLAC				345.7		345.7
174.1	192.5	199.0	Indirect Costs	197.9					197.9
1,000.5	1,129.2	1,121.3	Total Sponsored Research Support	197.9			952.8		1,150.7
484.3	472.5	495.5	Health Care Services	21.6	420.6	11.3		65.1	518.6
149.0	150.0	150.0	Gifts In Support of Operations	2.0		163.0			165.0
74.1	75.0	75.0	Net Assets Released from Restrictions			75.0			75.0
			Investment Income:						
954.4	829.6	850.9	Endowment Income	115.1		643.0			758.1
121.0	56.8	47.4	Other Investment Income	62.7	76.7	5.6	1.3	0.4	146.7
1,075.4	886.4	898.3	Total Investment Income	177.8	76.7	648.6	1.3	0.4	904.8
350.1	364.8	341.9	Special Program Fees and Other Income	8.9	220.2	0.6	0.5	118.3	348.5
3,745.2	**3,722.7**	**3,736.8**	**Total Revenues**	**958.4**	**721.7**	**898.5**	**954.6**	**309.5**	**3,842.7**
			Expenses						
1,829.5	1,903.2	1,898.8	Salaries and Benefits	495.9	469.5	451.9	348.1	222.4	1,987.8
293.7	370.2	325.7	SLAC				345.7		345.7
210.3	218.3	216.2	Financial Aid	19.8	6.4	176.4	14.8		217.4
1,032.3	1,100.3	1,067.2	Other Operating Expenses	235.3	203.7	185.4	219.1	256.4	1,099.9
3,365.8	**3,592.0**	**3,507.9**	**Total Expenses**	**751.0**	**679.6**	**813.7**	**927.7**	**478.8**	**3,650.8**
379.4	**130.7**	**228.9**	**Operating Results**	**207.4**	**42.1**	**84.8**	**26.9**	**(169.3)**	**191.9**
			Transfers						
(78.0)	23.4	13.3	Additions to Endowment Principal	0.4	(13.3)	18.1		0.7	5.9
(141.3)	(134.6)	(100.2)	Other Transfers to Assets	(13.3)	(89.9)	(18.5)			(121.7)
10.0	19.2	8.7	Net Internal Revenue & Expense	(166.7)	65.7	(27.0)	(26.8)	163.2	8.4
(209.3)	**(92.0)**	**(78.2)**	**Total Transfers**	**(179.6)**	**(37.5)**	**(27.4)**	**(26.8)**	**163.9**	**(107.4)**
170.1	**38.7**	**150.7**	**Operating Results and Transfers**	**27.8**	**4.6**	**57.4**	**0.1**	**(5.4)**	**84.5**
1,816.8	1,794.3	1,986.9	**Beginning Fund Balances**	218.8	990.0	911.8		17.1	2,137.7
1,986.9	1,833.0	2,137.7	**Ending Fund Balances**	246.6	994.6	969.2	0.1	11.7	2,222.2

year-end results for 2009/10, consistent with a full salary program. The table on the facing page shows the projected consolidated revenues and expenses for 2010/11. For comparison purposes, it also shows the actual revenues and expenses for 2008/09 and both the budget and the year-end projections for the current fiscal year, 2009/10. 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 3.9% in 2010/11 to $680.1 million. Increases in student charges for next year were guided by a number of considerations. The most important are our programmatic needs, the effectiveness of our financial aid program, 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 $554.4 million in tuition and fee revenue in 2010/11, a 3.8% increase over 2009/10, slightly higher than the general tuition rate increase due to a small increase in student numbers. While total tuition and fees represents only 14% of Stanford's total revenue, it is 58% of general funds. As such, it is a particularly important source of revenue, especially in a year when endowment payout will decline. 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 2010/11 is 3.5%, which results in a rate of $38,700 for undergraduates and most graduate students. This rate was approved by the Board of Trustees in February. The moderate rate increase was set after careful consideration of the current economic circumstances weighed against the desire to bring back a salary program for faculty and staff. We do not anticipate that this increase will affect our position relative to our peer universities. After a 3.75% tuition increase in 2009/10 and the introduction of the mandatory campus health services fee, Stanford moved up four positions to 39th in a ranking of tuition charges in the Cambridge Associates survey of 102 private institutions. Stanford's position among the participants of the Cambridge survey moves both up and down from year to year but has remained fairly stable around the 40th position. 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 13th out of 17, up two spots from last year.

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.

The 3.5% increase applies to the undergraduate tuition rate, the general graduate rate, and the graduate tuition rates for engineers, entering MBAs, and continuing medical students. The Law School is implementing a 5.8% increase in tuition in 2010/11. This higher than usual increase is intended to bring tuition at the Stanford School of Law closer to that charged by peer schools such as Harvard and Yale. After three consecutive years of a flat rate for terminal graduate registration (TGR), this rate will decrease by 8.8% or nearly $1,000 per year.

Room and Board – In February, the Trustees approved a combined room and board rate increase of 3.6% for 2010/11, bringing the undergraduate rate to $11,876. The room rate will increase by 4.5%, and the board rate will increase by 2.45%. We expect that these rates will sustain Stanford's room and board rate ranking in the middle of the COFHE institutions. The 2010/11 recommended increases in room and board rates will allow Residential and Dining Enterprises (R&DE) to operate with a balanced budget by maintaining previously implemented budget reductions while providing critical funding for important programs. Incremental funding will support the asset renewal program related to fire, life safety, and code compliance; debt service for the new East Campus Dining facility; and the 2010/11 Capital Improvement Projects program.

Sponsored Research Support and Indirect Cost Recovery

The budget for sponsored research support is projected to be $1,150.7 million in 2010/11. This figure includes the direct costs of externally supported grants and contracts ($607.1 million for university research and $345.7 million for SLAC), as well as reimbursement for indirect costs ($197.9 million) incurred by the university in support of sponsored activities. Sponsored research is projected to generate 30% of the university's consolidated operation revenues in 2010/11 and is Stanford's largest source of revenue. Research volume excluding SLAC will grow by a modest 1.2% in 2010/11, although that growth will be from a 2009/10 base that is significantly higher than in recent history due, largely, to the American Recovery and Reinvestment Act (ARRA).

As of this writing, the university has received $190.4 million of ARRA stimulus funding, which will be spent over the two-year period of 2009/10 and 2010/11. Of that total $90.2 million was awarded to SLAC by the Department of Energy. The National Institutes of Health and the National Science Foundation are funding most of the remaining $100.2 million, with nearly two-thirds going to the School of Medicine. Stanford received a total of 255 grants, ranging from four-figure contracts to multi-million dollar grants across a wide range of disciplines. While a large portion of the grants focus on pure research, some of the funding supports fellowships, financial aid, and equipment, including a $2.5 million magnetic resonance imaging scanner destined for the new Cognitive and Neurobiological Imaging Program. The SLAC funding is primarily focused on improving the laboratory's physical infrastructure and providing new or improved instrumentation. The chart on the next page shows recent research activity and the 2009/10 and 2010/11 projected amounts, with the projected ARRA funding highlighted.

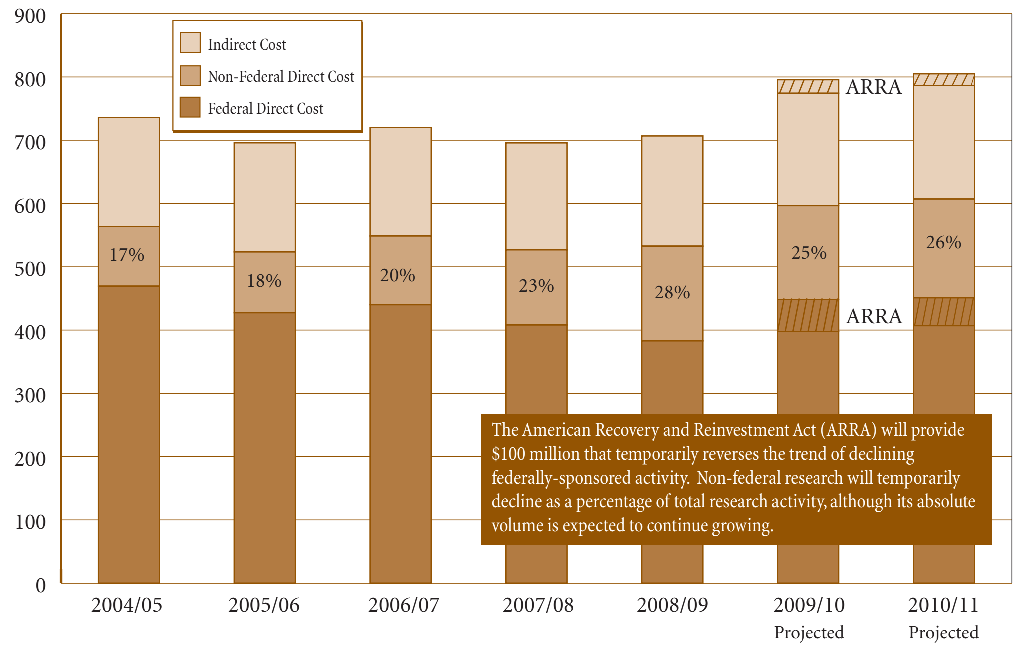
Another impact of the ARRA funding noted in the chart is the presumably temporary decline in non-federal research activity as a percentage of total research activity. While that percentage grew from 17% in 2004/05 to 28% in 2008/09, a slight decline in 2009/10 non-federal activity combined with the large federal activity increase will bring the proportion down to 25% in 2009/10. This non-federal decline was anticipated, resulting from foundations' declining financial resources, and a healthy 5% increase is expected in 2010/11 as the general economy continues to improve.

Excluding the ARRA funding mentioned above, the School of Medicine expects its research volume to grow 5% in 2010/11 due to the addition of new faculty, a new agreement with the Howard Hughes Medical Institute, and a 50% increase in activity funded by the California Institute of Regenerative Medicine (CIRM). Outside the School of Medicine, both ARRA-related and ongoing research is expected to be flat, resulting in the overall research increase of 1.2%.

The Department of Energy continues to provide virtually all of the funding for SLAC (97%). Total direct research costs for SLAC are expected to increase $20 million in 2010/11. The ARRA funding allocated to SLAC will be spent more quickly than in other parts of the university and will essentially be exhausted in 2009/10. The increase in 2010/11 is, therefore, due to other factors, including a new construction project and start-up funding for the Research Support Building. SLAC research activity is discussed in more detail in Chapter 2.

University Sponsored Research Activity (Excluding SLAC)

[in millions of dollars]



Health Care Services

Health Care Services income is budgeted to be $518.6 million in 2010/11, a 4.7% increase over the projection for 2009/10. The majority of this income ($473.3 million) is in the School of Medicine, including $398.9 million paid by Stanford Hospital and Clinics and Lucile Packard Children's Hospital related to the clinical practices of the faculty and $10.5 million paid by the hospitals for academic grants, shared incentive bonuses, and the Children's Health Initiative Gift and Match programs. $41.5 million is generated by the Stanford Blood Center, as well as $18.6 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 $15.7 million to Business Affairs IT primarily for communications services; $7.3 million to the Office of the General Counsel for legal services; $10.9 million to Land, Buildings and Real Estate for operations and maintenance and utilities; and $11.4 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 increase by 10% from $150.0 million in 2009/10 to a total $165.0 million in 2010/11. 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 2010/11, we anticipate that this income will remain flat at $75.0 million.

Investment Income

Total investment income, Stanford's second largest source of revenue, is expected to increase by a mere 0.7% in 2010/11 to $904.8 million. This amount includes endowment income as well as other investment income. Endowment income will decrease for the second year in a row in response to the significant decline in the market value of the Merged Pool in 2008/09, and as a result of our policy decision last year to reduce payout by 10% in 2009/10 and another 15% in 2010/11. Other investment income, a composite of several sources, will increase substantially, as payout to operations on expendable funds is restored in 2010/11.

A PERSPECTIVE ON THE ENDOWMENT

By John Powers,
CEO / Stanford Management Company

The last two years have been unprecedented. Systemic stress in the global financial system led to near worldwide recession and broad based market declines. Then, coordinated global monetary and fiscal stimulus, the continued strength of powerhouse Asian economies, the inevitable rebuilding of inventories, and a renewed focus on corporate operational efficiency brought about a sharp rally in global equity and credit markets. The world is better off than in the dark days of late 2008 and early 2009, and yet we continue to face high levels of unemployment, badly strained governmental balance sheets (from Greece to California), growing geopolitical risk, and significant headwinds to sustained economic growth.

Against this backdrop of great change and uncertainty the stewardship goals of Stanford Management Company (SMC) are unchanged. We manage the endowment to maintain the purchasing power of the payout in support of the university. We also endeavor to increase the real value of those resources to support the level of excellence required to keep Stanford at the forefront. Finally, we try to do so with a level of risk that allows the university to operate with an appropriate level of planning and deliberation.

The repair work to the endowment from the damaging selloff is well under way, and strong returns in the first three quarters of 2009/10 have returned about half of the loss on a percentage basis. Still, there is much to do. We remain committed to a strategy of outsourced investment management across a diversified set of global investments but, we do not want to become complacent in the wake of a strong recovery. I would like to highlight a few points of emphasis:

- Maintaining a strong investment team with continuity and experience is a key advantage, and we plan to further strengthen the team with several senior additions.
- We reached a point in late 2008 and early 2009 where we were uncomfortable with the level of liquid assets. We have dramatically improved our liquidity posture over the last calendar year, and have done so without having recourse to the $800 million that the university raised in the debt markets a year ago as an emergency liquidity backstop.
- Working with SMC Directors and members of the Board of Trustees, academics, and opinion leaders in the endowment investing world we are rethinking our operating model to insure that we can contain damage and create flexibility and options when the market roller coaster takes its next descent.
- Finally, we continue to improve our business practices (risk management, investment selection process, investment monitoring standards, opportunistic responsiveness). It is important that these be state of the art to support our core strength, which is the investment leverage created by the powerful brand of Stanford University.

Endowment Income – Total endowment income includes payout from individual funds invested in the Merged Pool as well as specifically invested endowments (e.g., oil and mineral rights), and rental income from the Stanford Research Park and other endowed lands. Total endowment income is also impacted by new gifts to endowment and other transfers in and/or out of endowment principal.

In 2008/09 the merged pool suffered an Investment return of -26%, the largest single year decline in our history. As part of a multi-pronged strategy to adjust to this unprecedented decline, the president and the provost decided to set aside Stanford's long-standing smoothing rule for determining the annual payout from the Merged Pool. Generally, Stanford uses a smoothing formula to dampen the impact on the budget of large annual fluctuations in the market value. While the smoothing rule would have slowly forced the payout to decrease commensurate with the decline in the endowment market value, the full effect of the decline would have been drawn out over roughly five years, even with a return to normal investment returns. Due to the severity of the drop in the market value and the expectation of a slow recovery, the smoothing rule was suspended for 2009/10 and 2010/11. Instead, the Board of Trustees approved payouts per share that would bring payout from the Merged Pool down in these two years by 10% and 15%, respectively. This action, combined with a faster than expected recovery in the Merged Pool share price has allowed us to reach a new baseline in just two years, and we expect that we will see positive increases in endowment payout in 2011/12.

Endowment payout to operations in 2010/11 is expected to be $758.1 million, a decrease of 10.9% over 2009/10. Even though the expected endowment payout from an individual fund in 2010/11 has been set to decrease by 15%, overall endowment income will not decrease as sharply due to several factors: gifts to endowment are expected to reach $225 million in 2010/11; schools and departments are expected to transfer nearly $6 million from expendable funds to funds functioning as endowment; and $148 million is assumed to be added to funds functioning as endowment in the Tier I Buffer at the close of 2009/10 as a result of excess expendable funds pool earnings. Together these additions contribute roughly $22 million to endowment payout in 2010/11.

Of the total endowment income, $115.1 million, or 15.2%, is unrestricted. The 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 only 4.1% in 2010/11, which reflects the 15% decline in existing unrestricted Merged Pool funds offset by incremental payout of $9 million from the Tier I Buffer. Unrestricted rental income from Stanford endowed lands will be roughly constant at $43 million.

Other Investment Income – Other investment income in 2010/11 comes from four main sources:

- Payout on the expendable funds pool ($88.5 million) and income earned on unexpended endowment payout separately invested in the endowment income funds pool ($5.0 million),
- Investment income distributed to support the operations of the Stanford Management Company and the real estate division of Land, Buildings and Real Estate ($29.8 million),
- Interest income on the Stanford Housing Assistance Center (SHAC) portfolio ($12.7 million), and
- Security lending and other interest income ($10.2 million).

Total other investment income is expected to drop from $121.0 million in 2008/09 to only $47.4 million in 2009/10 and then rebound to $146.7 million in 2010/11. This extreme fluctuation is due almost entirely to the recently revised expendable funds payout policy that stipulates that a significant portion of the EFP payout for operations is based on the prior year's investment returns. The investment losses suffered in 2008/09 result in virtually no EFP payout in the current year, but normal investment returns expected in 2009/10 will give rise to typical EFP payout in 2010/11. A description of the EFP and the trustee approved policy follows.

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 that was revised effective September 1, 2009. Under the new policy, between 70% and 90% of the EFP is cross-invested in the Merged Pool, with the remaining portion invested in money market instruments. 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, certain plant funds, agency funds, gifts pending designation, and certain restricted gifts. Differences between the stipulated payout and actual investment returns are backstopped by the Capital Facilities Fund and by the Tier I and Tier II Buffers.

Because the return on the EFP was negative in 2008/09, and the policy stipulates that the rate paid to the zero-return funds is based on the prior year's results, EFP payout in the current year will only be the income paid to the money-market accounts. Since money-market rates are at an all time low, total EFP payout is expected to be only $1.3 million.

In 2010/11 total EFP payout increases sharply to $88.6 million based on the assumption that the EFP will enjoy a total return of about 7.0% in the current year, thereby allowing for full payout of 5.5% to the zero-return funds in 2010/11.

The non-EFP portion of other investment income is projected to increase 18.1% to $52.7 million, led by substantial increases in the operations of the Stanford Management Company. Additionally, income earned by the EIFP, the balance of unexpended endowment payout, is expected to increase based on the assumption of higher money market rates in 2010/11.

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 $348.5 million in 2010/11, a modest increase of 1.9% over the expected level in 2009/10.

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 2010/11 is budgeted to be $1,987.8 million, a 4.7% increase over the year-end projection of $1,898.8 million. This increase is driven by the approved merit programs for faculty and staff, additional salary allocations for equity and retention, as well as projected headcount growth of 1.0% for faculty and staff. As discussed below, the fringe benefits rate applied to faculty and staff is increasing negligibly, so total benefits expense will grow with the growth in salary expense. The salaries and benefits line does not include $211.5 million of salaries and benefits that are included in the total for SLAC, which is discussed on page 11.

Salaries – Total salary expense is expected to grow by 4.7% in 2010/11 to $1,412.1 million as a result of the approved salary program and roughly 1.0% headcount growth. As has been the case in past years, the approved staff salary program takes into consideration the financial condition of the university as well as the current labor market status. Following a year with no general staff salary program and a very limited faculty salary program reserved for promotions, it was a priority to fund a competitive salary program for both faculty and staff. Once again the annual salary program was 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. Last year's salary freeze did not disadvantage our competitive position in either of these markets, as other institutions and employers reacted to the economic downturn in a manner similar to Stanford. The approved merit program for 2010/11 was set after careful evaluation of relevant salary surveys. Additionally, an important component of the salary program for both faculty and staff is the inclusion of funding to address equity and retention issues, providing managers the flexibility to make appropriate adjustments to individual salaries.

Fringe Benefits – Fringe benefits expense, excluding SLAC, is expected to increase by 4.9% in 2010/11 to $410.4 million, consistent with the growth in overall salary expense and resulting in little change in the average blended fringe benefits rate.

The university tracks the benefits costs separately for four distinct employee groups and charges a different rate for each group based on the types of benefits that each is eligible to receive. The rates are calculated as a percentage of total benefit costs to total payroll for each group:

- Regular benefits-eligible employees
- Post-Doctoral research affiliates
- Casual/temporary employees
- Graduate RAs and TAs

Ninety-five percent of all fringe benefits expense is incurred for regular benefits-eligible employees, and the rate for this group in 2010/11 is expected to increase only slightly over the negotiated rate for 2009/10. The rates for the other three employee groups will decrease somewhat next year due to factors discussed below.

Fringe Benefits Rates

	2009/10 Negotiated Budget	2010/11 Projected Rates
Regular Benefits-Eligible Employees	30.6%	30.7%
Post-Doctoral Research Affiliates	21.6%	19.8%
Casual/Temporary Employees	8.5%	8.3%
Graduate RAs and TAs	5.0%	4.4%
Average Blended Rate	28.2%	28.1%

There are three major categories of benefits: retirement, insurance, and miscellaneous, the latter including faculty sabbaticals, staff development, and severance costs. Retirement programs represent half of the total benefits costs, and the health plans within the insurance programs contribute 28% of the total. Looking at the individual components of these programs there are some changes worth noting:

- Overall retirement program costs are expected to be virtually unchanged in 2010/11 because increases for the Stanford Contributory Retirement Plan and Social Security are offset by a decrease in the cost of the Faculty Retirement Incentive Plan as the one-time retirement incentive offered to faculty in 2008/09 ends.
- The costs of the health plans for active regular benefits-eligible employees, the largest program in the fringe pool, are projected to increase by only 3.8% over the budgeted amount and a moderate 7.2% over the expected actuals in 2009/10, for a total of $112.3 million. This is one of the lowest increases in years and is due to better than expected claims experience in recent years.
- Retirement medical costs are expected to decrease 40% to $13.6 million in 2010/11, which alone would produce a 0.7% drop in the overall fringe rate compared to the 2009/10 negotiated rate. A substantial reduction in the assumed number of retirements and a recovery of the trust assets call for a reduced contribution to the trust in 2010/11.
- Finally, as Stanford concludes its planned reduction in force in 2009/10, projected severance costs are expected to decrease by several million dollars.

The benefits rate for Post-Doctoral research affiliates will decrease substantially in 2010/11, because the number of post-docs is expected to increase as the average length of their employment is extended by a provost initiative in response to the difficult job market, while the benefit costs for this group will remain relatively constant. The fringe rate for graduate teaching and research assistants also will decline in 2010/11 due to a planned reduction in Cardinal Care health insurance premium costs and a carryforward credit from 2008/09.

SLAC

Total SLAC expenses in 2010/11 are expected to be $345.7 million, a 6.1% increase over our projection of $325.7 million for 2009/10. SLAC's 2010/11 budget is made up of $211.5 million in compensation expense, up from a projection of $207.5 million for 2009/10, and non-compensation expense of $134.2 million, up from $118.2 million projected for 2009/10. The substantial change in non-compensation expense is expected to be in the form of construction related expenditures. The original budget for SLAC for 2009/10 was $370.2 million. The large decrease in the projection for 2009/10 was due to a significant decrease in the materials and supplies budget in research and to lower amounts than budgeted for construction projects and those projects funded by the American Reinvestment and Recovery Act. In 2010/11 SLAC will begin a major construction project to renovate the Central Lab of the PULSE Building and will receive initial funding for the Research Support Building.

Financial Aid

Stanford expects to spend a total of $217.4 million on student financial aid for undergraduate and graduate students in 2010/11, $19.8 million of which will come from general funds. Designated and restricted funds ($182.8 million) and grants and contracts ($14.8 million) will support the remainder. Total budgeted financial aid is a mere 0.6% above the projected total for 2009/10, as a result of undergraduate aid decreasing and graduate aid increasing as discussed below.

Undergraduate Aid – Stanford has long been committed 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 2010/11 Stanford students will receive $124.3 million in need-based scholarships, of which $110.9 million will be from Stanford resources,

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 Actuals	2009/10 Projected	2010/11 Budget
Department Funds and Expendable Gifts	1.9	1.1	0.9	2.0	2.2	1.9	1.9
Endowment Income	32.7	37.2	45.0	67.9	80.4	72.3	66.3
President's Funds	9.5	9.8	10.3	5.3	20.4	39.2	32.7
General Funds	14.3	12.7	10.2				10.0
Subtotal Stanford Funded Scholarship Aid	58.4	60.8	66.4	75.2	103.0	113.3	110.9
Government and Outside Awards	13.8	12.0	12.1	12.4	12.8	15.1	13.4
Total Undergraduate Scholarship Aid	**72.2**	**72.9**	**78.5**	**87.6**	**115.8**	**128.4**	**124.3**
General Funds as a Share of Total Aid	20%	17%	13%	0%	0%	0%	8%
President's Funds as a Share of Total Aid	13%	13%	13%	6%	18%	31%	26%
Endowment funds as a Share of Total Aid	45%	51%	57%	77%	69%	56%	53%
Number of Students	2,870	2,789	2,769	2,811	3,136	3,350	3,250

a decrease of 2.1% over the projected year-end. The remaining $13.4 million will come from government and outside awards, down 11.3% over the current year. The decrease in the need-based scholarship budget is due to the expectation that there will be 100 fewer students requiring aid in 2010/11 as the economy strengthens and family incomes rise accordingly. However, we will closely monitor student needs throughout the year and make adjustments as needed.

Responding to student and parent concerns, as well as competitive pressures, between 2004/05 and 2007/08 Stanford introduced several program enhancements aimed at simplifying the financial aid message and increasing affordability for low- and middle-income students. In 2008/09 we adopted significant changes designed to further reduce the costs of a Stanford education to middle-income families. These programmatic changes were made at the same time that Stanford's endowment income supporting need-based financial aid was at an all time high due to the generosity of our donors, strong market performance, and the decision to increase the target payout rate in that year. Last year's jolt to the endowment market value and the resultant decrease in endowment payout have been mitigated by substantial increases in support from presidential funding. President's funds from the Stanford Fund and the Tier II Buffer will provide $39.2 million for need-based aid, contributing 31% of the current year's budget. Since the Tier II Buffer is not intended to support ongoing costs, we have added $10 million in general funds back into the aid budget for the first time since 2006/07.

The main features of Stanford's financial aid program remain unchanged in 2010/11. However, students are being asked to take on a greater portion of their expenses through a $250 increase in the amount of their work expectation. Similarly, new parents at upper income levels will see increased expectations as we phase in reduced asset allowances and allowances for multiple children in college. These changes are projected to save $2.5 million in scholarship funds in 2010/11.

The table above shows the detail of undergraduate need-based scholarship aid. Schedules 8 and 9 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 $19.6 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 $285.1 million in 2010/11. As the table on the next page indicates, this includes the tuition component of fellowships in the amount of $81.7 million, which is reflected in the Financial Aid line of

2010/11 Financial Aid and Other Graduate Student Support from Stanford Resources

[in millions of dollars]

Projected 2009/10 Year-End		General Funds	Designated and Restricted	Grants & Contracts	Total
	Student Financial Aid				
120.2	Undergraduate	10.0	100.9	5.2	116.1
18.9	Undergraduate Athletic		19.6		19.6
77.1	Graduate	9.8	62.3	9.6	81.7
216.2	Total	19.8	182.8	14.8	217.4
	Other Graduate Support				
49.6	Stipends	6.8	29.2	17.8	53.7
61.9	Tuition Allowance	35.7	6.1	18.3	60.1
91.9	RA/TA Salaries & Benefits	23.3	31.0	35.4	89.7
203.4	Total	65.8	66.3	71.4	203.4
80.8	Postdoc Support	0.6	22.7	54.7	78.0
500.4	**Total Student Support**	**86.2**	**271.7**	**140.8**	**498.8**

the Consolidated Budget. Financial aid for graduate students is expected to increase by 5.7%, consistent with the planned increases in tuition in the various graduate programs and additional funds allocated for graduate support. 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 $203.4 million. Consistent with the presentation of Stanford's financial statements, tuition allowance (tuition benefits for RAs and TAs) and RA and TA salary expenses are in the 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 5.0% in 2010/11; tuition allowance expense is expected to increase by 3.5%.

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 33%, restricted funds support about 38%, and grants and contracts supply the remaining 29%. 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 that are transferred to plant funds. This category makes up about one-third of the total expenditures in the Consolidated Budget and is projected to increase slightly by 3.1% to just over $1.1 billion in 2010/11. The principal components include: materials and supplies ($268.0 million, of which about one-third are laboratory supplies); contracted outside services, which includes research subcontracts ($183.0 million); internal debt service ($170.6 million); food, entertainment, and travel ($97.4 million); external payments for facilities and equipment operations and maintenance ($97.4 million); capital equipment and library materials purchases ($75.8 million); external payments for telecommunications and utilities for campus buildings ($49.4 million); student stipends ($51.3 million); services purchased from the hospitals ($48.0 million); and rentals and leases ($33.3 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. For 2010/11, these purchased utilities represent approximately 56% 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 19% of the total utilities cost. Other expenditures include maintenance, materials, supplies, and staff labor costs to operate the utilities systems. These expenses are about 25% 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.

The 2009/10 budget shows $64.3 million for campus utilities costs, which was later reforecast to $60.6 million due to recent significant decreases in the purchase prices of natural gas, lower than budgeted sewer costs, and a refund from PG&E for electricity (passed through to Stanford by Cardinal Cogen). Utilities chargeout rates were reduced mid-year, resulting in projected savings of about $1.1 million to the academic budget. For 2010/11, budgeted campus utilities are expected to increase sharply to $71.9 million. This increase is primarily due to projected increases in natural gas and electricity 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, including the labor costs to provide these services is projected to be $94 million in 2010/11.

Several areas oversee O&M campus-wide. Land, Buildings and Real Estate (LBRE) provides most of the grounds services for the campus, approximately 50% 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 33% 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 university will incur incremental utilities and operations and maintenance costs associated with new buildings in 2010/11 of approximately $11.2 million, $3.2 million of which will be funded by the Graduate School of Business, $5.2 million will be funded by the School of Medicine and $2.8 million will be funded by general funds. The incremental costs are due to the completion of the Knight Management Center, the Lorry I. Lokey Stem Cell Research Building, the Jen-Hsun Huang Engineering Center, the Li Ka Shing Center for Learning and Knowledge, the Center for Nanoscale Science and Engineering, and the William H. Neukom Building, net of the savings due to the demolition of Terman and Ginzton.

Internal Debt Service – 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). These loans are made from the aggregate of the external borrowings. These amortized payments are considered internal debt service since the payments are made into a central university pool rather than externally. 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 2010/11 is 4.85%, which is a decrease from the current year's rate of 5.0%.

The 2010/11 internal debt service is projected to be $170.6 million, a 7.7% increase over 2009/10. It includes debt service incurred to bridge finance the receipt of gifts and annual lease payments. The year-over-year increase is due to several new facilities including the Center for Nanoscale Science and Technology, the use of medium term debt to bridge finance the receipt of gifts to be received on several construction projects, and additional IT services projects. A complete list and description of the projects supported by debt can be found in Chapter 4 on the Capital Budget.

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 2010/11 we are projecting that a net $5.9 million will be withdrawn from FFE to support current operating needs. This compares to a projected $13.3 million transfer to current funds from FFE in 2009/10, a decrease of $7.4 million. The 2010/11 amount represents $24.1 million of current funds or fund balances transferred to FFE, offset by an anticipated $30.0 million needed to be liquidated from the president's Tier II Buffer for a variety of university priorities.

- Other Transfers to Assets: The transfers in this category are primarily to plant for capital projects. Total transfers of $121.7 million to plant and other assets are planned for 2010/11. These transfers will increase from the amount of $100.2 million projected for 2009/10. Included in this is $60.7 million in anticipated transfer from the Capital Facilities Fund (CFF) to support plant projects (see more on the CFF in Chapter 4). Additionally, the president and provost anticipate transferring $12.3 million from their discretionary funds (principally the Tier II Buffer income fund) to support plant projects. Land, Buildings and Real Estate will transfer about $7.3 million from the Planned Maintenance Program into plant improvement projects, while the School of Medicine expects to transfer $25.1 million in funds for a variety of capital projects. The remainder is made up of a $9.1 million general funds transfer for Academic Facilities Renovation, $4.6 million transferred by the School of Humanities & Sciences, and transfers to Student Loans of $1.7 million and $1.3 million for the schools of Law and Education, respectively.

- 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 are one type 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 $8.4 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.

GENERAL FUNDS

The general funds budget is an essential element of the Consolidated Budget because general funds can be used for any university purpose, and they support 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 (EFP). Each school receives an allocation of general funds, which support both academic and administrative functions; administrative units are supported largely by general funds.

General funds revenue in 2010/11 is projected to be $958.4 million, a $74.9 million increase over the expected level for 2009/10. While this increase seems high at a time when endowment payout is set to decline and the tuition rate increase is a moderate 3.5%, it is primarily an artifact of a change that was anticipated. Specifically, the recently revised expendable funds policy requires that EFP payout to general funds is based on the prior year's investment return. Consequently, EFP payout to general funds in the current year will be zero due to the losses suffered in 2008/09. Normal EFP returns in the current year will allow for $83.0 million in EFP payout to general funds in 2010/11. The loss of the EFP payout in 2009/10 is buffered by the Capital Facilities Fund per the EFP policy. As such, general funds, in the amount of the EFP shortfall, which would have been transferred to the CFF, will not be. As a result, there is no impact on the funds available for allocation to the budget units.

2010/11 Non-Formula General Funds

Per negotiated formula arrangements, $152.0 million of the total general funds revenue will flow to the School of Medicine, the Graduate School of Business, and the other formula units. The remaining general funds revenue is controlled and allocated by the provost. General funds available to allocate to the non-formula units in 2010/11 is $802.4 million, after annual adjustments are made for transfers to the university facilities and housing reserves and funds generated by the infrastructure charge. These adjustments are reflected in the Transfers section of the Consolidated Budget.

The Consolidated Budget approved a year ago by the Trustees called for a surplus of $40.0 million in general funds in 2009/10 in anticipation of a balanced general funds budget in 2010/11. Since that time, the financial outlook has improved; the recommended non-formula general funds budget for 2010/11 now calls for a $26.2 million surplus, including important, new programmatic allocations. The general funds budget also includes increments for a competitive salary program, mitigation of the impact on academic units of the decline in endowment payout, and the operating costs of new facilities, all of which were built into our previous forecast. The major changes since last year are as follows:

- Endowment income has increased by $16.0 million due to a substantially faster and stronger recovery of the market and the expected additions to rebuild the Tier I Buffer.
- Tuition and indirect cost recovery are $12 million higher due to additional students and strong research volume, particularly in 2009/10.
- A combination of management decisions to reduce general funds allocations for endowment payout mitigation and growth in non-salary expense, lower expected costs in utilities and other facilities costs, and increases in payments for central services by the formula units have reduced the expense base by $28 million.

During the annual general funds budgeting process, each budget unit met with the Budget Group, the provost's budgetary advisory body comprised of senior faculty and administrators, to 1) review the status and impact of last year's budget reductions, 2) review the impact of mitigating a smaller portion of the endowment payout decline in 2010/11 than in the prior year, 3) discuss strategic directions, and 4) hear requests for incremental general funds. At the end of the process, the provost makes allocation decisions based on the units' presentations, consultation with the Budget Group, and a final forecast of available general funds.

The table below shows how the $802.4 million in non-formula general funds will be allocated in 2010/11.

Summary of 2010/11 Base General Funds Allocations (Excludes Formula Units)
[in millions of dollars]

2010/11 Projected General Funds Revenue		**958.4**
Allocations to Formula Units		(152.0)
Infrastructure Charge Transfer In		26.3
Transfers to Facility/Housing/Other Reserves		(30.3)
2010/11 Non-Formula Base General Funds		**802.4**
Non-discretionary Allocations		(64.4)
Restoration of Capital Facilities Fund	(58.2)	
Incremental Facilities Costs	(6.2)	
2010/11 Allocable Base General Funds		**738.0**
2009/10 Base General Funds allocations to units		645.1
Incremental Central Allocations		14.3
Restoration of University Reserve	4.3	
Undergraduate Financial Aid	10.0	
Incremental Unit Allocations		52.4
Salary Program and Inflationary Cost Rise	17.6	
Endowment Payout Mitigation	19.3	
Programmatic Allocations to Academic Units	11.0	
Programmatic Allocations to Administrative Units	4.5	
2010/11 Unallocated Surplus		**26.2**

The university's budgeting practice is to keep units' prior year general funds allocations in place and then make further additions or reductions based on programmatic necessity. The incremental allocations made for 2010/11 are detailed below and are reflected in the pie chart on page 18.

Salary Programs and Inflationary Cost Rise: $17.6 million

After freezing academic and administrative salaries in 2009/10, the first priority in the 2010/11 general funds allocation process was to fund a competitive salary program. The incremental cost to general funds of the combined salary and benefits program will be $15.7 million. Although no cost rise was granted on most non-salary expenditures due to low Bay Area inflation, some non-compensation expenses such as graduate financial aid and student health care expenses were granted an inflationary increase at a cost of $1.9 million.

Endowment Payout Mitigation: $19.3 million

Most academic units support their operations with a combination of funding sources that are pooled in their operating budget, including restricted endowments that support base expenses such as faculty salaries. In 2009/10 the provost decided to mitigate the 10% decline in restricted endowment available to support the operating budget with an allocation of $20 million in base general funds, which offset roughly 75% of most units' decline in payout. In 2010/11, $19.3 million in general funds have been allocated to offset roughly 50% of the 15% decline the units will experience in their endowment payout available to support the operating budgets. Given current assumptions of endowment performance, payout for 2011/12 will increase at a roughly inflationary level, and this practice of mitigating payout declines will not be repeated.

Undergraduate Financial Aid: $10.0 million

The university's generous undergraduate financial aid program was not reduced as a part of last year's budget reductions. Growing costs in that program coupled with payout declines in endowed financial aid funds, however, require a build-up of base general funds on top of increased efforts to fundraise additional scholarships in order to continue the program's strength. That build-up starts with this $10.0 million allocation, with an incremental $1.0 million per year planned for the next five years.

Incremental Facilities Costs: $6.2 million

$6.2 million is required to service incremental O&M, utilities, and debt service on new buildings coming on-line during 2010/11.

Restore University Reserve: $4.25 million

This allocation brings the university reserve to $20 million, nearly restoring the $5.0 million that was cut during last year's budget reductions. This base reserve is intended as a buffer against sharp declines in general funds. When it is not needed, the funds are used to fund one-time commitments made by the provost for a variety of purposes including start-up funds for new initiatives, support for schools for their most important faculty recruitment efforts, and many other short-term activities in both academic and administrative units.

Graduate Student Support: $5.0 million

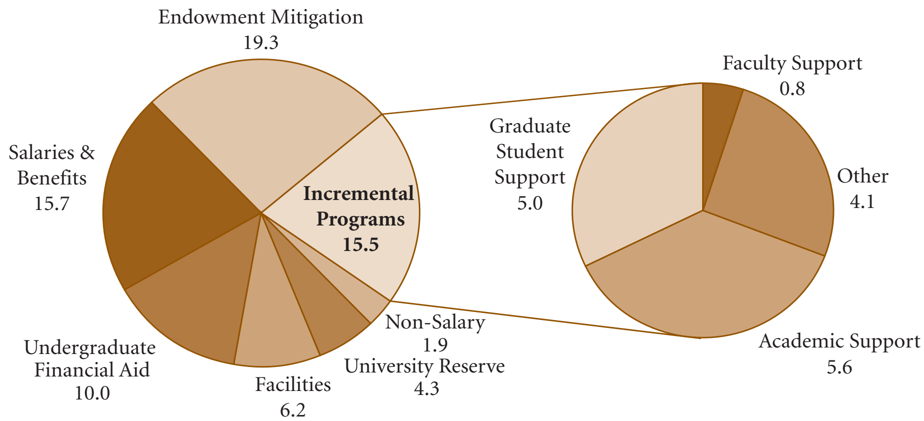
Several schools highlighted graduate student support as one of their most urgent needs, partly due to pre-existing need and partly due to a decline in the units' endowment payout. Engineering received $3.9 million, of which $2.5 million had been funded for a number of years from one-time general funds; Earth Sciences received $650,000; and H&S received $450,000. These amounts include allowances to pay for teaching assistants' tuition as well as salaries and fellowships.

Faculty Support: $800,000

Although there were no faculty layoffs, most schools were forced to freeze faculty searches as a result of the 2009/10 budget reductions. While there are major efforts underway to fundraise for endowed chairs, $1.6 million in general funds was allocated to support new hires for which restricted funds will not be readily available. The bulk of this funding will go to the Law School. An additional $1.3 million will go toward the increasing costs of recruitment and to address significant compensation gaps for faculty in select H&S departments. Offsetting these increases is a $2.1 million reduction in H&S, which represents the second and final installment of the reductions allocated to the school during the 2009/10 budget process and which was planned to come from freezing faculty billets. Given the improved outlook for general funds, the provost intends to return $1.5 million of this H&S reduction in 2011/12.

2010/11 Incremental General Funds Allocations: $72.9 Million[1,2]

[IN MILLIONS OF DOLLARS]



[1] Includes $3.1 million of funding reductions, representing the second and final year of reductions implemented during the 2009/10 budget process.

[2] Includes Incremental Facilities Costs, Incremental Central Allocations, and Incremental Unit Allocations from table on Page 16.

Academic Support: $5.6 million

In addition to direct support for the faculty, $5.6 million was allocated across the academic units for an array of programs and priorities. The largest portion of this funding, $2.4 million, went to support academic programs in Law, H&S, and Engineering, including support for teaching resources in basic science departments that have experienced a large increase in student enrollments. While not specifically designated as additional mitigation of endowment payout declines, $1.8 million was allocated to support academic activities that had suffered as a result of payout declines, primarily in the Freeman Spogli Institute for International Studies. Also, the Vice Provost for Graduate Education received $1.0 million as part of a multi-year commitment to build its base budget.

Other Allocations: $4.1 million

Managing research compliance and institutional risk continues to require additional resources, and $1.9 million was allocated to these activities, including $1.2 million for salaries in the Office of Sponsored Research that had been supported by one-time funds. As mentioned above, development efforts have increased in search of support for additional faculty and undergraduate financial aid, and $1.1 million was allocated to the Office of Development to aid those efforts ($820 thousand of this amount was actually part of continued base buildup for Development). A highlight of the remaining allocations is one to put base funding in support of the university's successful BeWell program.

Review of 2-Year Declines in Base Funding

With a slow financial recovery apparently underway, it is useful to look back over the past two budget cycles to understand the cumulative impact of the financial crisis. As mentioned above, the endowment payout reductions implemented to address the decline in the endowment's value in 2008/09 were so significant that the provost decided to partially mitigate those reductions through allocations of base general funds. For those units that hold endowed funds, general funds and endowment payout are an intertwined source of support for their programs, and this review looks at how those combined funding sources have fared.

The table on the next page shows that academic units have experienced a nominal decline of 6.5% in their combined general funds and endowment payout funding over the past two years; administrative units have experienced an 8.5% decline. As is evident, these declines are significantly less than either the average 15% general funds reduction that was levied in 2009/10 or the 25% two-year payout decline (10% in 2009/10 and 15% in 2010/11) because of three factors:

Two-Year Non-Formula Base General Funds and Endowment Payout Changes 2008/09 to 2010/11

[in millions of dollars]

	Academic Units			Administrative Units[1]		
	General Funds	Endowment Payout	Total	General Funds	Endowment Payout	Total
2008/09 Base Funding[2]	307	366	674	278	65	342
Endowment Payout Decline		(76)			(14)	
GF Mitigation of Payout Decline	39					
Net GF Additions/Reductions	(26)			(28)		
Price and Salary Inflation	19			13		
Net Funding Changes	32	(76)	(44)	(15)	(14)	(29)
2010/11 Base Funding[2]	340	290	630	262	51	313
Percent Change (nominal)			-6.5%			-8.5%
Adjusted for Two-Year Bay Area CPI Change (+3.9%)			-10.4%			-12.4%

[1] Excludes Central Obligations

[2] These amounts exclude the effect of underwater endowment shortfalls, which are one-time payout reductions that will disappear as the merged pool recovers. They do, however, include new gifts to the endowment made during this period.

- A total of $39 million in base general funds were allocated to mitigate payout declines.
- Incremental general funds were allocated to cover salary and price increases.
- The 2009/10 budget reductions were partially offset by modest budget additions in 2009/10 along with this year's incremental programmatic allocations of $15.5 million to the units.

The lower decline in academic units compared to the decline in administrative units is primarily the result of the higher concentration of endowed funds — and hence endowment mitigation — in the academic areas. When adjusted for inflation over the two years (as measured by the Bay Area CPI), the purchasing power of these funding sources has declined 10.4% for academic units and 12.4% for administrative 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. 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 next 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

Comparison of Consolidated Budget and Statement of Activities, 2010/11
Unrestricted Net Assets
[in millions of dollars]

Statement of Activities				Fiscal Year 2010/11		
2008/09 Actual	2009/10 June 2009 Budget	2009/10 Projected Year-End		Projected Consolidated Budget	Adjustments	Projected Statement of Activities
			Revenues and Other Additions			
			Student Income:			
252.3	265.6	267.6	Undergraduate Programs	278.4		278.4
249.4	260.9	266.7	Graduate Programs	276.0		276.0
110.1	118.3	120.5	Room and Board	125.7		125.7
(210.3)	(218.3)	(216.2)	Student Financial Aid[e]		(217.4)	(217.4)
401.5	426.5	438.6	Total Student Income	680.1	(217.4)	462.7
			Sponsored Research Support:			
563.7	566.5	596.6	Direct Costs–University	607.1		607.1
293.7	370.2	325.7	Direct Costs–SLAC	345.7		345.7
174.0	192.5	199.0	Indirect Costs	197.9		197.9
1,031.3	1,129.2	1,121.3	Total Sponsored Research Support	1,150.7		1,150.7
429.1	417.7	444.6	Health Care Services[f,k]	518.6	(58.9)	459.7
149.0	150.0	150.0	Expendable Gifts In Support of Operations	165.0		165.0
89.0	75.0	75.0	Net Assets Released from Restrictions	75.0		75.0
			Investment Income:			
956.5	829.6	850.9	Endowment Income	758.1		758.1
94.2	29.5	25.2	Other Investment Income[g]	146.7	(27.6)	119.1
1,050.8	859.1	876.1	Total Investment Income	904.8	(27.6)	877.2
341.3	369.8	346.9	Special Program Fees and Other Income[j]	348.5	4.9	353.4
3,492.0	**3,427.3**	**3,452.5**	**Total Revenues**	**3,842.7**	**(299.0)**	**3,543.7**
			Expenses			
1,816.1	1,926.8	1,935.4	Salaries and Benefits[d,g,j]	1,987.8	19.0	2,006.8
293.7	370.2	325.7	SLAC	345.7		345.7
			Capital Equipment Expense[b]	75.8	(75.8)	
213.7	235.4	230.1	Depreciation[c]		257.5	257.5
			Financial Aid[e]	217.4	(217.4)	
806.4	920.5	854.0	Other Operating Expenses[f,g,h,j]	1,024.1	(127.0)	897.1
3,129.8	**3,452.9**	**3,345.2**	**Total Expenses**	**3,650.8**	**(143.7)**	**3,507.1**
362.2	**(25.6)**	**107.3**	**Revenues less Expenses**	**191.9**	**(155.3)**	**36.6**
			Transfers			
			Additions to Assets[a]	(115.8)	115.8	
			Net Internal Revenue/Expense[i]	8.4	(8.4)	
			Total Transfers	**(107.4)**	**107.4**	**0.0**
362.2	**(25.6)**	**107.3**	**Excess of Revenues Over Expenses After Transfers**	**84.5**	**(47.9)**	**36.6**

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:

a) Eliminate Fund Transfers. The Consolidated Budget includes transfers of $115.8 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, $75.8 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 $257.5 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 2010/11, GAAP expenses are expected to be higher than budgeted expenses by $36.7 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, $217.4 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 results in a deduction of $48.4 million in both Other Operating Expenses to Health Care Services revenues.

g) Adjust for Internal Investment Management Expenses. Included in the Consolidated Budget revenues and expenses are $27.6 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 $19.8 million from compensation and $7.8 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 $73.3 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 $8.4 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. $4.9 million in revenues and $4.7 million in expenses is added ($2.1 million in Salaries and Benefits and $2.6 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 $10.5 million of revenue.

In summary, the impact of these adjustments decreases the Consolidated Budget's projected $84.5 million surplus by $47.9 million, resulting in a projected surplus of $36.6 million in the Statement of Activities.