

San Diego State University
Research Foundation



General Fund Budget

Fiscal Year 2016-17

Cover photo: Chris Goetz

Dr. Thomas Rockwell on a high terrace studying the Cristianitos fault with San Juan Creek drainage in the background (southern Orange County)

Principal Investigator: Dr. Thomas Rockwell, geological sciences

Professor Rockwell is an internationally renowned paleoseismologist/geomorphologist and expert on the tectonics and earthquake hazards of southern California and Baja California. He has conducted extensive trenching programs to date earthquakes on faults in the western U.S., South and Central America, the Middle East and Asia.

Funding for Dr. Rockwell's work has come from the National Science Foundation, the U.S. Geological Survey, and the University of Southern California.

This proposed FY 2016-17 budget was approved by the SDSU Research Foundation board of directors on May 6, 2016 without any changes.

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MESSAGE FROM THE ACTING EXECUTIVE DIRECTOR

I'm pleased to present the Fiscal Year 2016-17 proposed budget on behalf of the SDSU Research Foundation management team.

This budget continues to reflect the expectation that SDSU's investment in research faculty will produce increased revenues for SDSU Research Foundation. We are beginning to see those positive results as the number and dollar amount of proposals are trending upward.

Current Status

We are projecting \$118 - \$123 million in awards for FY 2015-16, sustaining the previous year's funding level of \$120.6 million.

The projected decrease of \$250,000 in facilities and administrative (F&A) cost recoveries over FY 2015-16 is primarily attributable to the Georgia project. While this project will continue to help stabilize our budget, although at lower rates going forward, overall indicators are pointing to increases in traditional sources of F&A.

Some of the positive indicators include:

- Ten percent more proposals have been submitted than the same period last year
- The dollar amount of F&A proposed is up by \$6.1 million
- Pending proposals are up in numbers, dollar amount and F&A
- The dollar amount of awards and F&A received to date are up by close to 9%

Other budget highlights:

- Administration and operations costs were held constant with FY 2015-16
- Additional service initiatives are proposed to create long-term cost-savings
- The university will continue to waive \$1 million of allocations
- Research Support Funds will be funded at 100%
- We will be taking \$1,200,000 from reserves to balance the budget - \$300,000 less than FY 2015-16

Reasons for Optimism:

University research investments. The university continues to invest in researchers and the research infrastructure. In FY 2015-16, \$2.5 million was allocated for the Areas of Excellence start-up funds and core support; Grants and Research Enterprise Writing Program; Summer Undergraduate Research Program; facilities improvement and research equipment, graduate fellowships and other direct support for faculty research.

New faculty. Approximately 70 recruitments are currently underway for new faculty who will join SDSU in the fall of 2016. The 122 new faculty who have joined SDSU in the last two years have already been awarded \$9 million and generated \$2 million in F&A.

Areas of Excellence. Since the program's inception, faculty associated with areas of excellence have been awarded \$2.6 million and have generated more than \$700,000 in F&A. Three new areas of excellence were funded last year; three new research hires are in process, with another three anticipated.

Grants and Research Enterprise Writing Program (GREW). Participants in this grants seminar for junior faculty have submitted 94 proposals and received 26 awards totaling more than \$6 million - generating more than \$1 million in F&A.

Enhanced Service Initiatives. Additional enhancements are planned to automate transactions to meet the goal of paperless processes by 2018.

Significant Challenges

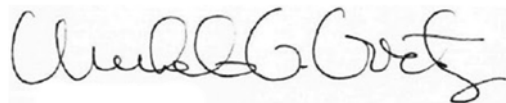
- While proposals and dollar amount of funds received are trending upward, expenditures are remaining flat, making it difficult to predict when F&A revenue will be earned.
- We continue to experience challenges as we recruit for certain critical positions. To attract qualified personnel we must meet market rates, resulting in increased personnel costs even while reducing staff.
- Management must develop a sustainable financial model that does not rely on continued university waivers or fully depleting reserves.

Going Forward

We will work with university leadership and the board to develop a financially sustainable model for the future. We will continue to hold costs as stable as possible, look for opportunities to conserve and consolidate, and implement initiatives that will be both cost-effective and allow us to continue to provide consistent quality services.

I'd like to thank our staff for their extraordinary efforts and compassion during the illness and passing of our executive director, Bob Wolfson. Their hard work, flexibility and teamwork has helped our organization weather a difficult period. I'm especially grateful for the finance department staff who have stepped up in the absence of a chief financial officer to ensure the continuity of business services and controls, and safeguarding of our assets.

We look forward to working with the university during the coming year to facilitate the work of SDSU researchers and to help advance the research agenda.



Michèle G. Goetz
Acting Executive Director

April 25, 2016

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 below provides an overview of major revenue budget categories and the General Fund Budget 2016-17 (Schedule 1).
2. The narrative detail follows Schedule 1 and provides further explanation of the line items in the General Fund Budget.

SUMMARY

Total research foundation revenue, including restricted and unrestricted, is projected to be \$169,077,000 for FY 2016-17. This is an increase of 5.3% from the FY 2015-16 mid-year budget.

Total revenues include unrestricted (the portion used to run our business) and restricted (the remaining portion used to support SDSU research). The **general fund unrestricted revenue** – projected at \$28,063,000 – makes up the unrestricted portion of total revenues generated by research foundation activities. This includes: grants and contracts (reimbursement for university and research foundation facilities and administrative (F&A) costs related to research), self-support programs (research foundation's administrative fee), rents, royalties and legal reimbursements related to technology transfer, and investments.

Restricted revenue – the remaining projected amount of \$141,014,000 – includes grants and contracts (direct cost reimbursements), self-support programs (funds held in trust for the College of Extended Studies, KPBS, and The Campanile Foundation) and contributions to the university for KPBS. While these restricted revenues are included in the research foundation's financial statements, they are not part of the general fund budget.

Schedule 1 presents the General Fund Budget in the following major categories: Source of Funds, Use of Funds (Basic Support and Allocations), and Reserves. Highlights of the General Fund budget follow:

Overall, FY 2016-17 unrestricted revenue is expected to decrease slightly 0.4% from projected mid-year FY 2015-16 figures but is up over FY 2014-15 actuals by 1.9%.

Basic Support. Basic Support is up from FY 2014-15 by 3.2% but is projected to be slightly lower than FY 2015-16 mid-year projections.

Allocations. Allocations for Enhanced Program Support decreased 6.4% from the FY 2015-16 mid-year budget as a result of the university covering a portion of research compliance salaries. The university will continue to waive \$1.0 million of allocations for the FY 2016-17 budget. Research Support Funds (RSF) are budgeted at 100% of the estimated amount.

Reserves. The budget shows a net of \$1,200,000 coming from reserves to balance the FY 2016-17 budget.

Schedule 1

General Fund Budget 2016-17				
	FY 2014-15 Actual	FY 2015-16 Original	FY 2015-16 Mid-Year	FY 2016-17 Proposed
<u>SOURCE OF FUNDS</u>				
<i>Unrestricted Revenue:</i>				
Georgia Project F&A	435,666	1,700,000	1,700,000	850,000
Traditional Programs F&A	16,765,220	16,200,000	16,400,000	17,000,000
Total Grants & Contracts F&A	<u>17,200,886</u>	<u>17,900,000</u>	<u>18,100,000</u>	<u>17,850,000</u>
Self-Support Programs Fees	<u>3,331,679</u>	<u>3,264,000</u>	<u>3,264,000</u>	<u>3,304,000</u>
Facilities Rents				
Program Facilities	815,958	794,000	855,000	811,000
Commercial	3,785,311	3,693,000	3,694,000	3,786,000
University	1,222,059	1,234,000	1,208,000	1,238,000
Total Facilities Rents	<u>5,823,328</u>	<u>5,721,000</u>	<u>5,757,000</u>	<u>5,835,000</u>
Royalties	87,903	91,000	91,000	86,000
Legal Reimbursements - TTO	44,777	89,000	79,000	48,000
Total TTO Revenue	<u>132,680</u>	<u>180,000</u>	<u>170,000</u>	<u>134,000</u>
Investments	<u>1,056,850</u>	<u>838,000</u>	<u>883,000</u>	<u>940,000</u>
Total Unrestricted Revenue	<u>27,545,423</u>	<u>27,903,000</u>	<u>28,174,000</u>	<u>28,063,000</u>
<u>USE OF FUNDS</u>				
<i>Basic Support</i>				
Administration & Operations	<u>14,211,404</u>	<u>14,450,000</u>	<u>14,707,000</u>	<u>14,670,000</u>
<i>Facilities Expenses</i>				
Facilities Operating Expenses	6,520,963	6,802,000	6,771,000	6,737,000
Capital Improvements	267,741	266,000	243,000	241,000
Tenant Improvements	440,630	345,000	373,000	321,000
Debt Service Payments	3,334,857	3,365,000	3,365,000	3,354,000
Total Facilities Expenses	<u>10,564,191</u>	<u>10,778,000</u>	<u>10,752,000</u>	<u>10,653,000</u>
Total Basic Support	<u>24,775,595</u>	<u>25,228,000</u>	<u>25,459,000</u>	<u>25,323,000</u>
Net Remaining after Providing Basic Support	<u>2,769,828</u>	<u>2,675,000</u>	<u>2,715,000</u>	<u>2,740,000</u>
<i>Allocations for Enhanced Program Support:</i>				
<i>Direct Support of Research:</i>				
Research Support Funds	2,797,190	2,734,000	2,715,000	2,731,000
University Grants Program	9,618	92,000	92,000	92,000
GREW Mentors	15,000	17,000	17,000	17,000
BioScience Center Development	35,178	19,000	30,000	10,000
Biology PI Administrative Support	73,258	94,000	94,000	94,000
	<u>2,930,244</u>	<u>2,956,000</u>	<u>2,948,000</u>	<u>2,944,000</u>
<i>Support of Research Infrastructure:</i>				
Project Facilities and Equipment Support	344,539	386,000	443,000	450,000
Research Support - Library	-	50,000	50,000	50,000
Research Compliance	1,151,105	1,441,000	1,340,000	1,154,000
Waiver of Certain Research Compliance Allocations	(1,117,000)	(1,000,000)	(1,000,000)	(1,000,000)
University Research Space	65,448	80,000	80,000	80,000
	<u>444,092</u>	<u>957,000</u>	<u>913,000</u>	<u>734,000</u>
<i>Investment in Enhanced Service Initiatives:</i>				
Systems Infrastructure	-	100,000	188,000	100,000
Washington D. C. Representation	162,000	162,000	162,000	162,000
	<u>162,000</u>	<u>262,000</u>	<u>350,000</u>	<u>262,000</u>
Total Allocations for Enhanced Program Support	<u>3,536,336</u>	<u>4,175,000</u>	<u>4,211,000</u>	<u>3,940,000</u>
Total Basic Support and Allocations	<u>28,311,931</u>	<u>29,403,000</u>	<u>29,670,000</u>	<u>29,263,000</u>
TOTAL SOURCE OF FUNDS	<u>27,545,423</u>	<u>27,903,000</u>	<u>28,174,000</u>	<u>28,063,000</u>
TOTAL USE OF FUNDS	<u>28,311,931</u>	<u>29,403,000</u>	<u>29,670,000</u>	<u>29,263,000</u>
Net Funds to (from) Reserves	<u>(766,508)</u>	<u>(1,500,000)</u>	<u>(1,496,000)</u>	<u>(1,200,000)</u>

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

Grants & Contracts – Facilities & Administrative (F&A) Cost Recovery (\$17,850,000)

The major source of unrestricted revenue is *F&A cost recovery* from sponsored research. Projected F&A cost recovery represents 63.6% of total unrestricted monies available. Although the federal negotiated F&A rate for research is 50.0% of modified total direct costs*, many awards receive a lower rate, and certain categories of expense may be excluded when calculating the rate in accordance with federal rules. The recovery rate to date for FY 2015-16 is projected to be 25.2% of modified total direct costs or 19.21% of all direct expenditures.

Proposed F&A for FY 2016-17 (\$17,850,000) reflects a decrease of 1.4% over FY 2015-16 mid-year projections, but a 3.8% increase when compared to FY 2014-15 actuals.

F&A on traditional contracts and grants is trending upward with a 1.4% increase over FY 2014-15 and a 3.7% increase over FY 2015-16 mid-year budget. This increase is directly attributable to the investments the university has made in new faculty and research infrastructure. The overall decline in F&A is mainly attributed to the significant impact the Georgia project had on the FY 2015-16 budget, generating \$1.7 million or 9.4% of the overall F&A. During the three years remaining on the Georgia contract, the F&A will decrease for each remaining year, from \$850,000 estimated for FY 2016-17, to an estimated \$570,000 for FY 2017-18 and \$475,000 for FY 2018-19. Despite this anticipated decrease, the Georgia funding will continue to allow more time for new researchers to develop their programs and obtain traditional funding.

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 2, page 7), Work in Process (Schedule 3, page 8), Spending Trends (Schedule 4, page 9), and F&A Cost Recovery (Schedule 5, page 10).

*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 greater than \$25,000, and participant cost and space rent. Rates vary dependent on whether a grant is classified as research, instruction or other sponsored program activity, whether it takes place on or off campus, and whether the sponsor pays to full rate.

Proposals Submitted and Awards Received

The dollar amount of awards for the first nine months of FY 2015-16 has increased from the same time last year. Management is currently projecting between \$118 million and \$123 million in total awards for FY 2015-16 – a level in line with last year’s \$121 million.

Proposals have also increased for this period (number of proposals submitted, dollar and F&A amounts proposed). The volume of proposal submissions in FY 2015-16 and the increased volume of pending proposals at March 31st support an anticipated increase in awards for FY 2016-17.

Schedule 2 provides a summary of FY 2014-15 proposals and awards and a comparison of actual numbers through March 2016 as compared to March 2015. This data shows increases in the number and dollar amount proposed, F&A costs proposed, the number and dollar amounts of pending proposals and F&A dollars awarded. Based on a detailed analysis that includes timing of awards and pending proposals, management anticipates that the increasing trends will continue in FY 2016-17.

Schedule 2**Proposals Submitted**

	Actual
	FY 2014-15
# Proposals Submitted	1050
\$ Amount Proposed	\$ 188,863,314
\$ F&A Costs Proposed	32,516,539
% F&A Costs Awarded/Direct Costs	20.80%

July 1 - March 31		Increase (Decrease)	% Increase (Decrease)
FY 2015-16	FY 2014-15		
802	727	75	10.32%
\$ 145,309,535	\$ 117,567,095	\$ 27,742,440	23.60%
27,970,408	21,848,357	6,122,051	28.02%
23.84%	22.83%		

Proposals Pending

	Actual
	FY 2014-15
# of Pending Proposals	408
\$ Amount Pending	\$ 90,906,235
\$ F&A Costs Pending	17,331,557
% F&A Costs Awarded/Direct Costs	23.56%

July 1 - March 31		Increase (Decrease)	% Increase (Decrease)
FY 2015-16	FY 2014-15		
437	351	86	24.50%
\$ 77,836,828	\$ 65,112,425	\$ 12,724,403	19.54%
18,480,415	14,117,720	4,362,695	30.90%
31.13%	27.68%		

Awards Received

	Actual
	FY 2014-15
# Awards Received	698
\$ Awards Received	\$ 120,593,760
\$ F&A Costs Awarded	18,389,209
% F&A Costs Awarded/Direct Costs	17.99%

July 1 - March 31		Increase (Decrease)	% Increase (Decrease)
FY 2015-16	FY 2014-15		
466	483	(17)	(3.52%)
\$ 90,382,858	\$ 83,222,548	\$ 7,160,310	8.60%
14,372,143	13,140,766	1,231,377	9.37%
18.91%	18.75%		

Note: Supplements are included in amounts above.

Work in Process

Work in Process (WIP), which reflects the amount of direct costs and F&A awarded but not yet spent, is another important indicator. As noted below in *Schedule 3*, SDSU Research Foundation has more dollars in WIP at this time than in the prior year. The F&A costs also indicate a positive trend with a 2.6% increase from prior year.

Schedule 3

Work in Process				
	YTD FY 2015-16 March 31, 2016 TOTAL	YTD FY 2014-15 March 31, 2015 TOTAL	\$ Increase (Decrease)	% Increase (Decrease)
Salaries	26,211,652	22,681,536	3,530,116	15.56%
Benefits	10,357,096	9,257,626	1,099,470	11.88%
Other Direct	22,955,236	25,615,675	(2,660,439)	(10.39%)
MTDC Subtotal	<u>59,523,984</u>	<u>57,554,837</u>	<u>1,969,147</u>	<u>3.42%</u>
Equipment	3,573,470	3,053,094	520,376	17.04%
Student Support	5,943,961	7,224,274	(1,280,313)	(17.72%)
Subcontracts	14,209,889	12,628,597	1,581,292	12.52%
Other Direct	72,580	1,044,394	(971,814)	(93.05%)
Other Subtotal	<u>23,799,900</u>	<u>23,950,359</u>	<u>(150,459)</u>	<u>(0.63%)</u>
Total Direct	<u>83,323,884</u>	<u>81,505,196</u>	<u>1,818,688</u>	<u>2.23%</u>
F&A Costs	<u>16,739,215</u>	<u>16,312,993</u>	<u>426,222</u>	<u>2.61%</u>
Total Costs	<u>100,063,099</u>	<u>97,818,189</u>	<u>2,244,910</u>	<u>2.29%</u>
F&A Costs/MTDC	<u>28.12%</u>	<u>28.34%</u>		

Spending Trends

F&A is earned when principal investigators/project directors actually spend their awarded funds. The expected direct cost expenditure level for FY 2016-17 is dependent on the submission of proposals, receipt of awards, and the spending schedule related to the awards.

Schedule 4 provides the results for the nine months ending March 31, 2016. Although it appears from Schedule 4 that spending is up, the increase is attributed to significant transactions in March 2016 on the Georgia contract. The F&A costs are up 8.43%, with the majority of the increase (\$784,000) attributable to the Georgia project. Overall, spending trends remain flat as compared to the same time last year, indicating that faculty remain cautious in their spending.

Schedule 4

Spending Trends				
	YTD FY 2015-16 March 31, 2016 TOTAL	YTD FY 2014-15 March 31, 2015 TOTAL	\$ Increase (Decrease)	% Increase (Decrease)
Salaries	27,332,841	27,094,303	238,538	0.88%
Benefits	8,341,017	8,158,630	182,387	2.24%
Other Direct	11,559,358	11,981,516	(422,158)	(3.52%)
MTDC Subtotal	47,233,216	47,234,449	(1,233)	(0.00%)
Equipment	1,848,245	329,871	1,518,374	460.29%
Student Support	5,275,624	5,575,618	(299,994)	(5.38%)
Subcontracts	6,272,545	7,585,635	(1,313,090)	(17.31%)
Other Direct	5,411,305	1,619,960	3,791,345	234.04%
Other Subtotal	18,807,719	15,111,084	3,696,635	24.46%
Total Direct	66,040,935	62,345,533	3,695,402	5.93%
F&A Costs	12,807,948	11,812,610	995,338	8.43%
Total Costs	78,848,883	74,158,143	4,690,740	6.33%
F&A Costs/MTDC	27.12%	25.01%		

F&A Cost Recovery Percentages

The effective rate of Facilities and Administrative (F&A) cost recoveries is an important measure in projecting revenue for FY 2016-17. F&A cost recovery is the primary source of the research foundation's general fund revenue. The research foundation's negotiated cost recovery rate for FY 2016-17 is 50.0%. The effective rates for the past ten years and projections for FY 2015-16 and FY 2016-17 are shown in *Schedule 5*. The difference between the negotiated rate and effective rate is a result of several factors (e.g. not all sponsors honor the negotiated federal rate).

Schedule 5

Sponsored Program Expenditures and F&A Effective Cost Recovery Rates						
Fiscal Year	Total Costs	MTDC	Other *	F&A Costs	F&A Rate Effective Rate MTDC	F&A Effective Rate TDCO
2006-07	105,405,951	69,744,247	20,708,680	14,953,024	21.44%	16.53%
2007-08	109,539,095	71,861,260	21,468,804	16,209,031	22.56%	17.37%
2008-09***	119,238,251	73,734,590	26,983,145	18,520,516	25.12%	18.39%
2009-10***	126,100,292	78,003,589	27,361,098	20,735,605	26.58%	19.68%
2010-11***	135,239,456	82,360,529	30,531,222	22,347,705	27.13%	19.80%
2011-12***	122,853,501	76,722,184	26,173,745	19,957,572	26.01%	19.40%
2012-13***	108,364,049	68,307,579	22,092,681	17,963,789	26.30%	19.87%
2013-14***	106,609,049	65,659,861	23,820,251	17,128,937	26.09%	19.14%
2014-15	106,339,953	67,697,355	21,441,712	17,200,886	25.41%	19.30%
2015-16 **	112,325,000	71,825,000	22,400,000	18,100,000	25.20%	19.21%
2016-17 **	110,820,000	70,975,000	21,995,000	17,850,000	25.15%	19.20%

* In previous budget reports, certain expenses in the "other" category were included in MTDC
 ** Projected
 *** Includes ARRA funds

Self-Support Programs Fees (\$3,304,000)

Self-support programs fees 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 \$40,000 or 1.2% over the FY 2015-16 mid-year projection, but decrease by 0.8% when compared to FY 2014-15 actuals. The increase is primarily attributed to the 3% escalation built into the agreement on the fixed fee contract with KPBS.

Rents (\$5,835,000)

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 \$5,835,000 for FY 2016-17, an increase of \$78,000 or 1.4% over the mid-year FY 2015-16 budget and constant with FY 2014-15 actuals. See *Appendix A* for further detail.

Technology Transfer Office (TTO) Revenue (\$134,000)

The research foundation earns royalty income from the sale of each product or service licensed under specific copyright or patent agreements. Net royalties are allocated to the inventors, the university, and the research foundation. The \$134,000 represents the research foundation's share of royalties as well as anticipated legal reimbursements.

Prior budgets reflected legal reimbursements as an offset to expense if incurred in the same year as the expense, or as royalty associated income if the expense was incurred in prior fiscal years. In order to increase transparency and more accurately monitor fluctuations in this area, the budgeted TTO income for FY 2016-17 has been modified to show both the royalty income and the legal reimbursement income, regardless of the fiscal year in which the legal expenses were incurred. This change reflects the industry norm which recognizes legal reimbursements as revenue in the fiscal year they are received. Adjustments have been made in the FY 2014-15 actuals and FY 2015-16 original and mid-year budgets to properly reflect this change.

While royalties are estimated to be relatively constant over FY 2014-15 to FY 2016-17, legal reimbursements are more variable. In FY 2015-16, legal reimbursements are expected to reach \$78,000 due to an anticipated one-time reimbursement of over \$40,000 resulting from the sale of the research foundation's equity position in Cognitive Retraining Technologies, Inc.

Investments (\$940,000)

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.

The decrease in investment income reflects an expected decrease in cash available for investment. The research foundation anticipates transferring \$26 million throughout FY 2016-17 (and an additional \$4 million in FY 2017-18) with quarterly payments to SDSU to assist with the financing of the Engineering and Interdisciplinary Sciences Complex. The source of these funds is the College of Extended Studies (CES) cash reserves generated from its non-credit course offerings held at the research foundation. As a result of these transfers, there will be less cash available during the coming year to generate investment revenues. Although investment income is projected at 6.5% higher than the FY 2015-16 mid-year budget, the increase is due to approved distributions of \$63,000 from the research endowment income reserve to support continuation of the board designated allocations. Investment income is projected at \$940,000 for FY 2016-17, which represents an 11.1% decrease compared to FY 2014-15 actuals of \$1,056,850.

USE OF FUNDS

Basic Support

Administration & Operations (\$14,670,000)

Administration and operations costs cover all 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 SDSU policies and procedures 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 6 provides a summary of general administration and operations expenses by expense type.

Schedule 6

	Administration & Operations by Expense Type								Proposed compared to	
	Actual		Original		Mid-year		Proposed		Mid-year FY 2015-16	
	FY 2014-15	% of Total	FY 2015-16	% of Total	FY 2015-16	% of Total	FY 2016-17	% of Total	\$ Increase (Decrease)	% Increase (Decrease)
Personnel Costs:										
Salaries	8,664,865	60.97%	8,875,000	61.42%	9,160,000	62.28%	9,160,000	62.44%	-	0.00%
Benefits *	3,383,315	23.81%	3,437,000	23.79%	3,385,000	23.02%	3,385,000	23.07%	-	0.00%
	<u>12,048,180</u>	<u>84.78%</u>	<u>12,312,000</u>	<u>85.20%</u>	<u>12,545,000</u>	<u>85.30%</u>	<u>12,545,000</u>	<u>85.51%</u>	<u>-</u>	<u>0.00%</u>
Operating Costs:										
Legal	250,105	1.76%	196,000	1.36%	247,000	1.68%	258,000	1.76%	11,000	4.45%
Insurance	107,606	0.76%	120,000	0.82%	82,000	0.56%	97,000	0.66%	15,000	18.29%
Supplies	55,649	0.39%	70,000	0.48%	67,000	0.46%	67,000	0.46%	-	0.00%
Equipment	131,962	0.93%	92,000	0.63%	87,000	0.59%	33,000	0.22%	(54,000)	(62.07%)
Travel	79,199	0.56%	119,000	0.81%	95,000	0.65%	95,000	0.65%	-	0.00%
Contracted Services **	729,166	5.13%	853,000	5.80%	868,000	5.90%	828,000	5.64%	(40,000)	(4.61%)
Audit	263,895	1.86%	269,000	1.83%	269,000	1.83%	305,000	2.08%	36,000	13.38%
Other ***	545,642	3.84%	419,000	2.85%	447,000	3.04%	442,000	3.01%	(5,000)	(1.12%)
	<u>2,163,224</u>	<u>15.22%</u>	<u>2,138,000</u>	<u>14.80%</u>	<u>2,162,000</u>	<u>14.70%</u>	<u>2,125,000</u>	<u>14.49%</u>	<u>(37,000)</u>	<u>(1.71%)</u>
	<u>14,211,404</u>	<u>100.00%</u>	<u>14,450,000</u>	<u>100.00%</u>	<u>14,707,000</u>	<u>100.00%</u>	<u>14,670,000</u>	<u>100.00%</u>	<u>(37,000)</u>	<u>(0.25%)</u>

* Retiree medical is included in this line.

** Contracted services include contracts for computer maintenance, background checks, recruiting, and other consultant services.

*** Other operating costs include HR recruitment fees including one-time relocation costs, telephone, postage, duplicating, printing, educational reimbursements, professional development, publications, computer supplies and software.

The administration and operations budget amount of \$14,670,000 for FY 2016-17 is projected to decrease slightly as compared to the mid-year FY 2015-16 budget. Funding has been included for the 2% across-the-board salary increase provided to core staff effective January 1, 2016. The pool also includes funding for a 3% salary increase effective January 1, 2017 comparable with what is anticipated for the university staff. These costs have been partially offset through reductions in other categories including the elimination of three positions (1.5 FTE in human resources and 1.5 FTE in sponsored research services) for FY 2016-17. The projection also includes \$100,000 in unallocated cuts that will be identified throughout the year as operations are streamlined and increased efficiencies are realized as well as additional potential salary savings. This \$100,000 is currently included under benefits costs as a placeholder; however, all areas will be examined in order to achieve the target reductions.

Legal expenses are increased due to the change in the treatment of legal reimbursement revenues for TTO to record reimbursements as revenue – not as a result of any anticipated increase in overall legal fees. Audit and insurance costs also continue to increase but are offset by savings in equipment (due to timing of the replacement of computers and printers) and contracted services (one-time costs for recruitment services in FY 2015-16 that are not anticipated to continue in FY 2016-17).

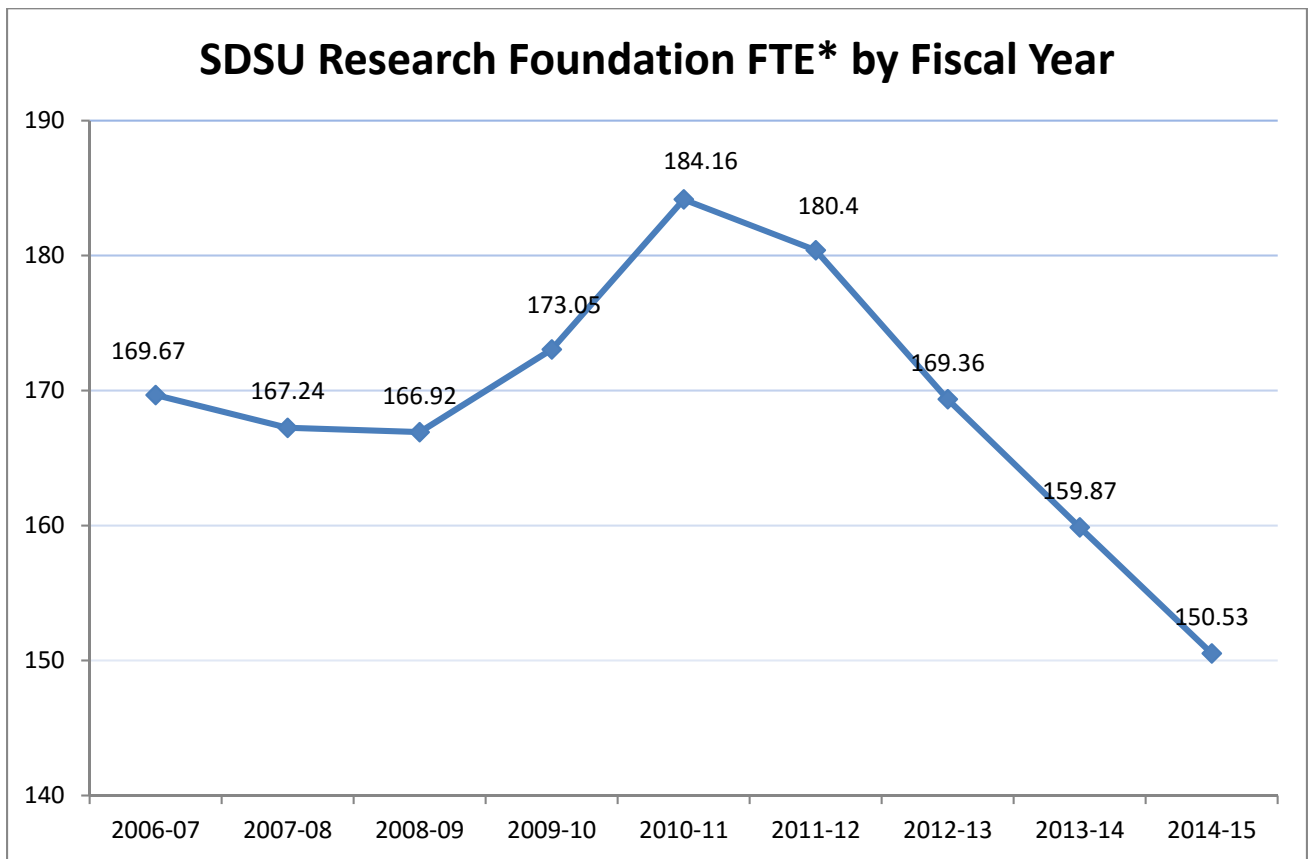
Overall administration and operations costs show a net reduction of \$37,000 and may continue to decrease as automation of processes continues.

Management is looking closely at staffing and as retirements or turnover lead to vacancies, reorganizing when possible to absorb duties or restructure responsibilities with existing staff. In addition, we anticipate the planned system initiatives will result in reduced staffing needs as processes are automated.

As expenditures and grant activity have declined and enhanced initiatives have automated key processes, there has been a corresponding downsizing of staff. The central staff FTE, *as calculated based on payroll expenditures*, has decreased from a high of 184.2 in 2010-11 (the ARRA years of increased funding) to 150.5 in FY 2014-15 or an 18% reduction. The budgets for FY 2015-16 and FY 2016-17 include additional staffing reductions of another three positions per year to help offset the rising costs of salaries and other operating expenses.

Schedule 7 shows central staff FTE for the last nine years *as calculated based on payroll expenses*.

Schedule 7



*as a calculation of payroll hours

Facilities Expenses (\$10,653,000)

Research foundation staff are involved in a variety of activities related to real property, including managing the space provided to sponsored projects. Total facilities expenses of \$10,653,000 represent a net decrease of \$99,000 from the mid-year FY 2015-16 budget or 1.0%. See *Appendix A* (page 19) for more detail on the facilities budget.

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.

Direct Support of Research (\$2,944,000)

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

Research Support Funds (\$2,731,000)

Research Support Funds (RSF) are funds allocated to colleges, principal investigators and the vice president for research to support new or existing 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 is provided to the vice president for research for institutional support.

The ability to fund 100% of the RSF distribution formula is impacted by actual F&A recovered, total revenues received by the research foundation and the requirement to cover mandatory expenses. In accordance with the approved formula, FY 2016-17 distributions of RSF are based on the amount of actual F&A generated in FY 2015-16.

The proposed FY 2016-17 budget funds 100% of the formula. However, as in previous years, 80% (\$2,185,000) of the budget amount will be provided at the beginning of FY 2016-17. The remaining 20% (\$546,000) will be distributed as part of the mid-year FY 2016-17 budget if the projected unrestricted revenue goals are achieved.

The FY 2016-17 budget continues to follow the new funding formula implemented in FY 2015-16 related to the cost of the Washington D.C. representative. The portion of this cost historically allocated to the PIs is now absorbed by the research foundation and the vice president for research. The FY 2016-17 budget continues the practice of sharing the cost of the Washington D.C. representation with the colleges that benefit from these activities.

University Grants Program (\$92,000)

These funds are allocated in support of the University Grants Program (UGP). The program had one-time savings in FY 2014-15 that were used to offset the research foundation allocation. Those savings have been fully utilized; and the FY 2016-17 budget includes the full allocation amount of \$92,000. 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.

Grants and Research Enterprise Writing Program (\$17,000)

The former Professors helping Professors (PhP) program is being integrated with the Grants and Research Enterprise Writing (GREW) program, which provides intensive proposal writing training for junior faculty. The GREW allocation provides support for participants to be mentored by senior faculty in the development of new proposals.

BioScience Center Development (\$10,000)

The BioScience Center (BSC) was established in 2006. Funds are used to support costs associated with the center. The reduction is a result of decreased grant activity following the departure of the BSC director. A recruitment is underway for a new director.

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 to support the administrative functions.

Support of Research Infrastructure (\$734,000)

This category refers to allocations made in support of the infrastructure necessary to support and grow the research enterprise.

Project Facilities and Equipment Support (\$450,000)

These monies are used primarily for facilities and equipment support, such as outfitting space assigned to new projects. For example, office furniture, office equipment, and telephone installation is typically required immediately upon notification of a new award. Effective with the FY 2016-17 budget, a new expense has been added for costs associated with providing Microsoft Office licenses to all projects. The system-wide license did not include auxiliaries so this is a new expense which will be absorbed by the research foundation for FY 2016-17.

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. Funds were not allocated in FY 2014-15 because prior balances were still available for the library to utilize. The library has utilized these balances. Therefore, a new \$50,000 allocation has been included for FY 2016-17.

Research Compliance (\$1,154,000)

Funds are provided to the university to offset a portion of infrastructure costs needed to support the required administrative and compliance activities of a research institution. This includes support for the office of the vice president for research, the division of research affairs and environmental health and safety. These critical compliance activities ensure 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.

Waiver of Certain University Allocations (\$1,000,000)

The university has generously agreed to a continued waiver of \$1.0 million in FY 2016-17 so that remaining reserves can be utilized over several years, allowing time for investments in research to start generating additional revenue and for research foundation cost-savings initiatives to be implemented.

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 in support of sponsored programs. 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 (\$262,000)

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.

Systems Infrastructure (\$100,000)

Funding for FY 2016-17 includes \$100,000 as an initial investment for the next electronic initiatives identified as critical priorities in order to progress toward the goal of being paperless by 2018.

In FY 2015-16, the funding allocated by the board was invested in laying the technical groundwork for automated workflows including replacing paper and wet-ink signature cards with a new on-line signature authority system. This initiative will make it easier for PIs to manage signature delegations on their funds and codifies the information for use in systematic routing and approval of on-line documents. The first on-line personnel action workflow, triggered by personnel expiration letters, is on track for release by the end of FY 2015-16. With this new system, PIs will be able to easily view and act upon personnel appointments by ending, extending or approving expense distribution changes on-line via PI Profile, the web-based interface to the research foundation's accounting and payroll systems.

The funds proposed for FY 2016-17 will enable programming of additional personnel action workflows, including faculty overload appointments as well as developing on-line workflows for cash receipts and journal vouchers.

During the first six months of the year, management will explore options to automate procurement and payables, including on-line purchase requisitions, check requests and payment authorizations. The goal is to leverage information available in the finance system to systematically approve low risk transactions and route higher risk transactions to maximize operational efficiencies and minimize risk.

No funding is requested at this time for the on-line procurement to pay system. Cost estimates will be acquired to determine if an off-the-shelf product can be purchased versus programming an in-house system and will be brought back for board consideration as part of the FY 2016-17 mid-year budget review.

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 specialized funding opportunities for the university.

RESERVES**Net Funds to (from) Reserves (\$1,200,000)**

The budget shows a net of \$1,200,000 from various discretionary reserves to balance the FY 2016-17 budget. Management's multi-year strategy to address the decline in operating revenue uses a combination of reserves, selective staffing reductions 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 B* for more detail.

GENERAL FUND BUDGET

APPENDIX A

FACILITIES

BACKGROUND

Historically, SDSU Research Foundation has acquired, constructed and managed real property adjacent to campus and beyond. The research foundation continues 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 houses faculty researchers in the College of Health and Human Services and College of Sciences.

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.

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 and the Lavin Entrepreneurship Center. The KPBS/Gateway building will transfer to the university upon full payment of the related bond in November 2022.

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. 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

Total rental income is projected at \$5,835,000 which represents an increase of \$78,000 or 1.4% from the mid-year FY 2015-16 budget.

Program Facilities (\$811,000)

This category includes projects housed in research foundation space that do not receive full F&A and have rent budgeted. Rents are offered at reduced rates and space is flexible for growth or reduction over time. Examples include the Academy for Professional Excellence and the Driving Under the Influence Program.

This line represents rental income received as a direct charge to funded projects. Because each project operates on its own funding cycle, rent recoveries vary with the start and end of various programs. FY 2016-17 is projected to be fairly consistent with FY 2014-15 actuals but down 5% from FY 2015-16 due to project funding changes.

Commercial Rents (\$3,786,000)

Commercial rents are an important element in our off-campus model as these tenants offer income and profits and fill vacancies until space is required for researchers. Income this year is anticipated at nearly \$3.8 million.

University Space (\$1,238,000)

The research foundation houses university researchers and programs when space is not available on campus and site specific locations are necessary. Examples include space for the City Heights Educational Collaborative and the Center for Community Counseling & Engagement. Rents are paid by the university and are also discounted.

The research foundation does not receive rental income on all of its real property. In cases where space is used by sponsored programs on which full F&A costs are recovered, the F&A rate includes reimbursement for space utilization so additional rent is not charged to the program as a direct cost.

FACILITIES EXPENSES

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 (\$6,737,000)

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. A breakdown is presented in *Schedule 8*.

Schedule 8

	Facilities Operating Expenses				Mid-Year compared to Proposed FY 2016-17	
	Actual FY 2014-15	Original FY 2015-16	Mid-Year FY 2015-16	Proposed FY 2016-17	\$ Increase (Decrease)	% Increase (Decrease)
Salaries and Benefits	\$1,641,409	\$1,703,000	\$1,760,000	\$1,711,000	\$ (49,000)	(2.78%)
Operational Expenses	87,542	102,000	107,000	102,000	(5,000)	(4.67%)
Vehicles	32,472	43,000	43,000	39,000	(4,000)	(9.30%)
Insurance	592,901	618,000	543,000	570,000	27,000	4.97%
Maintenance	309,088	153,000	158,000	161,000	3,000	1.90%
Utilities	1,308,843	1,619,000	1,563,000	1,591,000	28,000	1.79%
Property Taxes	176,146	179,000	165,000	174,000	9,000	5.45%
Contracted Services	1,007,498	782,000	817,000	830,000	13,000	1.59%
Leased Space	607,157	669,000	681,000	674,000	(7,000)	(1.03%)
University Services/Parking	757,906	934,000	934,000	885,000	(49,000)	(5.25%)
	<u>\$6,520,962</u>	<u>\$6,802,000</u>	<u>\$6,771,000</u>	<u>\$6,737,000</u>	<u>\$ (34,000)</u>	<u>(0.50%)</u>

Consistent with administration and operations and comparable to the university, the facilities budget includes the 2% increase for staff that was implemented January 1, 2016 and the anticipated 3% increase effective January 1, 2017. Savings will be generated from the July 2016 retirement of the associate executive director of facilities planning and management. Instead of filling this position, the facilities management team will be restructured to add a senior facilities manager with consulting costs budgeted for specialized real estate needs.

Insurance, maintenance, utilities and property taxes are all projected to increase during FY 2016-17. Contracted Services reflect the additional consulting costs referenced above. Although University Services/Parking show a decrease, this is based on a more accurate forecasting of costs for FY 2016-17 than was available at the time the FY 2015-16 budget was being developed. The research foundation continues to reimburse the university for services based on the university's approved cost-allocation plan.

Facilities Capital Improvements (\$241,000)

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 capital improvements over \$5,000, the cost is generally amortized over the life of the improvement.

Costs for FY 2016-17 include the amortized portion of the replacement of the ice bank cooling system for the property located at 6505 Alvarado Road. This decades-old system has exceeded its life cycle and requires replacement with one that is energy efficient and environmentally friendly.

In total, the research foundation has approximately \$2.3 million in facilities capital and tenant improvements and equipment that will be amortized through FY 2020-21 via the general fund budget.

Note: The city of San Diego is developing the segment of the Naval Training Center Park esplanade that fronts the Coastal Water's Lab and adjacent properties. The lease agreement with the city obligates the research foundation to pay a pro-rata share of the improvement costs. These costs have not been established and no funds have been allocated in the FY 2016-17 budget for this item. Management is monitoring the city's progress on this issue.

Facilities Tenant Improvements (\$321,000)

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 generally amortized over three-five years.

Facilities Debt Service (\$3,354,000)

This category represents annual principal and interest payments due on debt from real property financing. The final payment date information has been added in *Schedule 9* to reflect when debt will be retired. The debt associated with the Gateway Center and Sky Park Court is due to retire in 2022 which will result in significant cost reductions for future budgets.

Schedule 9

Summary of Debt Service Proposed FY 2016-17			
	<u>Final Payment Date</u>	<u>Facilities Debt Service</u>	<u>Outstanding Debt March 31, 2016</u>
2010 SRB Bond Issue Gateway Center	Nov-22	\$ 543,000	\$ 3,230,000
Internal Financing			
Sky Park Court	Jun-22	187,000	1,000,000
6386 Alvarado Court	Mar-27	236,000	1,989,000
619 Heber Avenue	Sep-33	12,000	138,000
6367 Alvarado Court	Mar-40	348,000	4,623,000
* Bioscience Center Lease	Nov-35	474,000	9,565,000
2012 SRB Bond Issue	Nov-36	1,554,000	25,690,000
6363 Alvarado Court			
6330 Alvarado Court			
6475 Alvarado Road			
6495 Alvarado Road			
6505 Alvarado Road			
4275 El Cajon Blvd			
4283 El Cajon Blvd			
City Heights Parking			
Coastal Waters			
		<u>\$ 3,354,000</u>	<u>\$ 46,235,000</u>

* The Bioscience Center is owned by the university and leased to SDSU Research Foundation. The amounts above represent the debt service owed on the center that is paid through lease payments from SDSU Research Foundation.

GENERAL FUND BUDGET

APPENDIX B

RESERVES

Maintaining adequate reserves is critical to any business organization, especially for non-governmental organizations dependent on generating annual revenues to support their activities. 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.

While our strategy to stretch reserves has been effective thus far, and has been facilitated by generous university waivers, it cannot be sustained indefinitely. Over the course of the upcoming year, management will be working on developing a new model for sustainability.

Presented on *Schedule 10* is the projected reserve activity for FY 2016-17 which anticipates using \$1,200,000 from discretionary operating reserves to balance the FY 2016-17 budget. The \$1,200,000 was allocated amongst the available discretionary operating reserves.

Schedule 10

	Established Reserves Balances				Projected Balance 6/30/2017
	Projected Balance 6/30/2016	Projected Activity			
		GF Allocation	Mkt Val Changes	Activity ④	
Discretionary					
Operating Reserves					
Income Equalization	500,000	(250,000)	-	-	250,000
Working Capital	245,000	(245,000)	-	-	-
Operating Contingency	1,152,000	(590,000)	-	281,000	843,000
Facilities	1,115,000	(115,000)	-	-	1,000,000
Insurance	754,000	-	-	52,000	806,000
Debt Service	956,000	-	-	-	956,000
Total Operating	4,722,000	(1,200,000)	-	333,000	3,855,000
Quasi-Endowments					
General Fund	2,745,000	-	110,000 ①	(120,000)	2,735,000
Research Endowment	2,550,000	-	102,000	(112,000)	2,540,000
Research Endowment Income	299,000	-	6,000 ②	54,000	359,000
Total Quasi-Endowment	5,594,000	-	218,000	(178,000)	5,634,000
Total Discretionary	10,316,000	(1,200,000)	218,000	155,000	9,489,000
Non-discretionary					
Retiree Medical VEBA Trust	9,468,000	98,000	603,000 ③	(150,000)	10,019,000
Employee Fringe Benefits	1,577,000	-	31,000 ②	-	1,608,000
Workers' Compensation Insurance	2,072,000	-	-	395,000	2,467,000
Unemployment Insurance	1,590,000	-	-	-	1,590,000
Total Non-discretionary	14,707,000	98,000	634,000	245,000	15,684,000
Total Reserves	25,023,000	(1,102,000)	852,000	400,000	25,173,000

① Expected market value returns are based on the TCF-stated long-term return objective of 4% after expenses

② Estimated returns represent the 12/31/15 annualized yield on the current income pool of 2%

③ Projected change in market value of 6.37% which is the average return of the VEBA for the past 5 years ended February 2016

④ Projected transactions for FY 2016-17

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 reserve category and the established goal are presented below. Even though the research foundation is currently drawing from discretionary reserves to balance the general fund budget, it is management's plan to replenish the reserves as funding becomes available.

Discretionary Funds

Income Equalization (\$250,000)

The budgeted amount for F&A cost recovery each year is only an estimate and represents approximately 63.6% 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 1.4% of annual F&A cost recovery. The goal for this reserve is five percent of F&A cost recovery (\$893,000).

Working Capital (\$0)

College and University Business Administration, published by the American Council on Education, describe 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).” The FY 2016-17 budget anticipates using \$245,000 from the working capital reserve. *This fully depletes the working capital reserve.*

After a careful review of current conditions regarding financing grants and contracts, the goal for this reserve has historically 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 \$5,000,000.

The depletion of the working capital reserve means that the research foundation would need to pull from other resources as needed to provide the cash flow required to manage grants and contracts. Funding 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 typically utilized by federal agencies 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 funding agency. Most state and local government agencies use the cost reimbursement method.

Using the cost reimbursement method, the time frame between disbursements of cash for costs incurred and receipts of cash from the funding 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. Historically, the research foundation's outstanding receivables on sponsored programs average \$14 million at any point in time.

The research foundation utilizes board-designated funds, The Campanile Foundation funds held at the research foundation and self-support programs cash balances to provide cash as needed for operations. In addition, the research foundation has a \$12 million dollar line of credit available through Union Bank which, while not used historically, is available to fund short-term operation needs. The research foundation is renegotiating this line of credit so that it will be available if needed once the CES cash reserves are transferred to fund the Engineering and Interdisciplinary Sciences building.

Operating Contingency (\$843,000)

The FY 2016-17 budget anticipates using a net of \$309,000 from the operating contingency reserve to balance the general fund budget.

Historically, this reserve pertains mainly to potential disallowances on grants and contracts and to other general operating contingencies. Despite 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)
- Continuity of experienced 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 \$1,114,000. The activity in this reserve relates to anticipated reimbursements of prior year expenses.

Facilities (\$1,000,000)

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.

Insurance (\$806,000)

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. The activity reflected for FY 2016-17 relates to insurance dividends anticipated in July 2016.

Debt Service (\$956,000)

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 (\$2,097,000).

Quasi-Endowment/General Fund (\$2,735,000)

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. Revenue distributions from the endowment are reflected in the investment income line on the General Fund Budget (Schedule 1).

Quasi-Endowment/Research Endowment (\$2,540,000)

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. In FY 2014-15, the research foundation contributed approximately \$700,000 from the sale of property to the research endowment bringing the total contributed capital amount to \$2.7 million. The projected year-end balance of \$2,540,000 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.

Research Endowment Income (\$359,000)

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. The \$54,000 noted in the activity column represents a net amount of \$112,000 distributed from the research endowments, an estimated \$5,400 of earned interest, and a \$63,400 distribution to General Fund investment income.

Non-discretionary Funds**Retiree Medical VEBA Trust (\$10,019,000)**

The overall projected increase in the trust value is due to both actuarially calculated contributions from the General Fund, KPBS, and College of 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 (\$1,608,000)

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 retiree sick leave benefit program intended to provide benefits comparable to those that are available to university employees. The research foundation funds an actuarial determined amount each year for the potential payoff at retirement.

Workers' Compensation Insurance (\$2,467,000)

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 obtains an annual report from an actuary regarding recommended reserve levels.

Unemployment Insurance (\$1,590,000)

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

SDSU Research Foundation has a total of approximately \$10 million in unfunded obligations (funds spent into deficit position) within its board-designated and property funds related to

various strategic land acquisitions, the redevelopment project, Sorority Row Project, and the Fraternity Row construction defects lawsuit. Designated funds and property acquisitions 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 or as liabilities in property 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. The research foundation has extensive equity in its property portfolio and has developed a management plan that identifies specific properties that could be utilized to clear the deficits. A ground lease was signed in April 2016 to develop the property formerly designated as the Sorority Row Project. The initial payment from this ground lease will be used to fund the \$2 million dollar deficit associated with this property which will reduce the unfunded obligation to \$8 million.