

San Diego State University Research Foundation



General Fund Budget FY 2012-13

Cover photo courtesy of Rohwer Lab. Starfish, urchin, and coral reef.

Dr. Forest Rohwer, professor of biology, uses metagenomics to study unknown viral sequences and the microbial ecology of coral reefs — valuable ecosystems that are under considerable stress due to things like climate change and overfishing. His research is funded by the National Science Foundation, the National Institute of General Medical Sciences, and the National Institute of Allergy and Infectious Diseases.

This proposed 2012-2013 budget was approved by the SDSU Research Foundation board of directors on May 11, 2012 without any changes.

CONTENTS

Message from the Executive Director	1
General Fund Budget Overview	2
Proposed Budget FY 2012-13	5
Source of Funds	6
Use of Funds	10
Allocations	12
Reserves	15
Appendix A – Funding Outlook	16
Appendix B – Facilities	21
Appendix C – Investments	26
Appendix D – Reserves	28

MESSAGE FROM THE EXECUTIVE DIRECTOR AND INTRODUCTION OF THE FISCAL YEAR 2012-2013 BUDGET

Next year marks the 70th anniversary of SDSU Research Foundation. Our founding charge to support the programs critical to San Diego State University still guides us today. While the numbers have changed, regulations have become more onerous, and technology and tracking resources have advanced, our mission remains to enhance SDSU's research, educational, and community service programs.

Last year, the university welcomed new leadership which included two very strong advocates for research: President Elliot Hirshman and Vice President Stephen Welter. I am happy to have been selected to lead SDSU Research Foundation at this important time. Our board members and staff are dedicated to supporting SDSU researchers and our organization is strong because of their success.

This was a challenging budget to prepare. We are predicting that FY 2012-13 general fund unrestricted revenue will be \$2.7 million less than what was actually received in FY 2010-11. The proposed FY 2012-13 budget reduces administrative, operating, and facilities costs to FY 2010-11 levels. This is a reduction of \$829,000 from the current year (FY 2011-12) estimated expenditures. We have made these strategic reductions with the goal of maintaining current services.

Reductions in resources are always difficult. At the same time, they present an opportunity and the impetus to examine our current operations and identify new efficiencies and cost savings. The University Research Council-initiated external review of SDSU Research Foundation was completed and a comprehensive report issued in July of 2011. Management has been working with staff, the research foundation's PI Advisory Group, SDSU's Division of Graduate and Research Affairs, and the University Research Council to prioritize and address recommendations.

The FY 2012-13 budget provides planning funds for strategic initiatives that will address four critical needs and produce cost savings in future years. The four proposed areas, three of which address the recommendations in the aforementioned external review, follow:

- Electronic Proposal Routing
- Web-based Time Entry/Reporting
- IRB Electronic Routing and Tracking System
- Improving Emergency Preparedness Systems

The research foundation will also review its real property portfolio for net revenue generating opportunities in the coming fiscal year.

I offer my thanks to the management team for the extensive work they've 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 strategic 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 research foundation exists to serve SDSU.

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

BACKGROUND

The preparation of a fiscal year general fund budget requires management to make estimates and assumptions using information available at the time the budget is prepared. Examples of these assumptions and estimates include: project funding, economic trends, environmental acts, deferred maintenance, utility costs, employment matters and changing compliance requirements. Such items are often out of the control of management and could cause actual results to differ materially from original projections, as was the case in FY 2011-12.

Total research foundation revenue, including restricted and unrestricted, is projected to be \$169,613,000 for FY 2012-13. *Schedule 1* provides an overview of total research foundation revenue. It compares FY 2010-11 actuals to the FY 2011-12 mid-year and the proposed FY 2012-13 budgets. The general fund budget – at \$34,061,000 – makes up the unrestricted portion of total revenues generated by research foundation activities. Restricted revenue – the remaining \$135,552,000 – includes contributions to the university, the direct cost reimbursement portion of grants and contracts, and self-support project revenue. While these restricted revenues are included in the research foundation's financial statements, they are not part of the general fund budget. *Schedule 2* presents the General Fund Budget.

SOURCE OF FUNDS

The sources of unrestricted revenue are facilities and administrative (F&A) cost recovery from sponsored research, self-support programs fees, facilities rental income, royalty income, and investment income.

The major source of unrestricted revenue is *F&A cost recovery* from sponsored research. Projected F&A cost recovery represents 57.2% 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 actual cost recovery. The actual recovery rate to date this year is 24.5% of modified total direct costs and represents a slight decrease over last year's actual recovery rate of 26.8%. This decrease is attributable to a mix of grants and contracts with lower awarded F&A rates for the current year. Projected F&A for FY 2012-13 (\$19,475,000) reflects a 4.9% decrease over the FY 2011-12 mid-year projection, a 12.9% decrease when compared to FY 2010-11 actuals. This decrease is

due to the decline in anticipated awards, expenditures, recovery rates, and work in process balances compared to prior year.

Self-support programs fees (\$2,750,000) 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 remain consistent with mid-year FY 2011-12 estimates.

Income from **rents** (\$9,821,000), **royalties and other TTO income** (\$90,000) derived from the activities of the technology transfer office, and **investments** (\$1,925,000), are projected to remain fairly consistent with the mid-year FY 2011-12 budget.

Overall, FY 2012-13 unrestricted revenue is expected to decrease 3.3% from the mid-year FY 2011-12 projection and 7.5% from FY 2010-11 actual.

USE OF FUNDS (see *Schedule 2*)

Basic Support

Administration and operations expense is estimated for FY 2012-13 to be \$14,343,000, a decrease of \$666,000 or 4.4% from the FY 2011-12 mid-year projection. The projected decrease was necessary to help balance the budget. A summary by expense type is provided in *Schedule 7* on page 10. It is management's goal to manage the reduction in operations while still maintaining quality service to SDSU researchers. Management and staff continue to explore ways to increase efficiency by consolidating, strengthening and improving systems, processes and structures.

Facilities expense, including capital and tenant improvements and debt service, decreased by 1.1% from FY 2011-12 mid-year to \$14,809,000. Management is thoroughly reviewing all facilities-related costs within its control to identify potential cost savings including such activities as competitively bidding service contracts, refinancing outstanding bonds and potentially selling properties.

Even though **allocations** decreased by a net 4.1% from the FY 2011-12 mid-year budget to \$5,984,000, research support funds (RSF) are budgeted at 100% of the estimated amount, as determined by the university formula. The decrease in the RSF is attributed to a projected decline in F&A revenue.

RESERVES

The budget shows \$1,075,000 coming from reserves to balance the budget. Management will continue to work to keep the amounts required from reserves at a minimum while balancing the needs of the university, researchers and its staff. \$500,000 of the amount coming from reserves represents the initial investments in strategic initiatives that will result in cost savings in future budget periods.

Schedule 1

REVENUE ADMINISTERED

	Actual FY 2010-11			Mid-year Budget FY 2011-12			Proposed Budget FY 2012-13		
	<i>Total</i>	<i>Restricted</i>	<i>General Fund (Unrestricted)</i>	<i>Total</i>	<i>Restricted</i>	<i>General Fund (Unrestricted)</i>	<i>Total</i>	<i>Restricted</i>	<i>General Fund (Unrestricted)</i>
Grants and Contracts	\$135,239,456	112,891,751	\$22,347,705	\$124,291,000	103,814,000	\$20,477,000	\$118,208,000	98,733,000	\$19,475,000
Self-Support Programs	32,930,752	30,207,571	2,723,181	30,350,000	27,600,000	2,750,000	30,350,000	27,600,000	2,750,000
Rents	9,615,112	(183,185)	9,798,297	9,819,000	-	9,819,000	9,821,000	-	9,821,000
Royalties and Other TTO Income	114,647	-	114,647	75,000	-	75,000	90,000	-	90,000
Investments	3,742,593	1,915,961	1,826,632	1,282,000	(839,000)	2,121,000	1,144,000	(781,000)	1,925,000
Contributions	15,860,122	15,860,122	-	7,000,000	7,000,000	-	10,000,000	10,000,000	-
Other Income	788,270	788,270	-	-	-	-	-	-	-
Total Revenue- SDSU Research Foundation	\$198,290,952	161,480,490	36,810,462	\$172,817,000	137,575,000	35,242,000	\$169,613,000	135,552,000	34,061,000
<i>Revenue-Campanile Foundation (1)</i>	55,762,000			30,000,000			30,000,000		
<i>Revenue administered by SDSURF</i>	\$254,052,952			\$202,817,000			\$199,613,000		

(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 2012-13

	FY 2010-11 Actual	FY 2011-12 Original	FY 2011-12 Mid Year	FY 2012-13 Proposed
SOURCE OF FUNDS				
Unrestricted Revenue:				
Grants & Contracts F&A	20,436,188	20,866,000	19,546,000	19,050,000
American Recovery and Reinvestment Act F&A	1,911,517	1,540,000	931,000	425,000
<i>Total Facilities & Administrative Fees</i>	<u>22,347,705</u>	<u>22,406,000</u>	<u>20,477,000</u>	<u>19,475,000</u>
Self-Support Programs Fees	2,723,181	2,452,000	2,750,000	2,750,000
<i>Rents</i>				
Program Facilities	850,282	812,000	848,000	805,000
Commercial	4,843,510	4,896,000	4,654,000	4,665,000
University	1,370,196	1,342,000	1,409,000	1,409,000
Housing	2,734,309	2,876,000	2,908,000	2,942,000
<i>Total Rents</i>	<u>9,798,297</u>	<u>9,926,000</u>	<u>9,819,000</u>	<u>9,821,000</u>
Royalties and Other TTO Income	114,647	75,000	75,000	90,000
Investments	1,826,632	1,850,000	2,121,000	1,925,000
Total Unrestricted Revenue	<u>36,810,462</u>	<u>36,709,000</u>	<u>35,242,000</u>	<u>34,061,000</u>
USE OF FUNDS				
Basic Support				
Administration & Operations	14,269,246	15,009,000	15,009,000	14,343,000
Facilities Operating Expenses	7,889,302	8,357,000	8,297,000	8,139,000
Capital Improvements	516,401	439,000	266,000	263,000
Tenant Improvements	706,789	624,000	505,000	503,000
Debt Service Payments	5,819,587	5,904,000	5,904,000	5,904,000
<i>Subtotal</i>	<u>14,932,079</u>	<u>15,324,000</u>	<u>14,972,000</u>	<u>14,809,000</u>
Total Basic Support	<u>29,201,325</u>	<u>30,333,000</u>	<u>29,981,000</u>	<u>29,152,000</u>
Net Remaining after Providing Basic Support	<u>7,609,137</u>	<u>6,376,000</u>	<u>5,261,000</u>	<u>4,909,000</u>
Allocations				
Research Supports Funds	3,400,585	4,364,000	3,977,000	3,440,000
Research Support, Provost's Office	500,000	500,000	500,000	-
University Grants Program	-	-	-	92,000
Research Support - Library	50,000	50,000	50,000	50,000
BioScience Center Development	98,200	100,000	80,000	80,000
University Research Compliance Support	701,651	704,000	819,000	1,130,000
University Space Payment	81,856	80,000	80,000	80,000
Biology PI Administrative Support	109,691	111,000	113,000	96,000
Investment in Strategic Initiatives	-	-	-	500,000
Washington DC Representation	180,000	180,000	180,000	162,000
IT Infrastructure at Alvarado	521,000	521,000	-	-
Other Project Support	340,497	341,000	441,000	354,000
Total Allocations	<u>5,983,480</u>	<u>6,951,000</u>	<u>6,240,000</u>	<u>5,984,000</u>
RESERVES				
Operating Contingency	590,156	-	-	-
Working Capital	600,346	(521,000)	(509,000)	(1,075,000)
RSF - ARRA	186,155	(54,000)	(470,000)	-
Rate Stabilization	10,000	-	-	-
Research Endowment	239,000	-	-	-
Net Funds to (from) Reserves	<u>1,625,657</u>	<u>(575,000)</u>	<u>(979,000)</u>	<u>(1,075,000)</u>
TOTAL SOURCE OF FUNDS	36,810,462	36,709,000	35,242,000	34,061,000
TOTAL USE OF FUNDS	36,810,462	36,709,000	35,242,000	34,061,000

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 F&A (\$19,050,000) and American Recovery and Reinvestment Act F&A (\$425,000) - Total Facilities & Administrative Fees (\$19,475,000)

The research foundation's major unrestricted source of revenue for the general fund budget is Facilities & Administrative (F&A) cost recovery (formerly known as indirect cost recovery) from grants and contracts. 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. Management is projecting revenue from grants & contracts F&A of \$19,050,000, a decrease of \$496,000 or 2.5% from the mid-year FY 2011-12 budget and 6.8% from FY 2010-11. The projection for American Recovery and Reinvestment Act F&A is \$425,000, a decrease of \$506,000 or 54.4% from the mid-year FY 2011-12 budget and 77.8% from FY 2010-11. The decreases are based on proposal submissions, awards received, work in process, current trends in spending, and F&A cost recovery percentages and are analyzed in the following sections.

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 2011-12 has decreased from the same time last year. Management is currently projecting between \$124 million and \$131 million in total awards for FY 2011-12 which is lower than FY 2010-11. *Schedule 3* provides a summary of proposals and awards for FY 2010-11 and a comparison of actual numbers through March for the last two years (amounts exclude ARRA activity). Based on the funding outlook, management does not see evidence that this trend will reverse in the near future. The funding outlook is further analyzed in *Appendix A*.

Schedule 3

Proposals Submitted & Pending/Awards Received

	Actual	Cumulative Year-to-Date through March	
	FY 2011	FY 2012	FY 2011
# Proposals Submitted	1031	695	700
\$ Amount Proposed	\$199,298,886	\$127,602,088	\$135,555,869
\$ F&A Costs Proposed	37,174,751	24,632,279	24,993,040
% F&A Costs Proposed /Direct Costs	22.93%	23.92%	22.61%
# of Pending Proposals	461	444	450
\$ Amount Pending	\$89,301,172	\$76,553,232	\$78,851,855
\$ F&A Costs Pending	18,390,287	17,370,023	16,588,764
% F&A Costs Pending /Direct Costs	25.93%	29.35%	26.64%
# Awards Received	773	535	555
\$ Awards Received	\$135,861,083 *	\$93,413,378	\$108,826,893
\$ F&A Costs Awarded	21,355,118	14,428,826	16,666,513
% F&A Costs Awarded /Direct Costs	18.65%	18.27%	18.08%

* Total amount of awards for FY 2010-11 including ARRA was \$145,180,658.

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 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 12 – March 31, 2012			Actual YTD 11 – March 31, 2011			NET CHANGE	
	TOTAL	ARRA	NET	TOTAL	ARRA	NET	\$ Increase (Decrease)	% Increase (Decrease)
Salaries	30,404,833	1,488,173	28,916,660	36,451,386	4,080,891	32,370,495	(3,453,835)	(10.67%)
Benefits	12,089,115	536,980	11,552,135	12,413,442	1,176,364	11,237,078	315,057	2.80%
Other Direct	20,805,740	2,428,136	18,377,604	26,928,688	3,629,022	23,299,666	(4,922,062)	(21.13%)
MTDC	63,299,688	4,453,289	58,846,399	75,793,516	8,886,277	66,907,239	(8,060,840)	(12.05%)
Equipment	813,049	35,821	777,228	1,852,470	379,998	1,472,472	(695,244)	(47.22%)
Student Support	9,040,913	450,848	8,590,065	10,423,391	905,732	9,517,659	(927,594)	(9.75%)
Subcontracts	24,512,862	2,016,676	22,496,186	27,909,856	4,191,662	23,718,194	(1,222,008)	(5.15%)
Subtotal	34,366,824	2,503,345	31,863,479	40,185,717	5,477,392	34,708,325	(2,844,846)	(8.20%)
Total Direct	97,666,512	6,956,634	90,709,878	115,979,233	14,363,669	101,615,564	(10,905,686)	(10.73%)
F&A Costs	18,174,889	879,101	17,295,788	21,132,345	2,114,094	19,018,251	(1,722,463)	(9.06%)
Total Costs	115,841,401	7,835,735	108,005,666	137,111,578	16,477,763	120,633,815	(12,628,149)	(10.47%)
F&A Costs/MTDC	28.71%	19.74%	29.39%	27.88%	23.79%	28.42%		

SPENDING TRENDS

F&A is earned when principal investigators/projects actually spend their awarded funds. The expected direct cost expenditure level for FY 2012-13 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, 2012 and shows that spending trends are down from prior year.

Schedule 5

SPENDING TRENDS

	Actual YTD 12 – March 31, 2012			Actual YTD 11 – March 31, 2011			NET CHANGE	
	TOTAL	ARRA	NET	TOTAL	ARRA	NET	\$ Increase (Decrease)	% Increase (Decrease)
Salaries	32,845,849	1,754,701	31,091,148	35,125,498	2,297,307	32,828,191	(1,737,043)	(5.29%)
Benefits	9,318,902	444,840	8,874,062	9,933,231	601,462	9,331,769	(457,707)	(4.90%)
Other Direct	15,199,963	1,002,878	14,197,085	14,578,012	822,105	13,755,907	441,178	3.21%
MTDC	57,364,714	3,202,419	54,162,295	59,636,741	3,720,874	55,915,867	(1,753,572)	(3.14%)
Equipment	768,421	315,848	452,573	2,022,130	789,769	1,232,361	(779,788)	(63.28%)
Student Support	5,725,905	308,735	5,417,170	4,923,121	225,849	4,697,272	719,898	15.33%
Subcontracts	10,640,156	1,119,014	9,521,142	11,862,945	1,768,852	10,094,093	(572,951)	(5.68%)
Subtotal	17,134,482	1,743,597	15,390,885	18,808,196	2,784,470	16,023,726	(632,841)	(3.95%)
Total Direct	74,499,196	4,946,016	69,553,180	78,444,937	6,505,344	71,939,593	(2,386,413)	(3.32%)
F&A Costs	14,216,793	763,506	13,453,287	15,951,728	1,386,472	14,565,256	(1,111,969)	(7.63%)
Total Costs	88,715,989	5,709,522	83,006,467	94,396,665	7,891,816	86,504,849	(3,498,382)	(4.04%)
F&A Costs/MTDC	24.78%	23.84%	24.84%	26.75%	37.26%	26.05%		

F&A Cost Recovery Percentages

Schedule 6 reflects the F&A cost recovery (amounts exclude ARRA activity) for the past 10 years and a projection for the current year:

Schedule 6

Grants/Contracts Expenditures & F&A Cost Recovery					
Fiscal Year	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 *	119,548,000	78,425,000	21,577,000	19,546,000	24.92%
2012-13 *	116,085,000	75,350,000	21,685,000	19,050,000	25.28%

* Projected

Self-Support Programs Fees (\$2,750,000)

Management is projecting revenue from self-support programs fees of \$2,750,000, consistent with the mid-year FY 2011-12 budget.

The major sources of administrative fees from self-support programs are the College of Extended Studies, KPBS, and various academic departmental accounts. The fees earned for providing services to The Campanile Foundation (TCF) and its gift funds are also included in this category. The business and banking agreement with TCF is up for renewal June 30, 2012. The FY 2012-13 budget projections assume terms will remain the same.

Administrative costs of self-support programs are recovered in two ways. A 6% administrative fee is charged on expenditures, and positive cash balances are pooled and invested with the general fund retaining investment income.

Rents (\$9,821,000)

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, university and housing sources. Total rents are estimated at \$9,821,000 for FY 2012-13. This is approximately the same as the mid-year FY 2011-12 budget. See *Appendix B* for further detail.

Royalties and Other TTO Income (\$90,000)

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 increase in these revenues in FY 2012-13 when compared to the mid-year budget.

Investments (\$1,925,000)

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 research foundation receives 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.)

Investment of available short-term funds provides a large portion of unrestricted investment income. The budget amount is based on estimates of interest rates and funds available for investment. Investments are projected at \$1,925,000 for FY 2012-13. The decrease of \$196,000 or 9.2% from the mid-year budget is primarily due to fluctuations in anticipated cash balances and a one-time interest distribution in FY 2011-12 from CSU revenue bonds of approximately \$100,000. See *Appendix C* for additional detail.

USE OF FUNDS

Basic Support**Administration & Operations (\$14,343,000)**

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 on the next page provides a summary of general operations expenses by expense type.

Schedule 7

	Actual		Mid-year		Proposed		Proposed compared to FY 2010-11 Actual		Proposed compared to Mid-year FY 2011-12	
	FY 2010-11	% of Total	FY 2011-12	% of Total	FY 2012-13	% of Total	\$ Increase (Decrease)	% Increase (Decrease)	\$ Increase (Decrease)	% Increase (Decrease)
Personnel Costs:										
Salaries	8,886,880	62.28%	9,024,000	60.12%	8,763,000	61.10%	(123,880)	(1.39%)	(261,000)	(2.89%)
Benefits (1)	3,473,922	24.35%	3,686,000	24.56%	3,743,000	26.10%	269,078	7.75%	57,000	1.55%
Subtotal	12,360,802	86.63%	12,710,000	84.68%	12,506,000	87.19%	145,198	1.17%	(204,000)	(1.61%)
Operating Costs:										
Legal	162,679	1.14%	225,000	1.50%	81,000	0.56%	(81,679)	(50.21%)	(144,000)	(64.00%)
Insurance	62,822	0.44%	85,000	0.57%	68,000	0.47%	5,178	8.24%	(17,000)	(20.00%)
Supplies	99,051	0.69%	89,000	0.59%	83,000	0.58%	(16,051)	(16.20%)	(6,000)	(6.74%)
Equipment	111,858	0.78%	208,000	1.39%	116,000	0.81%	4,142	3.70%	(92,000)	(44.23%)
Travel	125,453	0.88%	112,000	0.75%	99,000	0.69%	(26,453)	(21.09%)	(13,000)	(11.61%)
Contracted Services (2)	631,183	4.42%	838,000	5.58%	688,000	4.80%	56,817	9.00%	(150,000)	(17.90%)
Audit	260,246	1.82%	249,000	1.66%	280,000	1.95%	19,754	7.59%	31,000	12.45%
Other (3)	455,152	3.19%	493,000	3.28%	422,000	2.94%	(33,152)	(7.28%)	(71,000)	(14.40%)
Subtotal	1,908,444	13.37%	2,299,000	15.32%	1,837,000	12.81%	(71,444)	(3.74%)	(462,000)	(20.10%)
Total	14,269,246	100.00%	15,009,000	100.00%	14,343,000	100.00%	73,754	0.52%	(666,000)	(4.44%)

(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 \$14,343,000 for FY 2012-13 is a projected decrease of \$666,000 or 4.4% from the mid-year FY 2011-12 budget. Key changes from mid-year FY 2011-12 and FY 2012-13 budgets are:

- Salaries are projected to show a net decrease of \$261,000 or 3.0% to \$8,763,000 from mid-year FY 2011-12 budget. Strategic staff reductions will be implemented to address budget shortfalls.
- Legal costs decreased \$144,000 or 64.0% to \$81,000 since the mid-year FY 2011-12 budget due to the anticipated resolution of several cases.
- Contracted services decreased \$150,000 or 17.9% from the mid-year FY 2011-12 budget. Prior year included a contract for human resource services during the time the research foundation was without an HR director, a customization project on the Banner financial system and relocation expenses for the executive director and incoming human resources director. These costs are not anticipated to continue in FY 2012-13.

Facilities Expenses (\$14,809,000)

Research foundation management is involved in a wide variety of activities related to real property, including the operating expenses related to administering the space provided to sponsored grants and contracts projects. Total facilities expenses of \$14,809,000 decreased by \$163,000 or 1.1%. See *Appendix B* for more detail.

ALLOCATIONS

Funds are allocated for specific support related to projects administered by the research foundation on behalf of the university.

Research Support Funds (\$3,440,000)

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

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 amount distributed in the current year is based on earnings in the prior year. The following chart shows the projected FY 2012-13 RSF distribution.

RSF DISTRIBUTION FY 2012-13	
Colleges/Units	\$ 1,208,000
PIs	1,443,000
High-volume PIs	476,000
Institutional	313,000
	<u>\$ 3,440,000</u>

The ability to provide the target rate is impacted by actual F&A expenditures, total revenues received by the research foundation and the requirement to cover mandatory expenses.

The proposed FY 2012-13 budget contains an estimated 100% of the target percentages. However, as in previous years, only 80% (\$2,752,000) of the budgeted amount will be provided at the beginning of FY 2012-13. The remaining 20% (\$688,000) will be distributed as part of the mid-year FY 2012-13 budget if the projected unrestricted revenue goals are achieved. Future revenue trends will determine whether future RSF distributions can be funded in full or in part.

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

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

University Grants Program - (\$92,000)

These funds are allocated in support of the University Grants Program (UGP). The UGP 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.

Research Support - Library (\$50,000)

This allocation recognizes the role the SDSU library and its faculty/staff play in supporting SDSU's research mission. As research activity grows, so do the library programs and staff support of those activities. There is no change in the projection for FY 2012-13.

BioScience Center Development (\$80,000)

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, 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 principal investigators occupying BSC space. Funds are to be used to assist in the goals outlined above. There is no change anticipated in this allocation for FY 2012-13.

University Research Compliance Support (\$1,130,000)

SDSU Research Foundation reimburses the university for the costs of research staff involved in administrative and compliance activities that ensure training and compliance with human subjects and animal subject regulations, biosafety and the safe use of radioactive materials in sponsored research programs, and export controls.

University Space Payment (\$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. No significant changes are anticipated.

Biology PI Administrative Support (\$96,000)

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 principal investigators who are contributing additional funds they control to support the administrative position. A slight decrease in this allocation is anticipated for FY 2012-13 as a result of fewer principal investigators utilizing the biopod services and the subsequent reduction of the staff.

Investments in Strategic Initiatives (\$500,000)

This allocation addresses the initial investment necessary for three initiatives identified by management, principal investigators, and the NCURA report as critical priorities.

These funds are 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.

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. Fees have been reduced 11% from midyear FY 2011-12.

IT Infrastructure Upgrade at Alvarado (\$0)

This allocation was approved in the FY 2011-12 budget to be funded from reserves. Since funding was available in the FY 2010-11 budget, the allocation was fully funded through FY 2010-11 operations rather than through reserves.



Category 6 cabling enhances IT bandwidth at Alvarado Medical Center

Other Project Support (\$354,000)

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 are typically required immediately upon notification of a new award. The proposed FY 2012-13 budget has decreased \$87,000 or 19.7%.

RESERVES

Net Funds to (from) Reserves (\$1,075,000)

The budget shows \$1,075,000 from General Fund Reserves for FY 2012-13 to balance the budget. In addition, \$979,000 will be used to balance the FY 11-12 budget. See *Appendix D* for more detail.



Research Foundation Executive Director Bob E. Wolfson (center) with Associate Executive Directors Tim Hushen Norma Clark, Melinda Coil and Michele Goetz

GENERAL FUND BUDGET

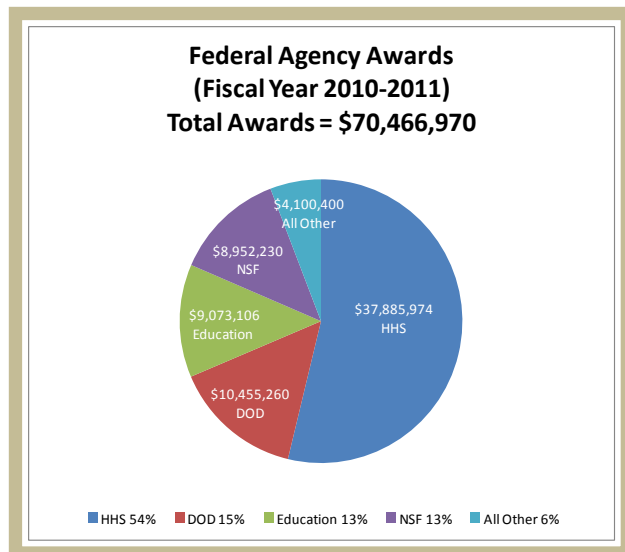
APPENDIX A

Funding Outlook

Federal Trends

Funding trends are important indicators of potential revenue. The American Recovery and Reinvestment Act stimulus funding has ended, and current ARRA projects are winding down. While SDSU faculty were very successful in securing stimulus funding (97 awards and \$30.5 million), another ARRA outcome was increased stimulation of the competitive environment for grant and contracts. While SDSU will continue its success, the competition is keener.

We expect that approximately half of the grant and contract dollars received by SDSU faculty and staff will continue to come directly from the federal government, as well as through subcontracts from other universities and organizations. Taken together, approximately two-thirds to three-fourths of SDSU's annual sponsored programs funding originates from federal sources. Consequently, changing priorities, interests, and budget realities being addressed by Congress and the President are important to SDSU and SDSU Research Foundation.



Because 2012 is an election year, we expect that the government will once again be under a continuing resolution until the new presidential term begins in January 2013. This will cause delays in the receipt of grants and contracts until the budget is passed. Another area of concern is what may result from the Budget Control Act of 2011. Because the congressional committee could not come to consensus on how to reduce the U.S. deficit during the summer of 2011, automatic budget cuts of up to 10 percent or more could take place due to the sequestration process.

President Obama's FY 2013 budget is very similar to the FY 2012 budget because of the Budget Control Act's spending cap provision. Most technology-based economic development-related programs will continue to be level-funded. The FY 2013 budget continues to propose reorganization or consolidation of existing programs to produce savings.

Budget doubling (by 2017) for the National Science Foundation, the Department of Energy Office of Science, and the National Institute of Standards and Technology continues to be proposed. The administration will continue to invest in America's competitive edge in FY 2013 by increasing funds for education and workforce training, cleaner energy, science and technology education, and biomedical research. SDSU is well-positioned to respond in these areas and to specific opportunities from these major agencies:

National Institutes of Health. In FY 2011, SDSU received more than 100 awards and \$37.8 million from NIH and its parent agency, the U.S. Department of Health and Human Services. President Obama's FY 2013 budget for NIH is estimated at \$30.7 billion, which is approximately the same level as FY 2012. NIH has instituted measures to cut costs, such as the reduction of

non-competing continuation grants by 1% below the FY 2012 level, and negotiating budgets for competing grants to prevent growth in the average award size. NIH also plans to reallocate existing funds into the relatively new National Center for Advancing Translational Sciences (NCATS). NIH estimates that it will support just under 36,000 research project grants, including 9,400 new and competing awards, maintaining last year's levels.

Initiatives at NIH to support new investigators continue through the NIH Directors' Early Independence Award, Pathway to Independence Award, and the NIH Director's New Innovator Award. Identification of research grant applications from early stage investigators equalizes the funding success of these applications with the success of applications submitted by established investigators. Training mechanisms would decline by 0.4%, but the stipend rates would increase at the same pace as for FY 2012 (2%).

Dr. Jose Castillo leads the NIH Bridges to the Baccalaureate Program which helps community college students achieve success through enrichment courses. Students are tracked from program entry through transfer to SDSU and matriculation to graduate school.

SDSU continues to excel in several focus areas of NIH research such as proteomics and metabolomics, technologies for early detection of cancer, and research into health disparities. Several SDSU biologists study the interactions of proteins in their labs including Drs. Roland Wolkowicz and Forest Rohwer.

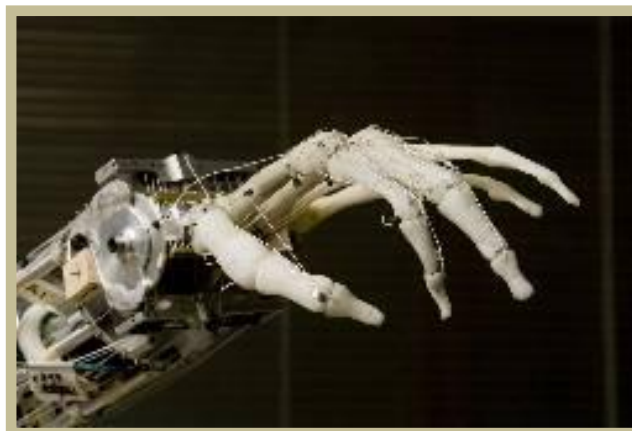
Professors John Elder, Guadalupe X. Ayala, and Greg Talavera are affiliated with SDSU's Institute for Behavioral and Community Health and are experts in the area of health disparities. Sociologist Brian Finch takes a demographic approach to health disparities; his work is supported by the National Center on Minority Health and Health Disparities. Psychologist Linda Gallo examines the roles of stress, psychosocial resources, and emotional factors in cardiovascular disease disparities and is in the fourth year of a five year grant funded by the National Heart, Lung and Blood Institute.

National Science Foundation. SDSU continues to attract support from the National Science Foundation, receiving \$8.95 million for 51 NSF awards last year. NSF funding was highly competitive in FY 2011, and, as a result, SDSU faculty received fewer awards last fiscal year. Pursuant to President Obama's commitment to double NSF funding by 2017, the administration is requesting \$7.4 billion, or approximately a 4.8% increase, over FY 2012. The request includes \$6 billion for basic research, \$196.2 million for R&D facilities and equipment, and \$911.2 million for education and training. A new initiative proposed for NSF is the OneNSF Framework (OneNSF), which will provide seamless operations across organizations and disciplines. This initiative would receive \$807 million to support several programs such as Sciences, Engineering and Education for Sustainability (SEES), Integrated NSF Support Promoting Interdisciplinary Research and Education (INSPIRE), NSF Innovation Corps (I-Corps), and Cyber-Enabled Materials, Manufacturing and Smart Systems (CEMMSS). Other cross-cutting initiatives include U.S. Global Change Research Program (USGCRP), Faculty Early Career Development Program (CAREER), and Research at the Interface of Biological Mathematical and Physical Sciences (BioMaPS). SDSU researchers have expertise in all of the above areas. SDSU was the recipient last year of a subaward related to the Engineering Research Centers (ERC), program, the first ERC award for SDSU. Mechanical engineering professor Dr. Kee Moon and his colleagues at SDSU, MIT, and the University of Washington are developing technologies to repair and improve human bodies by integrating robots controlled by

the human brain. This technology has implications for advancing prosthetics for amputees, sensor-electrode systems for reanimating paralyzed limbs, and home-based rehabilitation for spinal cord injuries.

All NSF directorates are budgeted for slight increases over the FY 2012 levels.

Graduate fellowships are requested at a 12.9% increase over FY 2012, and other Education and Human Resources directorate programs have requested continued funding for science, technology, engineering and mathematics (STEM) education, areas in which SDSU faculty have been successful in the past. A grant received last year from NSF's division of graduate education supports the Science Master's Program which integrates training in the high growth area of regulatory affairs in bioscience programs at four CSU campuses (Dr. Usha Sinha, principal investigator.) SDSU's math department is the site of an NSF REU (Research Experiences for Undergraduate) award which will engage students in open, interesting mathematical problems.



Dr. Kee Moon and colleagues will use prosthetics like this replica of an actual human hand and integrate it with the human nervous system.

Photo: M. Levin, University of Washington

U.S. Department of Education. SDSU faculty received \$9 million from the U.S. Department of Education in FY 2011. The President is requesting \$69.8 billion for the Department of Education in FY 2013, an increase of approximately 2.5%. STEM programs continued to be represented in the education budget at both the undergraduate and graduate levels. The “Effective Teaching and Learning in STEM” program supports state implementation of comprehensive, evidence-based plans, professional development to provide high-quality STEM instruction, and subgrants in high need areas. A part of this funding is set aside for STEM teacher and leader training to support the president’s goal of preparing 100,000 effective STEM teachers over the next decade – an area SDSU’s College of Education and CRMSE (Center for Research in Mathematics and Science Education) faculty are well-prepared to address. The “Investing in Innovation (i3)” program develops effective models and interventions with the potential to improve educational outcomes. The “First in the World” program continues under the Fund for the Improvement of Postsecondary Education (FIPSE),” and seeks to provide “venture capital” to colleges and universities to develop strategies to promote college completion. The Institute of Education Sciences (IES) is slated to receive a 4.6% increase from FY 2012 level. This program funds R&D and dissemination of its results related to education practice and policy.

Dr. Carol Robinson-Zanartu is the recipient of two awards from the Office of Special Education and Rehabilitation Services. Both projects focus on preparing a culturally competent cadre of school counselors and psychologists appropriately trained to serve Native American youth.

The California State University provides more than half of all undergraduate degrees granted to California’s Latino students. San Diego State University recently became a Hispanic-Serving to apply for several funding programs specifically designed to improve the recruitment and retention of Hispanic students, enhance academic offerings, improve program quality, expand post baccalaureate educational opportunities for Hispanic students, and provide institutional stability. The FY 2013 budget request for HSI Title III and Title V programs combined is \$109 million.

Note: Some of the above information is excerpted from the State Science and Technology Institute’s “SSTI Weekly Digest,” Volume 17, Issue 6; the NIH’s Congressional Justification of the NIH FY 2013 Budget document; and the Grants Resource Center’s “Federal Funding Priorities FY 12 and FY 13.”

State and Local Trends

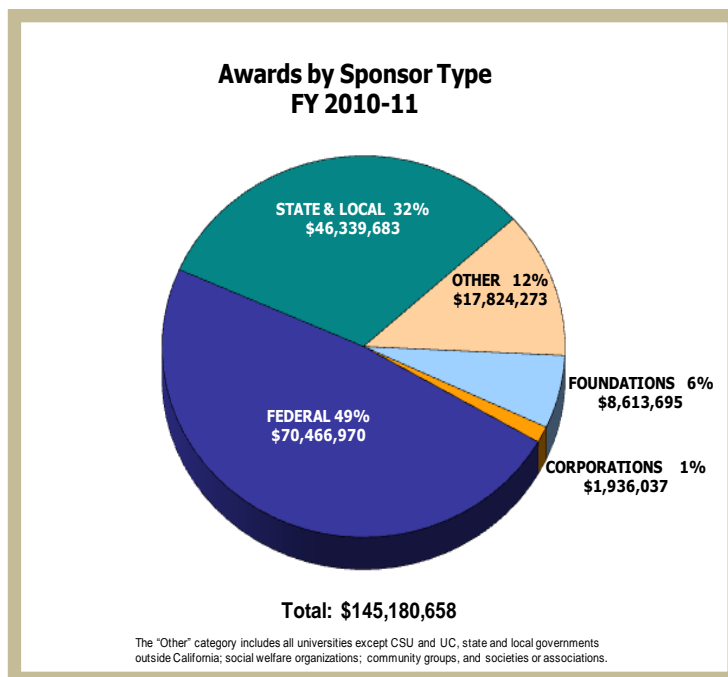
The state’s continuing budget crisis will have an impact on awards made to SDSU during the next year, potentially reducing the amount of ongoing projects. With fewer resources available the opportunities for research and educational projects with state agencies have become extremely competitive. However, San Diego State University faculty continue to take advantage of available state funding wherever possible.

In FY 2011, San Diego State University received approximately 32% (\$46.3 million) of its grant and contract dollars from state and local funding sources.

A variety of areas are funded through state contracts and grant programs, such as cancer prevention, environmental research, evaluation of the effectiveness of social programs, and training of California’s workforce. Some examples of SDSU’s awards from the State of California:

Dr. Thomas Novotny’s project, funded by the California Department of Public Health’s Tobacco Control Section, will create, test and evaluate the “Tobacco Waste Reduction Toolkit” for use by tobacco control and advocacy groups. It will support local efforts to reduce second-hand smoke exposure and reduce the social acceptance of smoking by bringing about increased environmental awareness.

The University of California Office of the President’s California Breast Cancer Research Program funds Dr. Steve Roussos’ research to increase mammography screening for Latinas with Diabetes. This project will develop and test interventions to increase the use of this cancer screening tool for women in this population.



The California Department of Alcohol and Drug Programs funds Dr. Sheldon Zhang's study which will gather data for an overview of currently registered DUI programs in California. It will provide a foundation for future systematic and rigorous process and outcome evaluations to identify and promote the effective components of these DUI programs.

Dr. Douglas Deutschman's project, "Adaptive Management and Reserve Level Monitoring," is funded by the California Department of Fish and Game. This work will assist with land management and conservation of species, habitats and ecosystem function at reserve levels at a broad regional scale.

Local Government Agencies

SDSU Research Foundation continues to receive grants and contracts from San Diego county and other local organizations. San Diego County Department of Parks and Recreation, San Diego Port District, San Diego County Department of Health and Human Services, San Diego Association of Governments, and the San Diego Foundation are just a sample of the many local agencies that support SDSU faculty. Examples of last year's support:

Dr. Seth Mallios received funding from the San Diego County Department of Parks and Recreation to continue archeological surveys of the Whaley House, a historical property located in the Old Town district.

Dr. Jose Naranjo works with the San Diego Unified School district conducting a study of the transition planning process for secondary students with disabilities who are currently served by San Diego Unified School District special education services.

The San Diego Foundation funded Dr. Temesgen Garoma's project which examines antibiotic resistance in initially non-resistant bacterial populations at antibiotic concentrations, and compares it to surface waters with chronic exposure.

The San Diego Association of Governments provided funding to Drs. Andrew Bohonak and Rebecca Lewison to provide professional technical services for habitat conservation planning, and assist with developing a habitat conservation plan for vernal pools. SANDAG also funds Drs. Deutschman and Lewison in developing a comprehensive monitoring and management program on the burrowing owl in southern San Diego County and will resolve critical uncertainties about this species.



San Diego Bay Salt Works, where thousands of seabirds nest on raised levees that separate salt-harvesting ponds. Newly-hatched black skimmer (*Rynchops niger*) chicks at San Diego Bay National Wildlife Refuge.

Photos by Chris Millow.

PI: Dr. Rebecca Lewison

GENERAL FUND BUDGET

APPENDIX B

FACILITIES

BACKGROUND

For the past 40 years the research foundation has been acquiring, renovating, constructing, and managing real property adjacent to the southern and eastern boundaries of the campus to house SDSU's expanding research programs. Currently, the research foundation owns 62 parcels of property on 700 acres of land with one million square feet of building space.

The majority of this building space is located near the university and has provided valuable space for research programs. In recent years, properties have been acquired or constructed that, while not necessarily adjacent to the campus, have provided additional research space. Significant properties include:

- *Alvarado Court.* 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 project and non-profit commercial tenants.
- *Camino del Rio North.* This building in Mission Valley currently houses projects whose core mission is to focus on promoting the integration of all individuals, including those with disabilities, into all aspects of education, work, family and community life.
- *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.
- *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.

RENTAL INCOME

Rental income is projected at \$9,821,000 which reflects no significant net change in revenue.

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 controlled by the research foundation.

Facilities Operating Expenses (\$8,139,000)

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 the following chart.

	Mid-year FY 2011-12			Proposed FY 2012-13		
	Operating	Housing Bonds	Total	Operating	Housing Bonds	Total
Salaries	\$ 1,945,000	\$ 45,000	\$ 1,990,000	\$1,948,000	\$ 35,000	\$ 1,983,000
Administrative	119,000	18,000	137,000	117,000	20,000	137,000
Vehicles	66,000	-	66,000	58,000	-	58,000
Insurance	547,000	166,000	713,000	547,000	170,000	717,000
Maintenance	191,000	403,000	594,000	172,000	388,000	560,000
Utilities	1,275,000	305,000	1,580,000	1,257,000	323,000	1,580,000
Property Taxes	231,000	10,000	241,000	236,000	11,000	247,000
Contracted Services	1,301,000	364,000	1,665,000	1,197,000	337,000	1,534,000
Leased Space	478,000	-	478,000	535,000	-	535,000
University Services	694,000	25,000	719,000	667,000	13,000	680,000
Parking	114,000	-	114,000	108,000	-	108,000
	\$ 6,961,000	\$ 1,336,000	\$ 8,297,000	\$ 6,842,000	\$ 1,297,000	\$ 8,139,000

- ① The decrease in contracted services is a result of deferred maintenance, eliminating tree-trimming and painting, and reducing custodial services.
- ② The increase in leased space is due to an expansion of Dr. Talavera's space in Chula Vista and new space identified for Dr. Ayala in El Centro.

Facilities Capital Improvements (\$263,000)

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. There are no significant changes projected for FY 2012-13. Some improvement costs have been deferred to future periods due to the decline in unrestricted resources available. Included in these deferred costs are backup emergency generators needed to ensure uninterrupted power in research laboratories.

Facilities Tenant Improvements (\$503,000)

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. There are no

significant changes because of the deferral of some improvement costs to future periods due to the decline in unrestricted resources.

Facilities Debt Service (\$5,904,000)

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

Summary of Debt Service

2002 Bond Issue	\$ 2,109,000
2010 SRB Bond Issue	995,000
Fraternity Row Bond Issue	742,000
Internal Financing	
Sky Park Court	187,000
6367 Alvarado Court	348,000
6386 Alvarado Court	236,000
5840-46 Hardy Avenue	342,000
333 E. 6 th Street, IV	10,000
619 Heber, IV	12,000
5706 Hardy	14,000
Fraternity Row	132,000
Piedra del Sol	31,000
SD County Credit Union	236,000
Bioscience Center Lease	510,000
	<u>510,000</u>
	<u>\$ 5,904,000</u>

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.

Proposed Budget	Fiscal Year 2012-13			
	Project Activity	Non-Project Activity	Housing Bonds	Total Facilities
Revenue				
Rental Income	\$ 805,000 *	\$ 4,665,000	\$2,942,000	\$ 8,412,000
Rental Income – University Paid	-	1,409,000	-	1,409,000
Total Rental Income	805,000	6,074,000	2,942,000	9,821,000
Operating Costs	4,245,000	2,597,000	1,297,000	8,139,000
Net Income (Loss) before Debt Service, Tenant and Capital Improvements	(3,440,000)	3,477,000	1,645,000	1,682,000
Debt Service	2,279,000	2,271,000	1,354,000	5,904,000
Capital Improvements	142,000	109,000	12,000	263,000
Tenant Improvements	146,000	357,000	-	503,000
Net Income (Loss) after Debt Service, Tenant and Capital Improvements	\$ (6,007,000)*	\$ 740,000	\$ 279,000	\$ (4,988,000)
Mid-Year Budget	Fiscal Year 2011-12			
	Project Activity	Non-Project Activity	Housing Bonds	Total Facilities
Revenue				
Rental Income	\$ 848,000 *	\$ 4,654,000	\$2,908,000	\$ 8,410,000
Rental Income – University Paid	-	1,409,000	-	1,409,000
Total Rental Income	848,000	6,063,000	2,908,000	9,819,000
Operating Costs	4,327,000	2,635,000	1,335,000	8,297,000
Net Income (Loss) before Debt Service, Tenant and Capital Improvements	(3,479,000)	3,428,000	1,573,000	1,522,000
Debt Service	2,292,000	2,256,000	1,356,000	5,904,000
Capital Improvements	142,000	112,000	12,000	266,000
Tenant Improvements	254,000	251,000	-	505,000
Net Income (Loss) after Debt Service, Tenant and Capital Improvements	\$ (6,167,000)*	\$ 809,000	\$ 205,000	\$ (5,153,000)

* 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; bolting furniture to walls for earthquake preparedness; 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	6/30/2010	6/30/2011	12/31/2011
Investment Pools			
TCF Endowment Pool	\$ 12,172	\$ 14,646	\$ 13,349
Current Income	3,240	3,157	3,287
Gift Annuity	1,886	1,795	1,677
Unpooled	<u>2,397</u>	<u>2,342</u>	<u>2,335</u>
Subtotal	<u>19,695</u>	<u>21,940</u>	<u>20,648</u>
Working Capital and Other Funds			
Fixed Income and Cash			
Equivalents	64,938	67,524	74,804*
Real Property	<u>121,579</u>	<u>108,345</u>	<u>108,550</u>
Subtotal	<u>186,517</u>	<u>175,869</u>	<u>183,354</u>
Total	<u>\$ 206,212</u>	<u>\$ 197,809</u>	<u>\$ 204,002</u>

* Includes \$15,583,000 of internal financing at 12/31/2011

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. Withdrawals may be made from quasi-endowments because donors have not restricted them.

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 and remains involved in working with donors and university administrators.

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 overwhelming 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 6/30/2011

	Annualized Total Return		
	1 year	3 years	5 years
TCF Endowment Pool	22.4	5.7	5.9
NACUBO Benchmark (\$100 to \$500 million)	19.7	2.6	4.4

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 2011-12 which anticipates \$979,000 from reserves to balance the FY 2011-12 budget. The FY 2012-13 general fund budget includes \$1,075,000 from reserves to balance the budget.

Established Reserves Balances

	Actual Balance 6/30/2011	Projected Activity			Projected Balance 6/30/2012
		GF Allocation	Mkt Val Changes	Activity	
Discretionary					
Operating Reserves					
Income Equalization	500,000	-	-	-	500,000
Working Capital	3,976,000	(509,000)	-	-	3,467,000(1)
RSF ARRA	470,000	(470,000)	-	-	-
Operating Contingency	751,000	-	-	-	751,000
Facilities	500,000	-	-	-	500,000
IT Infrastructure Alvarado	521,000	-	-	(521,000)	-
Quasi-Endowments					
General Fund	2,842,000	-	(216,000)(2)	(112,000)	2,514,000
Research Endowment	1,981,000	-	(149,000)(2)	(78,000)	1,754,000
Research Endowment Income	326,000	-	16,000	78,000	420,000
Subtotal	<u>11,867,000</u>	<u>(979,000)</u>	<u>(349,000)</u>	<u>(633,000)</u>	<u>9,906,000</u>
Non-discretionary					
Debt Service	3,548,000	-	-	-	3,548,000
Repair, Replacement	645,000	-	1,000	13,000	659,000
Rate Stabilization Fund	260,000	-	2,000	-	262,000
Employee-Related					
Retiree Medical VEBA Trust	6,398,000	253,000	10,000(3)	(129,000)	6,532,000
Employee Fringe Benefits	1,406,000	-	-	-	1,406,000
Workers' Compensation Insurance	2,753,000	-	-	(160,000)	2,593,000
Unemployment Insurance	1,488,000	-	-	-	1,488,000
Subtotal	<u>16,498,000</u>	<u>253,000</u>	<u>13,000</u>	<u>(276,000)</u>	<u>16,488,000</u>
Real Property Equity	<u>57,658,000</u>	-	-	1,173,000	<u>58,831,000</u>
	<u>86,023,000</u>	<u>(726,000)</u>	<u>(336,000)</u>	<u>264,000</u>	<u>85,225,000</u>

(1) The \$1,075,000 required from reserves in FY 2012-13 will be funded from the working capital reserve.

(2) Market Value assumption is based on 12/31/11 market value carried forward to 6/30/12 as unchanged.

(3) Market value assumption is based on 2/3/12 market value carried forward to 6/30/12 as unchanged.

Income Equalization (\$500,000)

The budgeted amount for F&A cost recovery each year is only an estimate and represents approximately 57.2% 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 estimates the total revenue in advance, 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 2.6% of annual F&A cost recovery. A reasonable goal for this reserve is five percent of F&A cost recovery (\$974,000). Management's intention is to add to this reserve as funds become available.

Working Capital (\$3,467,000)

The FY 2012-13 budget anticipates using \$1,075,000 from the working capital reserve in addition to the \$509,000 taken from the reserve during the FY 2011-12 budget.

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 may 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.

RSF – ARRA (\$0)

Due to the short-term nature of ARRA funding, a reserve was established to ensure that there were funds available for RSF-ARRA distributions. This reserve (\$470,000) was used in the mid-year FY 2011-12 budget to fund the RSF distribution at the 100% target amount.

Operating Contingency (\$751,000)

This reserve pertains mainly to potential disallowances on grants and contracts and for other general operating contingencies. Actual audit disallowances have not been significant in the past. However, 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 \$1,182,000. 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 2012-13 is \$553,000. 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 (\$500,000)

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

Alvarado IT Infrastructure (\$0)

The IT connectivity upgrade project at Alvarado Medical Center involved the installation of Category 6 cabling and equipment throughout all previously non-upgraded research space at the Alvarado site. Funding was available in the FY 2010-11 budget; the allocation was fully funded through the operations budget rather than reserves. It is anticipated that this project will be completed in FY 2011-12.

Quasi-Endowment/General Fund (\$2,514,000)

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. The market value of this reserve fluctuates, and this is expected to result in a \$216,000 loss in FY 2011-12 (based upon current market values).

Quasi-Endowment/Research Endowment (\$1,754,000)

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 \$1,754,000 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.

Debt Service (\$3,548,000)

In FY 2011-12, there is no projected net change in this line item.

As a condition of the 2001 and 2002 series tax-exempt financings, debt service reserve funds are required to be maintained with the trustee. The amount of the reserve is equal to one-year of debt service on the bond issues. Monies on deposit with a trustee are invested as instructed by the research foundation; the earnings accrue to the benefit of the research foundation. These reserves will be used to make the final annual debt service payments.

Repair and Replacement (\$659,000)

As a condition of the tax-exempt financings, repair and replacement reserve funds are required to be maintained by the research foundation as defined by the bond indenture. If the research foundation uses the reserves for repairs to the projects (Fraternity Row and Piedra del Sol), the research foundation is required to replenish the reserves over a period of time to bring the amount back to the level defined in the indenture which is currently \$697,000.

Rate Stabilization Fund (\$262,000)

As a condition of the tax-exempt financing related to Fraternity Row, the research foundation is required to establish a reserve to cover any short term debt coverage deficits. As of June 30, 2010, and 2011 such a deficit occurred. It is anticipated that this reserve will be needed as of June 30, 2012 as well.

Retiree Medical VEBA Trust (\$6,532,000)

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 (\$1,406,000)

For FY 2011-12, there is no material anticipated change in this line item.

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 (\$2,593,000)

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 (\$1,488,000)

In FY 2011-12, 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.

Real Property Equity (\$58,831,000)

This reserve represents the difference between the estimated market value of unrestricted properties (not including endowment properties) owned by the research foundation and the related outstanding external debt. This amount reflects no net market value changes from the prior year as no material changes have been reflected in appraisals. This balance does not incorporate any potential re-financings or property purchases for the remainder of the year. The increase reflects the pay-down of external debt. Annually, as part of the general fund budget process and analysis of reserves, the research foundation reviews the value of its real estate and modifies the market values. The associate executive director of facilities planning and management performs the analysis of market value based upon her knowledge as well as discussion with brokers, appraisers and the review of comparable sales. The chief financial officer also reviews the methodology and the market values as part of the process. Limited scope appraisals are obtained periodically on marketable properties, and values are updated accordingly.

Unfunded Obligations

SDSU Research Foundation has a total of \$4.1 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 funded through FY 2017-18 via the general fund budget.