CHAPTER 1

CONSOLIDATED BUDGET FOR OPERATIONS

In this chapter we review the details of the 2012/13 Consolidated Budget for Operations, describe the general funds allocation process and results, and present a forecasted Statement of Activities.

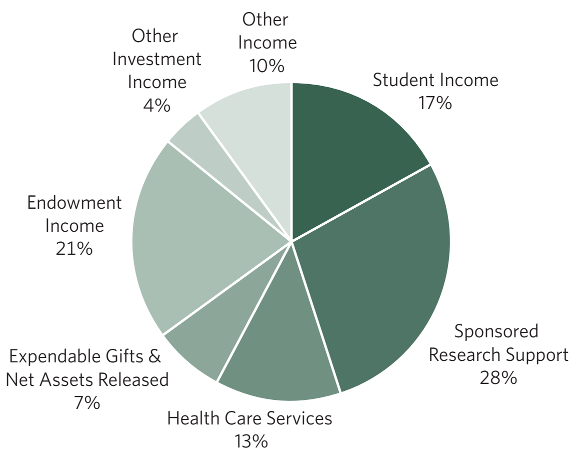
CONSOLIDATED BUDGET FOR OPERATIONS

The Consolidated Budget for Operations provides a management-oriented overview of all non-capital revenues and expenditures for Stanford University in the fiscal year. It is based on forecasts from the schools and administrative areas. These forecasts are then merged with the general funds budget forecast and adjusted by the University Budget Office for consistency. The Consolidated Budget includes only those revenues and expenses available for current operations. It does not include plant funds, student loan funds, or endowment principal funds, although it does reflect endowment payout.

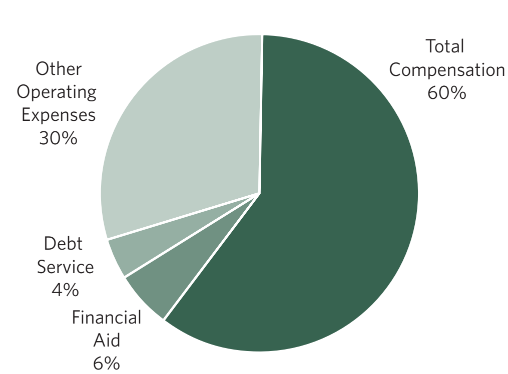
The 2012/13 Consolidated Budget for Operations shows total revenues of $4,443.4 million and expenses of $4,096.3 million, resulting in a net operating surplus of $347.1 million. However, after estimated transfers of $127.5 million, primarily to plant funds, the Consolidated Budget shows a surplus of $219.6 million.

Total revenues in 2012/13 are projected to increase 4.1% over the expected 2011/12 levels, increasing by $173.5 million. The overall growth is moderated by minimal growth in sponsored research. Endowment payout on existing funds will increase 3.0%, but total endowment income will rise 7.3%, due to gift and other additions to endowment principal as well as very strong growth in payout from Stanford

2012/13 CONSOLIDATED REVENUES: $4,443.4M [1]



2012/13 CONSOLIDATED EXPENSES: $4,096.3M



[1] Net Revenues after Transfers: $4,315.8 million

CONSOLIDATED BUDGET FOR OPERATIONS, 2012/13

[IN MILLIONS OF DOLLARS]

2010/11 ACTUALS	2011/12 BUDGET JUNE 2011	2011/12 PROJECTED ACTUALS		GENERAL FUNDS	DESIGNATED	RESTRICTED	GRANTS AND CONTRACTS	AUXILIARY & SERVICE CENTER ACTIVITIES	TOTAL
			Revenues and Other Additions						
285.6	296.5	298.1	Undergraduate Programs	307.1	0.4				307.5
274.8	288.1	288.4	Graduate Programs	295.2	4.4				299.6
127.8	137.8	134.2	Room and Board					138.2	138.2
688.2	722.4	720.7	Total Student Income	602.3	4.8			138.2	745.4
650.3	650.2	656.7	Direct Costs–University				667.2		667.2
366.4	346.3	357.0	Direct Costs–SLAC				378.0		378.0
225.5	216.9	226.8	Indirect Costs	226.8					226.8
1,242.2	1,213.4	1,240.5	Total Sponsored Research Support	226.8			1,045.2		1,272.1
558.7	549.2	572.9	Health Care Services	25.8	494.8	6.5		72.1	599.2
163.7	205.0	200.0	Gifts In Support of Operations	2.0		198.0			200.0
106.1	80.0	104.8	Net Assets Released from Restrictions	3.9	0.1	105.9			109.8
783.4	838.1	862.4	Endowment Income	179.2		746.3			925.5
151.7	148.4	153.1	Other Investment Income	75.5	83.5	2.2	0.4		161.6
935.1	986.5	1,015.5	Total Investment Income	254.7	83.5	748.5	0.4		1,087.1
381.2	374.3	415.3	Special Program Fees and Other Income	9.5	276.0	0.6		143.7	429.8
4,075.1	**4,130.8**	**4,269.8**	**Total Revenues**	**1,125.1**	**859.1**	**1,059.5**	**1,045.7**	**354.0**	**4,443.4**
			Expenses						
2,205.1	2,291.7	2,331.8	Total Compensation	613.4	565.3	418.3	590.6	251.8	2,439.4
230.3	239.5	241.9	Financial Aid	46.8	3.8	183.9	15.6		250.0
159.2	164.6	156.2	Internal Debt Service	57.6	22.8	2.9		85.0	168.2
1,139.5	1,127.9	1,201.9	Other Operating Expenses	235.2	197.7	176.9	415.4	213.4	1,238.6
3,734.2	**3,823.7**	**3,931.7**	**Total Expenses**	**952.9**	**789.5**	**782.0**	**1,021.7**	**550.2**	**4,096.3**
340.9	**307.1**	**338.1**	**Operating Results**	**172.2**	**69.6**	**277.5**	**24.0**	**(196.2)**	**347.1**
			Transfers						
(150.4)	(2.3)	(31.9)	Transfers from (to) Endowment Principal	(4.0)	(35.2)	(9.1)		1.0	(47.3)
(66.1)	(132.0)	(130.9)	Transfers from (to) Plant	(88.8)	(34.8)	(0.7)			(124.3)
58.5	30.4	36.5	Other Internal Transfers	(36.4)	54.9	(148.3)	(23.9)	197.7	44.1
(158.0)	**(103.9)**	**(126.3)**	**Total Transfers**	**(129.1)**	**(15.2)**	**(158.0)**	**(23.9)**	**198.7**	**(127.5)**
182.9	**203.2**	**211.8**	**Operating Results and Transfers**	**43.1**	**54.5**	**119.5**		**2.5**	**219.6**
2,121.9	2,153.0	2,304.8	Beginning Fund Balances	375.9	1,081.2	1,047.1		12.5	2,516.6
2,304.8	2,356.2	2,516.6	Ending Fund Balances	419.0	1,135.6	1,166.6		15.0	2,736.2

endowed lands. Total expenses are expected to grow by 4.2% over the projected year-end results for 2011/12. Non-research expenses are expected to outpace salary inflation due to increasing headcount for both faculty and staff. The table on the facing page shows the projected consolidated revenues and expenses for 2012/13. For comparison purposes, it also shows the actual revenues and expenses for 2010/11 and both the budget and the year-end projections for the current fiscal year, 2011/12. 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 3.4% in 2012/13 to $745.4 million. Increases in student charges for next year were guided by a number of considerations: 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 relative to our peers.

Tuition and Fees – Stanford expects to generate $607.1 million in tuition and fee revenue in 2012/13, a 3.5% increase over 2011/12, somewhat higher than the general tuition rate increase due to continued increases in graduate student enrollment. While total tuition and fees represent only 14% of Stanford's total revenue, it is 54% of general funds. As such, it is a particularly important source of revenue. 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 2012/13 is 3.0%, which results in a rate of $41,250 for undergraduates and most graduate students. The Board of Trustees approved this rate in February, the lowest year-over-year increase in more than thirty years. As always, the rate increase was set after careful consideration of the current economic circumstances weighed against the budgetary needs. After a 3.5% tuition increase in 2011/12, Stanford moved down three positions, as it did in 2010/11, to 46th in a ranking of tuition charges in the Cambridge Associates survey of 99 participating private institutions. Among the tuition rates of the highly selective private universities that comprise the Consortium on Financing Higher Education (COFHE), Stanford's tuition currently ranks 14th out of 17, unchanged from last year, even though Stanford's tuition rate increase was below the COFHE university median increase of 3.9%.

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 allowances 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 Continuing Studies/Summer Session.

The approved 3.0% tuition increase applies to the undergraduate tuition rate, the general graduate rate, and the graduate tuition rates for Engineering, the Law School, and students paying the terminal graduate registration fee. The School of Medicine will increase tuition by 3.5% for all MD students, and the Graduate School of Business will increase the rate of tuition for entering MBAs by 3.8%.

Room and Board – Total room and board income is expected to be $138.2 million in 2012/13, an increase of 3.0%, which is somewhat lower than the approved increase in the room and board rate. The lower growth is the result of the temporary loss of graduate housing due to the demolition of "low-rise" apartments in preparation for 425 new beds in Escondido Village, as well as an assumed decrease in the number of students purchasing voluntary meal plans and participating in summer session programs. In February, the Trustees approved a combined room and board rate increase of 3.5% for 2012/13, bringing the undergraduate rate to $12,721. The room rate will increase by 4.4%, and the board rate will increase by only 2.2%. We expect that these rates will maintain Stanford's room and board rate ranking in the middle of the COFHE universities. The 2012/13 recommended rate increases will allow Residential and Dining Enterprises (R&DE) to have a balanced budget that includes the inflationary impacts on operating costs, including labor, food, and expendable materials and supplies, as well as incremental funding for the residential education program and debt service expense in support of critical deferred maintenance and capital improvement projects.

Sponsored Research and Indirect Cost Recovery

The budget for sponsored research is projected to be $1,272.1 million in 2012/13. This figure includes the direct revenue from externally supported grants and contracts ($667.2 million for university research and $378.0 million for SLAC), as well as reimbursement for indirect costs ($226.8 million) incurred by the university in support of sponsored activities. With the exception of 2008/09 when the university's endowment payout was at its peak, sponsored research has been Stanford's largest source of revenue for some time, and this trend will continue in 2012/13 as it will generate 28.6% of consolidated operational revenues. Direct research volume excluding SLAC will increase by 1.6% in 2012/13.

For a number of years before the economic downturn, non-federal research growth outstripped that of federal research. That trend reversed for two years as federal research grew significantly with funds from the American Recovery and Reinvestment Act (ARRA), and non-federal sponsors, facing their own financial difficulties, slowed their support. With nearly all ARRA grants concluding in 2011/12, the trend will resume, as federal research is expected to decline by 1.3% while non-federal research will increase by 9.6%. Interestingly, nearly two-thirds of the non-federal increase in 2012/13 will be due to grants from the California Institute for Regenerative Medicine (CIRM). The School of Medicine's Institute for Stem Cell Biology and Regenerative Medicine, among other campus units, has been a leading recipient of awards since CIRM's inception, and that support is expected to continue for a number of years. Even without the CIRM increases, however, non-federal research is expected to grow by about 4%.

While the growth in non-federal research is encouraging — especially given uncertainties around future federal support for research — there will be a financial impact as the relative share of non-federal research increases. Specifically, many non-federal sponsors are unwilling to pay the same indirect cost recovery rate that federal sponsors pay. For instance, federal sponsors will contribute, on average, an additional 54 cents towards the university's indirect costs for each dollar of direct research expense they support. For non-federal sponsors, that figure drops to 30 cents. So, in spite of a 2012/13 increase in direct research volume of 1.6%, indirect cost recovery will remain flat.

SPONSORED RESEARCH EXPENSES
(Excluding SLAC)
[IN MILLIONS OF DOLLARS]

	2011/12	2012/13	PERCENT CHANGE
Federal Directs	484	478	−1.3%
Non-Federal Directs	173	190	9.6%
Total Directs	**657**	**667**	**1.6%**
Total Indirects	222	222	0.0%

Finally, though there are uncertainties about the 97% share of SLAC funding that comes from the Department of Energy, the laboratory is projecting a nearly 6% increase in activity in 2012/13. SLAC research activity is discussed in more detail in Section 2.

Health Care Services

Health Care Services income is budgeted to be $599.2 million in 2012/13, a 4.6% increase over the projection for 2011/12. The majority of Health Care Services income

($514.7 million) is in the School of Medicine, including $467.2 million paid by Stanford Hospital and Clinics and Lucile Packard Children's Hospital related to the clinical practices of the faculty. The 2012/13 clinical revenue growth rate over the year-end projection is somewhat lower than we have experienced in past years, due in part to increased competition for the services of the blood center in the market-place and due to a slight slowdown by the hospitals' use of School of Medicine faculty in clinical practice. The blood center's revenues of $44.1 million reflect a modest increase of 2.0% over the projection for 2011/12. The School of Medicine also receives $30.0 million of hospital payments 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: $17.5 million to Business Affairs IT, primarily for communications services; $6.5 million to the Office of the General Counsel for legal services; $13.7 million to Land, Buildings and Real Estate for operations and maintenance and utilities; $4.5 million to the Office of Development for hospital fundraising support; and $7.6 million to the central administration for general support.

Expendable Gifts

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. Expendable gift income in support of operations is forecast to be $200.0 million in 2012/13, the same level expected for the current year, 2011/12. Gift revenue in the current year is projected to increase by 22% over 2010/11, with the conclusion of the Stanford Challenge. In fact, it is expected that in 2011/12 gifts of all types, expendable, endowed, and for capital projects, will be the highest ever received. Because of the high level of gift receipts anticipated in 2011/12, we are not expecting growth in expendable gifts in 2012/13.

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. There are two types of revenue flows in this category. The first is cash payments on pledges made in prior years, and the second is pending gifts whose designation has been determined. Net assets released from restrictions took a big jump in 2010/11, going from $78.3 million the year before to $106.1 million. This increase coincides with the final stages of the Stanford Challenge, as donors fulfill their final campaign commitments. In both the current year and next year, we anticipate that this income will continue to be strong, yielding $109.8 million in 2012/13.

Investment Income

Total investment income, Stanford's second largest source of revenue, is expected to increase by 7.0% in 2012/13 to $1,087.1 million, surpassing the pre-recession high of $1,075.4 million in 2008/09. This total includes endowment payout to operations as well as other investment income.

Endowment Income – Endowment payout to operations in 2012/13 is expected to be $925.5 million, an increase of 7.3% over 2011/12. 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.

The expected payout from an individual endowment fund in 2012/13 will increase by 3.0%, an increase that adequately matches ongoing expense increases. However, total merged pool payout is expected to increase by 6.3% due to several factors: gifts to endowment principal are expected to reach $250 million; schools and departments are expected to transfer $47 million from expendable funds to funds functioning as endowment; and $55 million is assumed to be added to funds functioning as endowment in the Tier I Buffer as a result of excess expendable funds pool earnings in 2011/12. Together these additions contribute roughly $19 million to endowment payout in 2012/13. Finally, significant increases in rental income from the Stanford endowed lands, described on the next page, are expected in 2012/13, further enhancing total expected endowment income.

The estimate of endowment payout from the merged pool is a product of a forecast of the endowment market value on November 30, 2012 and a smoothed payout rate. Stanford uses an established smoothing rule to dampen the impact on the budget of large annual fluctuations in the market value, thereby providing stability to budget planning. The smoothing rule sets the coming year's payout rate to be a weighted average of the current year's payout rate and the target rate. The smoothed payout rate trends up when the market declines, and it goes down when the market value increases. As a result of the recovery of the market value of the merged pool, the smoothed payout rate in 2012/13 is projected to equal the target rate of 5.5%.

Of the total endowment income, $179.2 million, or 19.4%, 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 increase substantially (12.4%) in 2012/13. One factor driving the growth in unrestricted endowment is an expected $55 million addition to the Tier I Buffer, resulting from 2011/12 excess earnings on expendable reserves. The Tier I Buffer, a collection of unrestricted funds functioning as endowment, serves as a buffer against shortfalls in investment returns on Stanford's expendable reserves. The Tier I Buffer is expected to reach $846 million by the end of 2012/13, nearly $100 million higher than its peak of $752 million at the end of 2007/08. A second reason for the healthy rise in unrestricted endowment income is a 23.1% increase in unrestricted rental income from the Stanford endowed lands due to several new negotiated leases that will bring the total to $71.5 million.

Other Investment Income – Total other investment income is expected to rise from $153.1 million in 2011/12 to $161.6 million in 2012/13, a 5.8% increase.

Other investment income is generated from four main sources:

- Payout on the expendable funds pool ($100.3 million) and income earned on unexpended endowment payout separately invested in the endowment income funds pool ($2.0 million),
- Investment income distributed to support the operations of the Stanford Management Company, the real estate division of Land, Buildings and Real Estate, and a portion of investment accounting activities in the Controller's Office ($31.8 million),
- Interest income on the Stanford Housing Assistance Center (SHAC) portfolio ($15.4 million), and
- Miscellaneous other investment income including rents, security lending, and other interest income ($12.1 million).

The largest of these sources, the expendable funds pool (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 an expected 2011/12 year-end balance of $2.8 billion.

Payout from the EFP is governed by a trustee policy that was revised effective September 1, 2009. Under the 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. The remaining funds invested in the EFP receive an annual payout equal to a money-market return. These funds 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.

Strong returns in the merged pool in 2010/11 guarantee a 5.5% payout to the zero-return portion of the EFP in 2011/12. Total return on the merged pool in 2011/12 is expected to be sufficient for full payout of 5.5% to the zero-return funds in 2012/13 as well. Income earned on unexpended endowment payout, separately invested in the endowment income funds pool, is expected to increase slightly as money market rates are expected to increase modestly. The non-EFP portion of other investment income is projected to increase 3.1% to $59.3 million.

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 in auxiliary units for 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 in Athletics, and revenues in HighWire Press, the University Press, Stanford West Apartments, and several other smaller auxiliaries. This category of revenue, much of which is based on outside demand for programs like executive education and travel study programs, has rebounded significantly over the past two years. Total special program fees and other income is budgeted at $429.8 million in 2012/13, an increase of 3.5% over the expected level in 2011/12.

Expenses

Total Compensation

Total Compensation in the Consolidated Budget for Operations 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 2012/13 is budgeted to be $2,439.4 million, a 4.6% increase over the 2011/12 year-end projection of $2,331.8 million. This increase is driven by the approved merit programs for faculty and staff, as well as anticipated headcount growth. The overall growth in total compensation expenses is mitigated by the expected contraction in sponsored research. As discussed below, the fringe benefits rate applied to faculty and staff is decreasing slightly, which will cause total benefits expense to increase at a somewhat slower pace than total salary expense.

Salaries – Total salary expense, including SLAC, is expected to grow by 4.8% in 2012/13 to $1,744.7 million. When SLAC is excluded, the growth rate for salary expense for faculty and staff increases to 5.4%, a result of the approved salary program, incremental funding to increase the competitiveness of our faculty salary program, enhancements to the staff bonus program, and general headcount growth. Similar to past years, the approved salary program takes into consideration the financial condition of the university as well as the current labor market status. 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.

An important focus of the annual budget development process this year was a thorough review of faculty salaries relative to peer institutions. As a result of analysis conducted by each school, incremental general funds were allocated to allow the schools to make target adjustments. After careful review of survey salary data in several local markets, it was determined that staff salaries were at or slightly higher than market median salaries in September 2011. The approved merit program for 2012/13 was set with the intention of maintaining this position. However, while Stanford staff salaries appear to be competitive in the local market, comparative compensation data revealed a lag in variable compensation. To address this, funds were allocated to enhance the existing staff bonus program.

Fringe Benefits – Fringe benefits expense is expected to increase by 4.4% in 2012/13 to $450.0 million, consistent with the growth in overall salary expense and a slightly lower fringe rate for regular benefits-eligible employees.

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 ratio 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-four percent of all fringe benefits expense is incurred for regular benefits-eligible employees, and the rate for this group in 2012/13 is expected to decrease slightly compared to the negotiated rate for 2011/12. There is greater volatility in the rates for the other three employee groups, with the rates increasing in 2012/13 for each of these groups. The primary factors impacting total fringe benefit expenses in 2012/13 are discussed below.

FRINGE BENEFITS RATES

	2011/12 NEGOTIATED BUDGET	2012/13 PROJECTED RATES
Regular Benefits-Eligible Employees	30.4%	30.3%
Post-Doctoral Research Affiliates	22.5%	28.4%
Casual/Temporary Employees	7.9%	8.2%
Graduate RAs and TAs	4.7%	5.0%
Average Blended Rate	**27.8%**	**28.0%**

Overall, the rate for regular benefits-eligible employees will decrease by 0.1 rate point in 2012/13 over the rate negotiated with the Office of Naval Research for 2011/12. Although the change in the benefit rate is minimal, several increases/decreases in particular programs should be noted:

- Health plan costs are expected to increase 8.3% as a result of several factors: medical cost inflation, enrollment growth, and continued enhancement of the BeWell incentive program. The per capita cost of our health plans is increasing by 7%. Due to the success of the 2012 incentive program, Stanford decided to expand the benefits to spouses and registered domestic partners in 2013. They will receive a $240 (taxable) wellness reward by completing certain components of the BeWell program. As a result, the BeWell incentive program cost will grow by $2.1 million in 2012/13. All health plan changes combined will increase the RBE rate by 0.3%.
- Costs for the Stanford Contributory Retirement Program are increasing by 9.1%, reflecting both projected headcount growth and a change in how employees are enrolled in the program. Specifically, the program will change from an opt-in model (in which employees must take action to make contributions from their paycheck, generating matching contributions from the university) to an opt-out model (in which employee contributions will automatically start upon eligibility, again generating matching contributions unless employees take action to cease contributions from their paycheck). With a planned mid-year rollout of the new model, university matching contributions are expected to increase $3.5 million, adding 0.2% to the RBE fringe rate.
- Stanford Retirement Annuity Plan (SRAP) costs are expected to decline by $2.8 million as required reserve contributions will drop in 2012/13. While a number of actuarial factors impact the reserve contribution calculation, solid performance of the plan's invested assets leads to most of the decline. Similar required contribution declines will take place in the retiree medical insurance program, and the combined reserve contribution declines will cause the RBE rate to decrease by 0.3%.
- The other significant impact to the RBE rate comes from carrying forward an over-recovery of fringe costs in 2010/11, reducing the RBE rate by 0.3%.

The benefits rate for postdoctoral research affiliates will increase substantially in the coming year, from 22.5% to 28.4%. There are two causes for this large increase. First, there was a significant premium increase in calendar year 2012, after the 2011/12 benefits rates were established, so the 2012/13 postdoctoral rate starts from a higher base than was projected for 2011/12. Second, increasing health care costs, a small pool size, and adverse claims experience are projected to lead to an additional 7.9% premium increase in calendar year 2013.

The fringe rate for casual or temporary employees will increase 0.3 points due to an increase in workers' compensation costs and net under-recoveries in recent years. The rate for graduate teaching and research assistants (RAs and TAs) will increase from 4.7% to 5.0% due mainly to an under-recovery of costs for this group in 2010/11.

Financial Aid

Stanford expects to spend a total of $250.0 million on student financial aid for undergraduate and graduate students in 2012/13, $46.8 million of which will come from general funds. Designated and restricted funds ($187.6 million) and grants and contracts ($15.6 million) will support the remainder. Total budgeted financial aid is 3.4% above the projected total for 2011/12, 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. It is estimated that in 2012/13 Stanford students will receive $136.2 million in need-based scholarships, of which $130.2 million will be from Stanford resources, an increase of 3.6% over the projected year-end, a somewhat higher increase than Stanford's student budget, due to an expected decline in non-Stanford funding. The remaining $6.0 million will come from federal grants, mostly Pell and SEOG grants. In 2012/13 total federal grant aid is expected to decrease 8.2%, and support from Cal Grants, which are not reflected in the Consolidated Budget for Operations, will decline by $1.4 million or nearly 40%.

The main features of Stanford's financial aid program remain unchanged in 2012/13. The relative share of funding sources supporting this critical program is, however, shifting. First, an incremental $10 million in general funds will replace support from the president's Tier II Buffer. The table on the following page illustrates that in 2009/10, as a result of the decrease in endowment payout from the merged pool that coincided with a jump in the number of students on aid due to the state of the economy, a substantial infusion of presidential support was provided from the Tier II Buffer. As the economy recovers and as significant progress is made toward the Stanford Challenge goal of $300 million in new endowment supporting need-based aid, the plan is to eliminate support from the Tier II Buffer by 2017.

UNDERGRADUATE NEED-BASED SCHOLARSHIP AID

[IN MILLIONS OF DOLLARS]

SOURCE OF AID	2007/08 ACTUALS	2008/09 ACTUALS	2009/10 ACTUALS	2010/11 ACTUALS	2011/12 PROJECTED	2012/13 PLAN
Department Funds and Expendable Gifts	2.0	2.2	2.1	2.2	1.9	2.1
Endowment Income	67.9	80.4	72.4	66.3	71.8	77.0
President's Funds - The Tier II Buffer		3.0	24.5	24.9	23.2	10.7
President's Funds - The Stanford Fund	5.3	17.4	15.0	15.6	15.0	16.2
General Funds			1.5	10.4	13.8	24.1
Subtotal Stanford Funded Scholarship Aid	75.2	103.0	115.5	119.4	125.7	130.2
Federal Grants	4.5	5.0	6.9	7.1	6.6	6.0*
Total Undergraduate Scholarship Aid	**79.7**	**108.0**	**122.4**	**126.4**	**132.2**	**136.2**
General Funds as a Share of Stanford Funding	0%	0%	1%	9%	11%	18%
President's Funds as a Share of Stanford Funding	7%	20%	34%	34%	30%	21%
Endowment Funds as a Share of Stanford Funding	90%	78%	63%	56%	57%	59%
Number of Students	2,811	3,136	3,401	3,396	3,460	3,415

* Excludes $300,000 in work study funds.

The following sources support Stanford's overall commitment to undergraduate scholarship aid in 2012/13:

- Restricted income (endowment and gifts) will provide $79.1 million, a 7.3% increase over 2011/12 due to new gifts to endowment.
- Funds controlled by the president will provide $26.9 million, down 29.6% over the current year and $13.6 million less than the peak support in 2010/11.
- General funds will increase from $13.8 million in 2011/12 to $24.1 million in 2012/13 to replace presidential support and to offset losses in federal and state funding.

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 $20.3 million, an increase consistent with the rise in tuition.

Graduate Aid – Stanford provides several kinds of financial support to graduate students that are expected to total $311.2 million in 2012/13. As the table below indicates, this includes the tuition component of fellowships in the

2012/13 FINANCIAL AID AND OTHER GRADUATE STUDENT SUPPORT FROM STANFORD RESOURCES

[IN MILLIONS OF DOLLARS]

PROJECTED 2011/12 YEAR-END		GENERAL FUNDS	DESIGNATED AND RESTRICTED	GRANTS & CONTRACTS	TOTAL
	Student Financial Aid				
132.5	Undergraduate	24.1	106.1	6.3	136.5
19.7	Undergraduate Athletic		20.3		20.3
89.7	Graduate	22.7	61.2	9.3	93.2
241.9	Total	46.8	187.6	15.6	250.0
	Other Graduate Support				
58.0	Stipends	16.2	27.1	16.6	59.9
65.5	Tuition Allowance	30.1	18.9	18.1	67.2
88.1	RA/TA Salaries and Benefits	21.0	29.5	40.3	90.9
211.6	Total	67.3	75.6	75.1	218.0
89.3	Postdoc Support	2.1	22.9	67.3	92.4
542.8	**Total Student Support**	**116.2**	**286.2**	**158.0**	**560.4**

amount of $93.2 million, which is reflected in the Financial Aid line of the Consolidated Budget. Financial aid for graduate students is expected to increase by 4.0%, 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 $218.0 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 3.5% in 2012/13; tuition allowance expense is expected to increase by 2.6%.

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 around 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.

While not matriculated as graduate students, Stanford also provides support to postdoctoral researchers. Roughly two-thirds of these individuals work in the School of Medicine, and the vast majority of their support (70%) is provided by sponsored research projects. Postdocs are charged a tuition fee of $125 per quarter, which is almost always covered by school or departmental funds. They receive a salary or a stipend and health benefits in exchange for their work. The total expense for postdocs is expected to be $92.4 million in 2012/13, an increase of 3.5% over 2011/12.

Total direct student support of all kinds is expected to be $560.4 million in 2012/13, a 3.2% increase over the projected level for 2011/12.

Schedule 5 in Appendix B details graduate student and postdoc support by source of funds.

Internal Debt Service

Stanford issues debt securities in the capital markets to finance capital projects and to bridge-finance the receipt of gifts for capital projects. Internal loans are advanced to projects and amortized over the useful life of the assets being financed in equal installments. Internal loans are assessed the Budgeted Interest Rate (BIR), which is the weighted average rate of the debt issued to finance capital projects and includes bond issuance and administrative costs. The BIR has been set at 4.5% for 2012/13, unchanged from the current year rate.

Internal debt service in 2012/13 is projected to be $168.2 million, a 7.7% increase over 2011/12. It includes debt service incurred to bridge finance the receipt of gifts and annual lease payments, and excludes $9.2 million of debt service for Rosewood/SHR and $19.8 million of annual lease payments. The year-over-year increase of $12.0 million is due to initial costs related to the Stanford Energy Systems Innovations (SESI) project, particularly the accelerated amortization of infrastructure assets that will be stranded as a result of the new energy facility, as well as costs for the first phases of the conversion of underground steam pipes to a hot water distribution system. A small portion of the increase in internal debt service is due to additional planned and deferred maintenance projects in Residential and Dining Enterprises.

Other Operating Expenses

This expense category includes all non-salary expenditures in the Consolidated Budget for Operations except financial aid and internal debt service, which are detailed separately above. This category comprises nearly 30% of the total expenditures in the Consolidated Budget and is projected to increase 3.1% to just over $1.2 billion in 2012/13. The overall growth in non-compensation expenses is returning to more of an inflationary rate, as units feel less constrained by budgetary pressures, although lower growth rates are projected for the grant and contract and auxiliary & service center fund types. Other operating expense is projected to increase only 1.8% for grants and contracts, due to the anticipated slowdown in total sponsored activity. Residential & Dining Enterprises, which in 2011/12 is undertaking substantial facilities renewal activities, expects other operating expense to remain flat in 2012/13.

The principal components in other operating expenses include: materials and supplies ($207.1 million, of which about 44% is laboratory supplies); contracted outside services ($161.7 in research subcontracts and $86.9 million in other services); capital equipment and library materials purchases

Focus On: The Library Materials Budget

The Library Materials Budget (LMB) is a pivotal component of the university's research infrastructure, enabling Stanford University Libraries and Academic Information Resources (SULAIR) to provide the diverse mix of print and electronic publications, online databases, audiovisual resources, and archival materials that directly support scholarship and teaching at Stanford. In 2011/12, the total LMB allocation, including both university funding and endowment payouts, was $19.5 million.

While the LMB totals a significant sum, SULAIR librarians must make critical decisions about what resources to acquire. SULAIR completes an analysis each year to assess any loss in purchasing power of base funds and includes that analysis as part of the annual budget request. The university has been very responsive to SULAIR's needs, but has not been able to allocate enough base funds to keep pace with the loss of purchasing power since 2008/09. Although SULAIR received an additional $1.0 million as part of its 2012/13 base allocation, a recent analysis indicated that it would take close to $6.5 million in additional base funds to enable SULAIR to purchase the full spectrum of research resources.

SULAIR's 45 subject specialists work directly with Stanford faculty to match acquisition decisions to Stanford's programs of research and teaching. Subject specialists are primary decision-makers in acquiring materials. Particularly in the arts, humanities, and social sciences, the subject specialists collaborate with faculty to seek out and acquire unique and unusual materials that make Stanford a distinctive place for the practice of scholarship.

Subject specialists make acquisition decisions in the rapidly changing world of scholarly communications. SULAIR's collecting program is worldwide, with almost 250 countries – and nearly 270 languages – represented among publications it has received since 2005. In many of those countries, electronic publishing is not common, and consequently, SULAIR continues to acquire paper-based materials – books and archival manuscripts above all, but also print journals. However, over the past decade, English-language academic journals have almost completely shifted from print to electronic delivery, and both international journals and scholarly monographs are moving in that direction. While in many ways positive, this transformation presents challenges for collecting practices.

Each new technological development requires SULAIR to reevaluate the contractual and other terms under which it acquires materials. For example, with e-books, among the issues selectors must consider are:

- Buy or rent? Some providers offer the option of leasing e-book content, which in the short term is cheaper than purchasing these books. However, the books disappear the minute that the subscription ceases.
- Acquire directly from publishers or through a third-party supplier?
- Individual titles or packages? Acquisition of large packages of e-books can be less expensive than selecting them on a title-by-title basis. However, packages may include material of little interest to SULAIR's constituents, in some cases even while more marketable works, particularly reference works and textbooks, are withheld.
- Purchase the backlist? Does it make sense for the library to buy older content that it already owns in print format?
- What does "ownership" of e-books actually mean? This question speaks to the issue of their long-term preservation (a core concern of libraries vis à vis their print holdings). At present, this is largely left to the discretion of publishers.
- Trade e-books versus academic e-books: Notwithstanding the complexities that we have noted here, academic publishers see research libraries as a market to be tapped. The same observation cannot be made concerning trade publishers, which are oriented primarily to individual consumers. SULAIR acquires numerous high-end trade monographs, but for the time being is compelled to do so in print rather than electronically.

Journal price increases, which have outpaced inflation by a considerable margin for many years, can become even more difficult to manage in an electronic environment, where package subscription deals make it difficult to pare individual subscriptions. Even with a 1.5% increase in the operating budget and a 3.6% increase in the payout on endowments in 2011/12, the total LMB remained at just 93.2% of 2008/09 levels. During this same period, journal subscription costs rose by approximately 19%. As a result, libraries — including those at Stanford — frequently trim journal and database subscriptions, and limit book acquisition to maintain critical journal access.

Despite these challenges, SULAIR's library collections continue to grow and adapt to meet the needs of our faculty and students.

($90.0 million); graduate student and postdoc stipends ($103.1 million); food, entertainment, and travel ($111.2 million); external payments for facilities and equipment operations and maintenance ($68.2 million); external payments for telecommunications and utilities commodities for campus buildings ($54.7 million); services purchased from the hospitals ($44.9 million); and rentals and leases ($36.3 million).

Utilities – Campus utilities expenses, including commodities and distribution expenses, are expected to increase from $66.4 million in 2011/12 to $73.3 million in 2012/13, mostly due to accelerated amortization of infrastructure assets as described below. Natural gas and electricity prices are expected to decline slightly in 2012/13.

The delivery of utilities to the campus involves three significant components: 1) 45% for purchased utilities from outside of the university including electricity and natural gas from Cardinal Cogen for generating steam, chilled water, and electricity; 2) 29% for debt amortization on capital expenditures for system expansion, replacement, controls, and regulatory requirements; and 3) 26% for other expenditures, which include maintenance, supplies, and staff labor costs to operate the utility systems.

The university is moving forward with the Stanford Energy System Innovations (SESI) project, which will provide the campus with a new central energy plant and related infrastructure in the next five years. As a result, the remaining debt on current utility plant assets will be amortized over the next five years, a period shorter than originally planned. This will increase utility rates due to higher debt amortization costs.

Operations & Maintenance – 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 $125.1 million in 2012/13.

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 O&M costs in 2012/13 of $4.7 million, driven by the Bing Concert Hall ($2.7 million), the Stanford Auxiliary Library III Phase 2 project ($330,000), and various infrastructure projects.

Transfers

In order to determine the change in fund balances expected in each fund type and for the Consolidated Budget for Operations as a whole, we must account for the transfer of funds between units, between fund types, and out of the Consolidated Budget for Operations altogether. Overall, transfers result in a net reduction from operating results of $127.5 million.

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 central administration commitments, the Consolidated Budget for Operations adds or subtracts these transfers from the operating results (revenues less expenses).

- Transfers to Endowment 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 2012/13 we are projecting that a net $47.3 million will be transferred to FFE from current operating funds. This compares to a projected $31.9 million transfer from current funds to FFE in 2011/12, an increase of $15.4 million. This reflects continued school investments of expendable fund balances in FFE ($23.6 million for Humanities & Sciences; $3.5 million each for Engineering and Medicine; $2.8 million for Hoover; and $2.5 million for Earth Sciences), as well as an anticipated $10.5 million investment of designated funds by the president for challenge matches.

- Transfers to Plant: The transfers in this category are primarily to plant for capital projects. Total transfers of $124.3 million to plant and other assets are planned for 2012/13. Included in this is $88.6 million in anticipated transfer from the Capital Facilities Fund (CFF) to support plant projects (see more on the CFF in Chapter 4). Additionally, Land, Buildings and Real Estate will transfer about $9.3 million from the Planned Maintenance Program into plant improvement projects, while the School of Medicine expects to transfer $13.6 million in funds for a variety of capital projects. The remainder is made up of smaller amounts distributed throughout the remaining units. These transfers will decrease slightly from the amount of $130.9 million projected for 2011/12.
- Other Internal Transfers: There is other financial activity which affects the net results of the consolidated budget. Primarily, 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 $44.1 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 represents transfers of current funds to student loan funds, such as the loan forgiveness programs in Education and Law. It also includes any transfers from living trusts and pending funds.

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 supports both academic and administrative functions. Administrative units are supported entirely by general funds.

General funds revenue in 2012/13 is projected to increase by 4.3% to $1,125.1 million, a $46.2 million increase over the expected level for 2011/12. Most revenue streams, including student income, healthcare services, and expendable gifts are increasing at the rate of 3.0-3.5%, resulting in $21.7 million of the increase. The higher overall general funds growth is the result of a 10.6%, or $24.5 million, increase in investment income. This growth is due to the increasing balance of and payout from the expendable funds pool and increased revenue from endowed lands. These items are described more fully in the earlier section on investment income.

2012/13 Non-Formula General Funds

Per negotiated formula arrangements, $176.7 million of the total general funds revenue will flow to the School of Medicine, the Graduate School of Business, and the Continuing Studies/Summer Session programs. The remaining general funds revenue is controlled and allocated by the provost. In order to derive the total general funds available to allocate to the non-formula units, two annual adjustments are made: the transfers in from funds generated by the infrastructure charge on restricted funds, and transfers to reserves for minor facilities projects and for faculty and student housing expenses. These adjustments are reflected in the Transfers section of the Consolidated Budget for Operations. After adjustments, the 2012/13 non-formula general funds is $925.3 million. The table on the following page shows how the $925.3 million in non-formula general funds will be allocated in 2012/13.

During the 2012/13 general funds budgeting process, each budget unit met with the Budget Group, the provost's advisory body comprised of senior faculty and administrators, to 1) review the financial health and sustainability of the organization; 2) discuss the schools' faculty salary positions compared to peer universities; 3) report on the diversity, size, and financial support of graduate student and faculty populations, including any growth plans; 4) discuss other strategic directions; and, 5) submit requests for incremental general funds. At the end of the process, the provost made allocation decisions based on the units' presentations, consultation with the Budget Group, and a final forecast of available general funds.

SUMMARY OF 2012/13 BASE GENERAL FUNDS ALLOCATIONS

[IN MILLIONS OF DOLLARS]

2012/13 Projected General Funds Revenue		**1,125.1**
Allocations to Formula Units		(176.7)
Transfers In - Infrastructure Charge		24.5
Transfers Out - Facilities and Housing Reserves		(47.5)
2012/13 Non-Formula Base General Funds		**925.3**
2011/12 Non-Formula Base General Funds Allocations		758.7
Non-Discretionary Allocations		
Capital Facilities Fund	67.0	
Incremental Facilities Costs	8.2	
Subtotal		75.2
2012/13 Incremental Base General Funds Allocations		
Salary Program and Inflationary Adjustments	17.5	
Undergraduate Financial Aid	11.8	
Programmatic Allocations to Academic Units	14.2	
Programmatic Allocations to Administrative Units	4.8	
Subtotal		48.3
2012/13 Unallocated Surplus		43.1
2012/13 Non-Formula Base General Funds		**925.3**

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 2012/13 are detailed below and are reflected in the pie chart on the following page. Details of the allocation by unit can be found on page 83 in Appendix A.

Salary Programs and Inflationary Adjustments: $17.5 million

To maintain the university's competitive position in faculty and staff salaries, $11.8 million was allocated to fund a salary program and the attendant increase in benefits expense. General non-salary expenditures received an increase of 2.0% for 2012/13, with larger increases granted for graduate financial aid and student health care expenses. Total inflationary adjustments for non-salary expenditures were $5.7 million.

Facilities Costs: $8.2 million

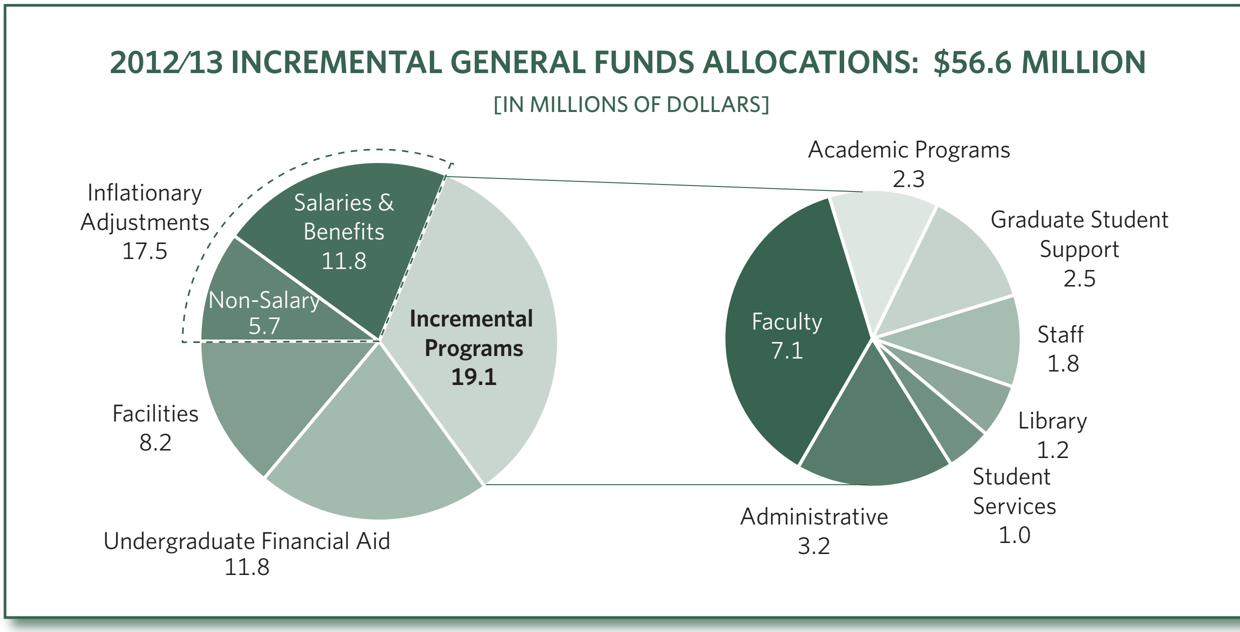
Utilities and O&M expenses for existing facilities will increase by $2.9 million in 2012/13, and these expenses will increase an additional $3.9 million due to new facilities coming online, including the Bing Concert Hall, the Stanford Auxiliary Library III, and the Knight and Littlefield buildings (existing buildings whose operational expenses are being moved from GSB funds to general funds). An additional $1.3 million allocation was made to cover off-campus lease expenses for administrative staff.

Undergraduate Financial Aid: $11.8 million

Entering this year's budget process, there were already plans to increase general funds support of undergraduate financial aid by $1.8 million, part of a longer-term plan to reduce reliance on one-time funds from the Tier II Buffer. During the budget process a strategic decision was made to allocate an additional $10 million investment of general funds to accelerate the shift away from one-time funds.

Faculty Support: $7.1 million

As noted above, schools were asked to review and report on their faculty salary positions relative to peer universities. While the university's overall faculty salary position is quite strong, some subsets of the faculty were identified for targeted competitive salary adjustments. A total of $5.6 million, including benefits, was allocated to the schools for this purpose. Rather than supplementing the normal salary program pool, each school has identified the particular



ranks or departments that will be eligible for these salary adjustments. Earth Sciences was allocated $145,000 for the second year in a row to continue its growth in a new disciplinary direction, Geobiology, and Engineering received $204,000 to create joint faculty appointments between its Institute for Computational and Mathematical Engineering and related academic departments. Also, the university continues to support the Faculty Development Initiative and Faculty Incentive Fund — established programs that encourage the recruitment of under-represented minorities to the faculty — and $787,000 was allocated for this purpose.

Administrative Operations: $3.2 million

A significant portion of the allocations to administrative units build on the momentum generated by the Stanford Challenge campaign. For instance, the Office of Public Affairs will receive $515,000 to continue expanding the university's presence in digital communications and for staff to manage the additional communications needs that have come with the rising profile of Stanford around the nation and the world. Also, the Office of Development received $1.1 million to focus on three main areas: engaging the large number of potential donors who are not well supported through the annual giving or major gift programs, boosting outreach and volunteer management efforts, and meeting the increased stewardship responsibilities that resulted from such a successful campaign. Of the $1.0 million allocated to Business Affairs, nearly half will be used to augment human resources management and to improve HR communications across the entire campus. The remaining allocations to Business Affairs will be used to enhance quality control and audit efforts related to funds management, information technology and data security. Smaller allocations were made to the Alumni Association to maintain its programs in the face of lower external revenues and to Undergraduate Admissions and Financial Aid to manage the continuing increases in their volume of work.

Graduate Student Support: $2.5 million

Two major allocations were made in support of graduate students. First, law students' financial aid needs have been increasing for several years at the same time that payout on endowed financial aid funds has gone down. While endowment payout should keep pace with tuition growth going forward, $1.0 million was allocated to the Law school to address the funding gap that developed in recent years. Second, an additional $1.2 million was added to H&S and central accounts to cope with the increasing gap between the university's tuition rate and the tuition support provided by governmental agencies for sponsored graduate fellowships.

Academic Programs: $2.3 million

The independent labs, institutes, and centers within the Dean of Research (DoR) office have been very successful at garnering sponsored support for their research endeavors. Typically, though, that outside support cannot be used for administrative purposes, so $800,000 was allocated to provide much-needed administrative support within DoR units and its central office. H&S received $524,000, mostly to provide base funding for the Masters in Public Policy program, previously supported by one-time funds, and $370,000 went to Engineering in further support of their research administration group and operations of the Institute for Computational and Mathematical Engineering. Additional allocations were made to Earth Sciences, Education and the Libraries for various academic and academic support programs.

Staff: $1.8 million

After reviewing comparative market data, $1.8 million was allocated to enhance the university's existing staff bonus program.

Library: $1.2 million

The Libraries' materials budget has been increasingly strained in recent years due to prices rising at rates greater than inflation, limited general funds support to address those price increases, and reduced endowment payouts. $1.1 million was allocated to ease that strain, and an additional $100,000 was granted to add back a Japanese technical services librarian position that was cut during budget reductions.

Student Services: $1.0 million

Academic Directors, Ph.D-level staff serving as professional academic advisors within academic residences, have played an important part in improving undergraduate academic advising in recent years. The Vice Provost for Undergraduate Education received $300,000 to increase the number of academic directors from eight to ten. The remaining allocations in this category will go to support programs throughout the Vice Provost for Student Affairs office, including base support for existing programs on one-time funds, additional staffing in the Judicial Affairs/Office of Community Standards area, and additional health professionals in the Vaden Health Center.

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). The Statement of Activities summarizes all changes in net assets during the year (both operating and non-operating).

The table on the following 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 debt service; and
4) Student Loan Funds, which include those funds to be lent to students.

The Consolidated Budget for Operations includes only current funds, and reflects the sources and uses of those funds on a modified cash basis that more closely matches the way the university is managed internally. Within these current funds, funds are further classified by their purpose and level of restriction. The Consolidated Budget for Operations 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

COMPARISON OF CONSOLIDATED BUDGET AND STATEMENT OF ACTIVITIES, 2012/13

Unrestricted Net Assets

[IN MILLIONS OF DOLLARS]

STATEMENT OF ACTIVITIES				FISCAL YEAR 2012/13		
2010/11 ACTUALS	2011/12 JUNE 2011 BUDGET	2011/12 PROJECTED YEAR-END		PROJECTED CONSOLIDATED BUDGET	ADJUSTMENTS	PROJECTED STATEMENT OF ACTIVITIES
			Revenues and Other Additions			
			Student Income:			
285.6	296.5	298.1	Undergraduate Programs	307.5		307.5
274.8	288.1	288.4	Graduate Programs	299.6		299.6
127.8	137.8	134.2	Room and Board	138.2		138.2
(230.3)	(239.5)	(241.9)	Student Financial Aid[e]		(250.0)	(250.0)
457.8	482.9	478.8	Total Student Income	745.4	(250.0)	495.3
			Sponsored Research Support:			
660.7	650.2	656.7	Direct Costs–University	667.2		667.2
366.4	346.3	357.0	Direct Costs–SLAC	378.0		378.0
220.2	216.9	226.8	Indirect Costs	226.8		226.8
1,247.4	1,213.4	1,240.5	Total Sponsored Research Support	1,272.1		1,272.1
493.8	490.0	514.5	Health Care Services[f,k]	599.2	(57.4)	541.8
163.7	205.0	200.0	Expendable Gifts In Support of Operations	200.0		200.0
113.7	80.0	104.8	Net Assets Released from Restrictions	109.8		109.8
			Investment Income:			
785.1	838.1	862.4	Endowment Income	925.5		925.5
127.6	116.4	119.7	Other Investment Income[g]	161.6	(34.8)	126.8
912.7	954.5	982.1	Total Investment Income	1,087.1	(34.8)	1,052.3
377.7	379.3	420.3	Special Program Fees and Other Income[j]	429.8	5.0	434.8
3,766.8	**3,805.1**	**3,941.1**	**Total Revenues**	**4,443.4**	**(337.2)**	**4,106.1**
			Expenses			
2,173.6	2,341.4	2,371.4	Salaries and Benefits[d,g,j]	2,439.4	42.7	2,482.1
	81.8	66.4	Debt Service[h]	168.2	(92.8)	75.4
			Capital Equipment Expense[b]	90.0	(90.0)	
258.9	281.1	289.6	Depreciation[c]		297.2	297.2
			Financial Aid[e]	250.0	(250.0)	
1,077.5	985.7	1,066.2	Other Operating Expenses[f,g,j]	1,148.6	(49.1)	1,099.5
3,510.1	**3,690.0**	**3,793.5**	**Total Expenses**	**4,096.3**	**(142.0)**	**3,954.2**
256.8	**115.1**	**147.6**	**Revenues less Expenses**	**347.1**	**(195.2)**	**151.9**
			Transfers			
			Additions to Endowment Principal[a]	(47.3)	47.3	
			Other Transfers to Assets[a]	(124.3)	124.3	
			Net Internal Revenue/Expense[i]	44.1	(44.1)	
0.0	**0.0**	**0.0**	**Total Transfers**	**(127.5)**	**127.5**	**0.0**
256.8	**115.1**	**147.6**	**Excess of Revenues Over Expenses After Transfers**	**219.6**	**(67.7)**	**151.9**

funds are no longer available 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 align it more with the GAAP basis Statement of Activities:

a) Eliminate Fund Transfers. The Consolidated Budget includes transfers of $127.5 million of current funds to other fund groups, including plant, student loans, and funds functioning as endowment. The transfers out are added back.

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, $90.0 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 $297.2 million of expense.

d) Adjust Fringe Benefit expenses. The Consolidated Budget reports the fringe benefits cost based on the fringe benefits 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 2012/13, GAAP expenses are expected to be higher than budgeted expenses by $68.3 million.

e) Reclassify Financial Aid. GAAP requires that the tuition portion of student financial aid be shown as a reduction of student revenue. In the Consolidated Budget, financial aid is reported as an operating expense. Accordingly, $250.0 million of student financial aid expense is reclassified as a reduction of student revenues in the Statement of Activities.

f) Adjust for Health Care Services. For GAAP purposes, Health Care Services revenues received from the hospitals are reported net of expenses that the hospitals charge the university. The Consolidated Budget presents these revenues and expenses on a gross basis. This adjustment results in a reduction of $44.9 million in both Other Operating Expenses and Health Care Services revenues, with no net change to the bottom line.

g) Adjust for Internal Investment Management Expenses. Included in the Consolidated Budget revenues and expenses are $34.8 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 $27.7 million from compensation and $7.1 million from non-compensation expenses, with no net change in the bottom line.

h) Adjust for Debt Service. The Consolidated Budget includes all internal debt service. It reflects the use of funds to amortize principal and interest. On a GAAP basis, interest expense is reported in the Statement of Activities and repayment of debt principal is reported as reductions in Notes and Bonds Payable in the Statement of Financial Position. It also includes debt service for Rosewood/SHR, which is not included in the Consolidated Budget for Operations. Therefore, Internal Debt Service expense must be reduced by the amount of internal principal amortization. In addition, adjustments must be made to account for the difference between internal and external interest payments. These combined adjustments reduce internal debt service expense by $92.8 million.

i) Eliminate Net Internal Revenue/Expense. The Statement of Activities excludes all internal revenues and expenses. However, the Statement of Activities includes the activity of all fund types, while the Consolidated Budget does not include plant funds. Therefore, the net inflow of

$44.1 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 is added ($2.1 million in Salaries and Benefits and $2.9 million in Other Operating Expenses) to the Consolidated Budget for Operations.

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 $12.5 million of revenue.

In summary, the impact of these adjustments decreases the Consolidated Budget's projected $219.6 million surplus by $67.7 million, resulting in a projected surplus of $151.9 million in the Statement of Activities.