CHAPTER 1

CONSOLIDATED BUDGET FOR OPERATIONS

In this chapter we review the details of the 2014/15 Consolidated Budget for Operations, describe the general funds allocation process and results, and present a forecasted Statement of Activities.

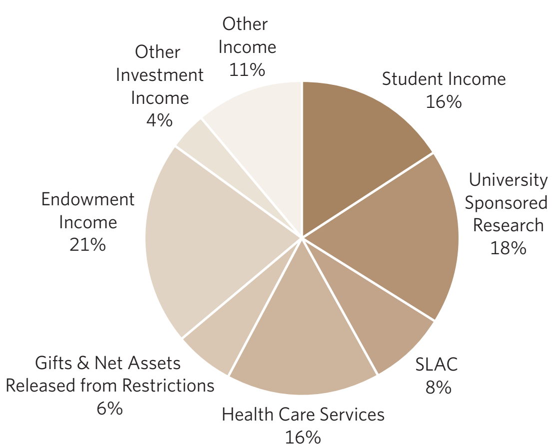
CONSOLIDATED BUDGET FOR OPERATIONS

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.

For the first time, in 2014/15, total revenues in the Consolidated Budget for Operations are projected to exceed $5 billion, reaching $5,099.5 million. Total expenses are projected to be $4,720.8 million, resulting in a net operating surplus of $378.8 million. However, after estimated transfers of $218.8 million, primarily to plant funds, the Consolidated Budget shows a surplus of $160.0 million.

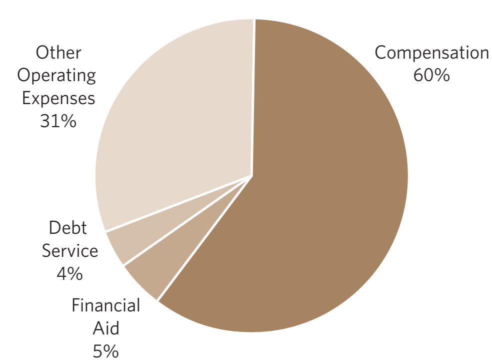
Total revenues in 2014/15 are projected to increase $290.8 million or 6.0% over 2013/14 revenues, which have also increased at a strong pace. In fact, the compound average annual growth in Stanford's total revenues from 2009/10 to 2014/15 is projected to be 6.1%. It is interesting to note, however, that the growth rates of the different revenue

2014/15 CONSOLIDATED REVENUES: $5,099.5M [1]



[1] Net Revenues after Transfers: $4,880.8M

2014/15 CONSOLIDATED EXPENSES: $4,720.8M



CONSOLIDATED BUDGET FOR OPERATIONS, 2014/15

[IN MILLIONS OF DOLLARS]

2012/13 ACTUALS	2013/14 BUDGET JUNE 2013	2013/14 PROJECTED ACTUALS		GENERAL FUNDS	DESIGNATED	RESTRICTED	GRANTS AND CONTRACTS	AUXILIARY & SERVICE CENTER ACTIVITIES	TOTAL
			Revenues and Other Additions						
311.0	320.7	320.7	Undergraduate Programs	330.3					330.3
297.0	310.4	314.2	Graduate Programs	321.6	5.1				326.8
144.8	147.6	151.2	Room and Board					162.5	162.5
752.9	778.7	786.1	Student Income	651.9	5.1			162.5	819.5
656.8	663.8	673.9	Direct Costs-University				682.6		682.6
225.5	235.4	227.7	Indirect Costs	232.5					232.5
882.3	899.2	901.5	University Sponsored Research	232.5			682.6		915.2
350.9	451.9	391.8	SLAC				413.2		413.2
714.8	699.6	745.0	Health Care Services	31.4	689.6	11.5		83.6	816.1
358.4	290.3	295.0	Gifts and Net Assets Released from Restrictions	2.0		313.0			315.0
921.7	982.3	984.2	Endowment Income	220.5		844.2			1,064.7
118.3	193.6	187.6	Other Investment Income	96.8	105.3	2.3	0.1	0.4	205.0
1,040.0	1,175.9	1,171.8	Investment Income	317.2	105.3	846.6	0.1	0.4	1,269.7
473.6	483.0	517.5	Special Program Fees and Other Income	15.7	372.2	1.5	0.3	161.2	550.9
4,572.9	**4,778.6**	**4,808.7**	**Total Revenues**	**1,250.8**	**1,172.2**	**1,172.6**	**1,096.3**	**407.7**	**5,099.5**
			Expenses						
2,516.5	2,655.4	2,646.9	Compensation	719.6	719.4	508.2	606.1	287.2	2,840.4
242.5	254.1	247.5	Financial Aid	49.5	5.6	184.4	16.2		255.7
161.8	171.4	170.1	Internal Debt Service	57.7	21.6	0.7		103.1	183.0
1,238.8	1,384.4	1,404.8	Other Operating Expenses	267.2	248.6	225.0	441.5	259.3	1,441.6
4,159.6	**4,465.3**	**4,469.3**	**Total Expenses**	**1,093.9**	**995.1**	**918.3**	**1,063.9**	**649.5**	**4,720.8**
413.2	**313.2**	**339.4**	**Operating Results**	**156.8**	**177.1**	**254.3**	**32.4**	**(241.9)**	**378.8**
			Transfers						
(117.4)	(29.3)	(48.1)	Transfers from (to) Endowment Principal		(30.0)	(45.0)			(75.0)
(154.3)	(148.9)	(208.0)	Transfers from (to) Plant	(58.5)	(94.5)	(5.0)		(0.8)	(158.8)
42.2	38.2	32.0	Other Internal Transfers	(72.7)	22.7	(145.1)	(32.5)	242.7	15.0
(229.5)	**(140.0)**	**(224.0)**	**Total Transfers**	**(131.3)**	**(101.8)**	**(195.1)**	**(32.5)**	**241.9**	**(218.8)**
183.8	**173.3**	**115.4**	**Operating Results and Transfers**	**25.6**	**75.3**	**59.2**	**(0.0)**	**0.0**	**160.0**
2,403.3	2,422.7	2,587.0	Beginning Fund Balances	402.3	1,140.3	1,148.0		11.8	2,702.4
2,587.0	2,596.0	2,702.4	Ending Fund Balances	427.8	1,215.6	1,207.2		11.8	2,862.4

sources vary significantly and that their relative share of the total has changed over the period. While sponsored research (including SLAC) continues to be the single largest revenue source, its average growth is only 3.1%, and its share of the total is expected to drop from 30% in 2009/10 to 26% in 2014/15. Conversely, two somewhat non-traditional sources, health care services and special program fees, together will grow an average of 9.8% over the period, and their combined share of total revenues is expected to increase from 23% in 2009/10 to 27% in 2014/15. Student income has grown slightly faster than the average tuition increase of 3.5% due to a slight increase in total enrollment and is projected to increase by 4.3% in 2014/15. Gift and investment income average annual growth has been robust and is expected to be 7.0% over the five years ending in 2014/15 as a result of generous donors, strong investment returns, and Stanford's prudent reserve policies.

Total expenses are expected to grow by 5.6% in 2014/15, led by a 7.3% increase in compensation expenses. While the general salary program for both faculty and staff is comparable to past years, increased headcount for faculty and staff and a very large jump in fringe benefit expenses will drive up overall compensation expenses. Growth in general operating expenses is expected to slow somewhat compared to the increases of the past several years. The table on the facing page shows the projected consolidated revenues and expenses for 2014/15. For comparison purposes, it also shows the actual revenues and expenses for 2012/13 and both the budget and the year-end projections for the current fiscal year, 2013/14. 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 4.2% in 2014/15 to $819.5 million. Increases in student charges for next year were guided by a number of considerations: programmatic needs, the effectiveness of the financial aid program, the impact of the economy on the families of students, and Stanford's pricing position relative to peers.

Tuition and Fees – Stanford expects to generate $657.1 million in tuition and fee revenue in 2014/15, a 3.5% increase over 2013/14, consistent with the general tuition rate increase. However, tuition from undergraduate programs will grow slightly slower due to a small decrease in undergraduate enrollment planned for 2014/15. Because the campus

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 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.

housing system is at full capacity and fewer students will be studying abroad while the Oxford overseas campus is renovated, total undergraduate enrollment will be reduced slightly in 2014/15 only. Tuition from graduate programs will increase by 4.0% due to modest enrollment increases in both the Law School 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 revenue, it is 52% of general funds. As such, it is a very important source of flexible 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. In 2014/15, in particular, general funds have been allocated for critical new central security, compliance, and efficiency programs that could not be funded otherwise.

The general tuition rate increase for 2014/15, approved by the Board of Trustees in February, is 3.5%, which results in a rate of $44,184 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. 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 3.9% for 2013/14, somewhat faster than Stanford's increase of 3.5%. Stanford's tuition currently ranks 15th out of 17, unchanged from the 2012/13 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 $162.5 million in 2014/15, an increase of 7.5%, which is substantially higher than the approved increase of 3.5% in the combined room and board rate. The large increase is the result of the opening of the Donald Kennedy Graduate Residences, which will add 436 beds to the graduate housing stock and generate $5.6 million in 2014/15. In February, the Trustees approved a combined undergraduate room and board rate increase of 3.5% for 2014/15, bringing the undergraduate rate to $13,631. 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 2014/15 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

University sponsored research is budgeted to increase 1.5% to $915.2 million in 2014/15. This figure includes the direct revenue from externally supported grants and contracts ($682.6 million) as well as reimbursement for indirect costs ($232.5 million) incurred by the university in support of sponsored activities. SLAC's 2014/15 budget from the Department of Energy (DoE), which includes sponsored research and sponsored capital project activities, is projected to be $413.2 million.

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

	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2013/14 TO 2014/15 CHANGE
Federal Directs (non-ARRA)	375.0	407.2	436.1	452.7	470.3	481.0	488.8	1.6%
ARRA Directs	0.0	40.0	56.4	25.8	15.3	5.4	0.0	−100.0%
Non-Federal Directs	184.8	155.3	157.8	160.8	171.2	187.5	193.8	3.4%
Total Directs	**559.8**	**602.6**	**650.3**	**639.3**	**656.8**	**673.9**	**682.6**	**1.3%**
Total Indirects	**174.1**	**203.8**	**225.5**	**226.4**	**225.5**	**227.7**	**232.5**	**2.1%**
% Federal	67.0%	74.2%	75.7%	74.9%	73.9%	72.2%	71.6%	

A little more than 70% of university research funding is provided by the federal government and that amount in 2013/14 has been strongly influenced by recent reductions in federal discretionary budgets. For instance, direct research funding from the National Institutes of Health (NIH), Department of Defense (DoD), and National Science Foundation (NSF), the three largest sources of federal research dollars, has increased 6.3% per year on average over the last five fiscal years, excluding the impact of the stimulus funding from the American Recovery and Reinvestment Act (ARRA). By contrast, funding from these three agencies has declined by 1.2% in 2013/14. Overall federal activity in 2013/14 is expected to grow slightly at 2.3%, with slower growth of 1.6% in 2014/15, excluding ARRA activity. Including ARRA activity, growth will be only 0.1% and 0.5% in 2013/14 and 2014/15, respectively, as ARRA funded projects are expected to complete in 2013/14. The current year federal results are quite varied by unit. Medicine and the Dean of Research are projecting a slight increase in volume for 2013/14, but Humanities & Sciences, Engineering, and Earth Sciences are forecasting decreases of 3-5%. In 2014/15, most units expect small positive growth, although generally below the rate of inflation, while the Dean of Research expects a decline of 2%.

Virtually the opposite narrative has taken place with regard to non-federal research support. As foundations and other non-federal sponsors weathered in the recession, their support for research decreased by 1.9% per year over the four years ending in 2012/13. There has been a significant turnaround in 2013/14, however, as year-to-date activity has increased 12.8%. One-half of that growth is due to a 39% increase in activity funded by the California Institute for Regenerative Medicine (CIRM), the state's stem cell research agency. While CIRM and other non-federal growth is expected to slow considerably in 2014/15, non-federal research, nonetheless, is estimated to outpace general inflation, growing at 3.4%. Similar to federal activity, non-federal growth in 2013/14 varies considerably by unit, with double-digit increases expected in Medicine and Education but a small decline forecasted in the Dean of Research and a 4% decline predicted in Humanities & Sciences. In 2014/15 growth is expected in the schools with the exception of Humanities & Sciences, which projects a 8% decline. With the expiration of ARRA activity and stronger non-federal growth on the horizon, non-federal activity will be over 28% of total research volume in 2014/15, a level not seen since 2008/09.

Indirect cost recovery in 2014/15 will slightly outpace growth in direct research volume (2.1% versus 1.3%) for two reasons. First, most older grants and contracts, including most ARRA activity, that conclude in 2013/14 or 2014/15 receive indirect cost recovery at older negotiated rates that are three or more percentage points lower than current rates. Over time the older grants are replaced with activity that recovers at today's higher rates. Second, the School of Medicine projects higher indirect cost recovery of nearly $1 million in the animal care facility, which has its own indirect cost rate.

As noted above, SLAC's DoE funding in 2014/15 is projected to increase 5.5% to $413.2 million, which represents over 97% of SLAC's total funding. Over three-quarters of the DoE funding will support research activity directly, and that activity will grow at about 4%. The remaining $88.9 million of DoE funds are for construction costs for various facilities. SLAC research and construction programs are discussed in more detail in Chapter 2.

Health Care Services

Health care services income is budgeted to be $816.1 million in 2014/15, a 9.5% increase over the projection for 2013/14. Health care service revenue continues to be the fastest growing segment in the Consolidated Budget, growing at an annual average rate of 12.1% for the ten years ending in 2012/13. As the School of Medicine's emphasis on patient care grows in recognition of the central role that care plays in both research and teaching, the clinical programs will continue to expand at a rapid pace.

The majority of Health Care Services income is in the School of Medicine, including $645.1 million paid by Stanford Hospital and Clinics and Lucile Packard Children's Hospital related to the clinical practices of the faculty. The 2014/15 clinical revenue is projected to increase 8.7% over the year-end projection, reflecting incremental faculty and continued growth in Stanford's clinical programs, which drive increases in payments for professional services from the Hospitals. The blood center's revenues of $49.2 million reflect a modest increase of 2.0% over the projection for 2013/14. The School of Medicine also receives $34.8 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: $23.6 million to Business Affairs and Business Affairs IT, primarily for communications services;

$6.9 million to the Office of the General Counsel for legal services; $20.0 million to Land, Buildings and Real Estate for operations and maintenance and utilities; $9.9 million to the Office of Development for hospital fundraising support; and $10.6 million to the central administration for parking structure debt service and general support.

Gifts and Net Assets Released from Restrictions

Revenue from expendable gifts and net assets released from restrictions is forecast to be $315.0 million in 2014/15, a 6.8% increase over the projection for 2013/14. This $20 million increase over 2013/14 is due primarily to anticipated results from the Campaign for Stanford Medicine. Expendable gifts are those immediately available for purposes specified by the donor and do not include gifts to endowment principal, gifts for capital projects, gifts pending designation, or non-government grants. Net assets released from restrictions include cash payments on gift pledges made in prior years as well as pending gifts whose designation has been determined. The distinction between expendable gifts and net assets released is that the latter are funds that were previously classified as temporarily restricted. As donor restrictions are satisfied, they become available for units to use in an equivalent manner to expendable gifts.

Investment Income

Investment income, Stanford's second largest source of revenue, is expected to increase by 8.4% in 2014/15 to $1,269.7 million. This total includes endowment payout to operations as well as other investment income.

Endowment Income – Endowment payout to operations in 2014/15 is expected to be $1,064.7 million, an increase of 8.2% over 2013/14. Total endowment income includes payout from individual funds invested in the merged pool (MP) as well as specifically invested endowments (e.g., oil and mineral rights), and rental income from the Stanford Research Park and other endowed lands.

The expected payout from an individual endowment fund in 2014/15 will increase by 4.3%, while total merged pool payout is expected to increase by 7.8% due to several factors: gifts to endowment principal are expected to reach $225 million; schools and departments are expected to transfer $48 million from expendable funds to funds functioning as endowment; and $226.5 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 2013/14. Together these additions contribute roughly $27 million to endowment payout in 2014/15.

The 2014/15 proposed spending rate for the MP is derived from the application of the university's smoothing rule. The smoothing rule is used to dampen the impact on the budget of annual fluctuations in the market value of the endowment, thereby providing stability to budget planning. Stanford's smoothing rule uses the approved target payout rate of 5.5% to calculate a target payout per share in the current year, 2013/14. A weighted average of the target payout per share and the current year's actual payout per share results in the current year's smoothed payout per share. The payout per share for 2014/15 is derived by increasing the current year's smoothed payout per share by the long-term payout growth factor of 4.5%. Furthermore, the 2014/15 proposed payout per share is expected to provide an overall endowment payout rate that is within the range of 4.0% to 6.0%, consistent with the university's intention, as described at the December 2012 Committee on Finance.

Of the total endowment income, $220.5 million, or 20.7%, is unrestricted and is a source of general funds. 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 at a much faster pace (14.1%) in 2014/15 than the restricted portion, driven largely by the expected $226.5 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 $1,161.5 million by the end of 2013/14, 33.2% 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, a restricted fund functioning as endowment controlled by the president. In 2014/15 an additional $188.8 million of excess EFP returns are projected to be generated, $103.6 million of which will be added to the Tier I Buffer, bringing it to the cap of 35% of the EFP or $1.3 billion. The remaining $85.2 million will be added to the Tier II Buffer, bringing its projected market value to $1.0 billion. The EFP payout policy and its impact on the budget are described in the Other Investment Income section below.

A growing portion of the unrestricted endowment income is the rental income from Stanford endowed lands, which is expected to be $73.9 million in 2014/15, an increase of 13.6%.

Other Investment Income – Other investment income is expected to increase from $187.6 million in 2013/14 to $205.0 million in 2014/15, a 9.3% increase. Other investment income is comprised of two categories of revenue: $137.9 million in payout to operations from the expendable funds pool (EFP) and earnings from the endowment income funds pool (EIFP), and $67.1 million from several smaller sources of investment income, described below.

$136 million of payout on the EFP and $1.9 million earned on unexpended endowment payout separately invested in the EIFP are expected in 2014/15. Thousands of individual funds together form the EFP and the EIFP, which are projected to have 2014/15 year-end balances of $3.7 billion and $377.3 million, respectively. Approximately 77% 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, based on the actual EFP investment returns during the prior fiscal year, is paid to general funds, both centrally and in the formula schools. Investment returns on the EFP in 2013/14 are projected to be near ten percent, resulting in the full 5.5% payout to the zero-return portion of the EFP in 2014/15. 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 some restricted gifts. The Tier I and Tier II Buffers act as a backstop to maintain the value of expendable funds, which are invested in the merged pool.

All of the EIFP is represented in the ending fund balances of the Consolidated Budget for Operations on page 4, but only $2.5 billion, consisting of general operating funds, designated funds, and expendable gifts, of the total $3.7 billion EFP is in the ending fund balances of the Consolidated Budget. The portion of the EFP not included in the Consolidated Budget is comprised of roughly $1.0 billion in plant and debt pool funds and $260.8 million in student loan, pending, and agency funds.

The non-EFP portion of other investment income is comprised of investment income distributed to support the operations of the Stanford Management Company, the real estate division of Land, Buildings and Real Estate, and the investment accounting activities in the Controller's Office; interest income on the Stanford Housing Assistance Center (SHAC) portfolio; and miscellaneous other investment income including rents, security lending, and other interest income. This portion is projected to increase 10.0% to $67.1 million, due to staff increases and higher fringe benefits costs in both the Stanford Management Company and in the real estate division of Land, Buildings and Real Estate.

Special Program Fees and Other Income

The largest components of this category include academic corporate affiliates income; executive education instruction fees; technology licensing income; ticket, admission, and broadcast fees for athletic and other events; conference and symposium revenues; rental income from the Mid-Point Technology Park and the Welch Road and Stanford West Apartments; participation fees collected by the travel/study programs; plus a wide range of other miscellaneous income streams throughout the university, ranging from the sales of the Stanford University Press and HighWire Press to retail revenues in Residential & Dining Enterprises to fees for the use of various athletic facilities such as the golf driving range and summer sports camps.

Special program fees and other income is budgeted at $550.9 million in 2014/15, an increase of 6.5% over the expected level in 2013/14, growth that is slightly lower than the actual 10-year compound annual growth rate of 7.6% ending in 2012/13. Some of the fastest growing components are the PAC-12 network broadcast distribution to Athletics, which increased from a base of $5.5 million in 2011/12 to over $20.0 million in 2012/13, and technology licensing income, which increased from $67.0 million in 2007/08 to over $99.7 million in 2012/13. Continued strong growth in patent income/technology licensing, executive education, and the Stanford Center for Professional Development (SCPD) income in the School of Engineering are primary drivers for the growth expected in 2014/15.

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 2014/15 is budgeted to be $2,840.4 million, a 7.3% increase over the 2013/14 year-end projection of $2,646.9 million. This increase is driven by the approved merit programs for faculty and staff, anticipated headcount growth, and a sizeable increase in fringe benefits expenses.

Salaries – Total salary expense, including SLAC, is expected to grow by 6.4% in 2014/15 to $1,985.9 million. Overall, projected salary expense in 2014/15 is the result of the approved salary program, incremental funding to increase the competitiveness of faculty salaries for selected schools and departments, and total headcount growth of 3.0%, including faculty and staff. Staff headcount grew by only 2.5% in 2012/13, less than half the rate of growth seen in 2011/12. However, staff headcount in the first seven months of 2013/14 has grown 3.2%, led by increases in clinical staff in the School of Medicine, program support staff in the academic areas, and staff needed to manage the new Arrillaga Outdoor Education and Recreation Center.

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. Department level faculty salary data analysis showed that the market-based salary allocations to specific ranks and departments in 2012/13 likely achieved the goal of strengthening Stanford's competitive salary position, with the possible exception of the School of Engineering. As a result, incremental funds were allocated to Engineering to address targeted mid-career faculty salaries. After careful review of salary survey data in several local markets, it was determined that staff salaries were at or slightly higher than market median salaries in September 2013. The approved merit program for 2014/15 was set with the intention of maintaining this position.

Fringe Benefits – Fringe benefits expense is expected to increase by 12.0% in 2014/15 to $593.3 million, and about 5.5% higher than the growth in overall salary expense, due to a sizeable increase in the regular benefits-eligible fringe benefits rate.

The university tracks the fringe 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 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 research and teaching assistants

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 be unchanged at 1.85% in 2014/15 and adds roughly $25 million to the university's total fringe benefits expense in 2014/15.

Ninety-five percent of all fringe benefits expense is incurred for regular benefits-eligible (RBE) employees and the proposed rate for this group in 2014/15 is expected to increase significantly compared to the negotiated rate for 2013/14. The fringe benefits rates for casual or temporary employees and for graduate teaching and research assistants are expected to increase somewhat in 2014/15, while the rate for post-doctoral research fellows is expected to decrease. The primary factors impacting total fringe benefit expenses in 2014/15 are discussed below.

FRINGE BENEFITS RATES

	2013/14 NEGOTIATED RATES	2014/15 PROPOSED RATES
Regular Benefits-Eligible Employees	29.2%	30.8%
Post-Doctoral Research Affiliates	27.9%	24.3%
Casual/Temporary Employees	8.4%	8.8%
Graduate RAs and TAs	4.8%	5.2%
Tuition Grant Program	1.85%	1.85%

Overall, the rate for regular benefits-eligible (RBE) employees will increase by 1.6 rate points in 2014/15 over the rate negotiated with the Office of Naval Research for 2013/14. The three major cost components contributing to the rate increase due to program changes and regulations are noted below:

- The university's expenses for employee health plans are expected to increase by 1.0 rate point from the 2013/14 budget as a result of a combination of factors, including enrollment growth and medical cost inflation. The number of employee participants is expected to increase by 6% in 2014/15 partially due to headcount increase and partially due to a projected decrease in the number of employees who waive their medical plan enrollment. Stanford's cost for the average insurance premium per employee in 2014/15 will increase by 12.4% from the 2013/14 negotiated amount, driven by the 8.1% increase from Kaiser and up to 14% in the Blue Shield Plans due to continued increases in high dollar claim costs. A new health plan, Stanford Health Care Alliance, has been available since January, 2014 and offers employees an alternative affordable health insurance plan.
- Costs for the Stanford Contributory Retirement Program (SCRP) are increasing by 0.3 rate points from the 2013/14 budget. The increase is driven by salary and headcount growth as well as the switch from an opt-in to an opt-out program beginning January 2014.
- Workers' Compensation costs are also expected to increase by 0.3 rate points from the 2013/14 budget due to significantly higher claims payout and an increased reserve requirement recommended by the actuary. Stanford's loss experience was significantly worse in the first few months of 2013/14. The university actuary assumes the trend will taper off during the year, resulting in a smooth upward curve over the year. In addition, year over year payouts for similar claims will increase due to medical inflation.

The underlying benefits rate for post-doctoral research affiliates without carry-forward, is relatively flat compared to the 2013/14 budget. However, the claim experience in 2012/13 resulted in less cost than the negotiated amount. The over-recovery in 2012/13 will be captured over the next three years through a downward rate adjustment, resulting in a drop in the post-doctoral research affiliates benefits rate in 2014/15.

The fringe rates for casual or temporary employees and for graduate teaching and research assistants (RAs and TAs) will increase 0.4 points due to the impact of net under-recoveries in recent years.

Financial Aid

Stanford expects to spend a total of $255.7 million on student financial aid for undergraduate and graduate students in 2014/15, $49.5 million of which will come from general funds. Designated and restricted funds ($190.0 million) and grants and contracts ($16.2 million) will support the remainder. Total budgeted financial aid is 3.3% above the projected total for 2013/14, 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 2014/15 Stanford students will receive $137.5 million in need-based scholarships, of which $132.0 million will be from Stanford resources, an increase of 3.2% over the projected 2013/14 year-end, an increase that is slightly lower than the increase in the total student budget, which is projected to be just over $64,000. Stanford expects twenty-five fewer students on need-based aid in 2014/15 as the general economy continues to strengthen. In addition to Stanford resources, $5.5 million will come from federal grants, mostly Pell and Supplemental Educational Opportunity Grant (SEOG) grants, an amount comparable to 2013/14 but slightly less than 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.

The main features of Stanford's financial aid program remain unchanged in 2014/15. However, the relative share of funding sources supporting this critical program continues to shift. While president's funds continue to be an important source of funding for undergraduate aid, Stanford was able to eliminate the need for support from the Tier II Buffer in the current year, 2013/14, reducing the president's overall share of need-based aid to 13%. Furthermore, after peaking at 21% in 2013/14, general funds' support will decline by $1.7 million, reducing its share of the total to 19% in 2014/15. Continued generous gifts to endowment for need-based aid brings its share to two-thirds of the total need.

UNDERGRADUATE NEED-BASED SCHOLARSHIP AID

[IN MILLIONS OF DOLLARS]

SOURCE OF AID	2008/09 ACTUALS	2009/10 ACTUALS	2010/11 ACTUALS	2011/12 ACTUALS	2012/13 ACTUALS	2013/14 PROJECTED	2014/15 PLAN
Department Funds and Expendable Gifts	2.2	2.1	2.2	2.5	3.0	2.8	3.1
Endowment Income	80.4	72.4	66.3	71.8	75.0	81.5	87.2
President's Funds - The Tier II Buffer	3.0	24.5	24.9	19.2	9.3		
President's Funds - The Stanford Fund	17.4	15.0	15.6	19.0	16.6	17.2	16.8
General Funds		1.5	10.4	14.3	23.6	26.5	24.8
Subtotal Stanford Funded Scholarship Aid	103.0	115.5	119.4	126.7	127.4	127.9	132.0
Federal Grants	5.0	6.9	7.1	6.0	5.6	5.5	5.5
Total Undergraduate Scholarship Aid	**108.0**	**122.4**	**126.4**	**132.7**	**133.0**	**133.4**	**137.5**
General Funds as a Share of Stanford Funding	0%	1%	9%	11%	18%	21%	19%
President's Funds as a Share of Stanford Funding	20%	34%	34%	30%	20%	13%	13%
Endowment Funds as a Share of Stanford Funding	78%	63%	56%	57%	59%	64%	66%
Number of Students	3,136	3,401	3,396	3,464	3,417	3,300	3,275

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 $21.6 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 $349.6 million in 2014/15. As the table below indicates, this includes the tuition component of fellowships in the amount of $96.4 million, which is reflected in the Financial Aid line of the Consolidated Budget. Financial aid for graduate students is expected to increase by 3.7%, consistent with the planned increases in tuition in the various graduate programs 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 $253.2 million. Consistent

2014/15 FINANCIAL AID AND OTHER GRADUATE STUDENT SUPPORT FROM STANFORD RESOURCES

[IN MILLIONS OF DOLLARS]

PROJECTED 2013/14 YEAR-END		GENERAL FUNDS	DESIGNATED AND RESTRICTED	GRANTS & CONTRACTS	TOTAL
	Student Financial Aid				
133.7	Undergraduate	24.8	107.2	5.8	137.8
20.8	UG Athletic		21.6		21.6
93.0	Graduate	24.6	61.3	10.5	96.4
247.6	Total	49.5	190.0	16.2	255.7
	Other Graduate Support				
69.0	Stipends & Health Insurance Surcharge	16.7	35.5	22.1	74.3
70.4	Tuition Allowance	33.0	22.4	18.4	73.8
101.8	RA/TA S&B	21.6	41.4	42.2	105.1
241.3	Total	71.3	99.3	82.6	253.2
118.5	Postdoc Support	3.7	32.7	86.3	122.6
607.3	**Total Student Support**	**124.4**	**322.1**	**185.1**	**631.6**

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 3.0% in 2014/15; tuition allowance expense is expected to increase by 4.8%, higher than the tuition rate increase due to more RAs and TAs, particularly in the school of Engineering.

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 34%, restricted funds support about 39%, and grants and contracts supply the remaining 27%. 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.

Total direct student support of all kinds is expected to be $508.9 million in 2014/15, a 4.1% increase over the projected level for 2013/14.

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 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 $122.6 million in 2014/15, an increase of 3.0% over 2013/14.

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 2014/15, no change from the current year's rate.

Internal debt service covered by the Consolidated Budget for Operations in 2014/15 is projected to be $183.0 million, a 7.6% increase over 2013/14. It includes debt service incurred to bridge-finance the receipt of gifts and annual lease payments, and excludes $9.6 million of debt service for the Rosewood/Sand Hill Road Hotel and office complex and $46.0 million of annual lease payments. The year-over-year increase of $12.9 million is due to new debt service in Residential & Dining Enterprises for new graduate student housing, in the utility service centers due to the new central energy facility, and the new office building at 408 Panama Mall, as well as a variety of smaller projects.

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 2.6% to over $1.4 billion in 2014/15. This projection is in line with the compound annual growth rate of 2.5% over the past five years, although that includes a significant drop in expense from 2007/08 to 2008/09 as a result of budget cuts during the recession. Since then, certain types of other operating expenses have seen more rapid increase than others: travel, food, and training expenses have increased at a 5-10% rate each year, as departments gain more flexibility in their budgets. Other expenses, such as utilities, rentals and leases, printing, and external communications costs have been increasing only modestly, as cost saving strategies are fully implemented.

Non-compensation expenses for SLAC are in this category and total $193.7 million. This includes SLAC construction costs which are expensed rather than capitalized.

The largest component of this category represents expenses related to services, at $381.0 million. These include professional, property, custodial, printing, and other general services. These expenses have been growing roughly 7% a year since the economy began to rebound. Around 20% of the total is research subcontracts.

THE COST OF COMPLYING WITH GOVERNMENT REGULATIONS

Government regulations affect many aspects of Stanford's activities, and the cost of complying with these regulations is substantial. In 1997 President Gerhard Casper estimated that 7.5% of all general funds dollars went towards regulatory costs, and this estimate did not include faculty salaries for time spent on regulatory matters.

Over the last year, the University Budget Office updated this estimate, and found that today close to 14% of general funds supports regulatory costs and mandated cost sharing on research. The methodology did not allow for an estimate of faculty costs, but these are substantial. In fact, according to a survey conducted by the Federal Demonstration Partnership[1] (FDP), on average, 42% of a principal investigator's time on federally funded projects is spent on administrative responsibilities rather than active research.

According to the recent Budget Office estimate, which involved surveying all schools and administrative units, the university spent over $140 million on compliance in 2010/11. Of this amount, general funds covered $72 million, the federal government reimbursed $40 million through the indirect cost rate, and restricted funds covered about $28 million.

In addition to these direct costs of compliance, several federal agencies mandate various forms of cost sharing on their projects. For example, the National Institutes of Health (NIH) has a salary cap for any individual paid on an NIH contract. Other projects may mandate an amount or percentage of cost sharing. The university pays both the direct and the indirect costs of this cost sharing. Restricted funds may cover direct costs, but indirect costs must be paid by general funds. We estimate these mandated costs at $56 million, of which general funds paid $37 million.

Thus, in 2010/11, the university paid a total of $156 million of its own funds for compliance and mandated cost sharing, $110 million of that being general funds.

It is important to note that Stanford would have performed some of the activities even without a mandate. For example, the university would certainly maintain a healthy environment for faculty, staff, and students regardless of government mandates. Nonetheless, some of the regulations compel Stanford to perform these functions in ways that might not be appropriate or cost-effective for an academic institution. Regulations written to control hazardous substances in an industrial setting might be overkill when applied to small quantities used in a research laboratory.

Together with other universities, in groups like the FDP, the Association of American Universities, and the Council on Governmental Relations, Stanford is working to eliminate duplicative, ineffective, and overly burdensome government regulations, and to harmonize reporting requirements across research agencies. Money saved by reducing unreasonable and ineffective regulatory burdens can be put to good use in performing our research and education mission.

[1] The FDP is a forum for individuals from universities and nonprofits to work collaboratively with federal agency officials to improve the national research enterprise. Its current membership includes 10 federal agencies and 119 institutional recipients of federal funds.

The other components in other operating expenses include: materials and supplies ($203.4 million, of which about half is laboratory supplies); capital equipment and library materials purchases ($86.5 million); graduate student and postdoc stipends and other non-tuition student support ($124.7 million); food, entertainment, and travel ($143.7 million); external payments for facilities and equipment operations and maintenance ($58.6 million); external payments for telecommunications and utilities commodities for campus buildings ($59.0 million); services purchased from the hospitals ($39.8 million); and rentals and leases ($42.6 million). The other $108.6 million includes a wide variety of expenditures, ranging from the cost of food in Residential & Dining Services to unrelated business income taxes to software licensing fees.

Utilities – Since 1987, Stanford's energy supply has been provided under an agreement with General Electric, which owns and operates the Cardinal Cogeneration Plant (Cogen), a gas-fired central energy facility providing electricity and thermal energy to the campus. In April 2015, the current agreement with Cogen expires, and the plant equipment will be at the end of its useful life. To meet future energy needs, Stanford is converting to a new energy platform known as the Stanford Energy System Innovations project (SESI) to provide thermal energy (heating and cooling) to the campus. Electricity demands will be met through a combination of a 4 mega-watt on-campus photovoltaic project and direct procurement of grid electricity from an energy service provider available to Stanford through the Direct Access program.

SESI is a $485 million collection of projects and is the single most important and ambitious capital project under management. It differs from gas-fired Cogen in that it is an electrically powered heat recovery system that reuses waste heat, currently expelled from buildings into the atmosphere, to heat the campus via evaporative cooling towers. Once SESI is activated, the campus will utilize 57% of its waste heat to meet 93% of campus heating demand. It will also reduce campus water consumption by 15% and greenhouse gas emissions to less than 50% of current levels. SESI is scheduled to be complete in time to take over from Cogen on April 1, 2015.

Since 2014/15 is a year of transition, utility budgets will include seven months of Cogen operations and five months of SESI operations. With both Cogen and SESI, the delivery of utilities to the campus involves three significant components: 1) externally purchased utilities, 2) debt amortization on capital expenditures, and 3) operations and maintenance (O&M) in support of the utility delivery.

Campus utilities costs are projected to increase by $10.4 million or 12.9% to $91.4 million in 2014/15. The majority of the cost increase is higher debt amortization expense ($6.4 million) resulting from the SESI project, which includes piping and building conversions, the new central energy facility and new substation.

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 $154.5 million in 2014/15.

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 Graduate School of Business is responsible for operations and maintenance of the Knight Management Center.

The university will incur incremental O&M costs related to new facilities in 2014/15 of $4.4 million: $2.3 million for 3160 Porter Drive (an increase to market lease rates), $1.0 million for the BioE/ChemE building, $867,000 for the McMurtry Building, $727,000 for Lathrop Library (formerly Building 08-350 Renovation for SUL North), $667,000 for the Northwest Data Center and Communications Hub (NDCCH), and $510,000 for the Anderson Collection. These costs will be partially offset by planned demolitions, including Meyer Library and Cummings Art.

Transfers

The transfers section of the Consolidated Budget for Operations accounts for the transfers of funds between units, between fund types, and out of the Consolidated Budget altogether, and yields the change in fund balances expected in each fund type and in the Consolidated Budget as a whole. In 2014/15, transfers result in a net reduction from operating results of $218.8 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 and the resulting bottom line of the Consolidated Budget. 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 FFE, or withdrawals of FFE to support operations. In 2014/15 Stanford is projecting that a net $75.0 million will be transferred to FFE from current operating funds, an increase of $26.9 million over the 2013/14 estimate. The low figure for 2013/14 is uncharacteristic of past history, and thus the units' projections for 2014/15 have been adjusted upward to bring the total more in line with the actual results over the past five years. Often units identify excess funds to invest in FFE in the year-end process, even though they may not "plan" for them a year in advance.

- Transfers to Plant: The transfers in this category are primarily for capital projects. Total transfers of $158.8 million to plant are planned for 2014/15. Included in this is $58.5 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 $5.6 million from the Planned Maintenance Program into plant improvement projects; the School of Humanities and Sciences will transfer $10.9 million for the Bass Biology building, the Science Teaching and Learning Center (Old Chem), and the Roble Gym renovation; and the School of Medicine expects to transfer $3.1 million in funds for a variety of capital projects. The remainder is made up of smaller amounts transferred out of the remaining units. 2014/15 transfers are projected to be $49.2 million lower than the $208.0 million projected for 2013/14. The largest drivers of this decrease are in the School of Humanities & Sciences, where in 2013/14 the school made large transfers to fund the completion of the McMurtry Art & Art History building; and in the School of Medicine, which made very large transfers to plant in 2013/14 but only projects a small transfer in 2014/15.
- Other Internal Transfers: Additional financial activity affects the net results of the consolidated budget, internal revenue and internal expense, which 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 $15 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 amount includes 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 mostly by general funds.

General funds revenue in 2014/15 is projected to increase by 5.3% to $1,250.8 million, a $63.1 million increase over the expected level for 2013/14. Student income will increase 3.5%, or $22 million, reflecting increased tuition rates. A smaller increase, totaling $7.2 million, is projected for indirect costs, healthcare services, and other income. The largest growth in general funds is an 11.9%, or $33.8 million, increase in investment income. This growth is due to the increasing balance of and payout from the EFP and Tier I Buffer and to higher rental income from the university's endowed lands. These items are described more fully in the earlier section on investment income.

2014/15 Non-Formula General Funds

Per negotiated formula arrangements, $176.8 million of the general funds revenue will flow to the School of Medicine, the Graduate School of Business, and the other formula units. Additionally, $44.6 million will be transferred to the facilities and housing reserves, and $4.8 million will be transferred in, resulting in non-formula general funds revenue of $1,034.2 million, which is controlled and allocated by the provost.

During the annual general funds budgeting process, each budget unit met with the Budget Group, the provost's advisory body comprising senior faculty and administrators, to 1) review the financial status and fund balances of the organization; 2) report on faculty salary competitiveness as well as recent and planned growth in the professoriate;

SUMMARY OF 2014/15 BASE GENERAL FUNDS ALLOCATIONS

[IN MILLIONS OF DOLLARS]

2014/15 Projected General Funds Revenue		**1,250.8**
Allocations to Formula Units		(176.8)
Transfers Out - Facilities and Housing Reserves		(44.6)
Other Transfers		4.8
2014/15 Base General Funds Allocable to Non-Formula Units		**1,034.2**
2013/14 Non-Formula Base General Funds Allocations	949.5	
2014/15 Incremental Base General Funds Allocations		
Salary Program and Inflationary Adjustments	34.1	
New Facilities Costs	11.8	
Undergraduate Financial Aid	(6.6)	
Programmatic Allocations to Academic Needs	6.8	
Programmatic Allocations to Administrative Needs	12.9	
2014/15 Allocated Base General Funds		1,008.6
2014/15 Unallocated Surplus		25.6
2014/15 Base General Funds Allocable to Non-Formula Units		**1,034.2**

3) discuss graduate student issues of concern; and, 4) submit requests for incremental general funds. At the end of the process, the provost made allocation decisions based on the units' presentations, consultations with the Budget Group, and a final forecast of available general funds. Those decisions were especially influenced this year by the need to support the physical and administrative infrastructure of the university.

The table above shows how the $1,034.2 million in non-formula general funds will be allocated in 2014/15. 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 additional allocations made for 2014/15 are detailed below and are reflected in the pie chart on the next page:

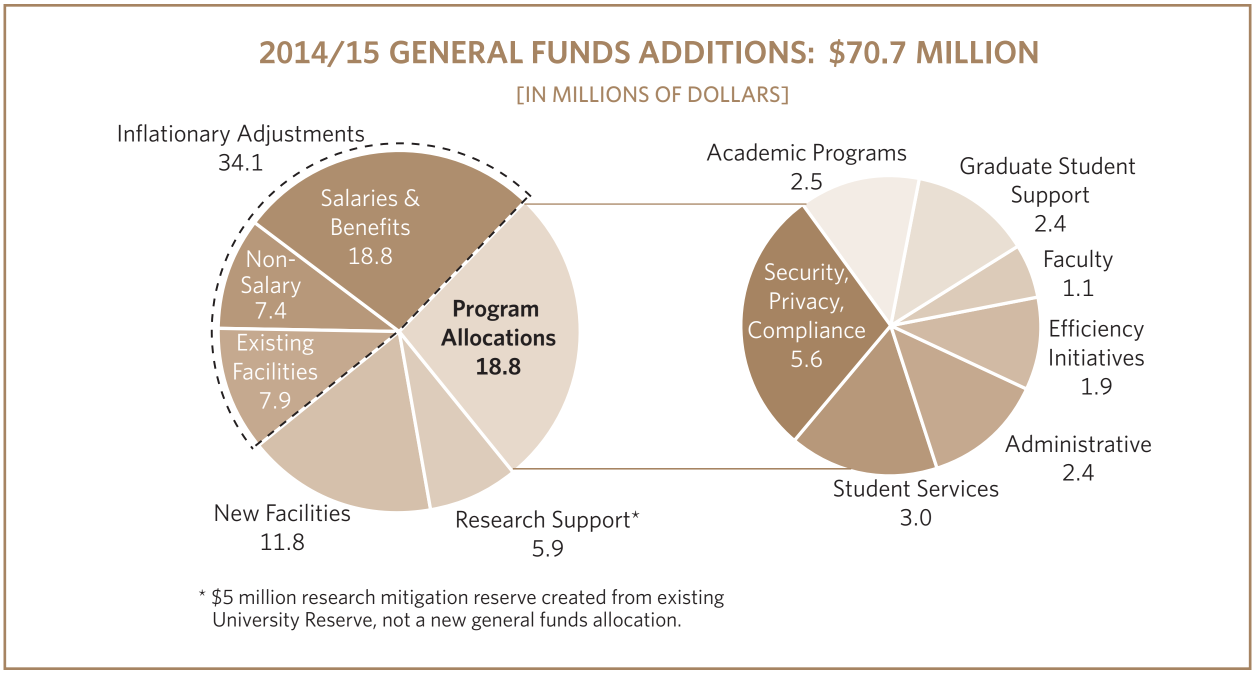
Salary Programs and Inflationary Adjustments: $34.1 million

To maintain the university's competitive positions in faculty and staff salaries, $11.3 million was allocated to fund salary programs, similar to the $10.7 million allocated in the previous year. However, the amount allocated to cover increased fringe benefits expenses grew considerably, from $2.4 million in 2013/14 to $7.5 million in 2014/15. A full explanation of the increases in fringe benefits appears on page 10. General non-salary expenditures received an increase of 2.5% for 2014/15, with larger increases granted for graduate aid expenses. Total inflationary adjustments for non-salary expenditures were $7.4 million.

Expenses in support of existing facilities will increase $7.9 million. Of this total, utilities and O&M expenses on existing facilities will increase by $7.3 million in 2014/15. Utilities rates are increasing largely due to the SESI project, while O&M expense growth is due to salary program, benefits, and inflationary materials increases. Insurance and fire protection expenses will increase 4.2%, or $420,000, and $164,000 will be spent on modest facilities staff growth in Earth Sciences and Land, Buildings and Real Estate.

New Facilities Costs: $11.8 million

Allocations to the Capital Facilities Fund (CFF), established by the Board of Trustees in 2007/08, will increase by $5.3 million as a result of increased endowment payout. The CFF is used to support major facilities projects and is described in more detail in the Capital Plan chapter. Several new facilities opened during 2013/14 — among them the Bioengineering/Chemical Engineering building, the Anderson Galleries, and 3160 Porter Drive — but will need utilities and O&M funding for the full year starting in 2014/15. In addition, funding for facilities opening during



2014/15 will be added, such as the McMurtry Art Building and Lathrop Library. Those increases will be offset by a number of demolitions, including Meyer Library, resulting in net O&M additions of $4.4 million. Debt service expense supported by non-formula general funds will also increase $2.1 million.

Research Support: $5.9 million

The largest item in this category is the creation of a $5 million reserve to mitigate the potential impacts of a decline in federal support for research. Distributions from this reserve will be directed by the provost and will be considered only after local and school resources have been applied. Typically, distributions will be used to support faculty when delays in grant and contract renewals cause funding gaps or to support existing graduate students when faculty are compelled to reduce their research activities. It should be noted that this reserve was created by reducing base general funds in the University Reserve by $5 million rather than through an incremental allocation of base general funds. An additional $400,000 was allocated to the Stanford Electronic Research Administration (SeRA) system that has positively transformed research administration at Stanford, and $487,000 will be used to support several shared research facilities such as the new Stanford Research Computing Center.

Security, Privacy, and Compliance: $5.6 million

The university has committed significant time and resources toward improving its information security programs and infrastructure, including $3.6 million allocated in the 2014/15 budget. Physical security will also be enhanced through the allocation of $564,000 to the Public Safety and Environmental Health and Safety units. Finally, $1.4 million was allotted to a broad array of compliance efforts, especially in the areas of information privacy, global activities, and federal Title IX compliance.

Student Services: $3.0 million

The bulk of the allocations in this category, $1.9 million, will support the transformation of the Career Services Center, which is described in detail on the facing page. Another $328,000 will replace one-time funding for the Office of Alcohol Policy and Education, while $768,000 will be used for various initiatives aimed at graduate and international students, student activities, residential affairs, and financial services.

Academic Programs: $2.5 million

The largest single allocation in this category is $800,000 for the law school's new curriculum programs, which have expanded significantly in recent years to meet increased demand for experiential learning. A similar amount, $791,000,

STANFORD'S NEW MODEL OF CAREER CONNECTIONS

Changes in economic conditions, generational trends, and technology as well as feedback from students, alumni, and parents have spurred major shifts in the delivery of career services in higher education. Stanford's renewed investment in career services will lead the way in transforming how career centers will support students' academic success, professional development, and transition from college to career.

Stanford is prioritizing students' career development by launching a new model that promises to offer specialized career development support to students and connect them to internship and employment opportunities as well as mentoring and experiential learning. Career and professional development will become a significant element of the student experience rather than a resource they seek when approaching graduation. Moving from a traditional transactional model of career services, the career center will continue to offer career counseling, résumé assistance, and career fairs. But in the future it will place a stronger emphasis on building connections through partnerships with employers, mentoring, and development of networks that will serve students and alumni for a lifetime.

New Emphasis on Connections

Based on the recommendations of a steering committee representing diverse groups of stakeholders—including students, faculty, parents, and alumni—the new model of career connections will focus on three key elements:

1. **Connections with employers:** In order to diversify internship and employment opportunities for students and alumni, Stanford's career center is investing in career coaches who have industry expertise and experience to connect students to a wider variety of jobs and internships. These coaches will be responsible for building partnerships with employers from various sectors, including creative arts, social impact, health care, energy, sustainability, finance, consulting, technology, and start-ups. Currently, Stanford offers 16 career fairs and attracts over 10,000 job and internship postings per year. New investments in this area will increase the number and diversity of internship and employment opportunities, particularly for students in humanities, arts, and sciences.
2. **Connections with student and faculty communities:** In order to increase specialized support to students, and in partnership with academic advisors, career counselors are assigned to student communities based on their academic majors and degrees. Career counselors will help students explore career paths and readiness for internships, employment, and further education through individual counseling, career courses, online tools, and career meetups, which are frequent and informal discussion circles about various career topics. Career counselors are also responsible for developing meaningful connections with student groups, faculty, and administrators, and establishing self-supporting lifelong career communities. New investments in this area will allow all students at Stanford to have specialized support from career counselors who are connected to their academic disciplines and networks of advisors, and understand their concerns and potential career trajectories.
3. **Connections with mentors and experiences:** Stanford's career center is investing in mentoring, networking, and experiential learning programs. For example, Career Treks for Humanities and Arts take students on site visits to various companies and organizations to learn about the world of work and connect them with potential recruiters. Stanford Alumni Mentoring matches students with alumni mentors based on career interests and fields of study. These programs are receiving more funding and attention and are becoming key elements of the emerging model of career connections. Investments in this area will activate the Stanford network of stakeholders to support the experiential learning and professional development of students and alumni.

Career Outcomes

When the new model of career connections is fully implemented, students will be better equipped for the transition from college to career because of the connections they will have made, the professional experiences they will have been exposed to, and the support they will have received from career counselors, coaches, and mentors at Stanford.

This shift in service delivery will also bring new measures and metrics for students' career engagement, learning, and destination outcomes. Stanford's career center has begun implementing the net promoter score, a customer satisfaction metric, to measure students' loyalty to and engagement in career communities, and is partnering with Institutional Research, the Registrar's Office, and the Stanford Alumni Association to begin publishing first destinations and lifelong professional outcomes.

will support the libraries, including funds for a librarian in the growing South Asian studies area and to mitigate larger-than-inflationary increases in library materials costs. The remaining $860,000 will support undergraduate academic programs in Engineering and the Vice Provost for Undergraduate Education as well as provide operational support for the Precourt Institute for Energy.

Graduate Student Support: $2.4 million

The School of Engineering has experienced a growing need for teaching assistants in recent years due to increased enrollments, and that trend continues in 2014/15. At the same time, increased enrollment in Physics has created additional teaching assistant demand in Humanities & Sciences. Both of these needs will be addressed by creating a $2.2 million central pool of teaching assistant funds that will initially be allocated to Engineering and Physics but can be shifted to other schools and departments in the future as enrollment trends change. Another $240,000 was allocated to the Graduate School of Education to allow them to increase the funding package offered to doctoral students from a guarantee of four years to a guarantee of five years.

Administrative Operations: $2.4 million

The largest allocation in this category – $650,000 – will flow to the Business Affairs organization to improve financial reporting across the university and to increase accounting support for the university's growing global operations. Development and communications efforts will also be bolstered with $643,000 of allocations to the Office of Development and the schools of Earth Sciences and Engineering. Public Affairs will receive $478,000 to support its media initiatives and outreach programs and to enhance web communications and digital media services, while University Human Resources will receive $414,000, including base funding for its successful Manager Academy program.

Efficiency Initiatives: $1.9 million

After the financial downturn in 2008, the university embarked on a number of initiatives to improve efficiency and achieve operational savings. Two of those efforts successfully completed three-year pilots and will be funded on a continuing basis in 2014/15. The Web Services initiative created a central group of web professionals who built dozens of websites for local units, developed a suite of website creation and management tools, and established university standards and working groups that will allow the university and local units to rely significantly less on outside vendors. The HR transactions pilot established a group of four expert staff who processed nearly one-quarter of all HR transactions over the past year, increasing the speed and accuracy of transactions and allowing local units to redeploy nineteen staff who had previously performed HR transactions as part of their duties. While not one of the original efficiency initiatives from 2008, the Procure-to-Pay Transformation project was funded to analyze and pursue opportunities that will achieve savings on services and materials purchased from outside vendors, again benefiting local units' budgets.

Faculty Support: $1.1 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 $550,000 was allocated for these purposes. The School of Engineering also received $500,000 for targeted salary increases for its mid-career faculty.

PROJECTED STATEMENT OF ACTIVITIES

Stanford University, as a not-for-profit institution and a recipient of restricted donations, uses a fund approach to manage itself internally. Stanford also presents a Statement of Activities, prepared in accordance with accounting principles generally recognized in the United States (GAAP). The Statement of Activities summarizes all changes in net assets during the year (both operating and non-operating).

The table on page 22 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 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 (one form of asset has been converted into another type of asset).

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 with the GAAP basis Statement of Activities:

a) Eliminate Fund Transfers. The Consolidated Budget includes transfers of $251.8 million of current funds to other fund groups, including plant, student loans, and funds functioning as endowment. The transfers out are added back for the Statement of Activities.

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, $86.5 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. Depreciation expense includes the depreciation of capital equipment and other capital assets, such as buildings and land improvements. This adjustment adds $329.1 million of expense to the Statement of Activities.

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 2014/15, GAAP expenses are expected to be higher than budgeted expenses by $59.9 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, $255.7 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 $39.8 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 $46.5 million of internal expenses of the Stanford Management Company, Real Estate Operations, and the Investment Accounting department. For GAAP purposes, these expenses, incurred as part of the generation of investment returns, are netted against investment earnings. This adjustment reduces Other Investment Income, as well as reducing $35.7 million from compensation and $10.8 million from non-compensation expenses, with no net change in the bottom line.

COMPARISON OF CONSOLIDATED BUDGET AND STATEMENT OF ACTIVITIES, 2014/15

Unrestricted Net Assets

[IN MILLIONS OF DOLLARS]

STATEMENT OF ACTIVITIES				FISCAL YEAR 2014/15		
2012/13 ACTUALS	2013/14 JUNE 2013 BUDGET	2013/14 PROJECTED YEAR-END		PROJECTED CONSOLIDATED BUDGET	ADJUSTMENTS	PROJECTED STATEMENT OF ACTIVITIES
			Revenues and Other Additions			
			Student Income:			
311.0	320.7	320.7	Undergraduate Programs	330.3		330.3
297.0	310.4	314.2	Graduate Programs	326.8		326.8
144.9	147.6	151.2	Room and Board	162.5		162.5
(241.5)	(254.1)	(247.5)	Student Financial Aid[e]		(255.7)	(255.7)
511.4	524.6	538.6	Total Student Income	819.5	(255.7)	563.9
			Sponsored Research Support:			
657.3	663.8	673.9	Direct Costs-University	682.6		682.6
225.5	235.4	227.7	Indirect Costs	232.5		232.5
882.8	899.2	901.6	Total University Research Support	915.2		915.1
350.4	451.9	391.8	SLAC	413.2		413.2
623.6	628.6	670.2	Health Care Services[f,k]	816.1	(72.5)	743.6
302.1	290.3	295.0	Gifts & Net Assets Released from Restrictions	315.0		315.0
			Investment Income:			
920.7	982.3	984.2	Endowment Income	1,064.7		1,064.7
83.8	158.7	146.3	Other Investment Income[g]	205.0	(46.5)	158.5
1,004.5	1,141.0	1,130.5	Total Investment Income	1,269.7	(46.5)	1,223.2
463.5	488.1	523.2	Special Program Fees and Other Income[j]	550.9	5.2	556.1
4,138.3	**4,423.7**	**4,450.9**	**Total Revenues**	**5,099.5**	**(369.5)**	**4,730.1**
			Expenses			
2,498.2	2,695.4	2,678.1	Salaries and Benefits[d,g,j]	2,840.4	27.2	2,867.6
78.5	71.2	73.3	Debt Service[h]	183.0	(106.3)	76.7
			Capital Equipment Expense[b]	86.5	(86.5)	
291.7	311.5	300.1	Depreciation[c]		329.1	329.1
			Financial Aid[e]	255.7	(255.7)	
1,104.5	1,259.7	1,275.7	Other Operating Expenses[f,g,j]	1,355.1	(46.2)	1,308.9
3,972.8	**4,337.8**	**4,327.2**	**Total Expenses**	**4,720.8**	**(138.4)**	**4,582.3**
165.4	**85.9**	**123.7**	**Revenues less Expenses**	**378.8**	**(231.1)**	**147.8**
			Transfers			
			Additions to Endowment Principal[a]	(75.0)	75.0	
			Other Transfers to Assets[a]	(176.8)	176.8	
			Net Internal Revenue/Expense[i]	33.0	(33.0)	
0.0	**0.0**	**0.0**	**Total Transfers**	**(218.8)**	**218.8**	**0.0**
165.4	**85.9**	**123.7**	**Excess of Revenues Over Expenses After Transfers**	**160.0**	**(12.3)**	**147.8**

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 $106.3 million.

i) Eliminate Net Internal Revenue/Expense. 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 $33.0 million from plant funds into the Consolidated Budget for purchases of internal services is 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. $5.2 million in revenues and $5.1 million in expenses is added ($3.0 million in Salaries and Benefits and $2.1 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. These include contributions by Hospital construction projects to the Stanford Infrastructure Program and performance bonuses related to Physician Service Agreements. In the Consolidated Budget, these show as health care services income. This adjustment removes $32.7 million of revenue.

In summary, the impact of these adjustments decreases the Consolidated Budget's projected $160.0 million surplus by $12.3 million, resulting in a projected surplus of $147.8 million in the Statement of Activities.