CHAPTER 1

CONSOLIDATED BUDGET FOR OPERATIONS

In this chapter we review the details of the 2011/12 Consolidated Budget for Operations, describe the general funds allocation process and results, and present a forecasted Statement of Activities.

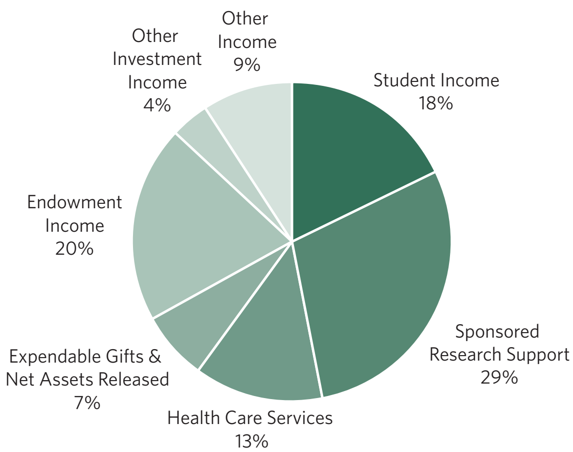
CONSOLIDATED BUDGET FOR OPERATIONS

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

The 2011/12 Consolidated Budget for Operations shows total revenues of $4,130.8 million and expenses of $3,823.7 million, resulting in a net operating surplus of $307.1 million. However, after estimated transfers, primarily to plant funds, the Consolidated Budget shows a surplus of $203.2 million.

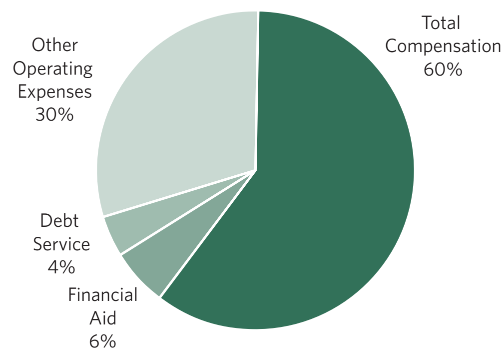
Total revenues in 2011/12 are projected to increase 2.6% over the expected 2010/11 levels, increasing by $103.1 million. The overall growth is moderated by an anticipated decline in sponsored research, as spending on federal stimulus grants concludes. Endowment payout on existing funds will increase 3.6% after a nearly 25% decline over the past two years. Total expenses are expected to grow by 3.2% over the estimated year-end results for 2010/11. Again,

2011/12 CONSOLIDATED REVENUES: $4,130.8M [1]



[1] Net Revenues after Transfers: $4,026.9 million

2011/12 CONSOLIDATED EXPENSES: $3,823.7M



CONSOLIDATED BUDGET FOR OPERATIONS, 2011/12

[IN MILLIONS OF DOLLARS]

2009/10 ACTUALS	2010/11 BUDGET JUNE 2010	2010/11 PROJECTED ACTUALS		GENERAL FUNDS	DESIGNATED	RESTRICTED	GRANTS AND CONTRACT	AUXILIARY & SERVICE CENTER ACTIVITIES	TOTAL
			Revenues and Other Additions						
274.9	282.5	285.7	Undergraduate Programs	296.5					296.5
260.3	271.9	278.1	Graduate Programs	283.1	5.0				288.1
122.5	125.7	129.8	Room and Board					137.8	137.8
657.7	680.1	693.6	Total Student Income	579.6	5.0			137.8	722.4
602.6	607.1	663.4	Direct Costs–University				650.2		650.2
332.8	345.7	346.3	Direct Costs–SLAC				346.3		346.3
203.8	197.9	224.9	Indirect Costs	216.9					216.9
1,139.2	1,150.7	1,234.6	Total Sponsored Research Support	216.9			996.5		1,213.4
505.7	518.5	540.0	Health Care Services	21.4	455.9	5.3	0.0	66.6	549.2
155.6	165.0	200.0	Gifts In Support of Operations	2.0		203.0			205.0
78.3	75.0	80.0	Net Assets Released from Restrictions			80.0			80.0
854.5	758.1	774.0	Endowment Income	146.1		692.0			838.1
49.9	146.6	141.6	Other Investment Income	64.1	82.3	1.4	0.3	0.3	148.4
904.4	904.7	915.6	Total Investment Income	210.2	82.3	693.4	0.3	0.3	986.5
350.5	348.4	363.9	Special Program Fees and Other Income	10.5	237.3	0.7	0.5	125.3	374.3
3,791.4	**3,842.4**	**4,027.7**	**Total Revenues**	**1,040.6**	**780.5**	**982.4**	**997.3**	**330.0**	**4,130.8**
			Expenses						
2,074.8	2,199.3	2,200.5	Total Compensation	556.2	511.5	398.9	584.4	240.7	2,291.7
220.7	217.4	231.9	Financial Aid	31.9	4.7	186.7	16.2		239.5
144.0	171.4	157.9	Internal Debt Service	58.4	22.4	1.6		82.2	164.6
1,057.4	1,062.7	1,115.9	Other Operating Expense	203.6	183.6	169.0	371.0	200.7	1,127.9
3,496.9	**3,650.8**	**3,706.2**	**Total Expenses**	**850.1**	**722.2**	**756.2**	**971.6**	**523.6**	**3,823.7**
294.5	**191.6**	**321.5**	**Operating Results**	**190.5**	**58.3**	**226.2**	**25.7**	**(193.6)**	**307.1**
			Transfers						
(40.1)	5.9	(75.1)	Transfers from (to) Endowment Principal		(32.2)	26.1		3.8	(2.3)
(126.2)	(121.7)	(131.3)	Transfers from (to) Plant	(66.8)	(45.0)	(20.2)			(132.0)
35.7	8.6	25.5	Other Internal Transfers	(84.2)	110.3	(157.5)	(25.7)	187.5	30.4
(130.6)	**(107.2)**	**(180.9)**	**Total Transfers**	**(151.0)**	**33.1**	**(151.6)**	**(25.7)**	**191.3**	**(103.9)**
163.9	**84.4**	**140.6**	**Operating Results and Transfers**	**39.5**	**91.4**	**74.6**	**0.0**	**(2.3)**	**203.2**
1,848.5	2,009.6	2,012.4	Beginning Fund Balances	121.9	1,112.9	900.5		17.8	2,153.0
2,012.4	2,094.0	2,153.0	Ending Fund Balances	161.4	1,204.3	975.1	0.0	15.5	2,356.2

this growth rate is offset by an overall decline in expenses related to sponsored research. Non-research expenses are expected to outpace salary inflation due to increasing headcount for both faculty and staff. The table on the facing page shows the projected consolidated revenues and expenses for 2011/12. For comparison purposes, it also shows the actual revenues and expenses for 2009/10 and both the budget and the year-end projections for the current fiscal year, 2010/11. 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 2011/12 to $722.4 million. Increases in student charges for next year were guided by a number of considerations: our programmatic needs, the effectiveness of our financial aid program, the impact of the economy on the families of our students, and our pricing position relative to our peers.

Tuition and Fees – Stanford expects to generate $584.6 million in tuition and fee revenue in 2011/12, a 3.7% increase over 2010/11, slightly higher than the general tuition rate increase due to a small increase in student numbers. While total tuition and fees represents only 14% of Stanford's total revenue, it is 56% of general funds. As such, it is a particularly important source of revenue. In addition to supporting faculty and staff salaries and other direct academic program needs, tuition plays a crucial role in funding infrastructure, support services, and other operational activities.

The general tuition rate increase for 2011/12 is 3.5%, which results in a rate of $40,050 for undergraduates and most graduate students. The Board of Trustees approved this rate in February. As always, the rate increase was set after careful consideration of the current economic circumstances weighed against the budgetary needs. We do not anticipate that this increase will affect our position relative to our peer universities. After a 3.5% tuition increase in 2010/11, Stanford moved down three positions to 42nd in a ranking of tuition charges in the Cambridge Associates survey of 103 private institutions. Stanford's position among the participants of the Cambridge survey moves both up and down from year to year but has remained fairly stable around the 40th position. Among the tuition rates of the highly selective private universities that comprise the Consortium on Financing Higher Education (COFHE), Stanford's tuition currently ranks 14th out of 17, down one position from last year.

KEY TERMS

General Funds: Unrestricted funds that can be used for any university purpose. The largest sources are tuition, unrestricted endowment, and indirect cost recovery.

Designated Funds: Funds that come to the university as unrestricted but are directed to particular schools and departments, or for specific purposes by management agreement.

Restricted Funds: Includes expendable and endowment income funds that can only be spent in accordance with donor restrictions.

Grants and Contracts: The direct component of sponsored research, both federal and non-federal. Individual principal investigators control these funds.

Auxiliaries: Self-contained entities such as Residential & Dining Enterprises and Intercollegiate Athletics that generate income and charge directly for their services. These entities usually pay the university for central services provided.

Service Centers: Entities that provide services primarily for internal clients for which they charge rates to recover expenses.

Net Assets Released from Restrictions: Under GAAP, gifts and pledges that contain specific donor restrictions preventing their spending in the current fiscal year are classified as "temporarily restricted," and are not included in the Consolidated Budget for Operations. When the restrictions are released, these funds become available for use and are included as part of the Consolidated Budget on the line Net Assets Released from Restrictions. These funds include cash payments on prior year pledges and funds transferred from pending funds to gift funds.

Financial Aid: Includes expenses for undergraduate and graduate student aid. Student salaries, stipends, and tuition allowance are not considered to be financial aid and are included in other lines in the Consolidated Budget.

Formula Areas: Budget units whose allocations of general funds are predetermined by a formula agreed to by the provost and the unit. Principal formula units include the Graduate School of Business, the School of Medicine, and the Hoover Institution.

The 3.5% increase applies to the undergraduate tuition rate, the general graduate rate, and the graduate tuition rates for engineers, entering MBAs, and continuing medical students. The Law School is implementing a 5.75% increase in tuition in 2011/12, the second year of a two-year plan to increase the Law School's tuition by $1,000 over the general university rate. This plan will allow the Law School to avoid additional cuts to key programs and services.

Room and Board – Total room and board income is expected to be $137.8 million in 2011/12, an increase of 6.2%, which is substantially higher than the approved room and board rate increase due to the inclusion of $5.7 million from board plans for students living in independent row houses that were previously managed outside Stanford. In February, the Trustees approved a combined room and board rate increase of 3.5% for 2011/12, bringing the undergraduate rate to $12,291. The room rate will increase by 4.7%, and the board rate will increase by only 2.0%. We expect that these rates will sustain Stanford's room and board rate ranking in the middle of the COFHE institutions. The 2011/12 recommended increases in the room and board rates will allow Residential and Dining Enterprises (R&DE) to cover inflationary impacts on operating costs, including labor, food, and expendable materials and supplies, as well as incremental funding for the residential education program.

Sponsored Research and Indirect Cost Recovery

The budget for sponsored research is projected to be $1,213.4 million in 2011/12. This figure includes the direct revenue from externally supported grants and contracts ($650.2 million for university research and $346.3 million for SLAC), as well as reimbursement for indirect costs ($216.9 million) incurred by the university in support of sponsored activities. With the exception of 2008/09 when the university's endowment was at its peak, sponsored research has been Stanford's largest source of revenue for some time, and this trend will continue in 2011/12 as it will generate 29.4% of consolidated operational revenues. Direct research volume, excluding SLAC, will decline by 2.0% in 2011/12, although that growth will be from a 2010/11 base that is significantly higher than in recent history due, largely, to the American Recovery and Reinvestment Act (ARRA). Research in SLAC in 2011/12 is projected to be virtually the same as in 2010/11.

Perhaps the dominant feature of these projections, however, is the amount of uncertainty that surrounds them. As of this writing, the federal budget for 2011 was just passed into law, seven months into the government's fiscal year. While that budget included small funding decreases for the NIH, the NSF, and other federal agencies, the impact on Stanford is expected to be negligible. But, the 2012 federal budget and a national debt that is quickly approaching its legislated ceiling are issues currently without resolution, both of which could significantly impact the amount of federal dollars available to support research. There is further uncertainty with regard to the rate charged on research grants to recover the indirect costs associated with research activity. The university is currently operating under a provisional rate for 2010/11 and 2011/12 and does not expect to reach a final negotiated rate with the government until later in 2011.

There are several ways this uncertainty could negatively impact Stanford's research efforts. A surprising outcome of the last two years has been the growth of federal research grants outside of the surge created by ARRA funding. As noted in the first table on the facing page, federal non-ARRA research will grow from $418 million in 2009/10 to $446 million in 2010/11 and is expected to grow to $454 million in 2011/12; research activity at that level would constitute an 20.3% increase since 2008/09. A worst-case outcome of the federal budget situation might mean not only declines in new research awards granted but even reductions in the amount of funding already committed during this recent period of growth. Indirect cost recovery could be impacted in two ways. If overall research volume declines, indirect cost recovery will also decline, and it could also decline if the final negotiated rate comes in lower than is currently anticipated. Recent growth in this important source of general funds (see the second table on the facing page) has enabled investments in the university's infrastructure, programs, and people even during the recent financial difficulties.

There are some encouraging factors, however, in the university's outlook on sponsored research. Non-federal support for research was essentially flat in 2009/10 as foundations and other sponsors responded to declines in their resources during the economic downturn. That support is expected to rebound significantly in 2010/11 and continue expanding in 2011/12, including substantial growth in funding from the California Institute for Regenerative Medicine. For a number of years before the economic downturn, non-federal research growth outstripped that of federal growth, a pattern

DIRECT SPONSORED RESEARCH EXPENSES (EXCLUDING SLAC)

[IN MILLIONS OF DOLLARS]

	2008/09	2009/10	2010/11 PROJECTED	2011/12 FORECASTED	PERCENT CHANGE FROM 2010/11	PERCENT CHANGE FROM 2008/09
Federal						
Non-ARRA						
Medicine	208	230	244	252	3.2%	21.2%
Non-Medicine	170	188	202	202	0.1%	19.1%
Total Non-ARRA	378	418	446	454	1.8%	20.3%
ARRA[1]						
Medicine		28	39	14	−64.3%	
Non-Medicine		4	4	0	−100.0%	
Total ARRA		32	43	14	−67.7%	
Total Federal	**378**	**450**	**489**	**468**	**−4.3%**	**23.9%**
Non-federal						
Medicine	83	84	103	107	4.4%	29.2%
Non-Medicine	69	70	72	75	4.5%	9.1%
Total Non-federal	**152**	**154**	**175**	**182**	**4.4%**	**20.1%**
Total Direct Research Expenses	**530**	**603**	**663**	**650**	**−2.0%**	**22.8%**

[1] Excluding SLAC, Stanford received $91 million in direct research support from ARRA: $8 million for non-formula units and the remainder for Medicine.

INDIRECT COST RECOVERY (EXCLUDING SLAC)

[IN MILLIONS OF DOLLARS]

	2008/09	2009/10	2010/11 PROJECTED	2011/12 FORECASTED	PERCENT CHANGE FROM 2010/11	PERCENT CHANGE FROM 2008/09
Federal	138	166	183	174	−4.9%	26.3%
Non-federal	31	31	36	37	3.1%	18.2%
Total Indirect Cost Recovery	**169**	**197**	**219**	**211**	**−3.6%**	**24.8%**

which will likely reemerge with 4.4% non-federal growth in 2011/12. Also, if another piece of history is to repeat itself, Stanford's highly regarded and entrepreneurial faculty will be able to increase the university's share of federal research dollars in times of tight federal budgets. Finally, though there are uncertainties about the 97% share of SLAC funding that comes from the Department of Energy (DoE), the laboratory has plans for several instruments and facilities at various stages of DoE approval, signifying strong support for the laboratory's science programs. SLAC research activity is discussed in more detail in Section 2.

Health Care Services

Health Care Services income is budgeted to be $549.2 million in 2011/12, a 1.7% increase over the projection for 2010/11. The majority of Health Care Services income ($499.3 million) is in the School of Medicine, including $428.5 million paid by Stanford Hospital and Clinics and Lucile Packard Children's Hospital related to the clinical practices of the faculty. The 2011/12 clinical revenue growth rate is somewhat lower than past years, because it is compared to a base that is augmented by a one-time payment in 2010/11 that results from a change in the way funds flow between the Lucille Packard Children's Hospital and the School of Medicine. Another factor holding down health care services income is the impact of increased consolidation in hospital system blood product purchases. This change is expected to cause prices to fall and result in flat revenue of $41.9 million for the Stanford Blood Center. The School of Medicine also receives $24.1 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: $16.2 million to Business Affairs IT, primarily for communications services; $6.8 million to the Office of the General Counsel for legal services; $12.0 million to Land, Buildings and Real Estate for operations and maintenance and utilities; and $8.2 million to the central administration for general overhead payments.

Expendable Gifts

Expendable gifts are those immediately available for purposes specified by the donor and do not include gifts to endowment principal, gifts for capital projects, gifts pending designation, or non-government grants. Expendable gift income in support of operations is expected to increase slightly from $200.0 million in 2010/11 to a total of $205.0 million in 2011/12. Although the growth is modest between the two years, the 2011/12 forecast represents more than a 37% increase in expendable gift support over the $149.0 million received in 2008/09. Another factor contributing to the expected amount of expendable gifts in support of operations is the recent trend, since 2008/09, of donors choosing to give to expendable gift purposes rather than to endowment or plant. As a result, support for expendable gifts has increased while giving to endowment and plant has decreased.

Net Assets Released from Restrictions

This category represents funds previously classified as temporarily restricted that will become available for spending as specific donor restrictions are satisfied. These include cash payments on pledges made in prior years and pending gifts whose designation has been determined. In 2011/12, we anticipate that this income will remain flat at $80 million. As we near the end of The Stanford Challenge there may be an increase in the pending fund transfers portion as the development office seeks to fully fund all remaining campaign initiatives and donors make final campaign commitments.

Investment Income

Total investment income, Stanford's second largest source of revenue, is expected to increase by 7.7% in 2011/12 to $986.5 million, only $89 million less than the pre-recession high of $1,075.4 million in 2008/09. This total includes endowment payout to operations as well as other investment income.

Endowment Income – Endowment payout to operations in 2011/12 is expected to be $838.1 million, an increase of 8.3% over 2010/11. Total endowment income includes payout from individual funds invested in the merged pool as well as specifically invested endowments (e.g., oil and mineral rights), and rental income from the Stanford Research Park and other endowed lands. Total endowment income is also impacted by new gifts to endowment and other transfers in and/or out of endowment principal.

Following Stanford's aggressive two-year plan to reduce the merged pool endowment payout commensurate with the decline in the market value, the expected payout from an individual fund in 2011/12 will increase by 3.6%, an increase that adequately matches ongoing expense increases. However, total merged pool payout is expected to increase by 7.5% due to several factors: gifts to endowment principal are expected to reach $150 million; schools and departments are expected to transfer $75 million from expendable funds to funds functioning as endowment; and $129 million is assumed to be added to funds functioning as endowment in the Tier I Buffer as a result of excess expendable funds pool earnings in 2010/11. Together these additions contribute roughly $20 million to endowment payout in 2011/12. Finally, significant increases in rental income from the Stanford endowed lands, described below, are expected in 2011/12, further enhancing total expected endowment income.

After a two-year suspension of Stanford's established smoothing rule, the university will return to its long used formula for calculating payout. Generally, the smoothing rule is used to dampen the impact on the budget of annual fluctuation in the market value of the endowment, thereby providing stability to budget planning. The smoothing rule sets the coming year's payout rate to be a weighted average of the current year's actual payout rate and the target rate. The target rate is 5.5%, and the smoothed payout rate projected for 2011/12 is 5.58%.

Of the total endowment income, $146.1 million, or 17.4%, is unrestricted. The unrestricted endowment income includes payout from unrestricted merged pool funds as well as most of the income generated from Stanford endowed lands. The unrestricted portion of endowment payout is expected to increase substantially (19.2%) in 2011/12. One factor driving the growth in unrestricted endowment is partial restoration of the Tier I Buffer, which was essentially eliminated in 2008/09. The Tier I Buffer will reach $400 million after the expected transfer of $129 million at the end of the current year, adding $7.3 million to unrestricted payout in 2011/12. A second reason for the healthy rise in unrestricted endowment income is a 25.9% increase in unrestricted rental income from the Stanford endowed lands due to several new negotiated leases that will bring the total to $56.4 million.

Other Investment Income – Total other investment income is expected to rise from $141.6 million in 2010/11 to $148.4 million in 2011/12, a 4.8% increase.

Other investment income is generated from four main sources:

- Payout on the expendable funds pool ($87.3 million) and income earned on unexpended endowment payout separately invested in the endowment income funds pool ($1.3 million),
- Investment income distributed to support the operations of the Stanford Management Company and the real estate division of Land, Buildings and Real Estate ($31.9 million),
- Interest income on the Stanford Housing Assistance Center (SHAC) portfolio ($14.0 million), and
- Rents, security lending, and other interest income ($13.7 million).

The largest of these sources, the expendable funds pool (EFP), comprises the university's general operating funds, non-government grants, expendable gifts, and designated funds belonging to various schools and departments, as well as student loan funds, plant funds, and other short-term funds. This pool of funds represents a significant component of university investment capital, with a current average balance of approximately $2.4 billion.

Payout from the EFP is governed by a trustee policy that was revised effective September 1, 2009. Under the policy, between 70% and 90% of the EFP is cross-invested in the merged pool, with the remaining portion invested in money market instruments. Approximately 75% of the funds in the EFP receive no payout directly to the fund. Rather, a variable payout of 0% to 5.5% on these zero-interest accounts is paid to general funds, both centrally and in the formula schools. The rate paid is based on the actual EFP investment returns during the prior fiscal year. The remaining funds invested in the EFP receive an annual payout equal to a money-market return. These so-called money-market accounts include the debt recycling pool, insurance and benefits reserves, student loan funds, certain plant funds, agency funds, gifts pending designation, and certain restricted gifts. Differences between the stipulated payout and actual investment returns are backstopped by the Capital Facilities Fund and by the Tier I and Tier II Buffers.

Strong returns in the merged pool in 2009/10 and in the current year will result in the full payout of 5.5% to the zero-return funds in 2010/11 and 2011/12.

The non-EFP portion of other investment income is projected to increase 7.4% to $59.6 million, led by increases in the operations of the Stanford Management Company. Additionally, income earned by the endowment income funds pool, the balance of unexpended endowment payout, is expected to increase based on the assumption of higher money market rates in 2011/12.

Special Program Fees and Other Income

This category includes the revenues from several different types of activities, such as technology licensing income, conference and symposium revenues, fees from the executive education programs in the Graduate School of Business and the Stanford Center for Professional Development, fees from travel/study programs, and revenues from corporate affiliates, mostly in the schools of Earth Sciences and Engineering. Another major component of this category is the revenue from auxiliary activities, other than student room and board fees. This includes revenues from conference activity, concessions, rent, and other operating income in Residential & Dining Enterprises, athletic event ticket sales and television income, HighWire Press, the University Press, Stanford West Apartments, and several other smaller auxiliaries. Total special program fees and other income are budgeted at $374.3 million in 2011/12, an inflationary increase of 2.9% over the expected level in 2010/11.

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 2011/12 is budgeted to be $2,291.7 million, a 4.1% increase over the year-end projection of $2,200.5 million. This increase is driven by the approved merit programs for faculty and staff, additional salary allocations for equity and retention, as well as anticipated headcount growth. The overall growth in total compensation expenses is mitigated by the expected contraction in sponsored research. As discussed below, the fringe benefits rate applied to faculty and staff is increasing slightly, so total benefits expense will grow somewhat faster than total salary expense.

Salaries – Total salary expense is expected to grow by 4.7% in 2011/12 to $1,412.1 million as a result of the approved salary program and roughly 2.0% headcount growth. As has been the case in past years, the approved staff salary program takes into consideration the financial condition of the university as well as the current labor market status. Once again the annual salary program was guided by the university's compensation philosophy, which is to set faculty salaries at a level that will maintain Stanford's competitive position both nationally and internationally for the very best faculty and to set staff salaries to be competitive within the local employment market. After careful review of survey salary data in several local markets, it was determined that Stanford staff salaries were at or slightly higher than market median salaries in September 2010. The approved merit program for 2011/12 was set with the intention of maintaining this position. Additionally, an important component of the salary program for staff is the inclusion of funding to address equity and retention issues, providing managers the flexibility to make appropriate adjustments to individual salaries. While there is no specific element in the salary program for faculty to address equity and retention, this is a major issue in all schools and will be managed by each Dean as appropriate. However, incremental allocations were made to the School of Humanities and Sciences to address specific equity and retention issues among the faculty.

Fringe Benefits – Fringe benefits expense is expected to increase by 4.9% in 2011/12 to $479.5 million, consistent with the growth in overall salary expense and a slightly higher fringe rate for regular benefits-eligible employees.

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

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

Ninety-five percent of all fringe benefits expense is incurred for regular benefits-eligible employees, and the rate for this group in 2011/12 is expected to increase 0.3 percentage points over the negotiated rate for 2010/11. There is greater volatility in the rates for the other three employee groups. The primary factors impacting total fringe benefit expenses in 2011/12 are discussed below.

FRINGE BENEFITS RATES

	2010/11 NEGOTIATED BUDGET	2011/12 PROJECTED RATES
Regular Benefits-Eligible Employees	31.1%	31.4%
Post-Doctoral Research Affiliates	19.8%	22.5%
Casual/Temporary Employees	8.3%	7.9%
Graduate RAs and TAs	4.4%	4.7%
Average Blended Rate	**28.3%**	**28.7%**

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

- Overall retirement program costs will increase substantially in 2011/12 due to payments required to rebalance the assets and liabilities in the Stanford Retirement Annuity Plan (SRAP). SRAP is a defined benefit plan funded by the university. Even though SRAP is closed to new participants, the university is required to maintain appropriate reserves to fund the current and future costs of the plan. Over the past several years, solid investment performance precluded the need to make contributions to the reserves, so SRAP had a minimal impact on the fringe rate. In 2011/12 the university will have to make a substantial contribution to the SRAP plan due to investment losses suffered in 2009, impacting the rate by nearly 1.0 point.
- The costs of the health plans for active regular benefits-eligible employees, the single largest program in the fringe pool, are projected to increase by 10.3% over the expected actuals in 2010/11, for a total of $125.6 million. The increase is driven by continued medical cost inflation, health care reform, and enhancements in the BeWell incentive program. Beginning in January 2012, BeWell will provide an opportunity for all benefits-eligible faculty and staff to receive a reduction in their medical plan contributions by completing certain components of the 2011 BeWell Employee Incentive Program. For most medical plans, the employee's 2012 contribution

will be reduced by $20 per pay period. It is estimated that nearly 10,000 employees will take advantage of the incentive program, adding $3.2 million to the fringe pool.

- Retirement medical costs are expected to increase 15.3% to $28.2 million in 2011/12, based on the current assumption that government payments will be reduced to Medicare Advantage plans, currently among the university's lowest cost retiree health plans. This and other provisions have increased the university's retiree medical liability, resulting in increased contributions to retiree medical reserves. In addition, an actuarial study of current employees has determined that the number of retirees will increase significantly in the coming years as our employee population ages.
- Offsetting the increases described above are the elimination of post-employment benefit costs resulting from a recent plan change. Under the new plan, terminated participants covered under Long Term Disability must move to a Stanford Medicare plan on January 1, 2011, or as soon thereafter as eligible; Stanford will help participants bridge to Medicare. This change has led to a reduction in the plan's liability, thereby eliminating the need for a contribution to reserves, typically a charge to the fringe rate.

Over-recovery of fringe costs in 2009/10 will reduce the regular benefits-eligible rate in 2011/12 by 0.2 points.

The benefits rate for Post-Doctoral research affiliates will increase substantially in 2011/12, due to soaring health insurance costs caused by a few severe medical cases. The fringe rate for casual or temporary employees will decline nearly one half point due to an over-recovery of costs for this group in 2009/10. The fringe rate for graduate teaching and research assistants will increase due to higher Cardinal Care health insurance premium costs.

Financial Aid

Stanford expects to spend a total of $239.5 million on student financial aid for undergraduate and graduate students in 2011/12, $31.9 million of which will come from general funds. Designated and restricted funds ($191.4 million) and grants and contracts ($16.2 million) will support the remainder. Total budgeted financial aid is 3.3% above the projected total for 2010/11, as discussed below.

Undergraduate Aid – Stanford has long been committed to need-blind admissions supported by a financial aid program that meets the demonstrated financial need of all admitted undergraduate students. We estimate that in 2011/12 Stanford students will receive $128.7 million in need-based scholarships, of which $122.2 million will be from Stanford resources, an increase of 3.6% over the projected year-end, consistent with the increase in Stanford's student budget. The remaining $6.6 million will come from federal grants, mostly Pell and SEOG grants. The total amount of federal grant aid is expected to decrease in 2011/12, because the Academic Competitiveness and National SMART programs are expected to end in the current fiscal year.

The main features of Stanford's financial aid program remain unchanged in 2011/12. However, students are being asked to take on a greater portion of their expenses through a $250 increase in the amount of their work expectation. Similarly, new parents at upper income levels will see increased expectations as we phase in reduced asset allowances and allowances for multiple children in college. These changes are projected to save about $2.0 million in scholarship funds in 2011/12.

Stanford funding in support of undergraduate need-based aid in 2011/12 will be almost double the amount in 2006/07, increasing from $66.5 million to $122.2 million, due to substantial program enhancements intended to increase affordability for low- and middle-income students and the downturn in the economy. The number of students receiving scholarship aid is expected to increase from 2,775 to 3,425 over the same time period.

The following sources support Stanford's overall commitment to undergraduate scholarship aid in 2011/12:

- Restricted income (endowment and gifts) will provide $72.4 million, a $5.1 million increase over 2010/11 due to new gifts to endowment.
- Funds controlled by the president will provide $37.6 million, down from $40.3 million in the current year. President's funds from the Tier II buffer will be decreased over time as campaign goals for scholarship fundraising are met.
- General funds will increase from $10.4 million in 2010/11 to $12.2 million in 2011/12 to cover the cost of the slightly larger undergraduate population expected in the coming year.

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.

UNDERGRADUATE NEED-BASED SCHOLARSHIP AID

[IN MILLIONS OF DOLLARS]

SOURCE OF AID	2006/07 ACTUALS	2007/08 ACTUALS	2008/09 ACTUALS	2009/10 ACTUALS	2010/11 PROJECTED	2011/12 BUDGET
Department Funds and Expendable Gifts	1.8	2.0	2.2	2.1	1.9	1.9
Endowment Income	49.7	67.9	80.4	72.4	65.4	70.5
President's Funds	10.0	5.3	20.4	39.5	40.3	37.6
General Funds	5.0	0.0	0.0	1.5	10.4	12.2
Subtotal Stanford Funded Scholarship Aid	66.5	75.2	103.0	115.5	118.0	122.2
Federal Grants	4.2	4.5	5.0	6.9	7.5	6.6*
Total Undergraduate Scholarship Aid	**70.7**	**79.7**	**108.0**	**122.4**	**125.5**	**128.7**
General Funds as a Share of Stanford Funding	7%	0%	0%	1%	9%	10%
President's Funds as a Share of Stanford Funding	15%	7%	20%	34%	34%	31%
Endowment Funds as a Share of Stanford Funding	75%	90%	78%	63%	55%	58%
Number of Students	2,775	2,811	3,136	3,401	3,380	3,425

* Excludes $300,000 in work study funds.

Athletic scholarships, which are not need-based, will be awarded to undergraduate students in the amount of $19.9 million, an increase that reflects the cost of tuition.

Graduate Aid – Stanford provides several kinds of financial support to graduate students that are expected to total $314.8 million in 2011/12. As the table below indicates, this includes the tuition component of fellowships in the amount of $90.6 million, which is reflected in the Financial Aid line of the Consolidated Budget. Financial aid for graduate students is expected to increase by 4.1%, 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 $224.2 million. Consistent with the presentation of Stanford's financial statements, tuition allowance (tuition benefits for RAs and TAs) and RA and TA salary expenses are in the Salaries and Benefits line, and the stipend amount is in the Other Operating Expenses line of the Consolidated Budget for Operations on page 4. The minimum rate for TA and RA salaries and stipends will increase by 3.0% in 2011/12; tuition allowance expense is expected to increase by 3.4%.

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 des-

2011/12 FINANCIAL AID AND OTHER GRADUATE STUDENT SUPPORT FROM STANFORD RESOURCES

[IN MILLIONS OF DOLLARS]

PROJECTED 2010/1 YEAR-END		GENERAL FUNDS	DESIGNATED AND RESTRICTED	GRANTS & CONTRACTS	TOTAL
	Student Financial Aid				
125.7	Undergraduate	12.2	110.0	6.9	129.0
19.2	Undergraduate Athletic		19.9		19.9
87.0	Graduate	19.7	61.6	9.3	90.6
231.9	Total	31.9	191.4	16.2	239.5
	Other Graduate Support				
54.8	Stipends	13.8	26.7	15.9	56.3
64.1	Tuition Allowance	27.7	17.5	21.1	66.3
98.6	RA/TA Salaries and Benefits	20.8	37.0	43.8	101.6
217.4	Total	62.2	81.1	80.8	224.2
83.7	Postdoc Support	0.7	25.2	60.7	86.6
533.0	**Total Student Support**	**94.8**	**297.8**	**157.7**	**550.3**

Graduate Student Support

Over the past 25 years, graduate student enrollment at Stanford has increased 32%, and a little over half of that growth occurred in just the last ten years. This rapid growth and the prospect that it will continue are cause for concern, as providing competitive and stable financial support for graduate students is one of Stanford's highest priorities. But graduate student enrollment and funding support is complex due to the decentralization of graduate admissions and the myriad funding sources for graduate student support. Schools and departments make admissions decisions locally, depending on available resources, and, in general, a combination of university resources and external funding is used to support doctoral students; masters and professional students typically pay their own way.

The sources of graduate student support include a combination of university restricted and unrestricted resources, as well as federally sponsored fellowships, research grants, and training grants. Grants and contracts from industry and foundations round out the picture. Together, funds from these sources cover all elements of graduate support: tuition allowance, fellowship stipends, salaries for serving as teaching assistants and research assistants, and health insurance.

To continue to attract the very best graduate students—and thereby support excellence in our faculty and research programs—requires that Stanford be mindful of several inter-related challenges:

- Over the past decade support for graduate students has increased more than fifty percent, from $187.6 million in 1999/00 to $285.5 million in 2009/10. Importantly, through the success of the Stanford Graduate Fellowships Program and other university fellowships, Stanford has reduced its dependence on the federal government for this support, resulting in a decrease in the share of graduate student funding from grants and contracts from 37.8% to 29.2% over this period. Nonetheless, a very constrained federal budget for the foreseeable future threatens to further erode federal support for graduate students.
- Two specific federally-funded programs, National Science Foundation fellowships and National Institutes of Health training grants, cap tuition reimbursement, which leaves substantial funding shortfalls in the Schools of Earth Sciences, Engineering, H&S, and Medicine. While some central university funding has been made available to offset the shortfall, the total will reach $12 million in 2012/13, when the central commitment ends. Stanford is at a competitive disadvantage to many its peers who have lower tuition and/or grant tuition waivers as part of their financial aid packages.
- Each year schools and departments grapple with potential declines and discontinuities in the resources that support graduate students. In addition, they balance academic standards, faculty/student ratios, and cohort size when making admissions decisions. Some have asked whether our decentralized model is the best approach. While this is a reasonable question, this approach does encourage units to be creative and entrepreneurial in seeking additional resources to meet funding gaps and to support growth in graduate enrollment. The role of the central administration will likely continue to be, on a case-by-case basis, to step in when fundamental, systemic issues are encountered, such as the tuition caps required by federal programs.

Because graduate student funding is such a high priority, Stanford remains committed to identifying sufficient and stable flows of resources, knowing this will be an ongoing challenge for many years to come.

ignated funds) contribute a little less than 26%, restricted funds support about 45%, and grants and contracts supply the remaining 29%. However, the patterns of funding vary substantially within the schools. Not surprisingly, grants and contracts provide a significantly higher proportion of graduate student funding in the research-intensive schools like Medicine and Engineering. The professional schools rely almost exclusively on restricted funds.

While not matriculated as graduate students, Stanford also provides support to postdoctoral researchers. Roughly two-thirds of these individuals work in the School of Medicine, and the vast majority of their support (70%) is provided by sponsored research projects. Postdocs are charged a tuition fee of $125 per quarter, which is almost always covered by school or departmental funds. They receive a salary or a stipend and health benefits in exchange for their work. The total expense for postdocs is expected to be $86.6 million in 2011/12, an increase of 3.5% over 2010/11.

Total direct student support of all kinds is expected to be $550.3 million in 2011/12, a 3.2% increase over the projected level for 2010/11.

Schedule 5 in Appendix B details graduate student 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 projected BIR for 2011/12 is 4.5% which is a decrease from the current year rate of 4.85%. The BIR is expected to increase slightly to 4.6% for 2012/13.

The 2011/12 internal debt service is projected to be $164.6 million, a 4.2% increase over 2010/11. It includes debt service incurred to bridge finance the receipt of gifts and annual lease payments. The year-over-year increase is driven by additional planned and deferred maintenance projects in Residential and Dining Enterprises, the accelerated amortization of infrastructure assets that will be stranded as a result of the new energy facility project, and repayment of the stadium loan.

Other Operating Expenses

This expense category includes all non-salary expenditures in the Consolidated Budget for Operations except financial aid and internal debt service, which are detailed separately above. This category comprises nearly 30% of the total expenditures in the Consolidated Budget and is projected to increase 1.1% to just over $1.1 billion in 2011/12. As is the case with salaries and benefits expense in 2011/12, the overall growth in non-compensation expenses is mitigated by the expected contraction in sponsored research. Non-salary expenses supported by all fund types except grants and contracts are expected to increase by 2.6%. The principal components in other operating expenses include: materials and supplies ($244.0 million, of which about one-third are laboratory supplies); contracted outside services, which includes research subcontracts ($277.8 million); capital equipment and library materials purchases ($90.9 million); graduate student and post-doc stipends ($90.4 million); food, entertainment, and travel ($99.4 million); external payments for facilities and equipment operations and maintenance ($48.8 million); external payments for telecommunications and utilities for campus buildings ($47.6 million); services purchased from the hospitals ($48.4 million); and rentals and leases ($33.8 million).

Utilities and Operations & Maintenance – The delivery of utilities to the campus involves three significant components: 1) purchased utilities from outside of the university; 2) capital expenditures; and 3) other expenditures. Purchased utilities include electricity and natural gas from Cardinal Cogen for generating steam, chilled water, and electricity. Domestic water is purchased from the San Francisco Water District. For 2011/12 these purchased utilities represent approximately 51% of the total utilities cost. Capital expenditures are necessary for system expansion, replacement, controls and regulatory requirements. The amortization on these capital projects represents approximately 25% of the total utility costs. Amortization expense includes the cost of accelerating payments for a number of assets that will go out of service when the new central energy plant is constructed. Other expenditures include maintenance, materials, supplies, and staff labor costs to operate the utility systems. These expenses are about 24% of the utilities costs.

Fluctuations in utility costs are largely related to purchased utilities prices and changes in consumption. Utilities consumption is impacted by weather variations, campus growth, and conservation efforts. Historically, depreciation and other cost components have remained relatively stable.

The 2010/11 budget included $64.4 million for campus utilities costs, which was later reforecast to $62.2 million due to recent significant decreases in the purchase price of natural gas, lower than budgeted sewer costs and lower purchased electricity prices. Utilities charge-out rates were reduced mid-year resulting in projected savings of approximately $948,000 to the general funds budget. For 2011/12 budgeted campus utilities are expected to increase to $70.1 million. This increase is primarily due to projected increases in natural gas and electricity prices, as well as projected costs associated with accelerating the debt payments for assets that will become obsolete when the new central energy facility is built.

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 $109.0 million in 2011/12.

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, the School of Medicine (SoM) for about 11%, and the Department of Athletics, Physical Education and Recreation (DAPER) for approximately 6% of the campus.

The university will incur incremental O&M costs in 2011/12 of approximately $3.7 million, of which $344,000 will be funded by the Bing Concert Hall endowment. These O&M costs are primarily attributed to the 2011/12 completion of the Bing Concert Hall, the 3160 Porter Lease, and the Neukom Building and Serra Parking Structure, which were operational for less than 12 months in 2010/11. The incremental O&M costs are offset by projected savings resulting from the demolition of the Terman and Ginzton buildings.

Transfers

Once current expenses are netted from current revenues, funds are also transferred between units, between fund types, and out of the Consolidated Budget for Operations. The end results are the changes in fund balances, representing what is expected to happen to available fund balances.

The schools, administrative departments, and central administration authorize movements of funds out of operations to create other types of assets. These assets include student loan funds, funds functioning as endowment (FFE), capital plant projects or reserves, and funds held in trust for independent agencies such as the Howard Hughes Medical Institute, the Carnegie Institution, and the Associated Students of Stanford University. These transfers to and from assets vary widely from year to year, and a single transaction can greatly affect these numbers. Using information provided by budget units, and combining that information with our own knowledge of central administration commitments, the Consolidated Budget for Operations adds or subtracts these transfers from the operating results (revenues less expenses).

- Transfers to Endowment Principal: This line includes transfers of either expendable funds to endowment principal, which creates funds functioning as endowment (FFE), or withdrawals of FFE to support operations. In 2011/12 we are projecting that a net $2.3 million will be transferred to FFE from current operating funds. This compares to a projected $75.1 million transfer from current funds to FFE in 2010/11, a decrease of $72.8 million. The 2010/11 amount represents a significant amount of current funds transferred by the schools, including $25 million by the GSB, almost $14 million by the School of Medicine, and $40 million of presidential funds from the Google investment proceeds, offset by an anticipated $30.0 million withdrawal from the president's Tier II Buffer for a variety of university priorities. Our expectation is that several of these large transfers will not be repeated in 2011/12.
- Transfers to Plant: The transfers in this category are primarily to plant for capital projects. Total transfers of $132.0 million to plant and other assets are planned for 2011/12. These transfers will increase slightly from the amount of $131.3 million projected for 2010/11. Included in this is $61.4 million in anticipated transfer from the Capital Facilities Fund (CFF) to support plant projects (see more on the CFF in Chapter 4). Additionally, the president and provost anticipate transferring $18.3 million from their discretionary funds (principally the Tier II Buffer income fund) to support plant projects. Land, Buildings and Real Estate will transfer about $9.8 million from the Planned Maintenance Program into plant improvement projects, while the School of Medicine expects to transfer $24.7 million in funds for a variety of capital projects. The remainder is made up of a $9.2 million general funds transfer for Academic Facilities Renovation, $4.6 million transferred by the School of Humanities & Sciences, and smaller amounts distributed throughout the remaining units.
- Other Internal Transfers: There is other financial activity which affects the net results of the consolidated budget. Primarily, internal revenue and internal expense are generated from those charges that are made between departments within the university for services provided through charge-out mechanisms. Communication services provided by Business Affairs IT to university departments are one type of internal revenue and expense. Another is the charge that the Department of Project Management (the group that manages construction projects on campus) allocates to capital projects that use their services. These charges contribute to the revenue and expense of individual departments and

fund types but, ultimately, are netted against each other in the presentation of the Consolidated Budget to avoid double counting. There is, however, a net $30.4 million of internal revenue flowing into the Consolidated Budget, primarily from capital plant funds, which are outside the Consolidated Budget, into service centers and other funds within the Consolidated Budget. Additionally, this line represents transfers of current funds to student loan funds, such as the loan forgiveness programs in Education and Law. It also includes any transfers from living trusts and pending funds.

This set of activity results in a net reduction from operating results of $103.9 million.

GENERAL FUNDS

The general funds budget is an essential element of the Consolidated Budget because general funds can be used for any university purpose, and they support the necessary administration and infrastructure for all core activities at the university. The main sources of these funds are student tuition, indirect cost recovery from sponsored activity, unrestricted endowment income, and income from the expendable funds pool (EFP). Each school receives an allocation of general funds, which support both academic and administrative functions; administrative units are supported entirely by general funds.

The general funds revenue in 2011/12 is projected to increase by 3.6% to $1,040.6 million, a $36.5 million increase over the expected level for 2010/11. While an increase in tuition revenue will virtually match the overall increase in general funds, several revenue items will decrease in 2011/12. The largest of these is indirect cost recovery from sponsored research, which is expected to decline $7.9 million, or 3.6%, as federal stimulus funding will run out and federal research activity will slow. That decline and a smaller decline in Health Care Services funding from the hospitals will be offset by a 12.7% increase in investment income. Continued strong returns on the Expendable Funds Pool will result in a $126 million addition to the Tier I buffer at the end of 2010/11, and that addition to unrestricted endowment will generate $7.3 million in payout in 2011/12.

2011/12 Non-Formula General Funds

Per negotiated formula arrangements, $164.1 million of the total general funds revenue will flow to the School of Medicine, the Graduate School of Business, and the other formula units. The remaining general funds revenue is controlled and allocated by the provost. The total general funds available to allocate to the non-formula units in 2011/12 is $860.9 million. This includes annual adjustments made for transfers to the university facilities and housing reserves, along with funds generated by the infrastructure charge. These adjustments are reflected in the Transfers section of the Consolidated Budget.

The Consolidated Budget for 2011/12 as anticipated a year ago included a $21.2 million general funds surplus after accounting for increased expenses from new facilities costs, a salary program, and non-salary inflation adjustments. Numerous revenue streams have improved more than expected since that time, and continued restraint in increasing the base of expenses supported by general funds now results in a $39.4 million surplus for 2011/12. The major changes since last year are as follows:

- Endowment income has increased by $14.0 million due to stronger recovery of the market and additions to rebuild the Tier I Buffer along with increased lease revenue from endowed lands in the Stanford Research Park.
- Revenues will increase $13.6 million due to tuition generated by additional students and indirect cost recovery from higher research volume, even after accounting for the effects of federal stimulus funding. Included in this total is additional revenue from Medicine through the formula agreement, partly due to changes in how the formula is calculated but also due to higher tuition, research and other revenue in that school.
- While some other revenues will decrease, such as the internal infrastructure charge, those decreases will be offset by expense decreases for utilities, debt service, and O&M. Due to the overall economy, salary and non-salary inflation adjustments were lower than anticipated, further reducing expenses by $4.5 million.
- Because of these revenue increases and expense decreases, the university was able to allocate an additional $1.3 million to undergraduate financial aid and $12.9 million to various programs, on top of allocations anticipated a year ago, while still arriving at the higher surplus for 2011/12.

During the annual general funds budgeting process, each budget unit met with the Budget Group, the provost's budgetary advisory body comprised of senior faculty and

SUMMARY OF 2011/12 BASE GENERAL FUNDS ALLOCATIONS

[IN MILLIONS OF DOLLARS]

2011/12 Projected General Funds Revenue		**1,040.7**
Allocations to Formula Units		(164.1)
Infrastructure Charge Transfer In		25.6
Transfers to Facility/Housing/Other		(41.3)
2011/12 Non-Formula Base General Funds		**860.9**
Non-Discretionary Allocations		(68.3)
Capital Facilities Fund	(61.7)	
Incremental Facilities Costs	(6.6)	
2011/12 Allocable Non-Formula Base General Funds		**792.6**
2010/11 Non-Formula Base General Funds Allocations		717.7
2011/12 Incremental Base General Funds Allocations		35.6
Salary Program and Inflationary Adjustments	17.1	
Undergraduate Financial Aid	2.3	
Programmatic Allocations to Academic Units	10.5	
Programmatic Allocations to Administrative Units	5.8	
2011/12 Unallocated Surplus		39.4
2011/12 Allocable Non-Formula Base General Funds		**792.6**

administrators, to 1) review the financial health of the organization after budget reductions and two years of declining endowment payout; 2) report on the funding situation and size of graduate student and faculty populations, including any growth plans; 3) discuss other strategic directions; and, 4) submit requests for incremental general funds. At the end of the process, the provost made allocation decisions based on the units' presentations, consultation with the Budget Group, and a final forecast of available general funds.

The table above shows how the $860.9 million in non-formula general funds will be allocated in 2011/12. As noted in the table, funds are set aside for the Capital Facilities Fund and incremental facilities costs to arrive at the $792.6 million available to allocate to non-formula general units and to an unallocated surplus reserved for future needs.

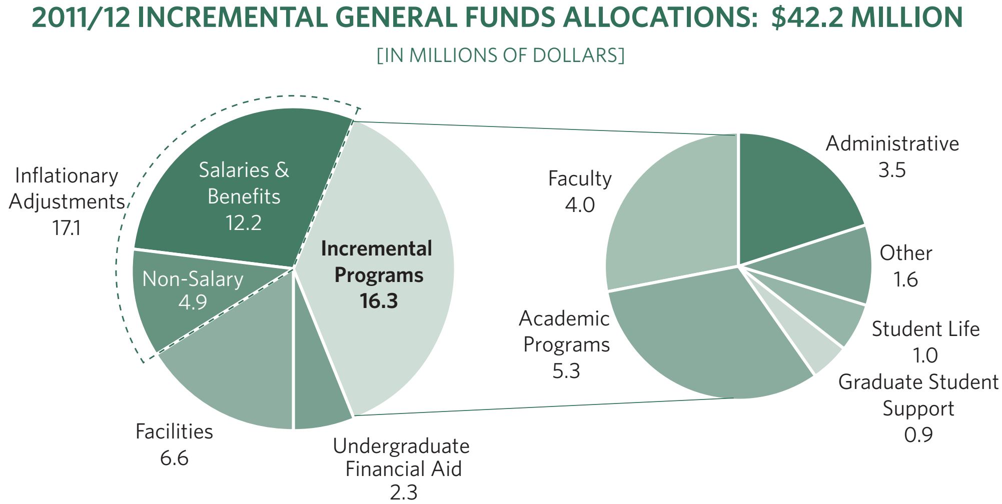
The university's budgeting practice is to keep units' prior year general funds allocations in place and then make further additions or reductions based on programmatic necessity. The incremental allocations made for 2011/12 are detailed above and are reflected in the chart on the following page.

Salary Programs and Inflationary Adjustments: $17.1 million

Although inflation and salary increases in academia have been quite low in recent years, $12.2 million was allocated to fund a salary program and benefits increases to uphold the university's competitive position. After holding funding flat for most non-salary expenditures in 2010/11, a modest increase of 1.5% was allocated for 2011/12, and larger increases were granted for graduate financial aid and student health care expenses. Total inflationary adjustments for non-salary expenditures totaled $4.9 million.

Facilities Costs: $6.6 million

New facilities coming on-line during 2011/12 will require an incremental general funds allocation of $4.3 million, for O&M, utilities, and debt service expenses. These include The Bing Concert Hall, the Neukom Building, and 3160 Porter Drive. Also, after declines in previous years, the cost for property and general insurance will increase $1.0 million in 2011/12. Finally, the university will invest $681,000 to increase the cleanliness standards provided by its custodial vendor, focusing on high-traffic and high-visibility buildings.



Undergraduate Financial Aid: $2.3 million

In the second year of a six-year plan to build up general funds support for the university's generous undergraduate financial aid program, an incremental $1.0 million was allocated for 2011/12. Also, $1.3 million was allocated to account for the 3.5% growth in tuition and the slight increase in the number of undergraduate students (which increases the number of students on aid). Both of these allocations are necessary to address growing costs in that program coupled with endowment payout declines the last two years, and there are increased efforts to fundraise additional scholarships in order to continue the program's strength.

Faculty Support: $4.0 million

Like other schools, H&S hopes to use improving endowment payout and incremental endowed chairs created through fundraising to gradually increase its overall faculty size. While endowed chairs typically cover the ongoing salary and benefits costs of the chairholder, the school received $1.5 million of incremental general funds to support the one-time costs associated with bringing a faculty member to the university (e.g., start-up packages, moving expenses, temporary support for summer salaries). The school will receive an additional $1.6 million to address equity concerns among existing faculty and to be able to offer appropriate retention packages to faculty who receive outside offers. Earth Sciences will receive $145,000 to support a new faculty hire in a new disciplinary direction, Geobiology. Finally, $753,000 of base general funds have been set aside to support new faculty in any school who qualify for the Faculty Development Initiative or Faculty Incentive Fund programs, established programs that encourage the recruitment of under-represented minorities to the faculty.

Academic Programs: $5.3 million

Nearly a score of different items were funded to support academic programs throughout the university, the largest of which were $1.2 million to revamp the research administration unit in Engineering, $1.0 million to the Law School for overall support of their academic program, and $1.0 million to the Vice Provost for Graduate Education in the final year of a multi-year commitment to build its base budget. Other notable items included $450,000 to H&S for undergraduate teaching resources in economics and foreign languages, and $500,000 to VPUE to reinstate the overseas seminar program.

Administrative Operations: $3.5 million

The most significant allocations within administrative units went to Development and Business Affairs. Nearly $800,000 of the $1.7 million granted to Development was the last increment of a five-year commitment to build the unit's base operating support; remaining funds will be used to increase the number of major gift officers working on behalf of the schools, to increase coordination with the Office of Hospital Development, and to bolster stewardship efforts. Of the $1.4 million allocated to Business Affairs, $625,000 will be used to mitigate risks and enhance compliance in the areas of financial management, information security, and global operations; and $525,000 will be used to increase service and support for financial managers throughout the university. Smaller allocations were made to Undergraduate Admissions and Financial Aid to handle increased volume in applications for both admissions and financial aid, and to the Office of the President and Provost to increase institutional research resources.

Student Life: $1.0 million

The Vice Provost for Student Affairs organization received incremental support for a number of the services it provides. Capacity for addressing students' mental and health needs will be improved through the addition of $291,000 at the Vaden Health Center, and $265,000 was added to fully staff the highly successful Student Services Center, a one-stop-shop for dealing with students' administrative and financial needs. A second year of incremental funding was provided to the Residential Education organization as that office continues to enhance and improve its offerings, and additional funds were provided to the Bechtel International Center for increased support of international students.

Graduate Student Support: $908,000

Engineering had received significant one-time funding for a number of years to fully support their Teaching Assistant needs. Most of those funds were converted to base last year, and the final $700,000 was converted to base in this year's allocations. Education received $105,000 to help it increase its doctoral student population from 30 to 35, and $103,000 was allocated to Education and Earth Sciences to fund staff positions in support of graduate students.

Other Allocations: $1.6 million

The bulk of this funding went to Land, Buildings and Real Estate to support the investments that have been and continue to be made to reduce energy and natural resource consumption across campus. Faculty, staff, and student wellness remained a priority as one-time funds for the BeWell program were converted to base, and campus safety will be enhanced with the addition of one patrol deputy in the Department of Public Safety.

PROJECTED STATEMENT OF ACTIVITIES

Stanford University, as a not-for-profit institution and a recipient of restricted donations, manages itself internally according to the principles of fund accounting. Stanford also presents a Statement of Activities, prepared in accordance with Generally Accepted Accounting Principles (GAAP) to comply with external reporting requirements. The Statement of Activities summarizes all changes in net assets during the year (both operating and non-operating) and is somewhat similar to a corporate income statement.

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

There are four different categories of funds:

1) Current Funds, which include revenue to be used for operating activities — e.g., tuition revenue, sponsored research support, endowment payout, and other investment income;

2) Endowment Principal Funds, which include all of Stanford's endowment funds, both those restricted by the donor, and those designated as endowment funds by university management;

3) Plant Funds, which include all funds to be used for capital projects, such as construction of new facilities or debt service; and

4) Student Loan Funds, which include those funds to be lent to students.

The Consolidated Budget for Operations follows the principles of fund accounting. It 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 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

COMPARISON OF CONSOLIDATED BUDGET AND STATEMENT OF ACTIVITIES, 2011/12

Unrestricted Net Assets

[IN MILLIONS OF DOLLARS]

STATEMENT OF ACTIVITIES				FISCAL YEAR 2011/12		
2009/10 ACTUALS	2010/11 JUNE 2010 BUDGET	2010/11 PROJECTED YEAR-END		PROJECTED CONSOLIDATED BUDGET	ADJUSTMENTS	PROJECTED STATEMENT OF ACTIVITIES
			Revenues and Other Additions			
			Student Income:			
274.9	278.4	285.7	Undergraduate Programs	296.5		296.5
260.3	276.0	278.1	Graduate Programs	288.1		288.1
122.5	125.7	129.8	Room and Board	137.8		137.8
(227.4)	(217.4)	(231.9)	Student Financial Aid[e]		(239.5)	(239.5)
430.3	462.7	461.7	Total Student Income	722.4	(239.5)	482.9
			Sponsored Research Support:			
606.9	607.1	663.4	Direct Costs–University	650.2		650.2
332.8	345.7	346.3	Direct Costs–SLAC	346.3		346.3
203.0	197.9	224.9	Indirect Costs	216.9		216.9
1,142.6	1,150.7	1,234.6	Total Sponsored Research Support	1,213.4		1,213.4
454.2	459.7	480.0	Health Care Services[f,k]	549.2	(59.2)	490.0
159.7	165.0	200.0	Expendable Gifts In Support of Operations	205.0		205.0
87.8	75.0	80.0	Net Assets Released from Restrictions	80.0		80.0
			Investment Income:			
854.6	758.1	774.0	Endowment Income	838.1		838.1
28.3	119.1	112.7	Other Investment Income[g]	148.4	(32.0)	116.4
883.0	877.2	886.7	Total Investment Income	986.5	(32.0)	954.5
343.1	353.4	368.9	Special Program Fees and Other Income[j]	374.3	5.0	379.3
3,500.7	**3,543.7**	**3,711.9**	**Total Revenues**	**4,130.8**	**(325.7)**	**3,805.1**
			Expenses			
2,064.4	2,218.3	2,240.1	Salaries and Benefits[d,g,j]	2,291.7	49.7	2,341.4
65.3	98.1	72.0	Debt Service[h]	164.6	(82.8)	81.8
0.0	0.0	0.0	Capital Equipment Expense[b]	90.7	(90.7)	0.0
234.0	257.5	263.5	Depreciation[c]		281.1	281.1
			Financial Aid[e]	239.5	(239.5)	
927.3	933.2	972.1	Other Operating Expenses[f,g,j]	1,037.2	(51.5)	985.7
3,291.0	**3,507.1**	**3,547.7**	**Total Expenses**	**3,823.7**	**(133.7)**	**3,690.0**
209.7	**36.6**	**164.2**	**Revenues less Expenses**	**307.1**	**(192.0)**	**115.1**
			Transfers			
			Transfers from (to) Endowment Principal[a]	(2.3)	2.3	
			Transfers from (to) Plant[a]	(132.0)	132.0	
			Other Internal Transfers[i]	30.4	(30.4)	
0.0	**0.0**	**0.0**	**Total Transfers**	**(103.9)**	**103.9**	**0.0**
209.7	**36.6**	**164.2**	**Excess of Revenues Over Expenses After Transfers**	**203.1**	**(88.0)**	**115.1**

to the endowment, either to build capital for a particular purpose, or to maximize the return on those funds as a long-term investment. In both these instances, these funds are no longer available for other use to support operations, so they decrease the Consolidated Budget for Operations operating results. These transfers, however, have no impact on the Statement of Activities operating results, as the net assets of the university have not changed.

Converting the Consolidated Budget into the Statement of Activities

To convert the Consolidated Budget to the Statement of Activities under GAAP, certain revenue and expense reclassifications, transfers, and adjustments are necessary.

The following adjustments are made to the Consolidated Budget to convert it to the GAAP basis Statement of Activities:

a) Eliminate Fund Transfers. The Consolidated Budget includes transfers of $134.3 million of current funds to other fund groups, including plant, student loans, and funds functioning as endowment. The transfers out are added back.

b) Remove Capital Equipment purchases. The Consolidated Budget includes the projected current year's purchases of capital equipment as expense. For GAAP purposes, the cost of capital equipment is recorded as an asset on the Statement of Financial Position. As a result, $90.7 million is eliminated from Consolidated Budget expenses.

c) Record Depreciation expense for the current year's asset use. The Statement of Activities includes the current year's depreciation expense related to capital assets being depreciated over their useful lives. Depreciation expense includes the depreciation of capital equipment and other capital assets, such as buildings and land improvements. This adjustment adds $281.1 million of expense.

d) Adjust Fringe Benefit expenses. The Consolidated Budget reports the fringe benefits cost based on the fringe benefit rate charged on all salaries; the rate may include over- or under-recovery from prior years. The Statement of Activities reflects actual expenses for fringe benefits, so the over- or under-recovery amount has to be removed from Salaries and Benefits. The Statement of Activities also includes accruals for certain benefits, such as pension and post-retirement benefits that are required by GAAP to be shown as expense in the period the employee earns the benefit. For 2010/11, GAAP expenses are expected to be higher than budgeted expenses by $72.4 million.

e) Reclassify Financial Aid. GAAP requires that the tuition portion of student financial aid be shown as a reduction of revenue. In the Consolidated Budget, financial aid is reported as an operating expense. Accordingly, $239.5 million of student financial aid expense is reclassified as a reduction of revenues in the Statement of Activities.

f) Adjust Health Care Services. For GAAP purposes, Health Care Services revenues received from the hospitals are reported net of expenses that the hospitals charge the university. The Consolidated Budget presents these revenues and expenses on a gross basis. This adjustment results in a deduction of $47.3 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 $32.0 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 $24.8 million from compensation and $7.2 million from non-compensation expenses, with no net change in the bottom line.

h) Adjust 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. 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 $82.8 million.

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

$30.4 million from plant funds into the Consolidated Budget for purchases of internal services must be eliminated.

j) Include Stanford Sierra Camp. The Statement of Activities includes the revenues and expenses of the Sierra Camp that the Alumni Association runs as a separate limited liability corporation. $5.0 million in revenues and $5.0 million in expenses is added ($2.1 million in Salaries and Benefits and $2.9 million in Other Operating Expenses).

k) Eliminate Hospital Equity transfers: Payments received from the hospitals for which no services are required to be provided by the University are considered transfers of equity between the University and the Hospitals and are not included in operating revenue in the Statement of Activities. In the Consolidated Budget, these show as health care services income. This adjustment removes $11.9 million of revenue.

In summary, the impact of these adjustments decreases the Consolidated Budget's projected $203.1 million surplus by $88.1 million, resulting in a projected surplus of $115.0 million in the Statement of Activities.