CHAPTER 1

CONSOLIDATED BUDGET FOR OPERATIONS

In this chapter we review the details of the 2013/14 Consolidated Budget for Operations, describe the general funds allocation process and results, and present a forecasted Statement of Activities.

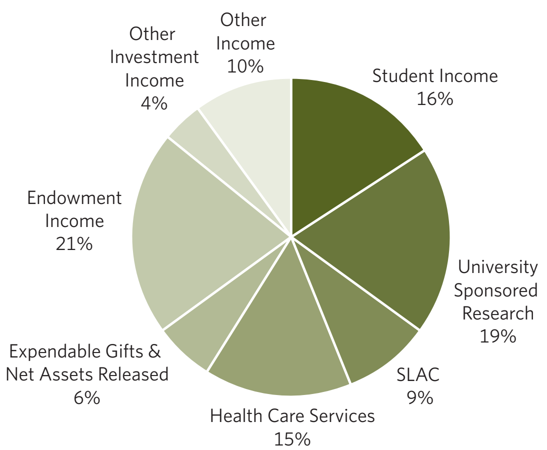
CONSOLIDATED BUDGET FOR OPERATIONS

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 2013/14 Consolidated Budget for Operations shows total revenues of $4,778.6 million and expenses of $4,465.3 million, resulting in a net operating surplus of $313.2 million. However, after estimated transfers of $140.0 million, primarily to plant funds, the Consolidated Budget shows a surplus of $173.3 million.

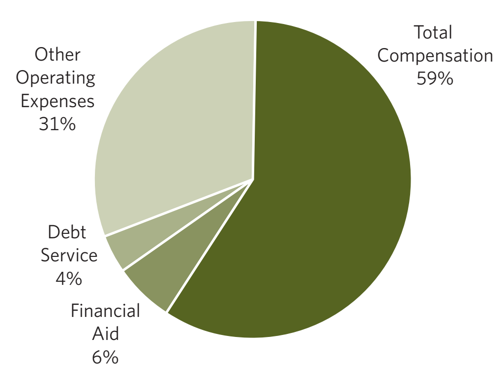
Total revenues in 2013/14 are projected to increase 7.0% over the expected 2012/13 levels, increasing by $314.1 million. Two sources of revenue in particular are pushing up the rate of increase: activity at the SLAC National Accelerator Laboratory and investment income. SLAC is projecting an increase of $78.5 million over the 2012/13 year-end projection of $373.4 million, a 21.0% increase,

2013/14 CONSOLIDATED REVENUES: $4,778.6M [1]



[1] Net Revenues after Transfers: $4,638.6M

2013/14 CONSOLIDATED EXPENSES: $4,465.3M



CONSOLIDATED BUDGET FOR OPERATIONS, 2013/14

[IN MILLIONS OF DOLLARS]

2011/12 ACTUALS	2012/13 BUDGET JUNE 2012	2012/13 PROJECTED ACTUALS		GENERAL FUNDS	DESIGNATED	RESTRICTED	GRANTS AND CONTRACTS	AUXILIARY & SERVICE CENTER ACTIVITIES	TOTAL
			Revenues and Other Additions						
298.1	307.5	309.9	Undergraduate Programs	320.2	0.5				320.7
287.2	299.6	298.3	Graduate Programs	305.7	4.6				310.4
135.9	138.2	143.0	Room and Board					147.6	147.6
721.2	745.4	751.2	Total Student Income	626.0	5.1			147.6	778.7
639.3	667.2	655.3	Direct Costs–University				663.8		663.8
226.4	226.8	230.1	Indirect Costs	235.4					235.4
865.7	894.1	885.4	University Sponsored Research	235.4			663.8		899.2
368.0	378.0	373.4	SLAC				451.9		451.9
600.5	599.2	664.7	Health Care Services	29.0	583.8	6.2		80.5	699.6
177.8	200.0	180.0	Gifts In Support of Operations	2.2		183.1			185.3
110.0	109.8	100.0	Net Assets Released from Restrictions	5.8		99.2			105.0
861.7	925.5	921.7	Endowment Income	191.8		790.5			982.3
160.6	161.6	124.7	Other Investment Income	90.4	100.2	2.2	0.5	0.3	193.6
1,022.3	1,087.1	1,046.3	Investment Income	282.2	100.2	792.7	0.5	0.3	1,175.9
437.0	429.8	463.5	Special Program Fees and Other Income	13.6	312.3	2.5		154.6	483.0
4,302.5	**4,443.4**	**4,464.5**	**Total Revenues**	**1,194.2**	**1,001.5**	**1,083.6**	**1,116.2**	**383.1**	**4,778.6**
			Expenses						
2,364.1	2,439.4	2,510.7	Compensation	685.6	646.5	456.6	601.6	265.2	2,655.4
240.7	250.0	246.1	Financial Aid	54.8	4.4	177.9	17.0		254.1
141.8	168.2	164.7	Internal Debt Service	57.9	20.8	1.8		90.9	171.4
1,204.6	1,238.6	1,282.8	Other Operating Expenses	244.0	241.2	195.7	463.5	240.0	1,384.4
3,951.2	**4,096.3**	**4,204.4**	**Total Expenses**	**1,042.3**	**912.9**	**832.0**	**1,082.0**	**596.1**	**4,465.3**
351.3	**347.1**	**260.1**	**Operating Results**	**151.9**	**88.6**	**251.6**	**34.1**	**(213.0)**	**313.2**
			Transfers						
(88.6)	(47.3)	(56.1)	Transfers from (to) Endowment Principal	(3.9)	(20.2)	(6.2)		1.0	(29.3)
(174.5)	(124.3)	(214.6)	Transfers from (to) Plant	(11.4)	(123.1)	(14.1)		(0.3)	(148.9)
13.2	44.1	34.4	Other Internal Transfers	(111.1)	95.1	(127.1)	(34.1)	215.5	38.2
(249.9)	**(127.5)**	**(236.3)**	**Total Transfers**	**(126.4)**	**(48.2)**	**(147.4)**	**(34.1)**	**216.2**	**(140.0)**
101.4	**219.6**	**23.8**	**Operating Results and Transfers**	**25.5**	**40.3**	**104.3**	**0**	**3.2**	**173.3**
2,297.5	2,516.6	2,398.9	Beginning Fund Balances	398.1	970.0	1,042.2		12.4	2,422.7
2,398.9	2,736.2	2,422.7	Ending Fund Balances	423.5	1,010.3	1,146.5		15.6	2,596.0

the majority of which is due to increased construction expenses. Exclusive of SLAC, total revenues are projected to increase by 5.8% in 2013/14, driven largely by the 55.3% expected increase in other investment income. This extraordinary change is the result of lower than expected expendable funds pool (EFP) payout in 2012/13, which is determined by the Board approved policy that sets payout based on the prior year investment returns. Since 2011/12 investment returns were only 2.9%, payout in 2012/13 will be almost $40 million less than budgeted. However, we expect that the full 5.5% EFP payout will be restored in 2013/14. In addition, endowment income will rise 6.6%, due to gifts and other additions to endowment principal, most notably an estimated contribution to the Tier I Buffer of over $200 million.

Total expenses are expected to grow by 6.2% over the projected year-end results for 2012/13, or 4.8% excluding SLAC. Non-research compensation expenses are expected to continue to increase faster than the approved salary program due to increasing headcount for both faculty and staff. General operating expenses will grow faster than inflation due to increases in utilities and SLAC construction. The table on the facing page shows the projected consolidated revenues and expenses for 2013/14. For comparison purposes, it also shows the actual revenues and expenses for 2011/12 and both the budget and the year-end projections for the current fiscal year, 2012/13. 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 3.7% in 2013/14 to $778.7 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 $631.1 million in tuition and fee revenue in 2013/14, a 3.8% increase over 2012/13, slightly higher than the general tuition rate increase due to modest enrollment increases in both the School of Medicine and the Graduate School of Business and a slightly higher tuition rate increase for first-year MBA students. While total tuition and fees represent only 13% of Stanford's total revenue, it is 52% of general funds. As such, it is a particularly important source of rev-

KEY TERMS

General Funds: Unrestricted funds that can be used for any university purpose. The largest sources are tuition, unrestricted endowment income, 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: Include 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.

enue. 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 2013/14, approved by the Board of Trustees in February, is 3.5%, which results in a rate of $42,690 for undergraduates and most graduate students. As always, the rate increase was set after careful consideration of the current economic circumstances weighed against the budgetary needs. After a 3.0% tuition increase in 2012/13, Stanford continues to be, along with its peers MIT, Harvard, Yale, and Princeton, among the lowest priced universities among the highly selective private universities that comprise the Consortium on Financing Higher Education (COFHE). The COFHE university median tuition increased 4.2% for 2012/13, substantially faster than Stanford's increase of 3.0%. Stanford's tuition currently ranks 15th out of 17, down one position from the 2011/12 rankings.

The approved 3.5% tuition increase applies to the undergraduate tuition rate, the general graduate tuition rate, and the graduate tuition rates for the School of Engineering, the School of Law, the School of Medicine, and students paying the terminal graduate registration fee. The Graduate School of Business will increase the rate of tuition for entering MBAs by 3.9%.

Room and Board – Total room and board income is expected to be $147.6 million in 2013/14, an increase of 3.2%, which is slightly lower than the approved increase of 3.5% in the room and board rate. The lower growth is the result of the loss of 74 graduate bed spaces for the entire year due to the demolition of the "low-rise" Escondido Village apartments where 425 new beds will be constructed but not available until September of 2014. In addition, the number of voluntary meal plan purchases is expected to remain flat over the current year's high level. In February, the Trustees approved a combined undergraduate room and board rate increase of 3.5% for 2013/14, bringing the undergraduate rate to $13,166. The room rate will increase by 4.5%, and the 19-meal board plan will increase by only 2.2%. We expect that these rates will maintain Stanford's room and board rate ranking at or near the median of the COFHE universities. The 2013/14 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 debt service expense in support of critical deferred maintenance and capital improvement projects.

Sponsored Research and Indirect Cost Recovery

The budget for university sponsored research is projected to be $899.2 million in 2013/14 (excluding SLAC). This figure includes the direct revenue from externally supported grants and contracts ($663.8 million) as well as reimbursement for indirect costs ($235.4 million) incurred by the university in support of sponsored activities.

University sponsored research activity in both 2012/13 and 2013/14 will be strongly influenced by sequestration, the budget policy that requires 5%-8% across-the-board reductions in federal discretionary spending in 2012/13 and less-than-inflationary growth in future years. The precise amount of that impact, however, is difficult to assess. For instance, the three agencies that provide over 90% of Stanford's federal research dollars (Health & Human Services-National Institutes of Health [NIH], Department of Defense [DoD], and National Science Foundation [NSF]) have released only preliminary general guidance on how they will respond to sequestration. This guidance, in turn, indicates that each of the agencies will likely employ different strategies, with NIH already implementing reductions to existing awards, NSF intending to honor existing commitments while reducing the number of new grants made, and DoD simply stating the amount of research funding that will need to be cut but excluding any details on how reductions will be made. Further unknowns are whether Stanford's faculty will be able to out-compete faculty at other institutions for dwindling federal dollars and whether they will be able to replace any reduced federal funding with non-federal sources, such as from foundations or corporations.

While most schools have experienced strong research growth halfway through the current fiscal year, most have also tempered their 2012/13 year-end research forecast to account for anticipated sequestration impacts. Along with lowered current-year forecasts, nearly all schools are projecting less-than-inflationary growth or outright declines in federal activity in 2013/14. Federal direct research is projected to grow only 1.3% in 2012/13, which is two percentage points lower than year-to-date volume would indicate. Federal growth in 2013/14 is forecasted to be even lower, at 0.4%, several percentage points less than inflation. Included in the meager 2013/14 growth is an assumption of research generated by new faculty in the School of Medicine. Without that incremental activity, 2013/14 federal research growth would be zero. Whether the federal forecast has been reduced enough to account for the ultimate effects of sequestration will not be known for some time. As a precaution, however, significant general funds have been set aside to deal with those effects, details of which are laid out in the general funds section on page 16.

Strong non-federal support for research is expected to continue in 2012/13, up 5.9%, but that activity, too, is expected to slow in 2013/14 to a growth rate of 3.7%. Two units that had been experiencing robust non-federal growth in recent years are the biggest contributors to this slow-down. School of Medicine funding from the California Institute for Regenerative Medicine is expected to plateau in 2012/13, and the Graduate School of Education expects several large grants to expire in 2012/13, with no new grants in the pipeline to replace them. Weak growth in total direct research activity will result in weak growth in indirect cost recovery in 2013/14, although that indirect recovery will be a little better than the research volume would indicate because the indirect cost rate is projected to increase from 57.0% to 59.0% (neither of these rates has been finalized with the federal government). New research facilities coming online, such as the Bioengineering/Chemical Engineering building, are the primary reasons for the increased indirect rate.

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

	2012/13	2013/14	PERCENT CHANGE
Federal Directs	479	481	0.4%
Non-Federal Directs	177	183	3.7%
Total Directs	**655**	**664**	**1.3%**
Total Indirects	230	235	2.3%

SLAC

SLAC revenue and expense are each budgeted to be $451.9 million in 2013/14, a 21.0% increase over the projection for 2012/13. This large increase is distorted by the significant construction activity expected to happen at SLAC in 2013/14 ($109.0 million compared to $36.2 million projected for 2012/13). A goal of the Department of Energy's Office of Science is to modernize the infrastructure of its labs. SLAC received funding for the construction of two new buildings and the remodeling of two existing buildings. In 2009, SLAC began the Research Support Building project, which involved the design of a new 64,000 square foot modern office building and the renovation of 64,000 square feet of existing space in two major buildings. Approximately 35 trailers and substandard buildings will be demolished. The project is estimated to cost $97 million and will be completed in 2014.

In addition, the Office of Science has approved a $65 million, 65,000 square foot Science and User Support Building. This project received initial funding in early 2012 and is expected to be completed in 2015.

The non-construction activity at SLAC is expected to increase minimally, by 1.7% in 2013/14. Given the large U.S. budget deficit and its implications on government discretionary spending, SLAC management continues to make contingency plans for absorbing potential budget reductions.

Health Care Services

Health Care Services income is budgeted to be $699.6 million in 2013/14, a 5.2% increase over the projection for 2012/13. The majority of Health Care Services income ($628.5 million) is in the School of Medicine, including $547.3 million paid by Stanford Hospital and Clinics and Lucile Packard Children's Hospital related to the clinical practices of the faculty. The 2013/14 clinical revenue growth rate over the 2012/13 year-end projection is somewhat lower than in recent years. The blood center's revenues of $47.0 million reflect a modest increase of 3.5% over the projection for 2012/13. The School of Medicine also receives $34.2 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: $23.3 million to Business Affairs and Business Affairs IT, primarily for communications services; $8.0 million to the Office of the General Counsel for legal services; $16.9 million to Land, Buildings and Real Estate for operations and maintenance and utilities; $8.6 million to the Office of Development for hospital fundraising support; and $14.3 million to the central administration and other units for parking structure debt service and 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

Health Care Services and the Affordable Care Act (ACA)

The Health Care Services component of the 2013/14 Consolidated budget for Operations is $700 million and comprises 15% of Stanford total revenue and more than a third of the revenue of the School of Medicine. It represents the fastest growing line item in Stanford's budget since 2007, increasing at a compound annual rate of 8.8%. These revenues are passed from Stanford Hospital and Clinics (SHC) and Lucile Packard Children's Hospital (LPCH) primarily to the School of Medicine for services provided by clinical faculty. These clinical revenues are governed by hospital-school contracts. Additionally, and significantly for the school's education and research missions, the hospitals are the primary training site for medical students, residents and clinical fellows, and the primary site for clinical and translational research.

Many of the Affordable Care Act (ACA) provisions will impact aspects of Stanford Medicine (hospitals, clinics, and school) as well as the flow of funds from the hospitals to the school. While the complete implications of the ACA won't be known for some time, it is clear that there will be less reimbursement for hospitals and health care providers at the same time the population is aging and making greater demands on the system.

The key impacts of the ACA on the hospitals and clinical care provided by Stanford faculty physicians include the following:

- A larger proportion of health care spending will be controlled by government or corporate entities seeking to reduce spending levels, including by reducing utilization. This reduced utilization, resulting in reduced revenues for hospital and physician services, will likely be greater for complex services like much of the care provided at Stanford, compared to primary care.
- Employers and payers will likely shift costs paid directly by patients for more costly hospitals like SHC or LPCH, potentially depressing hospital volume.
- Medicare and other payers will have an increased focus on keeping patients out of the hospital, and will penalize providers for excess hospital utilization and/or unnecessary readmissions.
- Payments to hospitals and physicians will be based increasingly on quality and outcome metrics and will require continued excellence and improvement in quality performance to remain competitive and to avoid reductions in payments.
- Local health care systems, such as Kaiser, may compete successfully to control larger patient populations and also to expand their specialty services to retain and control their tertiary health care spending within their own organizations.
- Starting in 2018, the prospect of an excise tax on high cost employer plans (called the "Cadillac tax") may drive employers and insurers to place more emphasis on lowering costs. While many of the local high-tech companies may deem the tax as a necessary expense of providing competitive benefit plans for hard-to-retain employees, smaller employers may opt out of the health care benefit entirely, shifting their employees to the government coordinated insurance exchanges.

Reducing the cost of care and providing care that focuses on quality, outcomes, and the prevention and avoidance of unnecessary services are key to being successful in the future reform environment. We already see examples in Stanford Medicine where building programs of exceptional excellence and value lead to dramatic increases in referrals from throughout the region and around the country. These include, for example, our total joint replacement programs and the pediatric cardiac surgery program.

Even before the ACA takes full effect in 2014, the hospitals and the school have initiated a number of key programs that focus on patient care quality and outcomes, improving the patient experience and satisfaction, and reducing costs. These initiatives are beginning to demonstrate results.

Also important in the reform environment is the provision of a continuum of care necessary for managing population health. In the past three years, SHC, LPCH and the School of Medicine established community-based physician foundations (University Healthcare Alliance and Packard Healthcare Alliance) in the East and South bay regions. These community physician groups will help to extend the continuum of care to a broader geographic region in which a majority of Stanford's patients reside. Another recent initiative is the Stanford Center for Coordinated Care — a program providing state-of-the-art care management for patients who have chronic and acute illness and account for the larger share of health care spending.

The leaders of Stanford Medicine are already well underway in preparing for these health care reforms. Appropriate cost and utilization controls, high quality care, new facilities, expanded patient population networks, and improved patient experience will be key to our continued financial strength.

designation, or non-government grants. Expendable gift income in support of operations is forecast to be $185.3 million in 2013/14, a 3.0% increase over the level expected for 2012/13. Gift revenue in the current year is projected to be $180.0 million, $20 million lower than 2011/12, following the conclusion of the Stanford Challenge.

Net Assets Released from Restrictions

This category represents funds previously classified as temporarily restricted that 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. In 2011/12 it increased slightly to $110.0 million. In the first full post-campaign year, it is expected that net assets released from restrictions will decrease to $100.0 million in 2012/13 and then increase by 5% to $105.0 million in 2013/14.

Investment Income

Total investment income, Stanford's second largest source of revenue after all sponsored research, is expected to increase by 12.4% in 2013/14 to $1,175.9 million. This total includes endowment payout to operations as well as other investment income.

Endowment Income – Endowment payout to operations in 2013/14 is expected to be $982.3 million, an increase of 6.6% over 2012/13. 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 2013/14 will increase by 3.1%, an increase that adequately matches ongoing expense increases. However, total merged pool payout is expected to increase by 6.8% due to several factors: gifts to endowment principal are expected to reach $225 million; schools and departments are expected to transfer $29 million from expendable funds to funds functioning as endowment; and $219 million is estimated to be added to funds functioning as endowment in the Tier I Buffer as a result of excess expendable funds pool (EFP) earnings in 2012/13. Together these additions contribute roughly $26 million to endowment payout in 2013/14. The EFP payout policy and the impact on the budget is described in the Other Investment Income section below.

The estimate of endowment payout from the merged pool is a product of a forecast of the endowment market value on November 30, 2013 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 of 5.5%. The smoothed payout rate trends up when the market declines, and it goes down when the market value increases. As reported at the December 2012 Board of Trustees meeting, the university plans to monitor the results of the smoothing rule and recommend adjustments when the smoothed rate falls outside the range of 4.0% to 6.0%. The projected smoothed payout rate for 2013/14 of 5.6% is within the target range.

Of the total endowment income, $191.8 million, or 19.5%, is unrestricted. The unrestricted endowment income includes payout from unrestricted merged pool funds, most of the income generated from Stanford endowed lands, and a small amount of other specifically invested endowment income. The unrestricted portion of endowment payout is expected to increase substantially (11.1%) in 2013/14, driven mostly by the expected $219 million addition to the Tier I Buffer. 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 $1,023.2 million by the end of 2013/14, 29.8% of the total projected expendable funds pool balance. The Tier I Buffer will continue to receive contributions from excess EFP returns until it reaches 35% of the total EFP balance, at which point excess returns will be invested in the Tier II Buffer, controlled by the president. Another important component of unrestricted endowment income is the rental income from Stanford endowed lands, which is expected to be $73.9 million in 2013/14.

Other Investment Income – Total other investment income is expected to increase dramatically from $124.7 million in 2012/13 to $193.6 million in 2013/14, a 55.3% increase.

Other investment income is generated from four main sources:

- Payout on the expendable funds pool ($123.8 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 ($36.0 million),
- Interest income on the Stanford Housing Assistance Center (SHAC) portfolio ($15.3 million), and
- Miscellaneous other investment income including rents, security lending, and other interest income ($16.5 million).

The largest of these sources is the payout on the expendable funds pool (EFP), which is expected to have a 2013/14 year-end balance of $3.4 billion. Most of the $2.6 billion of ending fund balances in the consolidated budget for operations are included in the EFP balance, including the university's general operating funds, non-government grants, expendable gifts and designated funds; $350 million of the $2.6 billion in ending fund balances in the consolidated budget are accumulated unspent endowment payout held in the separate endowment income funds pool. The remaining balance of the EFP, not included in the consolidated budget, is comprised of approximately $600 million in plant and debt pool funds, $350 million in student loan funds, and $100 million each in clearing and pending funds.

Investment and payout from the EFP is governed by a trustee policy that was revised effective June 2012. Under the policy, all but approximately $100 million of the EFP is cross-invested in the merged pool, with the remaining portion invested by the Stanford Management Company in cash vehicles. 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-return 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 money-market 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. The Tier I and Tier II Buffers backstop differences between the stipulated payout and actual investment returns.

Because the total return on the EFP in 2011/12 was 2.9%, payout to the zero-return accounts will be nearly $40 million less than the Budget Plan amount for EFP payout in 2012/13. However, returns on the EFP in the current year are projected to be near ten percent, resulting in the full 5.5% payout to the zero-return portion of the EFP in 2013/14. These payout rate differences are the reason that other investment income is increasing so dramatically in 2013/14.

The non-EFP portion of other investment income is projected to increase 7.6% to $67.8 million, due to staff increases in both the Stanford Management Company and in the real estate division of Land, Buildings and Real Estate.

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 $483.0 million in 2013/14, an increase of 4.2% over the expected level in 2012/13.

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 2013/14 is budgeted to be $2,655.4 million, a 5.8% increase over the 2012/13 year-end projection of $2,510.7 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 somewhat by minimal growth in sponsored research.

Salaries – Total salary expense, including SLAC, is expected to grow by 5.6% in 2013/14 to $1,887.7 million. When SLAC is excluded, the growth rate for salary expense increases to 6.1%. Overall, projected salary expense in 2013/14 is the result of the approved salary program, some incremental funding to increase the competitiveness of our faculty salary program, a 1.5% projected increase in the number of faculty and a 3.0% projected increase in total staff headcount, including those supporting research. Staff headcount grew in 2011/12 by roughly 5%; many units added staff as financial resources grew and stabilized post recession. In the first seven months of 2012/13, the annualized rate of increase has slowed to 4.2%. Staff salary growth is projected to slow further in 2013/14.

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. 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 2012. The approved merit program for 2013/14 was set with the intention of maintaining this position.

Fringe Benefits – Fringe benefits expense is expected to increase by 5.3% in 2013/14 to $540.8 million, slightly lower than the growth in overall salary expense due to 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. These federally negotiated 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

In addition, the university applies a fifth rate to eligible salaries to recover the costs of the Tuition Grant Program (TGP), which provides undergraduate college tuition benefits to eligible faculty and staff. The government does not allow these charges, so the TGP rate is applied only to faculty and staff salaries that are not charged to sponsored projects or academic service centers. The TGP rate will increase from 1.75% in 2012/13 to 1.85% in 2013/14 and adds roughly $24 million to the university's total fringe benefit expense in 2013/14.

Ninety-four percent of all fringe benefits expense is incurred for regular benefits-eligible employees, and the proposed rate for this group in 2013/14 is expected to decrease slightly compared to the negotiated rate for 2012/13. The fringe benefits rates for post-doctoral research affiliates and casual or temporary employees are expected to increase in 2013/14, while the rate for graduate research and teaching assistants will be unchanged. The primary factors impacting total fringe benefit expenses in 2013/14 are discussed below.

FRINGE BENEFITS RATES

	2012/13 NEGOTIATED BUDGET	2013/14 PROPOSED RATES
Regular Benefits-Eligible Employees	29.5%	29.2%
Post-Doctoral Research Affiliates	28.4%	29.5%
Casual/Temporary Employees	8.2%	8.4%
Graduate RAs and TAs	5.0%	5.0%
Tuition Grant Program	1.75%	1.85%

Overall, the rate for regular benefits-eligible (RBE) employees will decrease by 0.3 rate points in 2013/14 over the rate negotiated for 2012/13. Although the RBE fringe rate remains relatively stable, several important regulation and program changes are noteworthy:

- A pension stabilization act, the Moving Ahead for Progress in the 21st Century Act, was signed into law in July 2012. Under the new law, the university is not required to make a contribution to its defined benefit pension plan, Stanford Retirement Annuity Plan, in 2013/14, causing the RBE rate to drop by 0.3 points.
- Costs for the Stanford Contributory Retirement Program (SCRP) are increasing by 9.2%, reflecting both projected headcount growth and a change in how employees will be enrolled in the program as of September 1, 2013. 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 start automatically upon eligibility, again generating matching contributions unless employees take action to cease contributions from their paycheck). This program change is expected to add $5.8 million to the cost of SCRP.

- In order to maintain the workers' compensation insurance premium at the 2011/12 level, the deductibles per occurrence will double from $250,000 to $500,000. To accommodate this change, the university will make a one-time incremental contribution to the worker's compensation reserve in 2013/14.
- Health plan costs are expected to increase 7.7% from the 2012/13 budget. The Blue Shield plans are experiencing unexpected high dollar claim costs this year. As a result, the university is taking active actions to review and redesign the existing health plans in order to control these costs in 2013/14.

The benefits rate for postdoctoral research affiliates will increase again in the coming year, from 28.4% to 29.5%, on the heels of the 5.9% increase in 2012/13 over the previous year. The significant insurance premium increase in calendar 2012, subsequent to negotiating the 2011/12 rate, caused a large under-recovery, which will be added to 2013/14 costs and increase the rate by over one point.

The fringe rate for casual or temporary employees will increase 0.2 points due to the impact of net under-recoveries in recent years. The rate for graduate teaching and research assistants will remain constant at 5.0% in 2013/14.

Financial Aid

Stanford expects to spend a total of $254.1 million on student financial aid for undergraduate and graduate students in 2013/14, $54.8 million of which will come from general funds. Designated and restricted funds ($182.3 million) and grants and contracts ($17.0 million) will support the remainder. Total budgeted financial aid is 3.25% above the projected total for 2012/13, 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 2013/14 Stanford students will receive $137.1 million in need-based scholarships, of which $131.7 million will be from Stanford resources, an increase of 2.6% over the projected 2012/13 year-end, a somewhat lower increase than Stanford's student budget, due to the expectation of thirty fewer students on need-based aid in 2013/14 as the general economy improves. The remaining $5.4 million will come from federal grants, mostly Pell and SEOG grants, a declining amount from historical levels. Cal Grants, which are not reflected in the Consolidated Budget for Operations, will provide $3.3 million, a slight decline over the current year.

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 ACTUALS	2012/13 PROJECTED	2013/14 PLAN
Department Funds and Expendable Gifts	2.0	2.2	2.1	2.2	2.5	2.1	2.5
Endowment Income	67.9	80.4	72.4	66.3	71.8	76.1	80.7
President's Funds - The Tier II Buffer		3.0	24.5	24.9	19.2	9.5	
President's Funds - The Stanford Fund	5.3	17.4	15.0	15.6	19.0	16.6	17.1
General Funds			1.5	10.4	14.3	24.1	31.4
Subtotal Stanford Funded Scholarship Aid	75.2	103.0	115.5	119.4	126.7	128.4	131.7
Federal Grants	4.5	5.0	6.9	7.1	6.0	5.4	5.4*
Total Undergraduate Scholarship Aid	**79.7**	**108.0**	**122.4**	**126.4**	**132.7**	**133.8**	**137.1**
General Funds as a Share of Stanford Funding	0%	0%	1%	9%	11%	19%	24%
President's Funds as a Share of Stanford Funding	7%	20%	34%	34%	30%	20%	13%
Endowment funds as a Share of Stanford Funding	90%	78%	63%	56%	57%	59%	61%
Number of Students	2,811	3,136	3,401	3,396	3,464	3,410	3,380

* Excludes $300,000 in work study funds.

The main features of Stanford's financial aid program remain unchanged in 2013/14. However, the relative share of funding sources supporting this critical program is shifting. While president's funds have been an important source of funding for undergraduate aid for many years, significant support from the Tier II Buffer was only added in 2009/10, when a sharp decline in endowment payout coincided with a jump in the number of students on aid due to the major recession. Support from the Tier II Buffer was always considered a short-term solution, and incremental base general funds allocations for need-based aid have been made in each year since that time. In 2013/14 an additional $7.3 million in general funds finally will allow us to eliminate support from the president's Tier II Buffer. The table on the facing page shows that the total general funds supporting financial aid will provide a full 24% of Stanford's total funding supporting need-based aid, while the fraction supported by president's funds will drop from a high of 34% to only 13% in 2013/14. As new endowments are raised to support need-based aid, we hope to reduce general funds support over time.

The table on the facing page 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 $21.1 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 $330.7 million in 2013/14. As the table below indicates, this includes the tuition component of fellowships in the amount of $95.6 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 $235.1 million. Consistent with the presentation of Stanford's financial statements, tuition allowance (tuition benefits for RAs and TAs) and RA and TA salary expenses are in the Compensation 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 3.25% in 2013/14; tuition allowance expense is expected to increase by 6.7%. The increase above the change in the tuition rate is due to additional general funds for National Science Foundation (NSF) tuition support, and to a $2.3 million increase in the university's contribution toward research assistants' tuition charges from 35% to 40%. This decreases the amount of tuition faculty must charge to their grants or gift funds.

Graduate student support is funded by all of Stanford's various fund types, with the exception of auxiliary funds.

2013/14 FINANCIAL AID AND OTHER GRADUATE STUDENT SUPPORT FROM STANFORD RESOURCES

[IN MILLIONS OF DOLLARS]

PROJECTED 2012/13 YEAR-END		GENERAL FUNDS	DESIGNATED AND RESTRICTED	GRANTS & CONTRACTS	TOTAL
	Student Financial Aid				
134.1	Undergraduate	31.4	100.3	5.7	137.4
20.0	UG Athletic		21.1		21.1
92.0	Graduate	23.4	60.9	11.3	95.6
246.1	Total	54.8	182.3	17.0	254.1
	Other Graduate Support				
72.7	Stipends & Health Insurance Surcharge	18.3	36.1	20.4	74.8
64.1	Tuition Allowance	35.5	15.4	16.5	67.4
89.9	RA/TA S&B	21.2	33.8	37.8	92.8
226.7	Total	74.9	85.5	74.7	235.1
104.6	Postdoc Support	2.9	27.2	78.0	108.1
577.4	**Total Student Support**	**132.6**	**295.0**	**169.7**	**597.3**

In aggregate, unrestricted funds (general funds and designated funds) contribute around 37%, restricted funds also support 37%, and grants and contracts supply the remaining 26%. 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 (72%) is provided by sponsored research projects. Postdocs are charged a tuition fee of $125 per quarter, which is covered by school funds as well as general 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 $108.1 million in 2013/14, an increase of 3.4% over 2012/13.

Total direct student support of all kinds is expected to be $597.3 million in 2013/14, a 3.5% increase over the projected level for 2012/13.

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 4.25% for 2013/14, a 0.25% decrease from the current year rate.

Internal debt service covered by the Consolidated Budget for Operations in 2013/14 is projected to be $171.4 million, a 4.1% increase over 2012/13. It includes debt service incurred to bridge finance the receipt of gifts, and excludes $9.6 million of debt service for Rosewood/Sand Hill Road and $26.8 million of annual lease payments. The year-over-year increase of $6.7 million is due to new projects and bridge financing for several projects finishing out the Science and Engineering Quad, as well as additional costs related to the Stanford Energy System Innovations (SESI) project.

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 over 30% of the total expenditures in the Consolidated Budget and is projected to increase 7.9% to nearly $1.4 billion in 2013/14. The overall growth in non-compensation expenses is significantly distorted due to the large amount of construction expense at SLAC, funded by the federal government. (As part of the Department of Energy's Office of Science's goal of modernizing the infrastructure of its labs, SLAC received funding for the construction of two new buildings and the remodeling of two existing buildings.) Unlike university construction expenditures, which are capitalized and depreciated over time, construction costs at SLAC are reflected as Other Operating Expense, as the government, not Stanford, retains title to these assets. Removing the impact of the SLAC activity, Other Operating Expenses are expected to increase modestly, at an increase of 2.3% over 2012/13 levels.

In addition to the SLAC construction costs ($109.0 million), the principal components in other operating expenses include: materials and supplies ($217.1 million, of which about 40% is laboratory supplies); outside professional, printing, and general services ($71.5 million in research subcontracts and $208.5 million in other services); capital equipment and library materials purchases ($79.0 million); graduate student and postdoc stipends and other non-tuition student support ($115.3 million); food, entertainment, and travel ($120.2 million); external payments for facilities and equipment operations and maintenance ($93.1 million); external payments for telecommunications and utilities commodities for campus buildings ($51.0 million); services purchased from the hospitals ($38.7 million); and rentals and leases ($37.6 million).

Utilities – The delivery of utilities to the campus involves three significant components: 1) purchased utilities from outside of the university, 2) debt amortization on capital expenditures, and 3) operations and maintenance (O&M) in support of the delivery of utilities.

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 2013/14 purchased utilities represent approximately 43% of the total utilities cost. Capital expenditures are necessary for system expansion, replacement, controls and regulatory requirements and currently include the completing components of the new $438 million Stanford Energy System Innovations (SESI) project that is currently underway. SESI includes three significant sub-projects: the replacement central energy facility ($230 million); the piping, building conversions and process steam plant ($165.7 million); and the new electrical substation ($42.3 million). (See page 69 in Chapter 4 for detailed information on SESI.) These capital expenditures are debt funded, and the related amortization represents 35% of the total utility costs. O&M includes maintenance, materials, supplies and staff labor costs necessary to operate the utility systems and represents 22% of the utilities costs.

Campus utilities costs are projected to increase by $11.1 million or 14.8% to $86.0 million in 2013/14. Roughly half of the cost increase is higher debt amortization expense ($5.6 million) resulting from SESI piping and building conversion projects, which begin to amortize as segments are completed. The remaining half of the increase is the result of price increases in the purchased price for both natural gas and electricity from our energy provider Cardinal Cogen, increases in operations and maintenance costs, and the costs of providing utilities to new buildings completing in 2013/14, the largest of which is the new Bioengineering/Chemical Engineering building.

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 $132.8 million in 2013/14.

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 2013/14 of $3.4 million, driven by the Bioengineering/Chemical Engineering building, the Stanford Research Computing Facility, and the repurposing of the GSB South building for use by Stanford University Libraries. These increases will be offset by a reduction in off-campus lease expenses.

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 $140.0 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 2013/14 we are projecting that a net $29.3 million will be transferred to FFE from current operating funds. This reflects continued school investments of expendable fund balances in FFE ($5.3 million for Humanities & Sciences; $6.2 million for Engineering; $10.1 million for Medicine; $3.2 million for Hoover; and $2.5 million for Earth Sciences), as well as an anticipated $10.1 million investment of designated funds by the president for challenge matches. The transfer for 2013/14 compares to a projected $56.1 million transfer from current funds to FFE in 2012/13, a decrease of $26.8 million; most of the decrease is due to lower transfers by the School of

Medicine and by the President and Provost in 2013/14 than in 2012/13.

- Transfers to Plant: The transfers in this category are primarily to plant for capital projects. Total transfers of $148.9 million to plant and other assets are planned for 2013/14. Included in this is $66.7 million in anticipated transfers 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 $11.2 million from the Planned Maintenance Program into plant improvement projects; the School of Humanities and Sciences will transfer $25.5 million for McMurtry Art and Art History Building and the renovation of Old Chemistry; and the School of Medicine expects to transfer $13.0 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 significantly (by $65.7 million) from the amount of $214.6 million projected for 2012/13. The largest driver of this decrease is the exceptionally large transfer from the CFF in 2012/13 of $48.5 million for the renovation of the old GSB south building for library use.
- 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 $42.4 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. Additionally, this line represents transfers of current funds to student loan funds, such as the loan forgiveness programs in Education and Law.

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 mostly by general funds.

General funds revenue in 2013/14 is projected to increase by 8.5% to $1,194.2 million, a $93.4 million increase over the expected level for 2012/13. Student tuition will increase 3.8%, or $22.9 million, reflecting increased tuition rates. Smaller growth, totaling $6.5 million, is projected for indirect costs, healthcare services, and other income. The primary driver of general funds growth is investment income, which is increasing 29.4%, or $64.1 million. This growth is partly due to the increasing balance of and payout from the Tier I Buffer, but it is mostly due to a $44.9 million increase in other investment income. These last two items are described more fully in the earlier section on investment income.

2013/14 Non-Formula General Funds

Per negotiated formula arrangements, $171.5 million of the total general funds revenue will flow to the School of Medicine, the Graduate School of Business, and the Continuing Studies and Summer Session unit. The remaining general funds revenue is controlled and allocated by the provost. The total general funds available to allocate to the non-formula units in 2013/14 is $976.5 million. This includes annual adjustments made for transfers to the university facilities and housing reserves, along with funds generated by the infrastructure charge. These adjustments are reflected in the Transfers section of the Consolidated Budget.

During the annual 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 status and fund balances of the organization; 2) report on the relatively large increase in staff headcount over the past year; 3) forecast graduate

SUMMARY OF 2013/14 BASE GENERAL FUNDS ALLOCATIONS

[IN MILLIONS OF DOLLARS]

2013/14 Projected General Funds Revenue		**1,194.2**
Allocations to Formula Units		(171.5)
Transfers Out - Facilities and Housing Reserves		(41.7)
Other Transfers		(4.5)
2013/14 Non-Formula Base General Funds		**976.5**
2012/13 Non-Formula Base General Funds Allocations		814.9
Non-Discretionary Allocations		
Capital Facilities Fund	72.4	
Incremental Facilities Costs	9.1	
Subtotal		81.5
2013/14 Incremental Base General Funds Allocations		
Salary Program and Inflationary Adjustments	21.2	
Undergraduate Financial Aid	7.3	
Research Support	14.7	
Other Programmatic Allocations	11.3	
Subtotal		54.6
2013/14 Unallocated Surplus		25.5
2013/14 Non-Formula Base General Funds		**976.5**

student and faculty growth plans; 4) discuss contingency plans in anticipation of a slowdown in federal research funding; 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. Those decisions were especially influenced this year by the dual concerns about recent staff growth and a potential decline in federal research support. While significant resources were allocated to the research enterprise, less than half of the incremental staff positions requested by units were funded.

The table above shows how the $976.5 million in non-formula general funds will be allocated in 2013/14. As noted in the table, funds are set aside for the Capital Facilities Fund and incremental facilities costs to arrive at the $895.0 million available to allocate to non-formula general units and to an unallocated surplus reserved for future needs.

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 2013/14 are detailed below and are reflected in the pie chart on the following page:

Salary Programs and Inflationary Adjustments: $21.2 million

To maintain the university's competitive positions in faculty and staff salaries, $14.0 million was allocated to fund a salary program and the attendant increase in benefits expense. General non-salary expenditures received an increase of 2.5% for 2013/14, with larger increases granted for graduate financial aid and student health care expenses. Total inflationary adjustments for non-salary expenditures were $7.2 million.

Research Support: $14.7 million

Concern about the ability of the federal government to sustain its historic levels of support for university research was a driving factor in this year's general funds decisions, and a substantial amount of money has been allocated to bolster the university's research efforts. First, $2.3 million will be used to increase the university's contribution toward graduate research assistants' tuition charges from 35% to 40%, decreasing the amount of tuition faculty must charge to their limited sponsored research dollars. Second, $2.2 million was allocated to support shared research facility expenses, the largest portion of which will be used to operate the Stanford Research Computing Facility currently under construction. An additional $200,000 will be used for research compliance needs. Still unknown are the ultimate magnitude of federal research reductions and which areas of the university will feel the greatest impact. Because of these uncertainties, the existing University Reserve of base general funds has been increased from $20 million to $30 million as a hedge against possible research shortfalls.

Facilities Costs: $9.1 million

Utilities and O&M expenses for existing facilities will increase by $6.1 million in 2013/14. The costs associated with the steam-to-hot-water conversion - a subset of the Stanford Energy System Innovations project - are a significant factor in that increase. New facilities opening during 2013/14, among them the Bioengineering/Chemical Engineering building, the Stanford University Libraries North renovation, and the Arrillaga Outdoor Education & Recreation Center, will add another $5.1 million to facilities costs. These higher costs will be partially be offset by a $2.6 million decrease in insurance costs and debt service expenses, the savings mostly due to better claims experience and lower interest rates, respectively.

Undergraduate Financial Aid: $7.3 million

Existing general funds support for undergraduate financial aid will increase $842,000 in 2013/14 to keep up with the increased tuition rate. Also, more progress will be made toward reducing reliance on one-time funds for undergraduate aid with a further investment of $6.5 million in general funds. With that investment, support from the Tier II Buffer should no longer be required.

Administrative Operations: $3.0 million

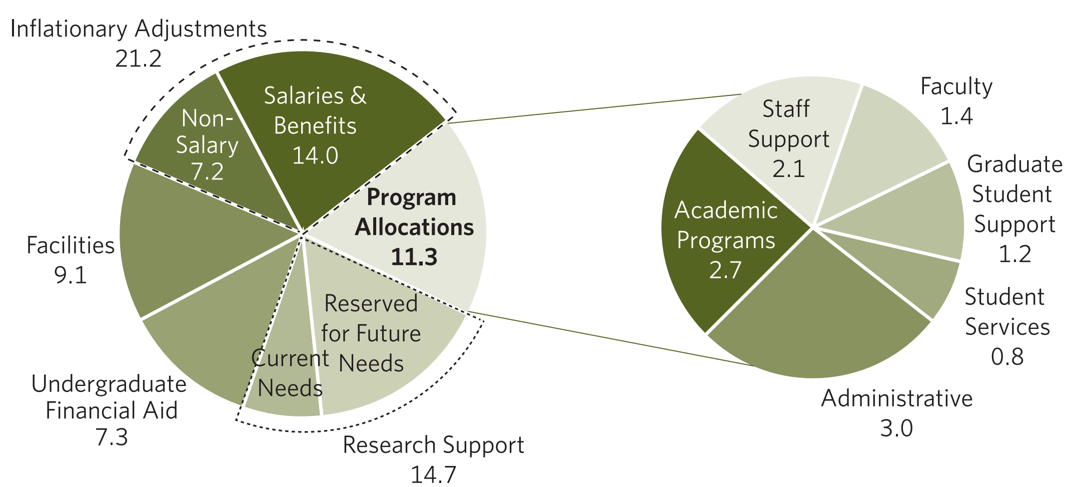
The largest allocation in this area, $1.7 million, went to Business Affairs, most of which will be used for compliance efforts, required fees to operate facilities within China, and information security needs. Security of the more physical nature will be enhanced by the $423,000 allocation to Public Safety, including funds for an additional deputy and a public safety officer. A number of units sought support for communications and outreach efforts; a combined total of $508,000 was allocated to the Graduate School of Education and the Offices of Development and Public Affairs for that purpose. Remaining administrative allocations were focused on IT systems and staff in a number of units.

Academic Programs: $2.7 million

The two largest allocations in this area were to the Libraries and H&S, at about $850,000 each. Half of the Libraries' funding will go toward facilities and library materials, and half will go toward librarians, curators and technical staff who provide direct support to researchers. All of the H&S funds will provide stable base funding for the increasingly popular Creative Writing program. Another $705,000 will be split by Earth Sciences, Engineering, and VPUE for direct support of students in programs such as Earth Systems, the Model Shop, and Stanford Technology Ventures. Finally, the new Chemical Biology Institute within the Dean of Research area will receive $250,000 of operational support.

2013/14 INCREMENTAL GENERAL FUNDS ALLOCATIONS: $63.7 MILLION

[IN MILLIONS OF DOLLARS]



Staff Support: $2.1 million

While the Budget Group showed restraint in funding new staff positions, significant allocations were made to develop the university's existing employees. Specifically, $1.3 million will be used to provide base funding for the leadership development programs offered by the university, and another $378,000 will be used to enhance university training services and develop new ones in Land, Buildings and Real Estate. The remaining allocations will be used to make targeted market adjustments to certain staff salaries.

Faculty Support: $1.4 million

The university continues to support the Faculty Development Initiative and Faculty Incentive Fund — established programs that encourage the recruitment of underrepresented minorities to the faculty — and $764,000 was allocated for these purposes. While most non-formula schools received significant allocations last year to make competitive faculty salary adjustments, the Law School took more time to review data and develop a plan. The remaining funds in this area will go to Law, mostly to implement their faculty salary plan but also to fully fund recent hires whose salaries could not be entirely covered by school resources.

Graduate Student Support: $1.2 million

As recently as 2007/08, engineering degrees constituted 19% of all undergraduate degrees granted, while in 2011/12, they were nearly 27% of the total. The school has, unsurprisingly, experienced a commensurate increase in teaching assistant needs, and $800,000 was allocated to partially address those needs. Engineering received additional one-time funds for the same purpose, and those one-time funds may need to be converted to a base allocation in future years if demand holds. Similarly strong increases in the number of graduate students receiving National Science Foundation (NSF) fellowships clearly indicate the strength of the university's graduate programs, but the university is required to cover the portion of tuition not covered by NSF, and an additional $400,000 was allocated for that purpose.

Student Services: $0.8 million

An additional $503,000 was allocated to the Vaden Health Center, partly to account for medical inflation and partly to add a psychologist to the Counseling and Psychological Services center. Other allocations were made to the Graduate School of Education ($143,000), to expand its student career resources office, and to the Haas Center for Public Service ($200,000), to provide stable base funding for several programs that provide students service opportunities directly tied to academic course work.

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

COMPARISON OF CONSOLIDATED BUDGET AND STATEMENT OF ACTIVITIES, 2013/14

Unrestricted Net Assets

[IN MILLIONS OF DOLLARS]

STATEMENT OF ACTIVITIES				FISCAL YEAR 2013/14		
2011/12 ACTUALS	2012/13 JUNE 2012 BUDGET	2012/13 PROJECTED YEAR-END		PROJECTED CONSOLIDATED BUDGET	ADJUSTMENTS	PROJECTED STATEMENT OF ACTIVITIES
			Revenues and Other Additions			
			Student Income:			
298.0	307.5	309.9	Undergraduate Programs	320.7		320.7
287.2	299.6	298.3	Graduate Programs	310.4		310.4
135.9	138.2	143.0	Room and Board	147.6		147.6
(240.6)	(250.0)	(246.1)	Student Financial Aid[e]		(254.1)	(254.1)
480.5	495.3	505.1	Total Student Income	778.7	(254.1)	524.6
			University Sponsored Research:			
639.6	667.2	655.3	Direct Costs–University	663.8		663.8
226.4	226.8	230.1	Indirect Costs	235.4		235.4
866.1	894.0	885.4	Total University Sponsored Research	899.2		899.2
368.2	378.0	373.4	SLAC	451.9		451.9
544.9	541.8	592.6	Health Care Services[f,k]	699.6	(71.0)	628.6
178.2	200.0	180.0	Expendable Gifts In Support of Operations	185.3		185.3
108.2	109.8	100.0	Net Assets Released from Restrictions	105.0		105.0
			Investment Income:			
871.1	925.5	921.7	Endowment Income	982.3		982.3
131.3	126.8	93.7	Other Investment Income[g]	193.6	(34.9)	158.7
1,002.4	1,052.3	1,015.4	Total Investment Income	1,175.9	(34.9)	1,141.0
428.7	434.8	468.4	Special Program Fees and Other Income[j]	483.0	5.1	488.1
3,977.2	**4,106.0**	**4,120.3**	**Total Revenues**	**4,778.6**	**(354.9)**	**4,423.7**
			Expenses			
2,334.4	2,482.1	2,564.3	Salaries and Benefits[d,g,j]	2,655.4	40.0	2,695.4
64.7	75.4	77.6	Debt Service[h]	171.4	(100.2)	71.2
			Capital Equipment Expense[b]	79.0	(79.0)	0.0
277.5	297.2	295.1	Depreciation[c]		311.5	311.5
			Financial Aid[e]	254.1	(254.1)	0.0
1,089.8	1,099.5	1,153.9	Other Operating Expenses[f,g,j]	1,305.4	(45.7)	1,259.7
3,766.3	**3,954.2**	**4,090.9**	**Total Expenses**	**4,465.3**	**(127.5)**	**4,337.8**
210.9	**151.8**	**29.4**	**Revenues less Expenses**	**313.2**	**(227.4)**	**85.9**
			Transfers			
			Additions to Endowment Principal[a]	(29.3)	29.3	
			Other Transfers to Assets[a]	(148.9)	148.9	
			Net Internal Revenue/Expense[i]	38.2	(38.2)	
0.0	**0.0**	**0.0**	**Total Transfers**	**(140.0)**	**140.0**	**0.0**
210.9	**151.8**	**29.4**	**Excess of Revenues Over Expenses After Transfers**	**173.2**	**(87.4)**	**85.9**

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 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 $178.2 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, $79.0 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 $311.5 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 2013/14, the net results of these differences that occur in the Statement of Activities are $63.8 million higher than the Consolidated Budget.

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, $254.1 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 $39.7 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 $34.9 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 $26.6 million from compensation and $8.3 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/Sand Hill Road, 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 $100.2 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 $38.2 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. $5.1 million in revenues and expenses is added ($2.8 million in Salaries and Benefits and $2.3 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 $31.3 million of revenue.

In summary, the impact of these adjustments decreases the Consolidated Budget's projected $173.3 million surplus by $87.4 million, resulting in a projected surplus of $85.9 million in the Statement of Activities.