CHAPTER 1

CONSOLIDATED BUDGET FOR OPERATIONS

In this chapter we review the details of the 2015/16 Consolidated Budget for Operations, describe the general funds allocation process and results, and present a forecasted Statement of Activities.

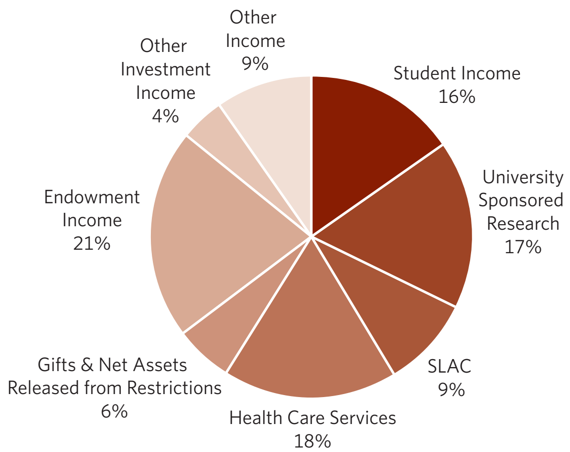
CONSOLIDATED BUDGET FOR OPERATIONS

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 2015/16 Consolidated Budget for Operations shows total revenue of $5,502.2 million and expenses of $5,142.9 million, resulting in a net operating surplus of $359.3 million. However, after estimated transfers of $231.4 million, primarily to endowment principal and to plant funds, the Consolidated Budget shows a surplus of $127.9 million.

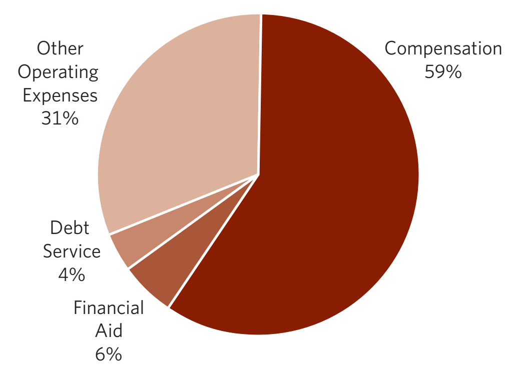
Total revenues in 2015/16 are projected to increase $227.4 million or 4.3% over 2014/15 revenues, which, in turn, are expected to increase by a robust 7.8% over 2013/14. The substantial growth in 2014/15 is driven by strong sponsored research activity and by a change in the funds flow from the hospitals to the School of Medicine for faculty clinical activity. However, $51 million of health care services

2015/16 CONSOLIDATED REVENUES: $5,502.2M [1]



[1] Net Revenues after Transfers: $5.270.8 Million

2015/16 CONSOLIDATED EXPENSES: $5,142.9M



CONSOLIDATED BUDGET FOR OPERATIONS, 2015/16

[IN MILLIONS OF DOLLARS]

2013/14 ACTUALS	2014/15 BUDGET JUNE 2014	2014/15 PROJECTED ACTUALS		GENERAL FUNDS	DESIGNATED	RESTRICTED	GRANTS AND CONTRACTS	AUXILIARY & SERVICE CENTER ACTIVITIES	TOTAL
			Revenues and Other Additions						
317.4	330.3	330.1	Undergraduate Programs	340.6	0.5	0.0	0.0	0.0	341.2
313.8	326.8	327.2	Graduate Programs	334.6	5.3	0.0	0.0	0.0	339.9
151.3	162.5	162.1	Room and Board	0.0	0.0	0.0		167.8	167.8
782.5	819.5	819.4	Student Income	675.2	5.8			167.8	848.9
669.7	682.6	699.7	Direct Costs—University	0.0	0.0	0.0	715.7	0.0	715.7
227.7	232.5	234.5	Indirect Costs	241.5	0.0	0.0	0.0	0.0	241.5
897.3	915.2	934.2	University Sponsored Research	241.5	0.0	0.0	715.7	0.0	957.2
369.3	413.2	450.5	SLAC	0.0	0.0	0.0	507.5	0.0	507.5
778.2	816.1	959.0	Health Care Services	31.4	830.7	6.1	0.0	96.0	964.2
342.1	315.0	320.4	Gifts and Net Assets Released from Restrictions	3.6	0.0	311.4	0.0	0.0	315.0
984.7	1,064.7	1,067.9	Endowment Income	239.0	0.0	913.5	(0.0)	0.0	1,152.4
232.1	205.0	228.9	Other Investment Income	103.2	137.0	2.2	0.1	0.4	242.9
1,216.8	1,269.7	1,296.8	Investment Income	342.2	137.0	915.7	0.1	0.4	1,395.3
507.1	550.9	494.5	Special Program Fees and Other Income	19.3	349.1	1.6	0.3	143.8	514.1
4,893.5	**5,099.5**	**5,274.8**	**Total Revenues**	**1,313.3**	**1,322.6**	**1,234.8**	**1,223.6**	**408.0**	**5,502.2**
			Expenses						
2,665.3	2,840.4	2,909.3	Compensation	782.0	827.5	544.7	624.7	275.3	3,054.2
248.8	255.7	263.5	Financial Aid	53.8	6.9	202.9	16.8	0.1	280.5
172.7	183.0	203.4	Internal Debt Service	60.7	23.1	2.0		107.1	193.0
1,381.6	1,441.6	1,513.5	Other Operating Expenses	288.2	280.1	230.9	549.9	265.9	1,615.2
4,468.3	**4,720.8**	**4,889.8**	**Total Expenses**	**1,184.8**	**1,137.7**	**980.5**	**1,191.5**	**648.5**	**5,142.9**
425.1	**378.8**	**385.0**	**Operating Results**	**128.6**	**184.9**	**254.3**	**32.1**	**(240.5)**	**359.3**
			Transfers						
(112.5)	(75.0)	(100.0)	Transfers from (to) Endowment Principal	0.0	(50.0)	(50.0)	0.0	0.0	(100.0)
(235.5)	(158.8)	(200.9)	Transfers from (to) Plant	(97.1)	(64.0)	(6.5)	0.0	0.0	(167.5)
40.1	15.0	37.9	Other Internal Transfers	(6.6)	(5.0)	(166.4)	(32.1)	246.2	36.1
(307.8)	**(218.8)**	**(262.9)**	**Total Transfers**	**(103.7)**	**(119.0)**	**(222.9)**	**(32.1)**	**246.2**	**(231.4)**
117.3	**160.0**	**122.1**	**Operating Results and Transfers**	**24.9**	**65.9**	**31.4**	**0.0**	**5.7**	**127.9**
2,574.8	2,702.4	2,692.1	Beginning Fund Balances	428.6	1,133.1	1,217.6	32.4	2.5	2,814.2
2,692.1	2,862.4	2,814.2	Ending Fund Balances	453.5	1,199.0	1,248.9	32.5	8.2	2,942.1

revenue in the current year will not recur in 2015/16 and, therefore, moderates the overall growth in revenue in 2015/16. If the 2014/15 health care services anomaly is excluded, total revenue is expected to increase 5.3%. Student income is expected to keep pace with the rise in tuition rates. For the first time since the recession, investment income in 2015/16 will represent the single largest revenue source in the Consolidated Budget for Operations, reaching $1,395.3 million, a 7.6% increase over the current year.

Total expenses in 2015/16 are expected to grow by 5.2% over the projected year-end results for 2014/15, but only 4.4% excluding SLAC. SLAC expenses are expected to grow by 12.7% overall, due to a $51.1 million, or 34.3%, increase in construction activity. While the general salary program for both faculty and staff is comparable to past years, increased headcount as well as incremental market adjustments for both faculty and staff 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 2015/16. For comparison purposes, it also shows the actual revenues and expenses for 2013/14 and both the budget and the year-end projections for the current fiscal year, 2014/15. 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 3.6% in 2015/16 to $848.9 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 $681.1 million in tuition and fee revenue in 2015/16, a 3.6% increase over 2014/15, consistent with the general tuition rate increase. Tuition from graduate programs will increase at a slightly higher pace than undergraduate programs, an increase of 3.9%, due to modest enrollment increases in both the School of Medicine and the Graduate School of Business. While total tuition and fees represent only 13% of Stanford's revenue, it is 51% of general funds. As such, it

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.

is a particularly important source of unrestricted 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 2015/16, in particular, general funds have been allocated to support significant enhancements to the undergraduate scholarship program, as described in the financial aid section that follows below.

The general tuition rate increase for 2015/16, approved by the Board of Trustees in February, is 3.5%, which results in a rate of $45,729 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 median tuition of the COFHE university cohort increased 3.9% for 2014/15, more than Stanford. Stanford's tuition currently ranks 15th out of 17, unchanged in the past three years' 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 the Graduate School of Business.

Room and Board – Total room and board income is expected to be $167.8 million in 2015/16, an increase of 3.5%, consistent with the approved increase of 3.5% in the combined room and board rate. In February, the Trustees approved a combined undergraduate room and board rate increase of 3.5% for 2015/16, bringing the undergraduate rate to $14,107. The room rate will increase by 4.4%, and the 19-meal board plan will increase by only 2.2%. Stanford's combined room and board increases have been less than the COFHE university median for several years. As a result, Stanford's room and board ranking in 2014/15 dropped to 11th out of 17, and the combined rate was slightly below the COFHE median. The 2015/16 recommended rate increases will allow Residential and Dining Enterprises (R&DE) to cover labor and food cost increases and maintain Stanford's high-quality residential and dining programs. It will also provide funding to address deferred maintenance across the housing system and build a reserve to avoid future deferred maintenance issues.

Sponsored Research and Indirect Cost Recovery

University sponsored research is budgeted to increase 2.5% to $957.2 million in 2015/16. The figure includes the direct revenue from externally supported grants and contracts ($715.7 million) as well as reimbursement for indirect costs ($241.5 million) incurred by the university in support of sponsored activities.

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

	2014/15	2015/16	PERCENT CHANGE
Federal Directs	491.1	499.5	1.7%
Non-Federal Directs	208.6	216.2	3.6%
Total Directs	**699.7**	**715.7**	**2.3%**
Total Indirects	**234.5**	**241.5**	**3.0%**

Approximately 70% of university research funding is provided by the federal government. Overall federal funding is expected to grow at 2.7% in 2014/15, with slower growth of 1.7% in 2015/16 to a total of 499.5 million. Projects supported by the stimulus funding from the American Recovery and Reinvestment Act (ARRA) will be fully completed in 2015/16. Due to the constraints in federal discretionary budgets, the level of direct research funding has been unsteady in recent years. The university, however, is experiencing growth in 2014/15, slowly recovering from the 2% reduction in federal activity that it experienced in 2013/14. However, the rate of growth is not even across campus. The overall rebound in federal direct research is fueled by strong growth in the School of Medicine (SoM), largely driven by a 10% increase in research volume from the National Institutes of Health (NIH). The Graduate School of Education (GSE) is also seeing growth and projects over 5% increases in federal research funding in both 2014/15 and 2015/16. Federal funding in most other academic units, in contrast, continues to decline due to constrained budgets from other federal agencies such as the National Science Foundation (NSF). The School of Humanities & Sciences (H&S) and the School of Engineering estimate a slight decrease in federal research volume in 2014/15 and relatively flat federal volume in 2015/16. The Dean of Research anticipates steep decreases of 5% per year in both years.

Non-federal direct research support has been trending up at a more vigorous pace, increasing by 5.7% per year over the five years ending in 2013/14. In the past two years, the

STANFORD SHARED RESEARCH FACILITIES

Cutting edge research requires highly specialized instruments and facilities that are too expensive for individual investigators to support and that must be maintained and operated by skilled and dedicated research scientists. It is not an efficient use of space or resources for multiple faculty members to have the same type of equipment in each of their laboratories, and equipment is much more likely to be fully utilized if it is located in a shared facility. Shared facilities also provide an environment that cultivates collaboration and interdisciplinary research among scientists and students. Access to state-of-the-art instruments with reasonable user rates significantly enhances the ability to recruit and retain faculty and students and helps keep Stanford researchers competitive in the current research-funding climate.

The Vice Provost and Dean of Research (DoR) has worked to develop and enhance shared facilities across Stanford's schools, departments and independent laboratories. DoR works with faculty and school deans to prioritize instrument purchases to provide the research tools most needed by faculty and their research groups.

Careful financial management of its shared facilities is a university priority. Providing shared services at a reasonable cost is necessary because the value of these facilities diminishes when user fees are too high and they are underutilized. And in a cascading effect, fewer users cause an increase in fees for the remaining users, and new users are discouraged from taking advantage of the resource. Since the services provided by shared facilities are often charged to federally sponsored projects, the university must also follow federal costing regulations. These regulations do not allow the shared facilities to build reserves to pay for replacement equipment. While the shared facilities may include an amortized portion of the cost of equipment in their user fees, the amortized amount may increase the user fee to an untenable amount. Stanford's president, provost and deans have contributed funds towards the purchase of equipment to assist with this issue. When purchased with such funds, the cost of the equipment is largely recoverable through the university's Facilities and Administrative Cost (indirect cost) rate. Alternatively, the purchase of equipment may also be supported through federally sponsored projects specifically designed to provide access to costly equipment for research.

A major portion of a shared facility's user fee is the salary of the research scientists that operate the facilities. The research scientists not only train faculty and students to use the instruments, but also consult on research projects; advise about best practices for sample preparation, fabrication and characterization techniques and data analysis; and offer solutions to complex problems faced by students and other researchers. The research scientists also facilitate interactions among students and faculty working on similar projects, and they may consult on and help faculty write proposals for sponsored projects. The remaining costs contributing to the user fees are for service contracts, maintenance and repairs, and supplies to support the use of the shared equipment.

DoR encourages researchers from disciplines who have not typically relied on shared instruments to explore their capacities. The university and DoR have provided seed funding to allow such faculty to explore the capabilities of equipment that they may not have previously utilized. Seed grants attract new and diverse users and help to maximize the impact of investments in tools and research scientists' time.

An example of a successful and thriving shared equipment facility is the Stanford Nano Shared Facilities (SNSF). In 2013/14, SNSF served 700 internal researchers from the research groups of 130 faculty representing 30 departments. SNSF encourages faculty from the biosciences and other fields who are not traditional users, to take advantage of the SNSF tools, often as one-time or infrequent users. In addition, these instruments have been used most often to probe the characteristics of materials. Adding the study of biological or other more diverse specimens requires research scientists to find ways to adapt the instruments for different purposes that will then support an expanded user base. SNSF will continue to add new tools from its prioritized list.

The importance of shared facilities for contemporary academic research and the need to incorporate institutional support are apparent at Stanford and other research-intensive universities. These resources are also essential for the education of graduate students and postdoctoral fellows.

growth rate has been about 9-10%, largely led by over 15% growth in activities funded by foundations and the California Institute for Regenerative Medicine (CIRM), the state's stem cell research agency. The momentum continues in 2014/15, as overall year-to-date non-federal research activity has increased by 7.2%. This level of growth is reflected across all schools with the exception of the Dean of Research who estimates a 6% decline. SoM, H&S and the School of Earth, Energy, and Environmental Sciences (SE3), in fact, all budget double-digit growth in 2014/15. In 2015/16, most schools predict that non-federal growth will slow down considerably, and SoM predicts that CIRM funding will stay flat. Nonetheless, non-federal research volume will continue to outpace general inflation, growing at 3.6% to $216.2 million in 2015/16. Among academic units, the GSE and SE3 demonstrate stronger growth at 4-5%, while the Dean of Research projects that its research portfolio will further decline by 6%.

The growth of indirect cost recovery in 2015/16 will slightly outpace that of direct research (3.0% versus 2.3%) for two reasons. First, multi-year grants and contracts that were awarded before 2013/14 receive recovery amounts based on older rates two percentage points lower than the current rate. These old sponsored projects are expected to conclude in 2014/15; therefore, there will be a higher proportion of grants and contracts recovering at the higher rate in 2015/16. Second, SoM projects an 8.4% growth in indirect cost recovery in the animal care facility, which has a separate indirect cost rate.

SLAC's 2015/16 budget, which includes sponsored research and sponsored capital project activities, is projected to be $507.5 million, an increase of 12.7%. SLAC's DoE funding represents over 98 percent of SLAC's total funding. About 60% of the DoE funding will support direct research, growing at about 2% in 2015/16. The remaining $200.0 million of DoE funds are for construction costs for various capital projects. SLAC research and construction programs are discussed in more detail in Chapter 2.

Health Care Services

Health care services income is budgeted to be $964.2 million in 2015/16, a mere 0.5% increase over the projection for 2014/15, which is expected to increase by 23.2% over the actual results for 2013/14. The significant increase in 2014/15 is driven by a proposed change in the professional services agreement between the School of Medicine and Stanford Health Care and includes an assumed one-time payment of $51 million that will not recur in 2015/16. Without this one-time payment, the growth from 2014/15 to 2015/16 is projected to be 6.2%. Health care service revenue has been the fastest growing segment in the Consolidated Budget for the past ten years. 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.

Just over 90% of total health care services revenue is in the School of Medicine, the majority of which is paid by Stanford Health Care and Lucile Packard Children's Hospital, through the professional services agreement, to the clinical practices of the faculty. Clinical revenues in 2015/16 are projected to be $771.1 million, essentially the same level as the current year due to the changes in the professional services being established in 2014/15. Stanford continues to add incremental faculty and clinicians as part of its overall goal to strengthen Stanford's clinical programs. Another source of health care services revenue in the School of Medicine is the Blood Center, which is projected to increase by 3.2% to $54.7 million in 2015/16. Additionally, the School of Medicine receives $48.6 million of hospital payments for rent and use of the library and other non-clinical programs and services.

The remaining $89.8 million in health care services revenue represents payments from the hospitals to other parts of the university: $25.7 million to Business Affairs, primarily for communications services; $25.0 million to Land, Buildings and Real Estate for operations and maintenance and utilities, the Marguerite shuttle service, and parking permits; $10.1 million to the Office of Development for hospital fundraising support; $7.4 million to the Office of the General Counsel for legal services; and $17.5 million to the central administration for parking structure debt service, Stanford Infrastructure Program fees, and general overhead.

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 2015/16. This total is a slight decrease compared to the projection for 2014/15, as there are a couple of unusually large pledge payments to operations in the current year in support of Stanford Medicine and the Cyber Initiative that we do not expect to recur in 2015/16. Expendable gifts to the School of Medicine will comprise roughly 35% of the total gifts and net assets released from restrictions in 2015/16 due to the continued success of 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

In 2015/16 investment income is expected to increase 7.6% to $1,395.3 million and to become Stanford's largest single source of revenue. This total includes endowment payout to operations as well as other investment income.

Endowment Income – Endowment payout to operations in 2015/16 is expected to be $1,152.4 million, an increase of 7.9% over 2014/15. 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 2015/16 will increase by 4.7%, while total merged pool payout is expected to increase by 6.9% due to several factors: gifts to endowment principal are expected to reach $225 million; schools and departments are expected to transfer $100 million from expendable funds to funds functioning as endowment during the current year; and $58.4 million is estimated to be added to funds functioning as endowment in the Tier I and Tier II Buffers as a result of excess expendable funds pool (EFP) earnings in 2014/15. Together these additions contribute roughly $21 million to endowment payout in 2015/16.

The 2015/16 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, 2014/15. 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 2015/16 is derived by increasing the current year's smoothed payout per share by the long-term payout growth factor of 4.5%. Furthermore, the 2015/16 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 Trustee Committee on Finance.

Of the total endowment income, $239.0 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 (12.4%) in 2015/16 than the restricted portion, driven largely by a 22.4% projected increase in rental income generated from Stanford endowed lands. This growing portion of the unrestricted endowment income is expected to be $91.2 million in 2015/16. Unrestricted payout from the Tier I Buffer, a collection of unrestricted funds functioning as endowment that serves as a buffer against shortfalls in investment returns on Stanford's expendable reserves, will also increase faster than a typical fund due to the expected addition of $54.1 million of excess EFP returns at the end of 2014/15. With this addition, the Tier I Buffer is projected to reach $1,205.1 million and be equal to 35% of the total projected expendable funds pool balance. When the Tier I Buffer reaches 35% of the total EFP balance, additional excess EFP returns are invested in the Tier II Buffer, a restricted fund functioning as endowment controlled by the president. The EFP payout policy and its impact on the budget are described in the Other Investment Income section below.

Other Investment Income – Other investment income is expected to increase from $228.9 million in 2014/15 to $242.9 million in 2015/16, a 6.1% increase. Other investment income comprises two categories of revenue: payout to operations from the expendable funds pool (EFP) and earnings from the endowment income funds pool (EIFP), and investment income from several smaller sources as described below.

$151.7 million of payout on the EFP and $1.8 million earned on unexpended endowment payout separately invested in the EIFP are expected in 2015/16. Thousands of individual funds together form the EFP and the EIFP, which are projected to have 2015/16 year-end balances of $3.7 billion and $357.3 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 2014/15 are projected to be just over 7%, resulting in the full 5.5% payout to the zero-return portion of the EFP in 2015/16. The remaining 23% of funds invested in the EFP receive an annual payout equal to a money-market return, which is forecast to be 0.5% in 2015/16. These EFP 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 almost entirely invested in the merged pool.

The $2.9 billion ending fund balances of the Consolidated Budget for Operations shown on page 4 include all of the EIFP but only $2.6 of the total $3.6 billion EFP, consisting of general operating funds, designated funds, expendable gifts, and non-federal sponsored research funds. The portion of the EFP not included in the Consolidated Budget comprises roughly $1.0 billion in plant and debt pool funds and $117.9 million in student loan, pending, and agency funds.

The non-EFP portion of other investment income comprises investment income distributed to support the operations of the Stanford Management Company and the real estate division of Land, Buildings and Real Estate; interest income on the Stanford Housing Assistance Center (SHAC) portfolio; and miscellaneous other investment income including rents from the Sand Hill Offices, security lending, and other interest income. This portion of other investment income is projected to increase 5.7% to $89.4 million, due largely to increases in the activities of the Stanford Management Company.

Special Program Fees and Other Income

Special program fees and other income revenue is budgeted at $514.1 million in 2015/16, an increase of 4.0% over the expected level in 2014/15. This category is a collection of revenue streams that includes executive education instruction fees; technology licensing income; academic corporate affiliates 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; and participation fees collected by the travel/study programs. It also includes a wide range of other miscellaneous income streams throughout the university, ranging from the sales of the Stanford University 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.

EXPENSES

Total Compensation

Total Compensation in the Consolidated Budget for Operations includes faculty, staff, bargaining unit, and student assistantship salaries; fringe benefits; tuition benefits for research and teaching assistants; and other non-salary compensation such as bonuses and incentive pay. Total compensation in 2015/16 is budgeted to be $3,054.2 million, a 5.0% increase over the 2014/15 year-end projection of $2,909.3 million. The approved merit programs for faculty and staff and anticipated headcount growth drive this increase.

Salaries – Total salary expense, including SLAC, is expected to grow by 5.6% in 2015/16 to $2,109.6 million. Overall, projected salary expense in 2015/16 is the result of the approved salary program, incremental funding to increase the competitiveness of faculty salaries for selected schools and departments, some limited market adjustments for staff salaries as a result of the new job classification system, and total combined headcount growth of 3.0% for faculty and staff, excluding SLAC. The headcount growth assumption is based on observations of the 2014/15 actual headcount trend and analysis of historical average growth. Within this aggregate, we anticipate faculty growth to be 2.5% in 2015/16, which is slightly higher than the previous five-year average. The headcount for non-academic regular benefits-eligible staff is also projected to rise 2.5%, in line with the 2% growth in 2013/14 and the 3% growth expected in 2014/15. The academic staff group is increasing at a faster pace – 6.3% – largely due to substantial growth in clinician educators in the School of Medicine.

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 competitively within the local employment market in order to attract and retain top talent. Department level faculty salary data analysis shows that Stanford enjoys a competitive faculty salary position in most areas, but targeted allocations above the standard faculty merit pool were made in selected cases. A review of salary survey data in several local markets indicated that staff salaries are in line with market median salaries as of September 2014. Nonetheless, a small increment was added to the staff salary program to allow managers to address potential internal equity issues or market adjustments arising from the new job classification system.

Fringe Benefits – Fringe benefits expense is projected to increase 5.9% in 2015/16 to $638.2 million. This figure includes the 1.5% decrease expected in the benefits expense for SLAC employees. The remaining university fringe benefit expenses will grow by 6.6%, a rate in line with the growth in overall salary expenses.

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

- Regular benefits-eligible employees
- Postdoctoral 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 for the dependents of 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 2015/16 and adds roughly $27 million to the university's total fringe benefits expense.

The fringe benefits rates for each of the four federally negotiated rates are expected to change very little in 2015/16. Ninety-five percent of all fringe benefits expense is incurred for regular benefits-eligible employees, and the proposed rate for this group in 2015/16 is expected to increase only 0.1 rate points over the negotiated rate for 2014/15. A similar increase is projected for the fringe benefits rates for casual or temporary employees and for graduate research and teaching assistants. The rate for Postdoctoral research affiliates is expected to remain flat.

FRINGE BENEFITS RATES

	NEGOTIATED 2014/15	PROPOSED 2015/16
Regular Benefits-Eligible Employees	30.6%	30.7%
Postdoctoral Research Affiliates	24.3%	24.3%
Casual/Temporary Employees	8.8%	8.9%
Graduate RAs and TAs	5.2%	5.3%
Average Blended Rate	**28.3%**	**28.4%**

The major cost components contributing to the regular benefits-eligible rate are noted below:

- The health plans for active regular benefits-eligible employees are projected to have lower costs by 0.3 rate points compared to 2014/15, for a total budget of $173.4 million in 2015/16. The decrease is due primarily to the credit adjustments resulting from the plan performance guarantee by the Stanford Health Care Alliance (SHCA), per agreement between Stanford University and Stanford Health Care. SHCA is the new low-cost plan offered to university employees starting in calendar year 2014. Medical cost inflation and the continued high dollar claims costs in the Blue Shield Plans partially offset the adjustment.
- Retirement programs, which make up 47.0% of the total costs in the fringe pool, are expected to decrease 0.2 rate points in the areas of Social Security and the Stanford Contributory Retirement Plan.
- The combined impact of other insurance programs, including retirement medical insurance, the dental plan, and unemployment insurance, is another decrease of 0.3 rate points in 2015/16.
- The under-recovery of fringe costs in 2013/14 will increase the regular benefits-eligible rate in 2015/16 by 0.9 rate points.

The fringe rate for postdoctoral research affiliates remains flat from 2014/15. While there will be an increase in health insurance costs for this group, its impact on the rate is offset by the over-recovery of costs in previous years.

The fringe rate for casual or temporary employees will increase by 0.1 rate point due to the impact of under-recoveries in 2013/14. The rate for graduate research and teaching assistants (RAs and TAs) will increase by 0.1 rate point primarily due to the increase in Cardinal Care premium rate.

Financial Aid

Stanford expects to spend a total of $280.5 million on student financial aid for undergraduate and graduate students in 2015/16, $53.8 million of which will come from general funds. Designated and restricted funds ($209.8 million) and grants and contracts ($16.8 million) will support the remainder. Total budgeted financial aid is 6.5% above the projected total for 2014/15, as discussed below.

Undergraduate Aid – In 2015/16 Stanford students will receive $145.9 million in undergraduate need-based scholarships, of which $140.4 million will be from Stanford resources, an increase of 7.3% over the projection for 2014/15, due to several important programmatic enhancements. 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. Since 2008/09 one of the hallmarks of the need-based program has been simple benchmarks that make it easy for prospective students, particularly from low-income backgrounds, to understand likely financial support from Stanford. These benchmarks have been updated for 2015/16 as follows:

- For families with total annual income below $65,000 (formerly $60,000) and typical assets for this income range, Stanford will not expect a parent contribution toward educational costs. Tuition, room and board, and other expenses will be covered with scholarship or grant funds.
- For families with total annual income below $125,000 (formerly $100,000) and typical assets for this income range, the expected parent contribution will be low enough to ensure that all tuition charges will be covered with scholarship or grant funds.

Several other adjustments to need calculations will be implemented in 2015/16 that will result in additional scholarship for families with incomes at higher levels as well, typically up to $225,000. Students will continue to be expected to contribute a minimum of $5,000 toward their own expenses from their summer income, part-time work during the school year, and their own savings.

Overall, these enhancements will add about $5 million to the anticipated 2015/16 cost of the undergraduate financial aid program above the standard increases required to keep pace with increased tuition and room and board costs. They will also result in twenty more students on need-based aid in 2015/16.

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 2014/15 but slightly less than historical levels. Cal Grants, which are not reflected in the Consolidated Budget for Operations, will provide $3.3 million, unchanged from the current year.

It is interesting to note the relative share of funding sources supporting this critical program. Five years ago, president's funds support peaked at 34%, and endowment support at $66.3 million was only 56%. Since then, endowment income has grown over 40 percent and will provide a full two-thirds of Stanford resources supporting need-based aid. Continued generous gifts to endowment for need-based aid result in annual endowment payout that outpaces standard incremental costs of the program. Without major changes in the program, the increases in endowment payout allow for decreases in support from general funds, as seen in 2014/15. The enrichments planned for 2015/16 will require a 10.9% increase in general funds, increasing its overall share to 17%.

The table on the next 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 $23.8 million in 2015/16, a 9.2% increase over the projection for the current year. Starting in 2015/16 athletic scholarships will cover the full cost of attendance, not just tuition, room and board, books, and fees. These additional personal expenses include travel expenses for holiday and summer breaks.

UNDERGRADUATE NEED-BASED SCHOLARSHIP AID

[IN MILLIONS OF DOLLARS]

SOURCE OF AID	2009/10 ACTUALS	2010/11 ACTUALS	2011/12 ACTUALS	2012/13 ACTUALS	2013/14 ACTUALS	2014/15 PROJECTED	2015/16 PLAN
Department Funds and Expendable Gifts	2.1	2.2	2.5	3.0	3.2	3.4	3.8
Endowment Income	72.4	66.3	71.8	75.0	81.4	88.1	94.7
President's Funds - The Tier II Buffer	24.5	24.9	19.2	9.3			
President's Funds - The Stanford Fund	15.0	15.6	19.0	16.6	18.3	18.3	18.5
General Funds	1.5	10.4	14.3	23.6	23.6	21.1	23.4
Subtotal Stanford Funded Scholarship Aid	**115.5**	**119.4**	**126.7**	**127.4**	**126.5**	**130.8**	**140.4**
Federal Grants	6.9	7.1	6.0	5.6	5.5	5.5	5.5
Total Undergraduate Scholarship Aid	**122.4**	**126.4**	**132.7**	**133.0**	**132.0**	**136.3**	**145.9**
General Funds as a Share of Stanford Funding	1%	9%	11%	18%	19%	16%	17%
President's Funds as a Share of Stanford Funding	34%	34%	30%	20%	14%	14%	13%
Endowment Funds as a Share of Stanford Funding	63%	56%	57%	59%	64%	67%	67%
Number of Students	3,401	3,396	3,464	3,417	3,278	3,280	3,300

Graduate Aid – Stanford provides several kinds of financial support to graduate students that are expected to total $382.9 million in 2015/16. As the table below indicates, this includes the tuition component of fellowships in the amount of $110.2 million, which is reflected in the Financial Aid line of the Consolidated Budget. Financial aid for graduate students is expected to increase by 5.1%, consistent with the planned increases in tuition, more generous graduate support in selected disciplines, and some expected increase in the number of graduate students. 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 $272.7 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 4.0% in 2015/16; tuition allowance expense is expected to increase by 4.5%, higher than the tuition rate increase due to more RAs and TAs, particularly in the School of Engineering.

2015/16 FINANCIAL AID AND OTHER GRADUATE STUDENT SUPPORT FROM STANFORD RESOURCES

[IN MILLIONS OF DOLLARS]

PROJECTED 2014/15 YEAR-END		GENERAL FUNDS	DESIGNATED AND RESTRICTED	GRANTS & CONTRACTS	TOTAL
	Student Financial Aid				
136.8	Undergraduate	23.4	117.0	6.0	146.4[1]
21.8	UG Athletic	0.0	23.8	0.0	23.8
104.9	Graduate	30.4	69.1	10.8	110.2
263.5	**Total**	**53.8**	**209.9**	**16.8**	**280.5**
	Other Graduate Support				
76.2	Stipends & Health Insurance Surcharge	20.3	37.7	21.2	79.3
73.7	Tuition Allowance	47.6	13.6	15.8	77.0
111.3	RA/TA S&B	27.9	49.1	39.3	116.3
261.3	**Total**	**95.9**	**100.4**	**76.3**	**272.7**
126.6	Postdoc Support	5.0	40.1	88.4	133.5
651.4	**Total Student Support**	**154.7**	**350.5**	**181.6**	**686.7**

[1] This number is $500,000 higher than the Stanford Funded Scholarship Aid figure above because it includes federal grants for non-need-based aid recipients.

Graduate student support is funded by all of Stanford's various fund types, with the exception of service center funds. In aggregate, unrestricted funds (general funds and designated funds) contribute around 40%, restricted funds (gifts and endowment) support about 37%, and grants and contracts supply the remaining 23%. 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 two-thirds of their support is provided by sponsored research funding. Postdocs are charged a tuition fee of $125 per quarter, which is mostly 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 $133.5 million in 2015/16, an increase of 5.5% over 2014/15.

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 in equal installments. These 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 is set at 4.25% for 2015/16, no change from the rate of the past two years.

Internal debt service in the Consolidated Budget is projected to be $193.0 million in 2015/16, a 5.1% decrease over 2014/15. It includes debt service incurred to finance capital projects and bridge-finance the receipt of gifts, but excludes $9.4 million of debt service for the Rosewood Hotel. It also excludes $27.2 million of annual lease payments.

The 5.1% decrease from 2014/15, or a decline of $10.4 million, is mainly due to the accelerated amortization of infrastructure assets related to the Stanford Energy Systems Innovation (SESI) project. Assets that are stranded as a result of the new central energy facility were written off in April 2015, sooner than the previously estimated December 2017. The early write-off of these assets has created a spike in the 2014/15 internal debt service, currently estimated at $203.4 million, a $20 million increase over the budget a year ago. Offsetting the decrease in 2015/16 are new debt service expenses for the School of Medicine's renovation of 1651 Page Mill Road, the 408 Panama Mall office building, and a variety of smaller capital projects, including renovations in student housing, and energy retrofit and infrastructure projects.

Other Operating Expenses

Other operating expenses include all non-salary expenditures in the Consolidated Budget 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 rise 6.7% to over $1.6 billion in 2015/16, an increase driven by SLAC's accelerated construction program. Including SLAC construction costs, which are expensed rather than capitalized, non-salary expenses for SLAC will increase to $291.4 million in 2015/16.

The remaining categories in other operating expenses are estimated to increase by 3.2%. Certain components have seen more rapid increase than others since the economy began to rebound in 2009/10. For example, expenses for external professional and general services, travel and food, rentals and leases have had over 10% growth per year, partially because of the market inflation as the economy strengthens and partially because of increasing demand for these services to support departmental programs. In contrast, other expenses, such as those for telecommunications and utilities, capital equipment purchases, and library material acquisitions, have maintained more of an inflationary growth, due to relatively stable commodity prices and successful cost saving strategies that were implemented.

OTHER OPERATING EXPENSES

[IN MILLIONS OF DOLLARS]

MAJOR COMPONENTS	2014/15	2015/16	PERCENT CHANGE
Materials and Supplies	362.9	377.4	4.0%
SLAC Non-Salary	230.6	291.4	26.5%
Professional Services	169.0	177.4	5.0%
Stipends and Other Aid	129.5	134.1	3.6%
General Services	127.2	131.3	3.2%
Repairs and Maintenance	94.5	97.2	2.9%
Capital Equipment and Library Materials	88.5	90.4	2.1%
Telecommunications and Utilities	54.6	54.2	−0.7%
Other	256.8	261.8	2.0%
Total	**1,513.5**	**1,615.2**	**6.7%**

The largest component of this category represents expenses related to materials and supplies, at $377.4 million. These expenses have grown approximately 5% a year over the past five years. 50% of them are for the purchase of materials and supplies in laboratories and research projects. Expenses related to professional services are the third largest component. Totaling $177.4 million, they include fees paid for consulting, legal, and accounting services provided by third parties. These expenses spread widely across the university and have surged 10% a year since 2009/10.

Also included in other external expenses are stipends for graduate students and postdoctoral scholars and other non-tuition aid. They are projected at $134.1 million in 2015/16, of which 60% is for graduate student stipends that will rise 3.9%, a rate comparable to the growth in minimum stipend payments. Expenses related to general and administrative services will grow to $131.3 million. They represent a variety of external payments for non-professional services, including insurance, permits, royalties, and advertising services.

The remaining types of expenses consist of external payments for repairs and maintenance of buildings, equipment, and vehicles ($97.2 million); capital equipment and library materials purchases ($90.4 million); external payments for telecommunications and utilities commodities in university buildings ($54.2 million); services purchased from Stanford Health Care and Lucile Packard Children's Hospital ($39.4 million); and payments for rental and leases ($48.4 million), including those for both off-campus buildings and equipment. Most of them are expected to increase at a modest pace of 2-3% in 2015/16. The remainder, about $174 million, includes a diverse set of expenditures, ranging from travel expenses, to the cost of food associated with residential and dining services, to other property related expenses.

Utilities – In 2015/16, the campus will experience the first full year of operation of the new central energy facility (CEF), a component of the Stanford Energy System Innovations (SESI) project. The CEF will meet more than 90% of campus heating demands by capturing almost two-thirds of the waste heat generated by the campus cooling system to produce hot water for the heating system. To make this exchange possible, Stanford has replaced 22 miles of underground pipes and retrofitted 155 buildings to convert the campus from a steam to hot-water-based system.

The Cardinal Cogen plant, which served the campus for 30 years, was decommissioned in March 2015. Stanford is now purchasing electricity through the California energy grid and has signed an agreement with SunPower to build a 68-megawatt solar plant in the Mojave Desert (expected to come on line in late 2016), as well as install an additional 5 megawatts of solar panels on campus rooftops. The solar plant and panels will provide about 53 percent of Stanford's total electricity use. SESI's implementation and procurement of solar electricity will decrease the university's greenhouse gas (GHG) emissions by 68%, reduce water use by about 15%, and save an anticipated $420 million over 35 years.

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 in support of utility delivery. In 2015/16, campus utility costs are projected to be $104.9 million. Land, Buildings and Real Estate (LBRE) provides the majority of campus utilities ($94.3 million) through charge-out rates that are a function of the total costs of the three components noted above and units' consumption of the respective utilities. Units purchase the additional $10.6 million of utilities expense from external providers, including the City of Palo Alto, Pacific Gas & Electric, Constellation Energy, and the hospitals. Some examples are $4.5 million paid by the School of Medicine for utility costs at the Stanford Research Park and Medical Center properties; $2.4 million paid by R&DE primarily to cover the utility needs at Munger, Escondido Village, and off-campus housing units; and $1.2 million by the Office of the President and Provost for utilities of common areas and vacant units at Stanford West and Welch Road apartments. Total campus utility costs will decrease $15.2 million, or 12.6%, from 2014/15, due largely to a substantial write-off in 2014/15 of stranded utility assets associated with the old energy system. In addition, the new CEF is more efficient, lowering the university's energy and water consumption and requiring less operations and maintenance. The electricity prices are also projected to drop 19%, due to a favorable one-year contract.

Operations & Maintenance – Operations & 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, infrastructure, equipment, and vehicles. The total O&M budget for the university is projected to be $161.8 million in 2015/16, an increase of 5% from 2014/15.

The largest component in the O&M budget is external payments for repairs and maintenance. Totaling $97.2 million in 2015/16, it is a subset of other operating expenses, which is discussed above. However, the total O&M budget includes significant expenses that are found on other lines of the Consolidated Budget. The following four components of the O&M budget complete the picture of the university's annual expenditure on operations and maintenance.

1) $36.6 million of internal O&M services performed by the service centers within LBRE, including grounds services for the campus, approximately 50% of the building maintenance, and 100% of the infrastructure maintenance (e.g., storm drains and roads). These service center expenses are reflected in the other internal transfers line of the Consolidated Budget.

2) $15.7 million of labor costs for O&M staff hired by individual units. A significant portion, $13.2 million, resides in Residential & Dining Enterprises (R&DE) and the Department of Athletics, Physical Education and Recreation (DAPER). These two auxiliary units employ bargaining unit staff to perform custodial and maintenance services in housing units and athletic facilities. These labor expenses are captured in compensation expenses in the Consolidated Budget.

3) $7.0 million of other non-salary expenses directly associated with the provision of O&M services. They principally include costs for temporary services, contract administration, and equipment rentals for performing O&M. They are dispersed across a variety of other operating expense items in the Consolidated Budget.

4) $5.2 million of maintenance services purchased from Stanford Health Care, mostly incurred by the School of Medicine (SoM).

In addition to LBRE, several other areas oversee O&M campus-wide. R&DE provides the operations and maintenance for approximately 33% of the campus; SoM for about 11%; and DAPER for approximately 6% of the campus. The Graduate School of Business (GSB) is responsible for operations and maintenance of the Knight Management Center.

In 2015/16, the university will incur about $3 million of incremental O&M costs related to a number of new academic and administrative facilities. They include $1.2 million for the Lathrop Library, $979,000 for the McMurtry Building, $730,000 for the Science Teaching and Learning Center, $360,000 for the C.J. Huang Building, $260,000 for the 408 Panama Mall Office Building, $164,000 for the Roble Field Garage, $120,000 for the Manzanita Undergraduate Dorm, and $105,000 for the Stock Farm Child Care Facility. These costs will be partially offset by planned demolitions of Meyer Library, Cummings Art Building, and Stauffer III Building.

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 2015/16, transfers result in a net reduction from operating results of $231.4 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 either transfers of expendable funds to endowment principal, which create FFE, or withdrawals of FFE to support operations. In both 2014/15 and 2015/16 Stanford is projecting that a net $100.0 million will be transferred to FFE from current operating funds. This figure is informed by the units' individual budgets but has been increased by the University Budget Office to reflect the actual results over the past five years. Most often schools and departments identify excess funds to invest in FFE during the year-end process when their operating results are known, even though they may not "plan" for them during the budget process.
- Transfers to Plant: The transfers in this category are primarily for capital projects. Total transfers of $167.5 million to plant are planned for 2015/16. Roughly $130 million of this total are transfers made from central university funds and include $82.2 million in anticipated transfers to the Capital Facilities Fund (CFF) to support plant projects (see more on the CFF in Chapter 4), $20 million from the university housing reserve for home purchases as part of the faculty housing program, and $11 million for student housing renovation projects that will convert 65 beds back to program space. Additionally, Land, Buildings and Real Estate will transfer $5.7 million from the Planned Maintenance Program into planned improvement projects; the School of Medicine expects to transfer $15.8 million for seismic bracing projects and the new ChEM-H/Neuro building; and the Dean of Research will support the ChEM-H/Neuro building with a transfer of $6.4 million. The remainder is made up of smaller amounts transferred out of other units. 2015/16 transfers to plant are projected to be $33.4 million lower than the $200.9 million projected for 2014/15. The largest drivers of this decrease are in the School of Humanities & Sciences, where additional gifts for the McMurtry Art & Art History building will allow for the return of $25.8 million from plant funds back to school reserves, $14.0 million of which will be used for the ChEM-H/Neuro building.
- Other Internal Transfers: Additional financial activity affects the net results of the Consolidated Budget, including 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 $36.1 million of internal revenue flowing into the Consolidated Budget, primarily from capital plant funds, which are outside the Consolidated Budget, into service centers and other funds within the Consolidated Budget. Additionally, this amount includes transfers of current funds to student loan funds, such as the loan forgiveness programs in Graduate School of 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 2015/16 is projected to increase by 5.2% to $1,313.3 million, a $64.7 million increase over the expected level for 2014/15. Student income will increase 3.6%, or $23.5 million, reflecting increased tuition rates. A smaller increase, totaling $10.1 million, is projected for indirect costs, healthcare services, expendable gifts, and other income. The largest growth in general funds is a 10%, or $31.1 million, increase in investment income. This growth is due mostly to the increasing balance of the Tier I Buffer and payout from it and to higher rental income from the university's endowed lands. These items are described more fully in the earlier section on investment income.

SUMMARY OF 2015/16 BASE GENERAL FUNDS ALLOCATIONS
[IN MILLIONS OF DOLLARS]

2015/16 Projected General Funds Revenue		**1,313.3**
Allocations to Formula Units		(178.6)
Transfers Out - Facilities and Housing Reserves		(49.2)
Other Transfers		(3.1)
2015/16 Base General Funds Allocable to Non-Formula Units		**1,082.4**
2014/15 Non-Formula Base General Funds Allocations	1,014.1	
2015/16 Incremental Base General Funds Allocations		
Salary Program and Inflationary Adjustments	22.0	
New Facilities Costs	7.5	
Undergraduate Financial Aid	5.0	
Programmatic Allocations to Academic Units	6.8	
Programmatic Allocations to Administrative Units	2.1	
2015/16 Allocated Base General Funds		1,057.4
2015/16 Unallocated Surplus		24.9
2015/16 Base General Funds Allocable to Non-Formula Units		**1,082.4**

2015/16 Non-Formula General Funds

Per negotiated formula arrangements, $178.6 million of the general funds revenue will flow to the School of Medicine, the Graduate School of Business, and other formula units. Money set aside for the facilities reserve, the housing reserve, and other smaller items will result in $52.3 million of transfers out of general funds. The remaining $1,082.4 million of general funds revenue 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 programmatic goals and financial status of the organization; 2) report on the sponsored research climate as well as shared scientific facilities that enable collaboration and enhance the university's competitiveness; 3) discuss faculty and graduate student growth and funding plans; 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.

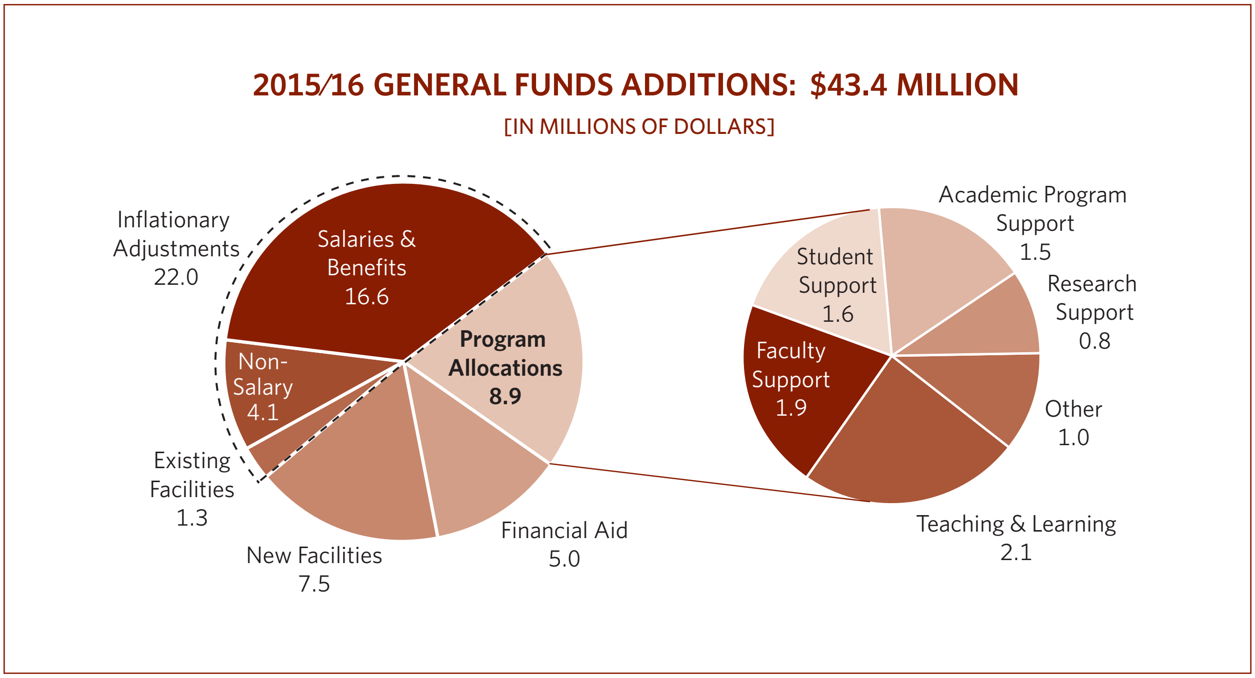
The table above shows how the $1,082.4 million in non-formula general funds will be allocated in 2015/16. The university's budgeting practice is to keep units' prior year general funds allocations in place and then make further additions or reductions based on programmatic necessity. The additional allocations made for 2015/16 are detailed below and are reflected in the pie chart on the next page:

Salary Programs and Inflationary Adjustments: $22.0 million

To maintain the university's competitive positions in faculty and staff salaries, $12.5 million was allocated to fund salary programs; an additional $4.1 million will be used to cover fringe benefits increases. General non-salary expenditures received an increase of 2.5% for 2015/16, with larger increases granted for graduate aid expenses, totaling $4.1 million. In addition, expense increases in support of existing facilities require $1.3 million of general funds.

New Facilities Costs: $7.5 million

Allocations to the Capital Facilities Fund (CFF), established by the Board of Trustees in 2007/08, will increase by $3.6 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. The remaining $3.9 million will support O&M on new structures, including the Lathrop Library, McMurtry Building, and the Science Teaching and Learning Center, as well as additional debt service on those and other new facilities.



Undergraduate Financial Aid: $5.0 million

Significant funds were allocated for 2015/16 to help existing and future undergraduate students better afford a Stanford education, with particular focus on students who come from low- and middle-income families. The most obvious example of enhanced financial aid is an increase in family income thresholds. For students with family incomes less than $65,000 and typical assets, the family will not be expected to contribute toward the cost of tuition or room and board (all students are expected to provide a small amount of self-support through summer or term-time earnings). Students with family incomes less than $125,000 will not be expected to contribute toward the cost of tuition. These two thresholds were raised from $60,000 and $100,000 respectively.

Teaching & Learning: $2.1 million

A number of allocations were made to fund teaching and learning initiatives, including about $1.3 million as a first step to support the newly organized Vice Provost for Teaching & Learning. Additional base general funds allocations will need to replace one-time presidential funds in support of that office over the next several years. In addition, support was provided for enhanced teaching efforts in several Engineering departments, for innovative learning technology in the new McMurtry building, and for an improved learning management system at the university.

Faculty Support: $1.9 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 other large allocation in this category includes $1 million to departments in three different schools to help recruit and retain faculty, as well as to address faculty salary equity concerns.

Student Support: $1.6 million

The School of Humanities and Sciences has run a pilot program over the last several years aimed at increasing diversity in its graduate student population. The school received $1 million for ongoing funding of that program and to address graduate aid shortfalls in two specific departments. In addition, students will have increased access to both mental health advisors at the Counseling and Psychological Services office and to academic advice through the addition of two academic directors in the Wilbur and Stern dorms, as a result of a combined allocation of $438,000 in those areas.

Academic Program Support: $1.5 million

Interdisciplinary institutes have long been a distinctive feature and strength of the university, and $668,000 was allocated to support the operations of two: the Precourt

Institute for Energy and the Institute for Chemistry, Engineering & Medicine for Human Health (ChEM-H). The remaining allocations in this category will support Stanford University Libraries and the Law School.

Research Support and Other Activities: $1.8 million

An additional $800,000 was allocated to provide ongoing support for the Stanford Electronic Research Administration (SeRa) system, enhance lab safety at the School of Engineering, and to improve other research-related programs and facilities. Finally, $1 million was allocated to bolster administrative initiatives across the university such as campus-wide security and IT communication.

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 the next page compares the Consolidated Budget for Operations with the projected operating results section of the Statement of Activities. Cash resources are classified into fund groups, which are subject to different legal and management constraints.

There are four different categories of funds:

1) Current Funds, which include revenue to be used for operating activities—e.g., tuition revenue, sponsored research support, endowment payout, and other investment income;
2) Endowment Principal Funds, which include all of Stanford's endowment funds, both those restricted by the donor, and those designated as endowment funds by university management;
3) Plant Funds, which include all funds to be used for capital projects, such as construction of new facilities or 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, specific 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 $273.9 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, $90.4 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.

COMPARISON OF CONSOLIDATED BUDGET AND STATEMENT OF ACTIVITIES, 2015/16

Unrestricted Net Assets

[IN MILLIONS OF DOLLARS]

STATEMENT OF ACTIVITIES				FISCAL YEAR 2015/16		
2013/14 ACTUALS	2014/15 JUNE 2014 BUDGET	2014/15 PROJECTED YEAR-END		PROJECTED CONSOLIDATED BUDGET	ADJUSTMENTS	PROJECTED STATEMENT OF ACTIVITIES
			Revenues and Other Additions			
			Student Income:			
317.4	330.3	330.1	Undergraduate Programs	341.2		341.2
313.8	326.8	327.2	Graduate Programs	339.9		339.9
151.3	162.5	162.1	Room and Board	167.8		167.8
(248.8)	(255.7)	(263.5)	Student Financial Aid[e]		(280.5)	(280.5)
533.7	563.9	555.9	Total Student Income	848.9	(280.5)	568.4
			Sponsored Research Support:			
669.7	682.6	699.7	Direct Costs—University	715.7		715.7
227.2	232.5	234.5	Indirect Costs	241.5		241.5
896.8	915.1	934.2	Total University Research Support	957.2		957.2
369.3	413.2	450.5	SLAC	507.5		507.5
697.5	743.6	874.8	Health Care Services[f,k]	964.2	(81.8)	882.4
348.5	315.0	320.4	Gifts & Net Assets Released from Restrictions	315.0		315.0
			Investment Income:			
985.2	1,064.7	1,067.9	Endowment Income	1,152.4		1,152.4
181.0	158.5	182.0	Other Investment Income[g]	242.9	(50.8)	192.1
1,166.2	1,223.2	1,249.9	Total Investment Income	1,395.3	(50.8)	1,344.5
493.4	556.1	500.4	Special Program Fees and Other Income[j]	514.1	5.4	519.4
4,505.5	**4,730.1**	**4,886.1**	**Total Revenues**	**5,502.2**	**(407.7)**	**5,094.5**
			Expenses			
2,659.6	2,867.6	2,940.0	Salaries and Benefits[d,g,j]	3,054.2	29.5	3,083.7
			Financial Aid[e]	280.5	(280.5)	
77.3	76.7	87.0	Debt Service[h]	193.0	(93.1)	99.9
			Capital Equipment Expense[b]	90.4	(90.4)	
311.0	329.1	337.2	Depreciation[c]		339.3	339.3
1,243.8	1,308.9	1,372.9	Other Operating Expenses[f,g,j]	1,524.8	(54.4)	1,470.4
4,291.7	**4,582.3**	**4,737.1**	**Total Expenses**	**5,142.9**	**(149.6)**	**4,993.3**
213.8	**147.8**	**149.0**	**Revenues less Expenses**	**359.3**	**(258.1)**	**101.2**
			Transfers			
			Additions to Endowment Principal[a]	(100.0)	100.0	
			Other Transfers to Assets[a]	(173.9)	173.9	
			Net Internal Revenue/Expense[i]	42.5	(42.5)	
0.0	**0.0**	**0.0**	**Total Transfers**	**(231.4)**	**231.4**	**0.0**
213.8	**147.8**	**149.0**	**Excess of Revenues Over Expenses After Transfers**	**127.9**	**(26.7)**	**101.2**

Depreciation expense includes the depreciation of capital equipment and other capital assets, such as buildings and land improvements. This adjustment adds $339.3 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 2015/16, 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, $280.5 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 $39.4 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 $50.8 million of internal expenses of the Stanford Management Company, Real Estate Operations, and the Investment Accounting department. For GAAP purposes, these expenses, incurred as part of the generation of investment returns, are netted against investment earnings. This adjustment reduces Other Investment Income, as well as reducing $33.0 million from compensation and $17.8 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 the Rosewood Hotel, 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 $93.1 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 $42.5 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. $5.4 million in revenues and $5.3 million in expenses is added ($2.6 million in Salaries and Benefits and $2.7 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, they show as health care services income. This adjustment removes $42.4 million of revenue.

In summary, the impact of these adjustments decreases the Consolidated Budget's projected $127.9 million surplus by $26.7 million, resulting in a projected surplus of $101.2 million in the Statement of Activities.