

San Diego State University Research Foundation



General Fund Budget
FY 2013 – 2014

Cover photo: Charles Dickerson

SDSU anthropology graduate students Breana Campbell (left) and Linda Bentz excavating at a 19th century Chinese abalone fishing camp on Santa Rosa Island, California

Principal Investigator: Dr. Todd Braje, anthropology

Dr. Braje's work on San Miguel Island, western-most of the Northern Channel Islands, has demonstrated that historic abalone camps can be found along California's Channel Island shorelines and can provide a detailed picture of lifeways, activities, and impacts of early historical occupants of the islands.

Dr. Braje has extended this work to Santa Rosa Island where anecdotal evidence of early Chinese occupations exists. This work constitutes the first archaeological project designed to record historic sites on Santa Rosa Island and provides crucial data on an important and poorly understood period of Pacific Rim history when fisheries in western North America had become a crucial part of globalized food exports.

Funding agency: Western National Parks Association.

This proposed 2013-2014 budget was approved by the SDSU Research Foundation board of directors on May 10, 2013 without any changes.

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MESSAGE FROM THE EXECUTIVE DIRECTOR AND INTRODUCTION OF THE FISCAL YEAR 2013-14 BUDGET

It is my pleasure to introduce the FY 2013-14 proposed budget. This document represents a plan to achieve our mission of service and support to San Diego State University and is based on our best estimates of financial resources.

Preparation of the FY 2013-14 budget provides the opportunity to reflect on specific accomplishments achieved during the current fiscal year. This is especially true as SDSU Research Foundation proudly marks its 70th year supporting San Diego State University. Achievements include:

- Debt refinancing that saved over \$1.2 million with ongoing savings accruing to the properties of approximately \$548,000 each year.
- The board will review a major realignment of property between SDSU Research Foundation and Aztec Shops to better align the properties held with the mission of the respective auxiliaries.
- The Facility and Administrative (F&A) cost reimbursement rate proposal has been submitted. This important document will form the basis for 60.4% of our operating revenue for the next four or five years.
- Significant progress is being made on the enhanced service initiatives identified last year: Electronic Proposal Routing; IRB Electronic Routing and Tracking System; Web-based Time Entry/Reporting; and Improving Emergency Preparedness Systems.
- Efforts are underway to improve the HR online recruiting and “on-boarding” system, and our electronic purchase card system.

As we look forward to the FY 2013-14 budget, we see some uncertainty, but also these encouraging signs:

- The State is slowly turning the corner on revenues which will stabilize the steep decline in its funding to the university.
- The university has announced a significant investment in four “areas of excellence” which will bring 16 new faculty to SDSU, many of them in research areas. This is in addition to a goal to recruit research-oriented faculty as other vacancies occur.
- The university’s investment in growing research will also include support for faculty grant writing and research equipment.
- President Obama submitted his 2013-14 budget to Congress which proposes slight increases for basic research (4%); NIH (1.5%); and NSF (8.4%).

SDSURF’s revenues correlate to the number of active SDSU research faculty. As the federal budget improves and efforts to recruit more active researchers to SDSU continue, proposal

submission, award, F&A and expenditure rates will increase. We anticipate seeing these increases in the next several years.

Until we see the positive results of these encouraging indicators, management has developed a strategy to bridge the funding gap. Management's goal is to maintain essential service levels through a combination of reducing costs and strategically drawing down on reserves. The following action steps have been identified:

- Continue to implement the enhanced service initiatives which will enable us to streamline processes and procedures while providing better service at lower cost.
- Implement costs savings through staffing and workload adjustments.
- Draw down reserves as necessary to bridge funding gaps and invest in infrastructure to reduce and manage operating costs.
- Replenish reserves as the financial situation improves.

I offer my thanks to the management team for the extensive work they have done to prepare this budget, particularly chief financial officer Melinda Coil. It is an honor to work with such professional and knowledgeable staff. We will continue to work with the board and the university to manage impact, implement enhanced service initiatives, and to ensure that consistent and reliable service to SDSU researchers is maintained.

Bob E. Wolfson
Executive Director

GENERAL FUND BUDGET

OVERVIEW

ABOUT THE RESEARCH FOUNDATION

Incorporated in 1943, SDSU Research Foundation is an auxiliary organization of San Diego State University. Authorized by California's Education Code and governed by a board of directors composed of SDSU faculty/staff and community members, the organization exists to serve SDSU.

The research foundation management team works closely with SDSU's vice presidents for research and business and financial affairs to manage resources, set policies, and guide the efforts of a dedicated staff who seek to facilitate the work of SDSU researchers.

ABOUT THE BUDGET

This document is organized to include two sections:

1. The Summary provides an overview of budget categories and Schedule 1 (Revenue Administered) and Schedule 2 (General Fund Budget 2013-14).
2. The Detail that begins on page 7 provides further explanation of the line items in Schedule 2.

BACKGROUND AND ASSUMPTIONS

When preparing a general fund budget, management must examine numerous variables in estimating revenue and expense. This is always challenging, but this year's sequestration of federal funds added another unpredictable element. An assessment of future funding trends including sequestration and President Obama's FY 2014 budget proposal can be found in Appendix A (p.19).

Specific methodologies used to project the Source of Funds are described starting on page 7. Management is also fine-tuning its projection methodology. Working with an economics consultant (an SDSU graduate student), the goal is to create the best possible model for future estimations that will take into consideration specific federal, state, and university trends.

This budget document is based on these important assumptions:

1. The research foundation budget is a key component of an integrated university budget. As an auxiliary, it is our mission to contribute to the university's fiscal stabilization plan to grow revenue, lower expenses, and make strategic allocations.
2. Revenue will continue to decrease over the next several years and then start to rebound.
3. Research is a key element of the university's Strategic Plan. As the university invests in research faculty and infrastructure, proposal, award, and F&A and expenditure volumes will grow.
4. Investments in enhanced service initiatives will continue to reap efficiency and cost savings.
5. In addition to cost savings, management will make strategic use of reserves to balance the budget.
6. The business and banking agreement with The Campanile Foundation (TCF) will be renewed with new terms.
7. The university's property realignment plan to transfer non-research properties from SDSU Research Foundation to Aztec Shops will be implemented beginning in the coming year.

GENERAL FUND BUDGET SUMMARY

This summary provides an overview of the major budget categories.

Schedule 1 provides an overview of total research foundation revenue. It compares FY 2011-12 actuals to the FY 2012-13 mid-year and the proposed FY 2013-14 budgets.

The general fund unrestricted revenue – at \$28,361,000 – makes up the unrestricted portion of total revenues generated by research foundation activities. These include: grants and contracts (reimbursement for university and research foundation facilities and administrative costs related to research), self-support programs (research foundation’s administrative fee), rents, royalties and Technology Transfer Office (TTO) income and investments.

Restricted revenue – the remaining \$125,887,000 – includes grants and contracts (direct cost reimbursements), self-supporting programs (funds held in trust for the College of Extended Studies, KPBS, and The Campanile Foundation) and contributions to the university. While these restricted revenues are included in the research foundation’s financial statements, they are not part of the general fund budget.

Total research foundation revenue, including restricted and unrestricted, is projected to be \$154,248,000 for FY 2013-14. This is a decrease of 17.8% from FY 2011-12 actuals.

Schedule 2 presents the General Fund Budget in the following major categories: Source of Funds, Use of Funds (basic support and Allocations), and Reserves. The components of each of these categories are explained in the Budget Detail narrative starting on page 7. Highlights of the General Fund budget follow:

Overall, FY 2013-14 unrestricted revenue is expected to decrease 18.5% from FY 2011-12 actuals.

Basic Support. Basic Support is projected to decrease 17.5% from FY 2011-12 actuals.

Allocations. Even though **allocations** decreased by a net 17.5% from the FY 2011-12 actuals, research support funds (RSF) are budgeted at 100% of the estimated amount.

Reserves. The budget shows \$912,000 coming from reserves to balance the budget.

Schedule 1

	REVENUE ADMINISTERED								
	Actual FY 2011-12			Mid-year Budget FY 2012-13			Proposed Budget FY 2013-14		
	Total	Restricted	General Fund (Unrestricted)	Total	Restricted	General Fund (Unrestricted)	Total	Restricted	General Fund (Unrestricted)
Grants and Contracts	\$ 122,853,501	102,895,929	\$19,957,572	\$ 112,887,000	94,470,000	\$18,417,000	\$ 105,449,000	88,323,000	\$ 17,126,000
Self-Support Programs	35,793,599	32,910,391	2,883,208	31,185,000	28,350,000	2,835,000	31,613,000	28,400,000	3,213,000
Rents	9,840,238	(136,360)	9,976,598	9,773,000	-	9,773,000	6,157,000	-	6,157,000
Royalties and Other TTO Income	81,745	-	81,745	165,000	-	165,000	147,000	-	147,000
Investments	705,592	(1,178,455)	1,884,047	1,194,000	(781,000)	1,975,000	882,000	(836,000)	1,718,000
Contributions	17,108,621	17,108,621	-	10,000,000	10,000,000	-	10,000,000	10,000,000	-
Other Income	1,183,892	1,183,892	-	-	-	-	-	-	-
Total Revenue-SDSU Research Foundation	\$ 187,567,188	152,784,018	34,783,170	\$ 165,204,000	132,039,000	33,165,000	\$ 154,248,000	125,887,000	28,361,000
<i>Revenue-Campanile Foundation (1)</i>	28,834,000			30,000,000 (1)			30,000,000		
<i>Revenue administered by SDSURF</i>	<u>\$ 216,401,188</u>			<u>\$ 195,204,000</u>			<u>\$184,248,000</u>		

(1) Total revenue including The Campanile Foundation revenue is relevant since SDSU Research Foundation provides administrative services for all Campanile Foundation funds.

Schedule 2

General Fund Budget 2013-14

	FY 2011-12 Actual	FY 2012-13 Original	FY 2012-13 Mid Year	FY 2013-14 Proposed
<u>SOURCE OF FUNDS</u>				
<i>Unrestricted Revenue:</i>				
Grants & Contracts F&A	18,913,787	19,050,000	17,981,000	16,947,000
American Recovery and Reinvestment Act F&A	1,043,785	425,000	436,000	179,000
<i>Total Facilities & Administrative Cost Recovery</i>	<u>19,957,572</u>	<u>19,475,000</u>	<u>18,417,000</u>	<u>17,126,000</u>
Self-Support Programs Fees	<u>2,883,208</u>	<u>2,750,000</u>	<u>2,835,000</u>	<u>3,213,000</u>
<i>Facilities Rents</i>				
Program Facilities	843,787	805,000	836,000	850,000
Commercial	4,756,974	4,665,000	4,552,000	3,758,000
University	1,406,193	1,409,000	1,391,000	1,549,000
Housing	2,969,644	2,942,000	2,994,000	-
<i>Total Facilities Rents</i>	<u>9,976,598</u>	<u>9,821,000</u>	<u>9,773,000</u>	<u>6,157,000</u>
Royalties and Other TTO Income	<u>81,745</u>	<u>90,000</u>	<u>165,000</u>	<u>147,000</u>
Investments	<u>1,884,047</u>	<u>1,925,000</u>	<u>1,975,000</u>	<u>1,718,000</u>
<i>Total Unrestricted Revenue</i>	<u>34,783,170</u>	<u>34,061,000</u>	<u>33,165,000</u>	<u>28,361,000</u>
<u>USE OF FUNDS</u>				
<i>Basic Support</i>				
Administration & Operations	<u>14,675,092</u>	<u>14,343,000</u>	<u>14,193,000</u>	<u>13,796,000</u>
<i>Facilities</i>				
Facilities Operating Expenses	7,957,164	8,139,000	8,072,000	6,254,000
Capital Improvements	280,672	263,000	261,000	321,000
Tenant Improvements	491,491	503,000	499,000	464,000
Debt Service Payments	5,873,626	5,904,000	4,669,000	3,328,000
<i>Total Facilities Rents</i>	<u>14,602,953</u>	<u>14,809,000</u>	<u>13,501,000</u>	<u>10,367,000</u>
<i>Total Basic Support</i>	<u>29,278,045</u>	<u>29,152,000</u>	<u>27,694,000</u>	<u>24,163,000</u>
Net Remaining after Providing Basic Support	<u>5,505,125</u>	<u>4,909,000</u>	<u>5,471,000</u>	<u>4,198,000</u>
<i>Allocations for Enhanced Program Support:</i>				
Direct Support of Research	4,621,966	3,708,000	3,629,000	3,298,000
Support of Research Infrastructure	1,390,802	1,614,000	1,676,000	1,650,000
Investment in Enhanced Service Initiatives	180,000	662,000	662,000	162,000
<i>Total Allocations</i>	<u>6,192,768</u>	<u>5,984,000</u>	<u>5,967,000</u>	<u>5,110,000</u>
<u>RESERVES</u>				
Working Capital	(217,643)	(1,075,000)	(1,192,000)	(912,000)
RSF - ARRA	(470,000)	-	-	-
Debt Service	-	-	696,000	-
<i>Net Funds to (from) Reserves</i>	<u>(687,643)</u>	<u>(1,075,000)</u>	<u>(496,000)</u>	<u>(912,000)</u>
TOTAL SOURCE OF FUNDS	35,470,813	35,136,000	34,357,000	29,273,000
TOTAL USE OF FUNDS	35,470,813	35,136,000	34,357,000	29,273,000

The research foundation's general fund budget is approved annually by the research foundation's board of directors. It outlines the research foundation's operating budget based on anticipated unrestricted revenues, basic support expenses and allocations.

Certain reclassifications have been made to the prior year's amounts to conform to the current year's presentation.

GENERAL FUND BUDGET DETAIL

SOURCE OF FUNDS

Unrestricted Revenue (Schedule 2)

Grants & Contracts – Facilities & Administrative (F&A) Cost Recovery (\$17,126,000)

The major source of unrestricted revenue is *F&A cost recovery* from sponsored research. Projected F&A cost recovery represents 60.4% of total unrestricted monies available. Although the federal negotiated F&A rate is 49.5% of modified total direct costs*, many awards receive a lower rate, and certain categories of expense may not be used when calculating the rate in accordance with federal rules. The actual recovery rate to date for FY 2013-14 is projected to be 25.13% of modified total direct costs and is the same rate as projected for the current year. Projected F&A for FY 2013-14 (\$17,126,000) reflects a 7.0% decrease over the FY 2012-13 mid-year projection, and a 14.2% decrease when compared to FY 2011-12 actuals. This decrease is due to the decline in anticipated awards, expenditures and work in process balances compared to prior year.

Estimating F&A cost recovery for the future involves projecting the volume of proposals that will be submitted and awarded, the dollar amount of awards that will actually be expended during the budget period and the F&A cost recovery percentage to be earned. These components are analyzed in the following sections: Proposals Submitted and Awards Received (Schedule 3), Work in Process (Schedule 4), Spending Trends (Schedule 5), and F&A Cost Recovery (Schedule 6). For FY 2013-14, these projections are made more complicated by the federal sequester. The decrease in federal funding means SDSU faculty are submitting proposals in an even more competitive environment.

The model we've used in the past to project revenue is less precise in the current uncertain federal and state budget climates. Management is working with the Vice President for Research and a graduate student economist to refine our methodology. It is also noted that the university's efforts to invest in researchers and the research infrastructure are of critical importance. We believe this investment will start to have a positive impact on revenue over the next several years.

*Modified Total Direct Cost is a technical term used to define the basis of the F&A rate calculation. It equals all sponsored research direct cost less equipment, sub-contracts, and participant cost.

Proposals Submitted and Awards Received

To sustain the level of F&A recovery earned in the last several years, faculty must continue to submit proposals and receive awards at rates consistent with prior years. The dollar amount of awards for the first nine months of FY 2012-13 has decreased from the same time last year. Management is currently projecting between \$113 million and \$121 million in total awards for FY 2012-13 which is lower than FY 2011-12. *Schedule 3* provides a summary of proposals and awards from FY 2011-12 and a comparison of actual numbers through March for the last two years (amounts exclude ARRA activity). Based on the funding analysis and current projections, management does not see evidence that this trend will reverse in the near future. The federal funding outlook is further analyzed in *Appendix A*.

Schedule 3

	Proposals Submitted & Pending/Awards Received		
	Actual	Cumulative Year-to-Date through	
		March	
	FY 2012	FY 2013	FY 2012
# Proposals Submitted	1041	667	694
\$ Amount Proposed	\$186,751,935	\$121,811,570	\$127,566,578
\$ F&A Costs Proposed	35,329,982	24,598,448	24,630,269
% F&A Costs Proposed /Direct Costs	23.33%	25.30%	24.77%
# of Pending Proposals	462	414	443
\$ Amount Pending	\$82,494,832	\$80,434,158	\$76,323,146
\$ F&A Costs Pending	17,968,932	18,714,034	17,309,925
% F&A Costs Pending /Direct Costs	27.85%	30.32%	29.33%
# Awards Received	763	499	535
\$ Awards Received	\$126,909,413	\$79,788,522	\$92,977,167
\$ F&A Costs Awarded	20,185,578	12,988,829	14,325,340
% F&A Costs Awarded/Direct Costs	18.91%	19.44%	18.21%

WORK IN PROCESS

Work in Process (WIP), which reflects the amount of direct costs and F&A awarded but not yet spent, is an important indicator. As noted below in *Schedule 4*, SDSU Research Foundation at this time has less dollars in WIP and specifically in F&A at this time than in the prior year, an indicator that supports a decrease in F&A budgeted amounts.

Schedule 4

Work in Process								
	Actual YTD 13 - March 31, 2013			Actual YTD 12 - March 31, 2012			TRADITIONAL CHANGE	
	TOTAL	ARRA	TRADITIONAL	TOTAL	ARRA	TRADITIONAL	\$ Increase (Decrease)	% Increase (Decrease)
Salaries	23,708,424	401,951	23,306,473	26,277,366	1,372,411	24,904,955	(1,598,482)	(6.42%)
Benefits	8,409,126	237,241	8,171,885	9,768,679	460,776	9,307,903	(1,136,018)	(12.20%)
Other Direct	27,428,740	1,234,804	26,193,936	34,732,220	2,659,973	32,072,247	(5,878,311)	(18.33%)
MTDC	59,546,290	1,873,996	57,672,294	70,778,265	4,493,160	66,285,105	(8,612,811)	(12.99%)
Equipment	1,258,217	759	1,257,458	815,334	37,678	777,656	479,802	61.70%
Student Support	6,577,828	101,465	6,476,363	6,457,119	408,650	6,048,469	427,894	7.07%
Subcontracts	19,647,332	943,157	18,704,175	19,500,754	2,016,653	17,484,101	1,220,074	6.98%
	27,483,377	1,045,381	26,437,996	26,773,207	2,462,981	24,310,226	2,127,770	8.75%
Total Direct	87,029,667	2,919,377	84,110,290	97,551,472	6,956,141	90,595,331	(6,485,041)	(7.16%)
F&A Costs	16,512,680	263,617	16,249,063	18,198,353	879,590	17,318,763	(1,069,700)	(6.18%)
Total Costs	103,542,347	3,182,994	100,359,353	115,749,825	7,835,731	107,914,094	(7,554,741)	(7.00%)
F&A Costs/MTDC	27.73%	14.07%	28.17%	25.71%	19.58%	26.13%		

SPENDING TRENDS

F&A is earned when principal investigators/projects actually spend their awarded funds. The expected direct cost expenditure level for FY 2013-14 is dependent on the submission of proposals, receipt of awards, and the spending schedule related to the awards. *Schedule 5* provides the results for the nine months ending March 31, 2013 and shows that spending trends are down from prior year.

Schedule 5

	SPENDING TRENDS						TRADITIONAL CHANGE	
	Actual YTD 13 - March 31, 2013			Actual YTD 12 - March 31, 2012			\$ Increase	% Increase
	TOTAL	ARRA	TRADITIONAL	TOTAL	ARRA	TRADITIONAL	(Decrease)	(Decrease)
Salaries	29,298,295	684,523	28,613,772	32,845,849	1,754,701	31,091,148	(2,477,376)	(7.97%)
Benefits	8,316,537	134,206	8,182,331	9,318,902	444,840	8,874,062	(691,731)	(7.79%)
Other Direct	12,543,812	354,849	12,188,963	15,199,963	1,002,878	14,197,085	(2,008,122)	(14.14%)
MTDC	50,158,644	1,173,578	48,985,066	57,364,714	3,202,419	54,162,295	(5,177,229)	(9.56%)
Equipment	793,433	34,213	759,220	768,421	315,848	452,573	306,647	67.76%
Student Support	5,565,469	200,281	5,365,188	5,725,905	308,735	5,417,170	(51,982)	(0.96%)
Subcontracts	7,732,676	611,803	7,120,873	10,640,156	1,119,014	9,521,142	(2,400,269)	(25.21%)
	14,091,578	846,297	13,245,281	17,134,482	1,743,597	15,390,885	(2,145,604)	(13.94%)
Total Direct	64,250,222	2,019,875	62,230,347	74,499,196	4,946,016	69,553,180	(7,322,833)	(10.53%)
F&A Costs	12,650,394	340,662	12,309,732	14,216,793	763,506	13,453,287	(1,143,555)	(8.50%)
Total Costs	76,900,616	2,360,537	74,540,079	88,715,989	5,709,522	83,006,467	(8,466,388)	(10.20%)
F&A Costs/MTDC	25.22%	29.03%	25.13%	24.78%	23.84%	24.84%		

F&A Cost Recovery Percentages

Schedule 6 reflects the F&A cost recovery (amounts exclude ARRA activity) for the past ten years and projections for FY 2012-13 and FY 2013-14.

Schedule 6

Fiscal Year	Grants/Contracts Expenditures & F&A Cost Recovery (Excludes ARRA)				
	Total Costs	MTDC	Other	F&A Costs	F&A Costs/MTDC
2002-03	125,105,523	78,870,465	30,592,567	15,642,491	19.83%
2003-04	106,726,820	71,430,068	21,301,517	13,995,235	19.59%
2004-05	115,229,540	72,366,604	28,311,830	14,551,106	20.11%
2005-06	109,470,604	72,553,779	21,898,003	15,018,822	20.70%
2006-07	105,405,951	72,309,409	18,143,518	14,953,024	20.68%
2007-08	109,539,095	74,479,219	18,850,845	16,209,031	21.76%
2008-09	119,238,251	76,736,637	24,002,226	18,499,388	24.11%
2009-10	120,732,777	78,078,846	23,113,435	19,540,496	25.03%
2010-11	124,009,588	79,220,519	24,352,881	20,436,188	25.80%
2011-12	114,861,305	74,647,968	21,299,550	18,913,787	25.34%
2012-13 *	111,087,000	71,552,000	21,534,000	17,981,000	25.13%
2013-14 *	104,340,000	67,437,000	19,956,000	16,947,000	25.13%

*Projected

Self-Support Programs Fees (\$3,213,000)

Self-support programs fees (\$3,213,000) are fees on expenditures for programs in the College of Extended Studies, KPBS, and various academic departmental accounts. Fees earned for providing services to The Campanile Foundation and its gift funds are also included in this category. It is anticipated that funds received from these fees will increase by \$378,000 or 13.3% primarily as a result of the renegotiation of the business banking agreement with The Campanile Foundation. The increase in this line item is partially offset by a decrease in the revenue generated by investments.

Rents (\$6,157,000)

The FY 2013-14 budget assumes that a major realignment of the research foundation's property holdings will be approved by the board and implemented in the coming fiscal year. The management, income, expenses and debt of certain properties will be transferred to Aztec Shops. This is an initiative of the university to more closely align each auxiliary's property with its mission.

The category of funds identified as rents includes the following: 1) rents collected as a direct cost from grants and contracts programs where full F&A costs are not recovered; and 2) revenues collected from commercial, and university sources. Total rents are estimated at \$6,157,000 for FY 2013-14 a reduction of \$3,616,000 or 37% over mid-year FY 2012-13, due to the property realignment. See *Appendix B* for further detail.

Royalties and Other Technology Transfer Office (TTO) Income (\$147,000)

The research foundation earns royalty income from the sale of each product or service licensed under specific copyright or patent agreements. It is anticipated that we will experience a slight decrease in these revenues in FY 2013-14 when compared to the mid-year FY 2012-13 budget due to fluctuation in timing of legal reimbursements.

Investments (\$1,718,000)

The investment income accruing to the general fund budget arises primarily from short-term investments of working capital, designated reserves, unexpended balances in self-support programs, and unrestricted monies the board has designated as quasi-endowment funds.

Historically, the research foundation received the investment income on unexpended balances in The Campanile Foundation non-endowment spending accounts as part of the payment for rendering services related to fiscal management of these funds. (The earnings on SDSU Research Foundation and The Campanile Foundation endowment funds are retained by each endowment.) It is anticipated that effective July 1, 2013, SDSURF will pay The Campanile Foundation interest on cash balances held at SDSURF. The decrease in investments reflects this new agreement plus an anticipated overall decrease in cash available for investment. A corresponding increase in self-support programs fees is also anticipated under the new agreement. Investments are projected at \$1,718,000 for FY 2013-14, which represents a 13% decrease when compared to the mid-year budget. See *Appendix C* for additional detail.

USE OF FUNDS

Basic Support**Administration & Operations (\$13,796,000)**

Administration and operations costs cover the support functions necessary to provide an appropriate level of service to research foundation clients and to accomplish various compliance requirements imposed by regulatory agencies. As a non-profit corporation, the research foundation must comply with federal and state laws and regulations. As an auxiliary organization of the CSU system, the research foundation must also comply with policies and procedures of SDSU as well as those of the Trustees and Chancellor's Office that pertain to all auxiliary organizations. Sound internal controls and good business practices dictate that we establish and maintain adequate business systems, policies, and critical major procedures to properly manage and account for all funds and other assets under our care, custody, and control.

Schedule 7 provides a summary of general administration and operations expenses by expense type.

Schedule 7

Administration & Operations by Expense Type

	Actual		Mid-year		Proposed		Proposed compared to FY 2011-12 Actual		Proposed compared to Mid-year FY 2012-13	
	FY 2011-12	% of Total	FY 2012-13	% of Total	FY 2013-14	% of Total	\$ Increase (Decrease)	% Increase (Decrease)	\$ Increase (Decrease)	% Increase (Decrease)
	Personnel Costs:									
Salaries	8,973,521	61.15%	8,624,000	60.76%	8,485,000	61.50%	(488,521)	(5.44%)	(139,000)	(1.61%)
Benefits ①	3,514,431	23.95%	3,665,000	25.82%	3,526,000	25.56%	11,569	0.33%	(139,000)	(3.79%)
	<u>12,487,952</u>	<u>85.10%</u>	<u>12,289,000</u>	<u>86.58%</u>	<u>12,011,000</u>	<u>87.06%</u>	<u>(476,952)</u>	<u>(3.82%)</u>	<u>(278,000)</u>	<u>(2.26%)</u>
Operating Costs:										
Legal	233,308	1.59%	96,000	0.68%	56,000	0.41%	(177,308)	(76.00%)	(40,000)	(41.67%)
Insurance	85,030	0.58%	102,000	0.72%	105,000	0.76%	19,970	23.49%	3,000	2.94%
Supplies	113,654	0.77%	80,000	0.56%	76,000	0.55%	(37,654)	(33.13%)	(4,000)	(5.00%)
Equipment	201,634	1.37%	107,000	0.75%	72,000	0.52%	(129,634)	(64.29%)	(35,000)	(32.71%)
Travel	110,238	0.75%	82,000	0.58%	83,000	0.60%	(27,238)	(24.71%)	1,000	1.22%
Contracted Services ②	703,436	4.79%	728,000	5.13%	740,000	5.36%	36,564	5.20%	12,000	1.65%
Audit	250,631	1.71%	287,000	2.02%	258,000	1.87%	7,369	2.94%	(29,000)	(10.10%)
Other ③	489,209	3.33%	422,000	2.97%	395,000	2.86%	(94,209)	(19.26%)	(27,000)	(6.40%)
	<u>2,187,140</u>	<u>14.90%</u>	<u>1,904,000</u>	<u>13.42%</u>	<u>1,785,000</u>	<u>12.94%</u>	<u>(402,140)</u>	<u>(18.39%)</u>	<u>(119,000)</u>	<u>(6.25%)</u>
	<u>14,675,092</u>	<u>100.00%</u>	<u>14,193,000</u>	<u>100.00%</u>	<u>13,796,000</u>	<u>100.00%</u>	<u>(879,092)</u>	<u>(5.99%)</u>	<u>(397,000)</u>	<u>(2.80%)</u>

① Retiree medical is included in this line.

② Contracted services include computer maintenance services, HR management and consultants.

③ Other operating costs include telephone, postage, duplicating, printing, equipment rental, professional development, publications, computer supplies and software.

The administration and operations budget amount of \$13,796,000 for FY 2013-14 is a projected net decrease of \$397,000 or 2.8% from the mid-year FY 2012-13 budget and \$879,092 or 6.0% from actual expenditures in FY 2011-12. These net decreases are the result of many changes in the various components of the operating budget. The reduction includes \$200,000 in cuts that will be identified throughout the year as operations are streamlined and increased efficiencies are implemented. The \$200,000 is allocated under personnel as a placeholder; however all areas will be examined in order to achieve the target reductions.

Facilities Expenses (\$10,367,000)

Research foundation management is involved in a variety of activities related to real property, including the operating expenses related to administering the space provided to sponsored projects. Total facilities expenses of \$10,367,000 decreased by \$3,134,000 from mid-year FY 2012-13 or 23.2%. This decrease reflects the anticipated realignment of property as discussed under Facilities- Rents above. See *Appendix B* for more detail.

ALLOCATIONS

The Facilities and Administrative recovery of cost is a reimbursement of expenditures incurred to support the research infrastructure that cannot be directly charged to the sponsor. The majority of these costs are incurred by the university. A portion of F&A reimbursement is reinvested in the research enterprise through the allocations below.

Funds are allocated for specific support related to projects administered by the research foundation on behalf of the university. For FY 2013-14, the allocations presentation has been streamlined into three core areas: Direct Support of Research, Support of Research Infrastructure and Investments in Enhanced Service Initiatives.

Direct Support of Research (\$3,298,000)

This category refers to those resources allocated to principal investigators and university organizational units in direct support of proposal development, on-going research programs or other research endeavors. Allocations include:

	FY 2011-12 Actual	FY 2012-13 Original	FY 2012-13 Mid Year	FY 2013-14 Proposed
Direct Support of Research				
Research Support Funds	3,940,512	3,440,000	3,381,000	3,052,000
Research Support, Provost's Office	500,000	-	-	-
University Grants Program	-	92,000	92,000	92,000
BioScience Center Development	70,394	80,000	60,000	60,000
Biology PI Administrative Support	111,060	96,000	96,000	94,000
Total	<u>4,621,966</u>	<u>3,708,000</u>	<u>3,629,000</u>	<u>3,298,000</u>

Research Support Funds (\$3,052,000)

Research Support Funds (RSF) are funds allocated to colleges, principal investigators, and the vice president for research to support existing or new university research initiatives. This allocation is made by formula and governed by policies approved by the university and research

foundation board.

The formula for projects eligible for RSF distribution is as follows:

- 15% to colleges/units (adjusted by space operating costs)
- 10% to PIs
- Additional 10% to high-volume PIs
- 10% of the amounts distributed to the colleges and PIs to the Vice President for Research for Institutional Support

The following chart shows the projected FY 2013-14 RSF distribution.

RSF DISTRIBUTION FY 2013-14		
Colleges/Units		
RSF	\$ 1,976,000	
Space Adjustment	(877,000)	
Washington D.C. Representation	<u>(54,000)</u>	
Subtotal		1,045,000
PIs		
RSF	\$ 1,308,000	
High-volume	476,000	
Washington D.C. Representation	<u>(54,000)</u>	
Subtotal		1,730,000
Institutional		<u>277,000</u>
Total Research Support Funds		<u><u>\$ 3,052,000</u></u>

The ability to fund 100% of the RSF distribution formula is impacted by actual F&A expenditures, total revenues received by the research foundation and the requirement to cover mandatory expenses.

The proposed FY 2013-14 budget funds 100% of the formula. However, as in previous years, 80% (\$2,442,000) of the budgeted amount will be provided at the beginning of FY 2013-14. The remaining 20% (\$610,000) will be distributed as part of the mid-year FY 2013-14 budget if the projected unrestricted revenue goals are achieved.

The FY 2013-14 budget continues the practice of sharing the cost of the Washington D.C. representation with the colleges and programs that benefit from their activities. The amount distributed to the current year is based on earnings in the prior year.

Research Support, Provost’s Office (\$0)

These funds are used to support research and have been used for faculty housing allowances and joint doctoral students. No allocation was provided in the FY 2012-13 and FY 2013-14 budget. This decision was made in consultation with the university as part of the plan to address diminishing research foundation revenues.

University Grants Program - (\$92,000)

These funds are allocated in support of the University Grants Program (UGP). The UGP is administered by the university and supports scholarly research; assists faculty at lower ranks to meet qualifications for retention, tenure, and promotion; permits faculty to bring advanced projects to conclusion; and helps faculty develop research programs that may be competitive for extramural funding.

BioScience Center Development (\$60,000)

The BioScience Center (BSC) was established in 2006 with the appointment of Dr. Roberta Gottlieb as director. Dr. Gottlieb promotes the development of the BSC, a first class research center by recruiting new faculty, fundraising for the BSC, ensuring optimal utilization of space, and maintaining a high quality research program.

The BioScience Center Development fund provides support to the BSC director equivalent to 10% of the F&A generated by PIs occupying BSC space. Funds are to be used to assist in the goals outlined above. The decrease from prior periods is due to a decline in BSC F&A revenue.

Biology PI Administrative Support (\$94,000)

Since the initial request in 1995, SDSU Research Foundation has contributed funds to help pay for administrative assistance in the biology department. This support is unique to a group of biology PIs. Both the PIs and the College of Sciences dean’s office contribute additional funds they control to support the administrative functions.

Support of Research Infrastructure

This category refers to allocations made in support of the infrastructure necessary to support and grow the research enterprise. Allocations include support for the following areas:

	<u>FY 2011-12</u>	<u>FY 2012-13</u>	<u>FY 2012-13</u>	<u>FY 2013-14</u>
	<u>Actual</u>	<u>Original</u>	<u>Mid Year</u>	<u>Proposed</u>
Support of Research Infrastructure				
Other Facilities and Equipment Support	457,047	354,000	416,000	390,000
Research Support - Library	50,000	50,000	50,000	50,000
Research Compliance	799,358	1,130,000	1,130,000	1,130,000
University Research Space	84,397	80,000	80,000	80,000
Total	<u>1,390,802</u>	<u>1,614,000</u>	<u>1,676,000</u>	<u>1,650,000</u>

Other Facilities and Equipment Support (\$390,000)

These monies are used primarily for facilities and equipment support, such as outfitting research foundation office space assigned to new projects. Office furniture, office equipment, and

telephone installation is typically required immediately upon notification of a new award.

Research Support - Library (\$50,000)

This allocation recognizes the role the SDSU library and its faculty/staff play in supporting SDSU’s research mission. This allocation is intended to support the library with funding for research publications and subscriptions.

Research Compliance (\$1,130,000)

Funds are provided to the university to offset a portion of its costs related to the infrastructure needed to support the required administrative and compliance activities of a research institution.

These include support for the office of the vice president for research and the division of research affairs and these critical compliance activities: ensuring training and adherence to human subjects and animal subject regulations, biosafety and the safe use of radioactive materials in sponsored research programs, and oversight of export controls in accordance with federal regulations.

University Research Space (\$80,000)

This line item is the result of a policy established by the CSU Chancellor's Office to provide a mechanism for the university to recover a portion of costs incurred on behalf of auxiliaries. This amount is paid to the university and is based on the use of university facilities by federally sponsored research projects providing full F&A cost recovery.

Investments in Enhanced Service Initiatives (\$162,000)

This allocation is intended to support the overall research enterprise through large-scale initiatives to streamline processes, create efficiencies and develop opportunities for new research endeavors. Support includes:

	FY 2011-12 Actual	FY 2012-13 Original	FY 2012-13 Mid Year	FY 2013-14 Proposed
Investment in Enhanced Service Initiatives				
Systems Infrastructure	-	500,000	500,000	-
Washington DC Representation	180,000	162,000	162,000	162,000
Total	<u>180,000</u>	<u>662,000</u>	<u>662,000</u>	<u>162,000</u>

Funding for FY 2012-13 included the initial investment necessary for the four initiatives identified by management, principal investigators, and the NCURA report as critical priorities.

These funds were allocated to start the following processes: 1) an electronic proposal routing initiative which will streamline and expedite the process of moving a proposal through university and research foundation approvals; 2) a web-based time entry/reporting system to enable employees to complete time reports electronically; and 3) an IRB electronic routing and tracking

system. In addition, a portion of these funds may be used to improve disaster and emergency preparedness systems. The initial allocation made in FY 2012-13 is anticipated to be adequate to support the completion of the initiatives in FY 2013-14.

Washington D.C. Representation (\$162,000)

The research foundation engages the firm of Carpi & Clay to advise the university on changes in federal policy related to sponsored programs and to identify potential funding opportunities. Part of this cost is allocated back to the colleges and PIs who benefit from this activity. A breakdown of RSF allocations, including this cost, is presented on page 14.

RESERVES

Net Funds to (from) Reserves (\$912,000)

The budget shows \$912,000 from General Fund Reserves for FY 2013-14 to balance the budget. Management's multi-year strategy to address the decline in operating revenue uses a combination of reserves and investments in enhanced service initiatives which allow us to capitalize on increased efficiencies and streamlined procedures. The plan is closely tied to the university's strategic plan to recruit active researchers and enhance the research infrastructure. See *Appendix D* for more detail.



SDSU Research Foundation Executive Director Bob Wolfson (standing, center) with associate executive directors Melinda Coil and Norma Clark (standing); Michele Goetz and Tim Hushen (seated)

GENERAL FUND BUDGET

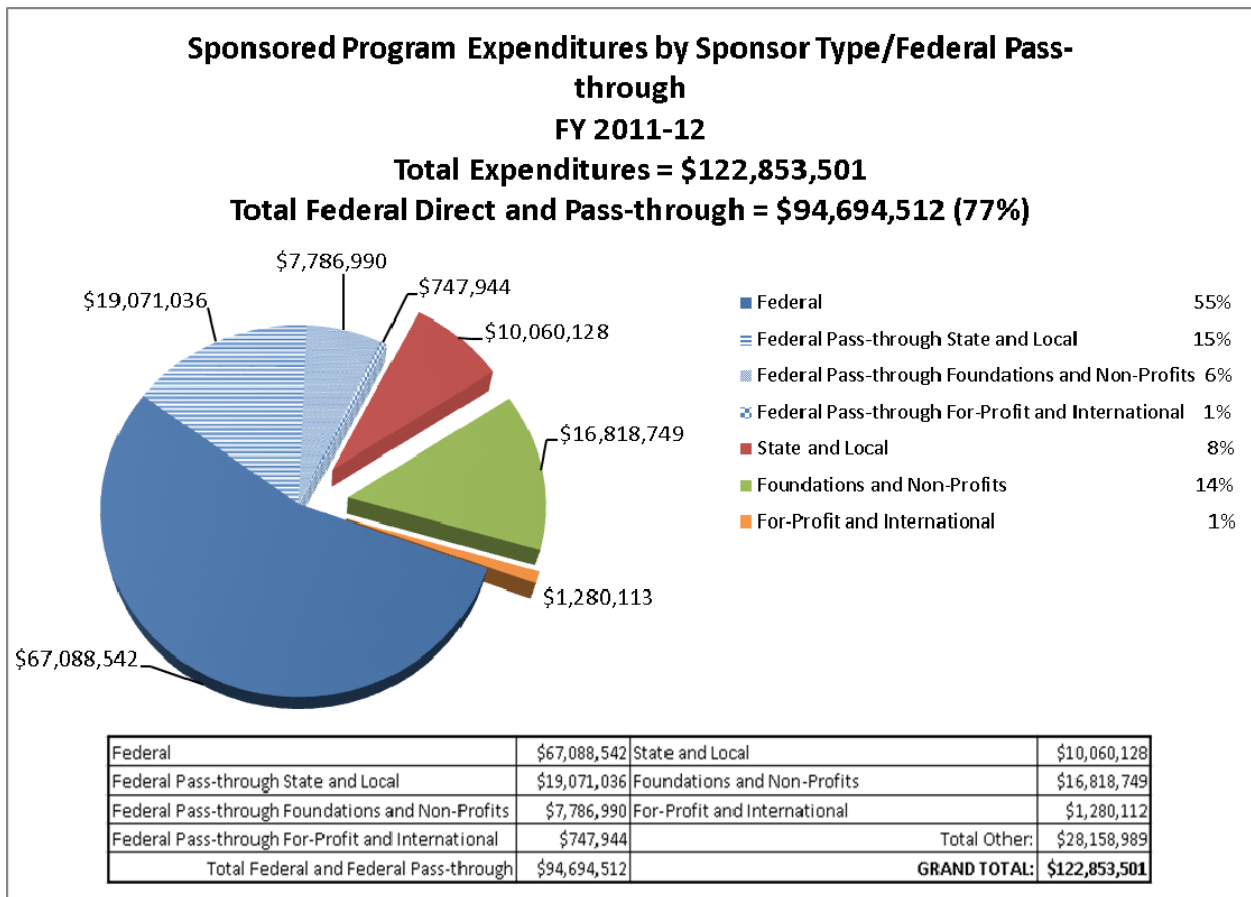
APPENDIX A

FEDERAL FUNDING OUTLOOK

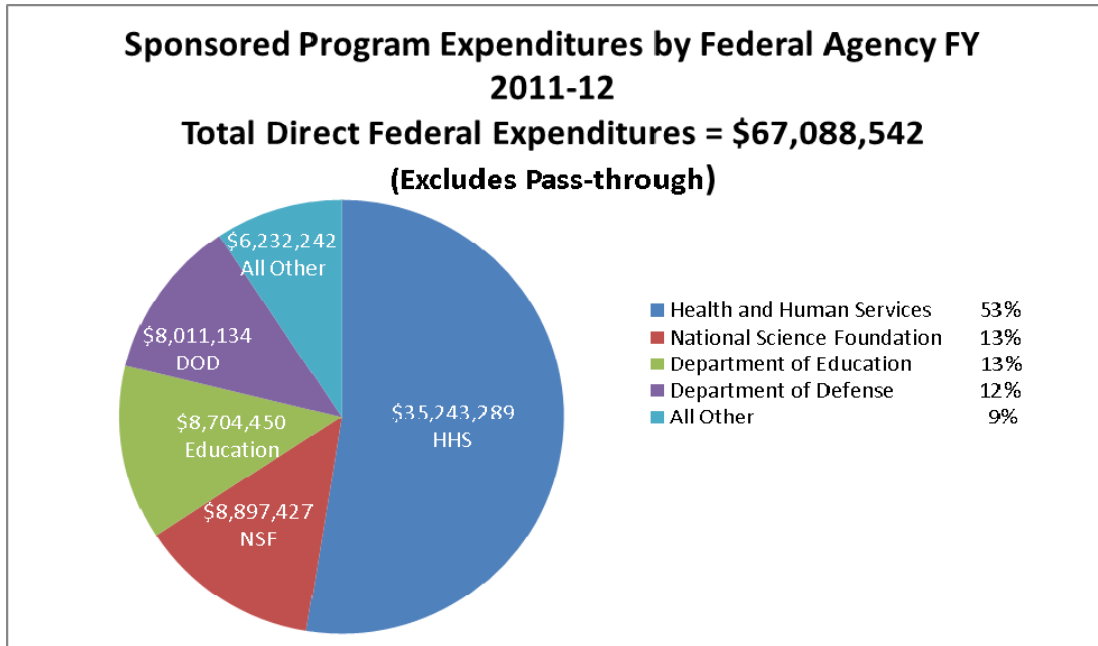
March Madness

The month of March saw the culmination of a much-watched budget drama that had been unfolding in our federal government. The first day of the month made the phenomenon of sequestration a reality. These sweeping, mandatory cuts canceled approximately \$85 billion across the federal government for the rest of the federal fiscal year, which runs through September 30, 2013.

More than three-fourths of the research foundation’s funding (measured by expenditures) is received either directly or indirectly (federally-funded grants that are “passed through” other organizations to the research foundation) from the federal government.



Of the research foundation’s direct federal funding, 53% comes from the Department of Health and Human Services (primarily the National Institutes of Health) and 13% comes from the National Science Foundation.



The usual uncertainty concerning the federal budget is further compounded this year by the unknown effects of sequestration. What we do know is this: these cuts have impacted the federal agencies that support SDSU research. Overall, the cuts cost agencies approximately five to seven percent of their budgets.

Sequestration - Billions

Federal Agency Impact

Agency	Funding	Change from FY12
DOD	\$67.5	-9.4%
NIH	\$28.6	-4.8%
DOE (OS)	\$4.2	-5.0%
NASA	\$9.0	-4.0%
NSF	\$5.4	-2.4%
Agriculture	\$2.1	-8.6%
Commerce	\$1.3	-5.5%
Transportation	\$0.88	-6.9%
Interior	\$0.70	-7.7%
EPA	\$0.54	-12.3%
Education	\$0.37	-5.0%

Source: B. Schweri, University of Kentucky

Each agency has reported they are handling the cuts differently. For example:

National Science Foundation.

NSF will reduce the number of new research grants and cooperative agreements awarded in FY 2013 by approximately 1,000. This is roughly a 10% reduction in the number of new awards. No impact on existing NSF grants is anticipated.

National Science Foundation - SDSU Proposals and Awards								
<u>NSF</u>			<u>New NSF Proposals</u>					
# Proposals Submitted in FY	# Awards Rec'd (related to each FY)		Success Rate %	# Proposals Submitted in FY	# Awards Rec'd (related to each FY)		Success Rate %	
	151	46			30.46%	127		
101	37	36.63%	87	26	29.89%			
137	62	45.26%	114	40	35.09%			
159	60	37.74%	136	38	27.94%			
121	40	33.06%	97	18	18.56%			
115	39	33.91%	91	19	20.88%			
112	41	36.22%	93	24	25.46%			

For proposals evaluated and a funding decision made as of 3/29/13, the success rate for proposals submitted in FY 2012 and FY 2013 is as follows:

	<u>NSF</u>	<u>Submitted</u>	<u>Pending</u>	<u>Evaluated</u>	<u>Awarded*</u>	<u>Declined</u>	<u>Withdrawn</u>	<u>Awarded Success Rate</u>
2013	New	83	55	28	4	24		14.29%
	Overall	90	57	33	9	24		27.27%
2012	New	91	1	90	19	67	4	21.11%
	Overall	115	3	112	39	67	6	34.82%

*Includes status "A" Awarded and "P" Prior

NSF National Average Success Rate for 2012 24%

National Institutes of Health.

NIH planned to reduce FY 2013 funding levels of non-competing continuation grants and is expected to make fewer competing awards. SDSU principal investigators are waiting to receive specific information from each NIH institute/center, but several have already seen a reduction in the dollar amount of their FY 2013 awards.

National Institutes of Health - SDSU Proposals and Awards								
Data as of 1/31/13	NIH			New NIH Proposals				
	# Proposals Submitted in FY	# Awards Rec'd (related to each FY)	Success Rate %	# Proposals Submitted in FY	# Awards Rec'd (related to each FY)	Success Rate %		
2007	135	71	52.59%	90	31	34.44%		
2008	152	84	55.26%	91	28	30.77%		
2009	251	101	40.24%	183	42	22.95%		
2010	228	110	48.25%	160	49	30.63%		
2011	185	86	46.49%	115	19	16.52%		
2012	150	63	42.00%	86	12	13.95%		
Avg	184	86	47.47%	121	30	24.88%		
<i>For proposals evaluated and a funding decision made as of 3/29/13, the success rate for proposals submitted in FY 2012-13 is as follows:</i>								
	NIH	<u>Submitted</u>	<u>Pending</u>	<u>Evaluated</u>	<u>Awarded*</u>	<u>Declined</u>	<u>Withdrawn</u>	<u>Awarded Success Rate</u>
2013	New	63	56	7	1	6	0	14.29%
	Overall	114	72	42	34	8	0	80.95%
2012	New	86	11	75	14	57	4	18.67%
	Overall	150	13	137	66	65	6	48.18%
*Includes status "A" Awarded and "P"								
NIH National Average Success Rate for 2012					17.6%			

Other possible impacts to grants: Continuation awards may be halted or reduced; incremental funds on multi-year awards may not be awarded; the scope of awards may be reduced; and plans for new grants may be re-scoped, delayed, or canceled.

The end of March brought good news as a government shutdown was averted on March 27, 2013 when Congress extended the continuing resolution to fund government operations through September 30, 2013.

More good news: On April 10, 2013, President Obama submitted his FY 2013-14 budget to Congress. Normally presented by February of each year, the proposed budget, along with the Senate and House budget resolutions, will move on for debate. President Obama's budget would end sequestration and add revenue by raising \$680 billion in ten years through taxes. President Obama views research spending as a means to help grow the economy. His budget would increase non-defense research and development (R&D) investment by 9% over FY 2012 levels.

Highlights of the president's proposed budget:

- \$33.2 billion for basic research (increase of 4% over FY 2012)
- \$31.3 billion for NIH (an increase of 1.5% over FY 2012)
- \$7.6 billion for NSF (an increase of 8.4% over FY 2012)
- \$5 billion for the Department of Energy's Office of Science (an increase of 6% over FY 2012)
- \$928 million for NIST (an increase of 23% primarily to support a new program to help universities, companies, and federal agencies develop advanced manufacturing technologies)
- \$73.2 billion for military-related research (a decrease of 5.2%)
- \$12 billion for DOD basic science (level)
- \$154 million to NEH (\$200,000 increase over FY 2012)
- \$154 million to NEA (\$200,000 increase over FY 2012)
- \$79 million to provide undergraduates hands-on-research experience (an increase of \$13 million)
- Increases requested for Title VI funds which support international research; and for the U.S. Agency for International Development, and Fulbright Program.
- The president's new \$100 million brain initiative will offer opportunities to researchers in the engineering and neurosciences, and help lead to advances in the treatment of Alzheimer's disease, autism, and stroke. Other areas of focus include clean-energy technology, biotechnology, a Pre-school for All initiative, and STEM education.

What's next?

The Senate and House plans differ so greatly that it is not likely they will find common ground. The important thing now is to reverse the cuts made by sequestration, and the President's budget attempts to do that, if only incrementally. According to the Association of American Universities, universities conduct 31% of the nation's total research and 56% off its basic research. Federal funding supports approximately 60 percent of university research (77% at SDSU).

Management will continue to analyze sequestration impacts and the proposed federal budget in order to project future revenue. As the federal government recovers, so will our state, our university, and our research foundation.

This information has been gathered from various sources including the American Association of State Colleges and Universities; The Chronicle of Higher Education; Office of Management and Budget; University of Kentucky (office of federal relations); and American Council on Education.

GENERAL FUND BUDGET

APPENDIX B

FACILITIES

BACKGROUND

SDSU Research Foundation has acquired, constructed and managed real property adjacent to campus and beyond. The proposed property realignment plan is designed to realign property holdings between Aztec Shops and SDSU Research Foundation, with the goal of best aligning each auxiliary's property portfolio with its mission. Our current real estate portfolio is being modified to better reflect our mission of supporting sponsored research activities.

The FY 2013-14 budget has been prepared under the assumption that the property realignment plan will be passed by the board and implemented in FY 2013-14. The research foundation's non-research connected commercial and student housing properties will be transferred to Aztec Shops; Aztec Shops will assume all operating and management responsibilities and the associated debt of the transferred properties. Following the transfer, the research foundation will continue to own, operate, manage, and lease a large portfolio of research-related property including:

Alvarado Medical Center. Nine buildings in the vicinity of Alvarado Hospital east of campus have been acquired over the years and provide an excellent space to house both projects and commercial tenants.

Sky Park Court. This office building in the Kearny Mesa area is currently fully occupied by research projects.

City Heights. Two buildings and a parking structure on El Cajon Blvd. provide an environment for community-oriented projects, non-profit commercial tenants, and SDSU programs.

Camino del Rio North. This building in Mission Valley currently houses a combination of SDSU programs and commercial tenants. The FY 2013-14 budget anticipates major changes in the tenant composition of this property. The plan proposes that SDSU faculty will move back to campus and the remaining projects will pay market rents.

KPBS/Gateway. This building located on the edge of campus is occupied by the research foundation central administrative staff and two major self-support programs: KPBS and the College of Extended Studies. The KPBS/Gateway building will transfer to the university upon full payment of related bond in 2023.

Coastal Waters Lab. Located on land that was previously part of the Naval Training Center in San Diego, this building and adjacent outdoor laboratories house the SDSU Coastal and Marine Institute Laboratory and the U.S. Geological Survey, a major tenant that occupies three fourths of the building.

Bioscience Center. In FY 2006-07 the university and research foundation partnered to develop a novel approach to finance and construct this 30,000 square-foot research facility.

Field Stations. These include Sky Oaks, a multidisciplinary facility for studying the ecology, geology, soils, and hydrology of chaparral and other Mediterranean-type ecosystems; and the Santa Margarita Ecological Reserve (SMER), an outdoor research and education laboratory and classroom. SMER houses the first five miles of the Santa Margarita River, serves as the linkage between the Santa Ana and Palomar Mountains, and provides the habitat for some very unique and endangered species.

RENTAL INCOME

Rental income is projected at \$6,157,000 which reflects the anticipated reduction in revenue related to the property realignment to Aztec Shops.

The research foundation does not receive rental income on all real property. For example, no income is realized from research foundation administrative offices and space used by research foundation projects on which full F&A cost recovery is received. Since the F&A cost rates include provisions for space usage, rent cannot be charged as a direct cost to projects with full F&A recovery.

FACILITIES EXPENSE

Research foundation management is involved in a wide variety of activities related to real property. The facilities operations function includes the costs of maintaining and managing real and personal property owned or overseen by the research foundation.

Facilities Operating Expenses (\$6,254,000)

This category includes all costs of the facilities operations function with the exception of capital and tenant improvements and debt service payments, which are shown separately. The expenses associated with the property realignment to Aztec Shops have been excluded from the FY 2013-14 budget. A breakdown is presented in the following chart.

Facilities Operating Expenses						
	Operating	Housing Bonds	Total	Operating	Housing Bonds	Total
	Mid-year FY 2012-13			Proposed FY 2013-14		
Salaries	\$ 1,803,000	\$ 143,000	\$ 1,946,000	\$ 1,750,000	\$ -	\$ 1,750,000
Administrative	124,000	18,000	142,000	94,000	-	94,000
Vehicles	54,000	-	54,000	54,000	-	54,000
Insurance	574,000	154,000	728,000	611,000	-	611,000
Maintenance	157,000	388,000	545,000	158,000	-	158,000
Utilities	1,181,000	308,000	1,489,000	1,161,000	-	1,161,000
Property Taxes	222,000	36,000	258,000	181,000	-	181,000
Contracted Services	1,054,000	484,000	1,538,000	908,000	-	908,000
Leased Space	536,000	47,000	583,000	583,000	-	583,000
University Services	667,000	13,000	680,000	645,000	-	645,000
Parking	109,000	-	109,000	109,000	-	109,000
	<u>\$ 6,481,000</u>	<u>\$ 1,591,000</u>	<u>\$ 8,072,000</u>	<u>\$ 6,254,000</u>	<u>\$ -</u>	<u>\$ 6,254,000</u>

Facilities Capital Improvements (\$321,000)

Capital improvements are costs to upgrade the condition of buildings and their mechanical systems and the surrounding land area. Sufficient funds must be provided to correct deficiencies that detract from the appearance and/or performance of the facilities that could affect rental rates and marketability. For improvements over \$5,000, or below if clearly capital improvements, the cost is capitalized and amortized over the life of the improvement – generally five years.

Facilities Tenant Improvements (\$464,000)

This category represents costs to renovate the interiors of offices and suites for research foundation projects and commercial tenants. For improvements over \$5,000 the cost is capitalized and amortized over the life of the project – generally three years.

Facilities Debt Service (\$3,328,000)

This category represents principal and interest payments due on debt from real property financing.

Summary of Debt Service	
2002 Bond Issue	\$ 1,562,000
2010 SRB Bond Issue	548,000
Internal Financing	
Sky Park Court	187,000
6367 Alvarado Court	348,000
6386 Alvarado Court	236,000
333 E. 6th Street, IV	5,000
619 Heber, IV	12,000
3590 Camino del Rio	134,000
Bioscience Center Lease	296,000 *
	<u>\$ 3,328,000</u>
<p>*It is anticipated that the underlying debt for the Bioscience Center Lease will be refinanced in FY 2013-14</p>	

REVENUE AND EXPENSE BREAKDOWN FOR PROJECT, NON-PROJECT, AND HOUSING ACTIVITIES

Facilities Revenue and Expense has been broken out by Project Activity, Non-Project Activity, and Housing Bonds. The purpose of this breakdown is to track net costs and income related to SDSU programs and those related to renting non-project space.

Fiscal Year 2013-14				
Proposed Budget	Project Activity	Non-Project Activity	Housing Bonds	Total Facilities
Revenue:				
Rental Income	\$ 850,000 *	\$ 3,758,000	\$ -	\$ 4,608,000
Rental Income – University Paid	-	1,549,000	-	1,549,000
Total Rental Income	850,000	5,307,000	-	6,157,000
Operating Costs	4,240,000	2,014,000	-	6,254,000
Net Income (Loss) before Debt Service, Tenant and Capital Improvements	(3,390,000)	3,293,000	-	(97,000)
Debt Service	1,837,000	1,491,000	-	3,328,000
Capital Improvements	135,000	186,000	-	321,000
Tenant Improvements	37,000	427,000	-	464,000
Net Income (Loss) after Debt Service, Tenant and Capital Improvements	<u>\$ (5,399,000) *</u>	<u>\$ 1,189,000</u>	<u>\$ -</u>	<u>\$ (4,210,000)</u>

Fiscal Year 2012-13				
Mid- Year Projection	Project Activity	Non-Project Activity	Housing Bonds	Total Facilities
Revenue:				
Rental Income	\$ 836,000 *	\$ 4,552,000	\$ 2,994,000	\$ 8,382,000
Rental Income – University Paid	-	1,391,000	-	1,391,000
Total Rental Income	836,000	5,943,000	2,994,000	9,773,000
Operating Costs	4,097,000	2,385,000	1,590,000	8,072,000
Net Income (Loss) before Debt Service, Tenant and Capital Improvements	(3,261,000)	3,558,000	1,404,000	1,701,000
Debt Service	1,918,000	1,804,000	947,000	4,669,000
Capital Improvements	145,000	116,000	-	261,000
Tenant Improvements	163,000	336,000	-	499,000
Net Income (Loss) after Debt Service, Tenant and Capital Improvements	<u>\$ (5,487,000) *</u>	<u>\$ 1,302,000</u>	<u>\$ 457,000</u>	<u>\$ (3,728,000)</u>

*SDSU Research Foundation does not record rental income on full F&A projects because rent is a component of F&A received. The above schedule does not include an allocation of rental income from F&A revenues.

Expenses were allocated as follows:

- **Operating Costs.** Operating costs were broken out as follows:
 - Certain costs that were 100% attributable to projects or non-projects were allocated accordingly. Thus the shuttle service, public safety reimbursement, and certain vehicle costs were allocated to project activity. Leasing commissions were allocated to non-project activity.
 - The remaining costs were analyzed to determine if the cost of supporting non-project and housing space was the same as that of supporting project space. The following services are provided to projects (but not housing or non-projects): extensive space layout and planning; furniture purchasing, moving, and repairing; replacing electrical cords and switches; handling spills - non-hazardous and some hazardous; and delivering copier paper. Management estimates that the time and costs to provide services to projects is 20% higher than the cost to provide services to non-projects. Therefore, an additional 20% of the salaries and fringe benefits were allocated to project activity.
 - After allocating the costs noted above, the remaining costs were allocated based upon square footage occupied.
- **Debt Service.** The cost of debt service was allocated based upon percentage of square footage occupied in a building with debt service.
- **Capital and Tenant Improvements.** This allocation was determined by the budgeted amount of expense and whether the improvement benefited any of the categories outlined above.

GENERAL FUND BUDGET

APPENDIX C

INVESTMENTS

Funds for which the research foundation has investment responsibility have been classified as “endowment funds” and “working capital and other funds.” The board of directors, its investment committee, and research foundation management establish investment strategies and appoint and evaluate professional investment managers. Investment strategies are intended to give due consideration to preservation and growth of capital while maintaining an acceptable level of risk. The research foundation’s approach to investment management requires an ongoing review of both investment objectives and the performance of investment instruments and managers. Total investments under management are summarized below.

Summary of Investments			
	Market Value		
	(\$ in Thousands)		
Endowment Funds	6/30/2011	6/30/2012	12/31/2012
Investment Pools			
TCF Endowment Pool	\$ 14,646	\$ 13,942	\$ 14,818
Current Income	3,157	3,435	3,352
Gift Annuity	1,795	1,675	1,261
Unpooled	2,342	2,348	2,350
Subtotal	<u>21,940</u>	<u>21,400</u>	<u>21,781</u>
Working Capital and Other Funds			
Fixed Income and			
Cash Equivalents	67,524	69,129	80,457 *
Real Property	48,175	48,224	53,103 **
Subtotal	<u>115,699</u>	<u>117,353</u>	<u>133,560</u>
Total	<u>\$ 137,639</u>	<u>\$ 138,753</u>	<u>\$ 155,341</u>

* Includes \$16,809,000 of internal financing at 12/31/2012

**Balance represents real property market value less external debt and deficit funds associated with properties.

As detailed in its investment policy, the research foundation has established both true and quasi-endowments for the benefit of university programs. The original principal and additional gifts to true endowments cannot be withdrawn. Those funds are to be held in perpetuity. Quasi-endowments are designated by the Board of Directors for specific purposes and are managed from an investment perspective as if they were true endowments while the board designation is in place.

The majority of endowments received by the university are given to The Campanile Foundation (TCF). As part of the financial services provided to TCF, the research foundation assists in the operation of the TCF endowment pool.

For its own endowments, the research foundation uses two endowment pools with different objectives. The current income pool maximizes income available for current use but does not protect purchasing power against inflation. The research foundation used its own balanced pool to protect against inflation until June 30, 2007. It was designed to maintain a balance between long-term growth (generated by equity investments) and current income. Starting July 1, 2007,

assets previously in the balanced pool were used to purchase units in TCF’s endowment pool—the pool that holds the great majority of the university’s permanently restricted endowments. No endowment fund balances were transferred to TCF—the research foundation decided to use TCF as its investment manager. The TCF endowment pool maintains a diversified asset mix just as the balance pool did. In that the central purpose of a true endowment is to provide support in perpetuity, this diversified approach is the investment option that best represents the research foundation’s overall investment philosophy and objectives. The table below shows the performance of the Campanile Pool.

Endowment Performance as of 6/30/2012				
	Annualized Total Return			
	1 year	3 years	5 years	10 years
TCF Endowment Pool	-1.2	12.0	1.8	6.5
NACUBO Benchmark (\$100 to \$500 million)	-0.7	10.2	0.7	3.3

The benchmark used is the annual survey performed by NACUBO (National Association of College and University Business Officers) and Commonfund, which includes investment results for over 850 colleges and universities. The benchmark average returns presented here correspond to the size of the two pools over time.

GENERAL FUND BUDGET

APPENDIX D

RESERVES

Maintaining adequate reserves is critical to any business organization, especially for non-governmental organizations dependent on generating annual revenues to support their activities. The research foundation revenues are projected prior to the beginning of a fiscal year and are committed mainly for program support (operating) costs, facilities (space) costs, and university support activities. Operating reserves are necessary to provide working capital to carry on daily activities, to guard against a decrease in projected revenue or increase in projected expenditures, to cover possible unallowable costs for grants and contracts, and to cover over-expenditures of project activities.

Presented below is the projected reserve activity for FY 2012-13 which anticipates \$912,000 from reserves to balance the FY 2013-14 budget.

	Established Reserves Balances				Projected Balance 6/30/2014
	Projected Balance 6/30/2013	Projected Activity			
		GF Allocation	Mkt Val Changes	Activity ④	
Discretionary					
Operating Reserves					
Income Equalization	500,000	-	-	-	500,000
Working Capital	2,566,000	(912,000)	-	-	1,654,000
Operating Contingency	884,000	-	-	-	884,000
Utilities	-				
Facilities	1,160,000	-	-	-	1,160,000
Insurance	110,000	-	-	(35,000)	75,000
Debt Service	958,000				958,000
Quasi-Endowments					
General Fund	2,825,000	-	188,000 ①	(114,000)	2,899,000
Research Endowment	1,970,000	-	131,000 ①	(100,000)	2,001,000
Research Endowment Income	551,000	-	20,000 ②	76,000	647,000
	<u>11,524,000</u>	<u>(912,000)</u>	<u>339,000</u>	<u>(173,000)</u>	<u>10,778,000</u>
Non-discretionary					
Employee-Related					
Retiree Medical VEBA Trust	7,174,000	250,000	459,000 ③	(139,000)	7,744,000
Employee Fringe Benefits	1,465,000	-	-	-	1,465,000
Workers' Compensation Insurance	2,802,000	-	-	(75,000)	2,727,000
Unemployment Insurance	1,246,000	-	-	25,000	1,271,000
	<u>12,687,000</u>	<u>250,000</u>	<u>459,000</u>	<u>(189,000)</u>	<u>13,207,000</u>
	<u>24,211,000</u>	<u>(662,000)</u>	<u>798,000</u>	<u>(362,000)</u>	<u>23,985,000</u>

① Expected market value returns are based on the TCF-stated long-term return objective of the HEPI Index plus 515 basis points. The HEPI projection is 1.5% resulting in a total return of 6.65%

② Estimated returns represent the current yield on the current income pool of 3.5%

③ Projected change in market value of 6.4% which is the average return of the VEBA for the past 5 years ended 4/15/13

④ Projected transactions for FY 2013-14.

The research foundation's reserves are categorized as discretionary (funds designated by the board for specific purposes) and non-discretionary (required by law or regulation). The components of each section and the established goal are presented below.

Discretionary Funds

Income Equalization (\$500,000)

The budgeted amount for F&A cost recovery each year is only an estimate and represents approximately 60.4% of unrestricted revenue. Because of the nature of grant and contract activity, the amount actually recovered could be substantially above or below the budgeted amount.

Since the research foundation annually allocates, in advance, the total estimated revenues, this reserve is intended to be used to balance the budget in years when actual F&A cost recovery is less than projected.

The amount of the reserve requires a judgment decision based on management's ability to project F&A cost recovery. The current reserve amount is 2.9% of annual F&A cost recovery. A reasonable goal for this reserve is five percent of F&A cost recovery (\$856,000). Management's intention is to add to this reserve as funds become available.

Working Capital (\$1,654,000)

The FY 2013-14 budget anticipates using \$912,000 from the working capital reserve.

College and University Business Administration, published by the American Council on Education, describes working capital as follows:

"In the strictest definition, working capital equals current assets minus current liabilities; working capital is the resource available to keep operations running through the short term (less than one year). If an institution depends on resources outside of its working capital cycle to stay afloat, its survival is doubtful in the long term."

Currently, most universities must have millions of dollars of cash segregated to provide the cash flow necessary to manage grants and contracts. Federal agencies use a variety of methods to reimburse universities for costs incurred on grants and contracts. The more common methods are cost reimbursement, letter of credit and advance payment. The letter of credit and advance payment methods are preferred and are intended to provide cash as it is needed to pay for costs when grant expenditures are made. The cost reimbursement method is the most challenging in that grantees advance payments from their monies and subsequently bill the federal agency.

Using the cost reimbursement method, the time frame between disbursements of cash for costs incurred and receipts of cash from the federal agencies averages 90 days and can take as long as nine months. This time lag requires grantees to have substantial monies set aside as working capital to administer cost reimbursable grants and contracts. Most state and local government agencies also use the cost reimbursement method. Historically, the research foundation's outstanding receivables on sponsored programs average \$25 million at any point in time.

More often, board-designated funds, Campanile Foundation funds and self-support programs cash balances are used to provide cash as needed for operations. If these cash balances were not available, the research foundation would need to borrow from its bank line of credit and would incur significant interest expense every year.

After a careful review of current conditions regarding financing grants and contracts, the goal for this reserve has been established at five percent of unexpended grant and contract awards (work-in-process), to provide for cash flow requirements. Based on this formula, the reserve should have a current balance of \$5,792,000. It is a top priority for management to increase the level of this reserve.

Operating Contingency (\$884,000)

This reserve pertains mainly to potential disallowances on grants and contracts and to other general operating contingencies. Despite the best efforts, audit disallowances are a part of administering grants and contracts.

The size of the allowance requires a judgment decision based on the following:

- Volume of grants and contract activity
- Time between audits
- Philosophy regarding risk taking (i.e., fiscal watchdog or facilitator)
- Competency of staff and adequacy of internal controls
- Administrative resources devoted to administration of grants and contracts.

The level of this reserve should be equal to one percent of annual grant and contract expenditures. The goal for this reserve is \$1,054,000. Management intends to work toward this goal as funds become available.

Utilities (\$0)

This reserve was established to help manage uncontrollable fluctuations in the utilities market from year to year. The goal for the reserve was established at 35% of the facilities department annual utilities budget. Therefore, the goal for FY 2013-14 is \$406,000. The amount of the reserve is evaluated each year depending on current utilities market issues. Management intends to work toward this goal as funds become available.

Facilities (\$1,160,000)

This reserve was established to help manage unexpected major repairs & maintenance on research foundation properties. Based on industry norms, the goal for the reserve was established at \$1,500,000. Management will fund these reserves as funds become available.

Insurance (\$75,000)

The insurance reserve was established in FY 2012-13 in anticipation of a change in the required deductibles on research foundation's insurance programs. Management is working to establish the ultimate goal for this reserve. The primary source of funding of this reserve will be funds recovered from insurance relating to claims in prior budget periods.

Debt Service (\$958,000)

The debt service reserve was established to assist with future debt service payments if needed or

to be used in a scenario where the “make whole” provision of the taxable bonds is triggered (i.e. in the event of a sale of one of the associated properties). The goal of the reserve is equal to one year debt service on the bond issues (\$2,110,000). Management will continue to fund this reserve as funds become available.

Quasi-Endowment/General Fund (\$2,899,000)

This reserve was established to accumulate unrestricted funds to serve as quasi-endowment funds. The objective is to increase the principal over the years to a level that will produce annual income to support research foundation operations and lessen dependence on F&A cost recovery. Monies in this reserve are invested as a quasi-endowment fund in The Campanile Foundation’s endowment pool.

Quasi-Endowment/Research Endowment (\$2,001,000)

In May 1983, the board passed a resolution to assume a ten-year commitment not to exceed \$100,000 per year, providing funds are available, for the purpose of replacing and upgrading research equipment. In 1988, the use of interest from the endowment was expanded to include assistance for joint doctoral students.

In February 1992, the guidelines for this endowment were revised and the name changed to the Research Endowment due to the continuing state budget crisis and its potential effect on sponsored research programs.

The board also approved a resolution to expand the purposes of the endowment to include general support of the research program and to increase the annual allocation from \$100,000 to \$200,000, subject to availability of funds, and to increase the endowment principal from \$1,000,000 to \$2,000,000. Currently, the contributed capital is \$2,000,000. The projected year-end balance of \$2,001,000 reflects prior years’ market declines and income distributions.

This reserve is also invested in The Campanile Foundation’s endowment pool because of the long-term commitment of the funds. The projected balance does not include any potential year-end withdrawals of previously reinvested earnings for current joint doctoral student support.

Research Endowment Income (\$647,000)

The income distributions from the Quasi-Endowment/Research Endowment are deposited in this reserve. The funds are invested to preserve principal balance in anticipation of current expenditures related to research.

Non-discretionary Funds

Retiree Medical VEBA Trust (\$7,744,000)

The overall projected increase in the trust value is due to both actuarially calculated contributions from the General Fund, KPBS, and Extended Studies and an increase in market value.

A policy approved by the board in 1984 provides health insurance for retirees who have met minimum requirements for age and years of service. Allocations to Retirees Medical Insurance Trust are made as necessary based on biannual actuarial studies to insure that the value of trust assets is maintained at a level necessary to fund required benefits. The value of trust assets will

grow as the size of the research foundation staff increases and as the number of retirees receiving benefits increases.

Employee Fringe Benefits (\$1,465,000)

This reserve provides funding for employee vacation and sick leave benefits. Although vacation benefit costs are funded from the annual operating budget as employees take vacation, generally accepted accounting principles (GAAP) require employers to accrue and fund earned and unused vacation benefits. The potential liability amount is determined at each fiscal year end. In February 1998, the board approved a sick leave benefit program intended to provide benefits comparable to those that are available to university employees.

Workers' Compensation Insurance (\$2,727,000)

Annually, as part of the financial statement audit, management reviews reserve levels and correspondingly modifies the fringe benefits/workers' compensation rate. Effective July 1, 2003, the research foundation instituted a high-deductible workers' compensation plan. According to the plan and the stop-loss insurance purchased, the research foundation is only liable for individual claims up to \$250,000 per claim and total annual claims up to \$2,700,000. The amount of the reserve is based upon management's estimate of potential claims based upon advice from an actuary and overall claims experience. Management will annually obtain an updated report from an actuary regarding recommended reserve levels.

Unemployment Insurance (\$1,271,000)

In FY 2012-13, there is no anticipated change in the level of this reserve line item. The benefit rate charged is monitored annually so that the interest earned on reserves plus premiums charged to employees offset the claims and expenses paid during the same time period. The withholding amount is anticipated to remain at an amount that will rebuild the fund over time.

In 1985, the board approved the establishment of an unemployment self-insurance program (UEI) that would replace the research foundation's participation in California's State Unemployment Program. The goal was to reduce catastrophic insurance coverage premiums by funding a certain level of unemployment claims internally. Once the desired reserve level was reached years ago, the rate charged has always been lower than what the State of California would have been charging.

Unfunded Obligations

Following the external property realignment, SDSU Research Foundation will have a total of \$5.3 million in unfunded obligations within its board designated funds related to the redevelopment project, sorority row project, and the fraternity row construction deficits lawsuit. Designated funds are controlled by the board of directors and represent assets dedicated to particular needs, obligations, or programs. Because the expenditures have already been made, these obligations are reported as deficit fund balances in specific designated funds. It is anticipated that the ultimate source of funds to repay these particular deficits will be the underlying market value of real property owned by the research foundation.

In addition, the research foundation has approximately \$2.5 million in facilities capital and tenant improvements that will be amortized through FY 2017-18 via the general fund budget.