

San Diego State University

Research Foundation



General Fund Budget

FY 2015-2016

Cover photo courtesy of the Eastern Pacific Hawksbill Initiative

Ph.D. candidate Alexander Gaos (far right) with members of his research team after capturing a hawksbill sea turtle during in-water monitoring in the estuaries of the Gulf of Fonseca, along the Pacific Coast of Honduras.

Principal Investigator: Dr. Rebecca Lewison, biology

Gaos' Master's research, which was also completed at SDSU in Dr. Rebecca Lewison's lab, used satellite transmitters to track hawksbill movements and led to the ground-breaking discovery that adults of the species in the eastern Pacific Ocean prefer mangrove estuarine habitats over the coral reef habitats primarily used by the species in other parts of the world. Gaos' current Ph.D. work focuses on using genetic molecular assays to further understand stock structure, connectivity and evolutionary history of hawksbills in the eastern Pacific Ocean.

This project and other research in the Lewison lab seeks to conduct science that can support species conservation and sustainable resource use.

Funding for Dr. Lewison's work is provided by the National Oceanic and Atmospheric Administration, Environmental Protection Agency, California Department of Transportation, National Aeronautics and Space Administration, California Department of Fish & Wildlife and the Southern California Coastal Water Research Project.

This proposed 2015-2016 budget was approved by the SDSU Research Foundation board of directors on May 8, 2015 without any changes.

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MESSAGE FROM THE EXECUTIVE DIRECTOR

I'm pleased to present the Fiscal Year 2015-16 proposed budget which reflects a stable, yet conservative financial position.

The FY 2014-15 budget was based on the expectation that the university's significant investment in research faculty would produce increased revenues. We are seeing positive results as our revenue trends upward, and are cautiously optimistic that it will continue to do so through the coming year.

Current Status

- *We are projecting \$108-\$113 million in awards for FY 2014-15 – an increase over the previous year's \$107 million. We anticipate being able to sustain that level of awards in FY 2015-16.*
- *We are projecting an \$800,000 increase in F&A (facilities and administrative costs – our main source of revenue) in FY 2014-15 and an additional increase of \$1.2 million in FY 2015-16 when compared to the original FY 2014-15 budget.*
- *We will be taking \$1.5 million from reserves to balance the FY 2015-16 budget, which is consistent with our long-range plan. We were able, however, to take less from reserves in FY 2014-15 than originally anticipated.*
- *While some costs have increased, we've been able to partially offset them with reductions in other areas.*
- *Research Support Funds will be funded at 100%.*

Key trends

More researchers. 84 new faculty have joined SDSU in the last two years. As of March 2015, 28 have already submitted 87 proposals and received 38 awards valued at \$5.8 million (\$1.5 million in F&A). Half of those 87 proposals remain pending with the potential of another \$7.8 million in awards and \$1.4 million in F&A.

Areas of Excellence. The university has completed recruitments for 11 researchers, all of whom have active, funded research programs. Five more searches are underway. Proposals for three new multi-disciplinary areas of excellence are currently being developed; each will include four new faculty lines, all positive signs of the university's continued investment in research at SDSU.

Enhanced Service Initiatives. Our investments in these initiatives are having a positive impact on efficiencies and are resulting in improved service to our researchers. For example, our electronic time sheets are making it easier for faculty, employees and RF staff to document and manage effort. While we fine-tune enhancements already in progress, additional enhancements are planned this year to automate post-award and human resources transactions.

Georgia. The Georgia program provided an important boost to F&A cost recoveries revenues last year and will continue to do so in the FY 2015-16 year.

Core F&A. In addition to the F&A generated by the Georgia program, we are anticipating that core revenues will continue to moderately increase.

Engineering and Integrated Sciences Building. We are partnering with SDSU to facilitate the financing of this important new building, which is expected to enhance the university's research profile and portfolio.

University support. Last year's generous allocation waiver of \$1.1 million was instrumental in helping to balance the budget and stretch our reserves. We are grateful for the university's continuing support and waiver of \$1.0 million in allocations for the FY 2015-16 year. This will enable us to maintain services while new faculty continue to be recruited and obtain funding for their research.

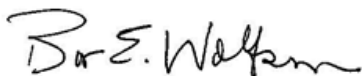
Challenges

- *While the Georgia project is providing a significant increase in F&A for FY 2015-16, it is not clear how long this trend will be sustained beyond FY 2015-16. It will be dependent upon the role the research foundation continues to play in this initiative. As the program progresses, the research foundation's role (and therefore revenues) may decrease.*
- *While F&A revenue generated from core sponsored project activity is showing moderate increases, investment revenue is declining in the short-term as cash is being utilized to support important university initiatives.*
- *Certain expenses, which the research foundation has no control over in the short run, have increased significantly. As an example, FY 2015-16 utilities are expected to increase 39.8% when compared to FY 2013-14 actuals.*
- *As the economy improves, we are experiencing challenges recruiting for certain strategic positions.*
- *While the strategy to stretch our reserves has been effective, sustaining that approach is not possible indefinitely.*

With the ongoing support and guidance of our board and the university, we will manage our resources wisely. We are recommending that \$1.5 million be withdrawn from reserves in order to balance the FY 2015-16 budget. During FY 2015-16 we will continue to hold costs as stable as possible, invest in automation of processes and adjust staffing levels while maintaining core competencies. Between FY 2010-11 and FY 2015-16, the research foundation central staff was reduced by 15% (approximately 28 positions). This includes a reduction of three FTEs in the proposed FY 2015-16 budget while we continue to provide the necessary services and resources to support SDSU researchers.

I'm grateful for the extraordinary efforts of our staff who prepared this budget, particularly chief financial officer Melinda Coil.

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



Bob E. Wolfson
Executive Director

GENERAL FUND BUDGET OVERVIEW

ABOUT THE RESEARCH FOUNDATION

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

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

ABOUT THE BUDGET

This document is organized to include two sections:

1. The Summary below provides an overview of major revenue budget categories and Schedule 1 (Revenue Administered) and Schedule 2 (General Fund Budget 2015-16).
2. The Detail that begins on page 7 provides further explanation of the line items in the General Fund Budget (Schedule 2).

SUMMARY

Schedule 1 provides an overview of total research foundation revenue. It reports FY 2013-14 actual results, and compares the proposed FY 2015-16 budget to the FY 2014-15 mid-year budget.

The **general fund unrestricted revenue** – at \$27,903,000 – makes up the unrestricted portion of total revenues generated by research foundation activities. These include: grants and contracts (reimbursement for university and research foundation facilities and administrative (F&A) costs related to research), self-support programs (research foundation's administrative fee), rents, royalties and other Technology Transfer Office (TTO) income, and investments.

Restricted revenue – the remaining \$130,814,000 – 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. While these restricted revenues are included in the research foundation's financial statements, they are not part of the general fund budget.

Total research foundation revenue, including restricted and unrestricted, is projected to be \$158,717,000 for FY 2015-16. This is an increase of 4.3% from the FY 2014-15 mid-year budget.

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

Overall, FY 2015-16 unrestricted revenue is expected to increase 3.3% from projected mid-year FY 2014-15 figures.

Basic Support. Basic Support is projected to increase 0.5% from FY 2014-15 mid-year projections.

Allocations. Allocations for Enhanced Program Support increased 11.4% from the FY 2014-15 mid-year budget. The university will continue to waive \$1.0 million of expense reimbursements for the FY 2015-16 budget. Research support funds (RSF) are budgeted at 100% of the estimated amount.

Reserves. The budget shows a net of \$1.5 million coming from reserves to balance the FY 2015-16 budget.

Schedule 1

REVENUE ADMINISTERED									
	Actual FY 2013-14			Mid-year Budget FY 2014-15			Proposed Budget FY 2015-16		
	Total	Restricted	General Fund (Unrestricted)	Total	Restricted	General Fund (Unrestricted)	Total	Restricted	General Fund (Unrestricted)
Grants and Contracts	\$ 106,609,049	89,480,112	\$ 17,128,937	\$ 105,000,000	88,300,000	\$ 16,700,000	\$ 108,746,000	90,846,000	\$ 17,900,000
Self-Support Programs	34,481,459	31,308,343	3,173,116	30,511,000	27,401,000	3,110,000	33,649,000	30,385,000	3,264,000
Rents	6,752,867	485,564	6,267,303	5,717,000	-	5,717,000	5,721,000	-	5,721,000
Royalties and Other TTO Income	271,566	-	271,566	179,000	-	179,000	180,000	-	180,000
Investments	3,346,034	1,711,782	1,634,252	796,000	(487,000)	1,283,000	421,000	(417,000)	838,000
Contributions	17,069,984	17,069,984	-	10,000,000	10,000,000	-	10,000,000	10,000,000	-
Other Income	1,301,407	1,301,407	-	-	-	-	-	-	-
Total Revenue-SDSU Research Foundation	\$ 169,832,366	141,357,192	28,475,174	\$ 152,203,000	125,214,000	26,989,000	\$ 158,717,000	130,814,000	27,903,000
Revenue-Campanile Foundation (1)	42,801,568			43,000,000 (1)			43,000,000 (1)		
Revenue administered by SDSURF	\$ 212,633,934			\$ 195,203,000			\$ 201,717,000		

(1) Total revenue includes The Campanile Foundation (TCF) revenues because SDSU Research Foundation provides administrative services for all TCF funds.

Schedule 2

General Fund Budget 2015-16				
	FY 2013-14 Actual	FY 2014-15 Original	FY 2014-15 Mid Year	FY 2015-16 Proposed
<u>SOURCE OF FUNDS</u>				
<i>Unrestricted Revenue:</i>				
Grants & Contracts F&A	17,128,937	15,900,000	16,700,000	17,900,000
Self-Support Programs Fees	3,173,116	3,110,000	3,110,000	3,264,000
<i>Facilities Rents</i>				
Program Facilities	839,908	810,000	796,000	794,000
Commercial	3,991,435	3,705,000	3,692,000	3,693,000
University	1,435,960	1,254,000	1,229,000	1,234,000
<i>Total Facilities Rents</i>	6,267,303	5,769,000	5,717,000	5,721,000
Royalties and Other TTO Income	271,566	225,000	179,000	180,000
Investments	1,634,252	1,388,000	1,283,000	838,000
<i>Total Unrestricted Revenue</i>	28,475,174	26,392,000	26,989,000	27,903,000
<u>USE OF FUNDS</u>				
<i>Basic Support</i>				
Administration & Operations	13,662,400	14,208,000	14,450,000	14,450,000
<i>Facilities Expenses</i>				
Facilities Operating Expenses	6,170,126	6,290,000	6,570,000	6,802,000
Capital Improvements	300,501	292,000	272,000	266,000
Tenant Improvements	498,289	421,000	445,000	345,000
Debt Service Payments	3,618,414	3,537,000	3,370,000	3,365,000
<i>Total Facilities Expenses</i>	10,587,330	10,540,000	10,657,000	10,778,000
<i>Total Basic Support</i>	24,249,730	24,748,000	25,107,000	25,228,000
Net Remaining after Providing Basic Support	4,225,444	1,644,000	1,882,000	2,675,000
<i>Allocations for Enhanced Program Support:</i>				
<i>Direct Support of Research:</i>				
Research Support Funds	2,994,279	2,711,000	2,803,000	2,734,000
University Grants Program	92,125	31,000	11,000	92,000
Professors Helping Professors	-	17,000	17,000	17,000
BioScience Center Development	56,457	70,000	56,000	19,000
Biology PI Administrative Support	93,855	94,000	94,000	94,000
	3,236,716	2,923,000	2,981,000	2,956,000
<i>Support of Research Infrastructure:</i>				
Other Facilities and Equipment Support	323,603	300,000	345,000	386,000
Research Support - Library	-	-	-	50,000
Research Compliance	977,222	1,296,000	1,296,000	1,441,000
Waiver of Certain University Allocations	-	(1,117,000)	(1,117,000)	(1,000,000)
University Research Space	63,652	80,000	80,000	80,000
	1,364,477	559,000	604,000	957,000
<i>Investment in Enhanced Service Initiatives:</i>				
Systems Infrastructure	30,000	-	-	100,000
Washington D. C. Representation	162,000	162,000	162,000	162,000
	192,000	162,000	162,000	262,000
<i>Total Allocations for Enhanced Program Support</i>	4,793,193	3,644,000	3,747,000	4,175,000
<u>RESERVES</u>				
Working Capital	(567,749)	(2,000,000)	(1,865,000)	(1,500,000)
<i>Net Funds to (from) Reserves</i>	(567,749)	(2,000,000)	(1,865,000)	(1,500,000)
TOTAL SOURCE OF FUNDS	29,042,923	28,392,000	28,854,000	29,403,000
TOTAL USE OF FUNDS	29,042,923	28,392,000	28,854,000	29,403,000

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

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

GENERAL FUND BUDGET DETAIL

SOURCE OF FUNDS

Unrestricted Revenue (Schedule 2)

Grants & Contracts – Facilities & Administrative (F&A) Cost Recovery (\$17,900,000)

The major source of unrestricted revenue is *F&A cost recovery* from sponsored research. Projected F&A cost recovery represents 64.2% 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 not be used when calculating the rate in accordance with federal rules. The actual recovery rate to date for FY 2014-15 is projected to be 25.5% of modified total direct costs. Proposed F&A for FY 2015-16 (\$17,900,000) reflects an increase of 7.2% over the FY 2014-15 mid-year projection, and a 4.5% increase when compared to FY 2013-14 actuals. This increase is mainly attributed to the Georgia project, but core sponsored programs are modestly increasing as a result of the university's continued, substantial investment in the research faculty and infrastructure. Georgia recoveries will allow more time for the new researchers to develop their programs and obtain 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 3), Work in Process (Schedule 4), Spending Trends (Schedule 5), and F&A Cost Recovery (Schedule 6).

The university's continued efforts to invest in researchers and the research infrastructure are of critical importance. FY 2014-15 investments included, for example, \$2.2 million in start-up packages for faculty hired in the Areas of Excellence, and \$555,000 to support multi-disciplinary proposals and initiatives such as the Grants and Research Enterprise Writing (GREW) Fellowship and the Summer Undergraduate Research Program. An investment of \$1.4 million was also made to upgrade the Vivarium and expand research capabilities. We believe these investments will continue to have a positive impact on revenue over the next several years.

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

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 2014-15 has increased from the same time last year. Management is currently projecting between \$108M and \$113M in total awards for FY 2014-15.

Schedule 3 provides a summary of FY 2013-14 proposals and awards and a comparison of actual numbers through March 2015 as compared to March 2014. This “snapshot in time” is the basis for a detailed analysis of timing factors and other considerations that may account for the fluctuations. Based on this analysis, management anticipates that this increasing trend in awards will continue in FY 2015-16.

Schedule 3

	Proposals Submitted & Pending/Awards Received		
	Actual	Cumulative Year-to-Date through	
			March
	FY 2013-14	FY 2014-15	FY 2013-14
# Proposals Submitted	1092	722	772
\$ Amount Proposed	\$199,814,072	\$116,734,479	\$124,841,495
\$ F&A Costs Proposed	37,404,799	21,676,526	25,178,324
% F&A Costs Proposed /Direct Costs	23.03%	22.80%	25.26%
# of Pending Proposals	389	349	369
\$ Amount Pending	\$92,551,901	\$64,903,214	\$67,054,783
\$ F&A Costs Pending	18,135,320	14,095,489	16,276,627
% F&A Costs Pending /Direct Costs	24.37%	27.74%	32.05%
# Awards Received	731	485	518
\$ Awards Received	\$107,857,290	\$82,903,154	\$73,729,473
\$ F&A Costs Awarded	17,159,894	13,046,250	11,062,445
% F&A Costs Awarded/Direct Costs	18.92%	18.68%	17.65%

Note: Supplementals are included in FY 2013-14 amounts to conform to FY 2014-15.

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 fewer dollars in WIP at this time than in the prior year. However, the F&A costs indicate a positive trend with a 2.0% increase from prior year.

Schedule 4

Work in Process				
	Actual YTD FY 2014-15	Actual YTD FY 2013-14		
	March 31, 2015	March 31, 2014		
	TOTAL	TOTAL	\$ Increase	% Increase
			(Decrease)	(Decrease)
Salaries	22,681,536	19,937,546	2,743,990	13.76%
Benefits	9,257,626	8,214,100	1,043,526	12.70%
Other Direct	25,636,393	30,461,281	(4,824,888)	(15.84%)
MTDC	57,575,555	58,612,927	(1,037,372)	(1.77%)
Equipment	3,053,094	808,754	2,244,340	277.51%
Student Support	7,224,274	6,678,834	545,440	8.17%
Subcontracts	12,630,683	14,519,596	(1,888,913)	(13.01%)
Other	1,044,678	1,487,048	(442,370)	(29.75%)
Subtotal	23,952,729	23,494,232	458,497	1.95%
Total Direct	81,528,284	82,107,159	(578,875)	(0.71%)
F&A Costs	16,313,041	15,993,588	319,453	2.00%
Total Costs	97,841,325	98,100,747	(259,422)	(0.26%)
F&A Costs/MTDC	28.33%	27.29%		

Spending Trends

F&A is earned when principal investigators/project directors actually spend their awarded funds. The expected direct cost expenditure level for FY 2015-16 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, 2015 and shows that while spending trends for Total Costs are down slightly from prior year, Modified Total Direct Cost (MTDC) have increased. MTDC is an indicator of sponsored program activity performed by the SDSU faculty. It is another positive sign that this activity is increasing.

Schedule 5

Spending Trends				
	Actual YTD FY 2014-15 March 31, 2015 TOTAL	Actual YTD FY 2013-14 March 31, 2014 TOTAL	\$ Increase (Decrease)	% Increase (Decrease)
Salaries	27,094,303	27,463,025	(368,722)	(1.34%)
Benefits	8,158,630	7,893,003	265,627	3.37%
Other Direct	11,960,808	10,044,599	1,916,209	19.08%
MTDC	47,213,741	45,400,627	1,813,114	3.99%
Equipment	329,871	1,509,693	(1,179,822)	(78.15%)
Student Support	5,575,618	5,344,433	231,185	4.33%
Subcontracts	7,583,549	9,687,231	(2,103,682)	(21.72%)
Other	1,619,676	1,521,535	98,141	6.45%
Subtotal	15,108,714	18,062,892	(2,954,178)	(16.35%)
Total Direct	62,322,455	63,463,519	(1,141,064)	(1.80%)
F&A Costs	11,812,568	11,967,169	(154,601)	(1.29%)
Total Costs	74,135,023	75,430,688	(1,295,665)	(1.72%)
F&A Costs/MTDC	25.02%	26.36%		

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 2015-16. As mentioned above, 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 2015-16 is 50.0%. The effective rates for the past ten years and projections for FY 2014-15 and FY 2015-16 are shown in Schedule 6. The difference between the negotiated rate and effective rate is caused by several factors including the fact that not all sponsors honor the negotiated federal rate.

Schedule 6

Sponsored Program Expenditures and F&A Effective Cost Recovery Rates***					
Fiscal Year	Total Costs	MTDC	Other *	F&A Costs	F&A Rate Effective Rate
2005-06	109,470,605	70,319,851	24,163,947	14,986,807	21.31%
2006-07	105,405,951	69,744,247	20,708,680	14,953,024	21.44%
2007-08	109,539,095	71,861,260	21,468,804	16,209,031	22.56%
2008-09	119,238,251	73,734,590	26,983,145	18,520,516	25.12%
2009-10	126,100,292	78,003,589	27,361,098	20,735,605	26.58%
2010-11	135,239,456	82,360,529	30,531,222	22,347,705	27.13%
2011-12	122,853,501	76,722,184	26,173,745	19,957,572	26.01%
2012-13	108,364,049	68,307,579	22,092,681	17,963,789	26.30%
2013-14	106,609,049	65,659,861	23,820,251	17,128,937	26.09%
2014-15 **	105,000,000	65,567,000	22,733,000	16,700,000	25.47%
2015-16 **	108,746,000	68,846,000	22,000,000	17,900,000	26.00%

* In previous budget reports, certain expenses in the "other" category were included in MTDC
 ** Projected
 *** Includes ARRA funds from FY 2008-09 - FY 2013-14

Self-Support Programs Fees (\$3,264,000)

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 \$154,000 or 4.9% over the FY 2014-15 mid-year projection, and a 2.9% increase when compared to FY 2013-14 actuals due to anticipated increased activity.

Rents (\$5,721,000)

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 \$5,721,000 for FY 2015-16, a slight increase over the mid-year FY 2014-15 budget. See *Appendix A* for further detail.

Royalties and Other Technology Transfer Office (TTO) Income (\$180,000)

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 \$180,000 represents the research foundation's share of royalties as well as legal reimbursement when applicable. No significant change is anticipated in these revenues in the FY 2015-16 budget when compared to the mid-year FY 2014-15 budget.

Investments (\$838,000)

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 anticipated overall decrease in cash available for investment. The research foundation anticipates utilizing approximately \$30.0 million from its cash equivalents pool to assist with the financing of several university initiatives. The primary 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, there will be less cash available during the coming year to generate investment revenues. Investment income is projected at \$838,000 for FY 2015-16, which represents a 34.7% decrease when compared to the mid-year FY 2014-15 budget.

USE OF FUNDS

Basic Support**Administration & Operations (\$14,450,000)**

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

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

Schedule 7

Administration & Operations by Expense Type										
	Actual		Original		Mid-year		Proposed		Proposed compared to Mid-year FY 2014-15	
	FY 2013-14	% of Total	FY 2014-15	% of Total	FY 2014-15	% of Total	FY 2015-16	% of Total	\$ Increase (Decrease)	% Increase (Decrease)
	Personnel Costs:									
Salaries	8,632,289	63.18%	8,763,000	61.68%	8,740,000	60.48%	8,875,000	61.42%	135,000	1.54%
Benefits *	3,499,257	25.61%	3,563,000	25.08%	3,463,000	23.97%	3,437,000	23.79%	(26,000)	(0.75%)
	<u>12,131,546</u>	<u>88.80%</u>	<u>12,326,000</u>	<u>86.75%</u>	<u>12,203,000</u>	<u>84.45%</u>	<u>12,312,000</u>	<u>85.20%</u>	<u>109,000</u>	<u>0.89%</u>
Operating Costs:										
Legal	142,989	1.05%	75,000	0.53%	115,000	0.80%	61,000	0.42%	(54,000)	(46.96%)
Insurance	97,495	0.71%	120,000	0.83%	120,000	0.83%	120,000	0.83%	-	0.00%
Supplies	50,574	0.37%	71,000	0.49%	70,000	0.48%	70,000	0.48%	-	0.00%
Equipment	19,441	0.14%	68,000	0.47%	131,000	0.91%	92,000	0.64%	(39,000)	(29.77%)
Travel	58,468	0.43%	85,000	0.59%	100,000	0.69%	119,000	0.82%	19,000	19.00%
Contracted Services **	552,931	4.05%	817,000	5.65%	1,029,000	7.12%	988,000	6.84%	(41,000)	(3.98%)
Audit	260,820	1.91%	264,000	1.83%	264,000	1.83%	269,000	1.86%	5,000	1.89%
Other ***	348,136	2.55%	382,000	2.64%	418,000	2.89%	419,000	2.90%	1,000	0.24%
	<u>1,530,854</u>	<u>11.20%</u>	<u>1,882,000</u>	<u>13.25%</u>	<u>2,247,000</u>	<u>15.55%</u>	<u>2,138,000</u>	<u>14.80%</u>	<u>(109,000)</u>	<u>(4.85%)</u>
	<u>13,662,400</u>	<u>100.00%</u>	<u>14,208,000</u>	<u>100.00%</u>	<u>14,450,000</u>	<u>100.00%</u>	<u>14,450,000</u>	<u>100.00%</u>	<u>-</u>	<u>0.00%</u>

* Retiree medical is included in this line.

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

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

The administration and operations budget amount of \$14,450,000 for FY 2015-16 is projected to remain the same as the mid-year FY 2014-15 budget. The projection includes \$150,000 in cuts that will be identified throughout the year as operations are streamlined and increased efficiencies are realized. The \$150,000 is allocated under personnel as a placeholder; however all areas will be examined in order to achieve the target reductions. The projection anticipates reductions in the annual contribution to the VEBA trust, legal fees, equipment, and contracted services.

Funding has been included for the 3% across-the-board salary increase provided to core staff effective January 1, 2015. The pool also includes funding for a 2% salary increase effective January 1, 2016. These costs have been partially offset through reductions in other categories including the elimination of three positions in FY 2015-16. This brings the total reductions of staffing to 28 positions since FY 2010-11 or approximately 15% of total central staff.

Facilities Expenses (\$10,778,000)

Research foundation management is involved in a variety of activities related to real property, including administering the space provided to sponsored projects. Total facilities expenses of \$10,778,000 represent a net increase of \$121,000 from the mid-year FY 2014-15 budget or 1.1%. This increase is due primarily to anticipated increases in utilities. See *Appendix A* for more detail.

ALLOCATIONS

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

Direct Support of Research (\$2,956,000)

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

Research Support Funds (\$2,734,000)

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 to the Vice President for Research for Institutional Support.

The following chart shows the projected FY 2015-16 RSF distribution.

RSF DISTRIBUTION FY 2015-16		
Colleges/Units		
RSF	\$ 1,739,000	
Space Adjustment	(791,000)	
Washington D.C. Representation	<u>(54,000)</u>	
Subtotal		894,000
PIs		
RSF	\$ 1,152,000	
High-volume	<u>431,000</u>	
Subtotal		1,583,000
Institutional		<u>257,000</u>
Total Research Support Funds		<u><u>\$ 2,734,000</u></u>

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 2015-16 distributions of RSF are based on the amount of actual F&A generated in FY 2014-15.

The proposed FY 2015-16 budget funds 100% of the formula. However, as in previous years, 80% (\$2,187,000) of the budget amount will be provided at the beginning of FY 2015-16. The remaining 20% (\$547,000) will be distributed as part of the mid-year FY 2015-16 budget if the projected unrestricted revenue goals are achieved.

The FY 2015-16 budget changes the funding formula related to the cost of the Washington D.C. representative. The portion of this cost historically allocated to the PIs has now been absorbed by the research foundation and the vice president for research. The FY 2015-16 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; the FY 2015-16 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.

Professors Helping Professors (\$17,000)

The Professors Helping Professors (PhP) program resumed in FY 2014-15. It is intended to support new faculty who need assistance in preparing and submitting proposals. Participants will be identified by working closely with the vice president for research and college deans with a

goal of facilitating external funding opportunities for a small number of new faculty. The PhP program is being integrated with the Grants and Research Enterprise Writing (GREW) program, which is providing intensive training for a select number of junior faculty.

BioScience Center Development (\$19,000)

The BioScience Center (BSC) was established in 2006. Funds are to be used to assist in the development of this first class research center by recruiting new faculty, fundraising for the BSC, ensuring optimal utilization of space, and maintaining a high quality research program. The 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 (\$957,000)

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

Other Facilities and Equipment Support (\$386,000)

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.

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. We anticipate the library will fully utilize these balances. Therefore, a new \$50,000 allocation has been included for FY 2015-16.

Research Compliance (\$1,441,000)

Funds are provided to the university to offset a portion of its costs related to the infrastructure needed to support the required administrative and compliance activities of a research institution. This includes support for the office of the vice president for research and the division of research affairs and these critical compliance activities: ensuring training and adherence to human subjects and animal subject regulations, biosafety and the safe use of radioactive materials in sponsored research programs, and oversight of export controls in accordance with federal regulations.

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

The university has generously agreed to a continued waiver of \$1.0 million in FY 2015-16 so that remaining reserves can be utilized over several years, allowing time for investments in research to start generating additional revenue.

University Research Space (\$80,000)

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

Investments in Enhanced Service Initiatives (\$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 2015-16 includes \$100,000 as an initial investment necessary for the next electronic initiatives identified as critical priorities.

These funds will be used to develop a workflow engine platform that will be used as a basic building block for various current and future enhancements including routing: automated personnel action forms; on-line purchase requisitions; and on-line delivery and processing of payment authorizations. These enhancements will automate current paper-based processes and facilitate several post-award systems.

These funds will also be used to improve two important human resource functions. They will allow us to convert all current I-9 forms into one system which will simplify storage and enable us to conduct our mandatory audits with the goal of achieving 100% accuracy. An electronic performance management system will also be implemented if time and resources permit.

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 (\$1,500,000)**

The budget shows a net of \$1.5 million from various discretionary reserves to balance the FY 2015-16 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 is currently fully occupied by research projects.

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

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

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

Bioscience Center. The university and research foundation partnered to develop a novel approach to finance and construct this 30,000 square-foot research facility.

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

RENTAL INCOME

Rental income is projected at \$5,721,000 which represents a slight increase from the mid-year FY 2014-15 budget.

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

FACILITIES EXPENSE

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

Facilities Operating Expenses (\$6,802,000)

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.

Facilities Operating Expenses					<u>Proposed compared to Mid-Year FY 2014-15</u>	
	<u>Actual FY 2013-14</u>	<u>Original FY 2014-15</u>	<u>Mid-Year FY 2014-15</u>	<u>Proposed FY 2015-16</u>	<u>\$ Increase (Decrease)</u>	<u>% Increase (Decrease)</u>
Salaries	\$1,707,379	\$1,654,000	\$1,676,000	\$1,703,000	\$ 27,000	1.61%
Administrative	96,688	100,000	95,000	102,000	7,000	7.37%
Vehicles	32,279	46,000	46,000	43,000	(3,000)	(6.52%)
Insurance	603,777	624,000	624,000	618,000	(6,000)	(0.96%)
Maintenance	154,082	117,000	132,000	153,000	21,000	15.91%
Utilities	1,158,458	1,112,000	1,478,000	1,619,000	141,000	9.54%
Property Taxes	200,630	206,000	176,000	179,000	3,000	1.70%
Contracted Services	872,130	885,000	807,000	782,000	(25,000)	(3.10%)
Leased Space	570,365	604,000	610,000	669,000	59,000	9.67%
University Services	665,338	833,000	817,000	825,000	8,000	0.98%
Parking	109,000	109,000	109,000	109,000	-	0.00%
	<u>\$6,170,126</u>	<u>\$6,290,000</u>	<u>\$6,570,000</u>	<u>\$6,802,000</u>	<u>\$ 232,000</u>	

Facilities Capital Improvements (\$266,000)

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

Facilities Tenant Improvements (\$345,000)

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

Facilities Debt Service (\$3,365,000)

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

Summary of Debt Service Proposed FY 2015-16		
	Facilities Debt Service	Outstanding Debt March 31, 2015
2012 Bond Issue	\$ 1,558,000	\$ 26,170,000
2010 SRB Bond Issue	550,000	3,615,000
Internal Financing		
Sky Park Court	188,000	1,133,000
6367 Alvarado Court	348,000	4,714,000
6386 Alvarado Court	236,000	2,122,000
619 Heber, IV	12,000	143,000
Bioscience Center Lease	473,000	-
	<u>\$ 3,365,000</u>	<u>\$ 37,897,000</u>

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

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

Fiscal Year 2015-16			
Proposed Budget	Project Activity	Non-Project Activity	Total Facilities
Revenue:			
Rental Income	\$ 794,000 *	\$ 3,693,000	\$ 4,487,000
Rental Income – University Paid	-	1,234,000	\$ 1,234,000
Total Rental Income	794,000	4,927,000	\$ 5,721,000
Operating Costs	4,759,000	2,043,000	\$ 6,802,000
Net Income (Loss) before Debt Service, Tenant and Capital Improvements	(3,965,000)	2,884,000	\$ (1,081,000)
Debt Service	1,936,000	1,429,000	\$ 3,365,000
Capital Improvements	145,000	121,000	\$ 266,000
Tenant Improvements	149,000	196,000	\$ 345,000
Net Income (Loss) after Debt Service, Tenant and Capital Improvements	<u>\$ (6,195,000) *</u>	<u>\$ 1,138,000</u>	<u>\$ (5,057,000)</u>

Fiscal Year 2014-15			
Mid- Year Projection	Project Activity	Non-Project Activity	Total Facilities
Revenue:			
Rental Income	\$ 796,000 *	\$ 3,692,000	\$ 4,488,000
Rental Income – University Paid	-	1,229,000	\$ 1,229,000
Total Rental Income	796,000	4,921,000	\$ 5,717,000
Operating Costs	4,589,000	1,981,000	\$ 6,570,000
Net Income (Loss) before Debt Service, Tenant and Capital Improvements	(3,793,000)	2,940,000	\$ (853,000)
Debt Service	1,922,000	1,448,000	\$ 3,370,000
Capital Improvements	146,000	126,000	\$ 272,000
Tenant Improvements	112,000	333,000	\$ 445,000
Net Income (Loss) after Debt Service, Tenant and Capital Improvements	<u>\$ (5,973,000) *</u>	<u>\$ 1,033,000</u>	<u>\$ (4,940,000)</u>

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

Expenses were allocated as follows:

- **Operating Costs.** Operating costs were broken out as follows:
 - Certain costs that were 100% attributable to projects or non-projects were allocated accordingly. Thus the shuttle service, public safety reimbursement, and certain vehicle costs were allocated to project activity. Leasing commissions were allocated to non-project activity.
 - The remaining costs were analyzed to determine if the cost of supporting non-project and housing space was the same as that of supporting project space. The following services are provided to projects (but not housing or non-projects): extensive space layout and planning; furniture purchasing, moving, and repairing; replacing electrical cords and switches; handling spills - non-hazardous and some hazardous; and delivering copier paper. Management estimates that the time and cost to provide services to projects is 20% higher than the cost to provide services to non-projects. Therefore, an additional 20% of 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 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, it cannot be sustained indefinitely.

Presented below is the projected reserve activity for FY 2015-16 which anticipates using \$1.5 million from discretionary operating reserves to balance the FY 2015-16 budget. The \$1.5 million was allocated amongst the available discretionary operating reserves.

	Established Reserves Balances				Projected Balance 6/30/2016
	Projected Balance 6/30/2015	Projected Activity			
		GF Allocation	Mkt Val Changes	Activity ④	
Discretionary					
Operating Reserves					
Income Equalization	500,000	-	-	-	500,000
Working Capital	642,000	(342,000)	-	-	300,000
Operating Contingency	1,320,000	(820,000)	-	-	500,000
Utilities	-	-	-	-	-
Facilities	1,158,000	(158,000)	-	-	1,000,000
Insurance	680,000	(180,000)	-	-	500,000
Debt Service	956,000	-	-	-	956,000
	<u>5,256,000</u>	<u>(1,500,000)</u>	<u>-</u>	<u>-</u>	<u>3,756,000</u>
Quasi-Endowments					
General Fund	3,248,000	-	229,000 ①	(112,000)	3,365,000
Research Endowment	2,884,000	-	203,000 ①	(78,000)	3,009,000
Research Endowment Income	640,000	-	22,000 ②	(269,000)	393,000
	<u>6,772,000</u>	<u>-</u>	<u>454,000</u>	<u>(459,000)</u>	<u>6,767,000</u>
	<u>12,028,000</u>	<u>(1,500,000)</u>	<u>454,000</u>	<u>(459,000)</u>	<u>10,523,000</u>
Non-discretionary					
Employee-Related					
Retiree Medical VEBA Trust	9,732,000	50,000	347,000 ③	(212,000)	9,917,000
Employee Fringe Benefits	1,515,000	-	11,000	-	1,526,000
Workers' Compensation Insurance	1,686,000	-	-	250,000	1,936,000
Unemployment Insurance	1,449,000	-	-	28,000	1,477,000
	<u>14,382,000</u>	<u>50,000</u>	<u>358,000</u>	<u>66,000</u>	<u>14,856,000</u>
	<u>26,410,000</u>	<u>(1,450,000)</u>	<u>812,000</u>	<u>(393,000)</u>	<u>25,379,000</u>

① Expected market value returns are based on the TCF-stated long-term return objective of the HEPI Index plus 515 basis points. The HEPI projection is 1.9% resulting in a total return of 6.85%

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

③ Projected change in market value of 3.6% which is the average return of the VEBA for the past few years

④ Projected transactions for FY 2015-16

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 intent to replenish the reserves as funding becomes available.

Discretionary Funds

Income Equalization (\$500,000)

The budgeted amount for F&A cost recovery each year is only an estimate and represents approximately 64.2% 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 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 1.7% of annual F&A cost recovery. A reasonable goal for this reserve is five percent of F&A cost recovery (\$895,000).

Working Capital (\$300,000)

The FY 2015-16 budget anticipates using \$342,000 from the working capital reserve.

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

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

Currently, most universities must have millions of dollars of cash segregated to provide the cash flow necessary to manage grants and contracts. 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 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 funding agency.

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

After a careful review of current conditions regarding financing grants and contracts, the goal for this reserve has been established at five percent of unexpended grant and contract awards (work-in-process), to provide for cash flow requirements. Based on this formula, the reserve should have a current balance of \$4,892,000.

Operating Contingency (\$500,000)

The FY 2015-16 budget anticipates using \$820,000 from the operating contingency reserve. 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)
- 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 \$1,087,000.

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 2015-16 is \$567,000. The amount of the reserve is evaluated each year depending on current utilities market issues.

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 (\$500,000)

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

Debt Service (\$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 (\$2,108,000).

Quasi-Endowment/General Fund (\$3,365,000)

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

Quasi-Endowment/Research Endowment (\$3,009,000)

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 \$3,009,000 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 (\$393,000)

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 \$269,000 noted in the activity column represents a net amount of \$78,000 distributed from the research endowment and an estimated \$347,000 utilized in support of research. These funds have been committed as cost-sharing for anticipated grants and research equipment.

Non-discretionary Funds**Retiree Medical VEBA Trust (\$9,917,000)**

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 (\$1,526,000)

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

Workers' Compensation Insurance (\$1,936,000)

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 (\$1,477,000)

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 \$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.

In addition, the research foundation has approximately \$1.6 million in facilities capital and tenant improvements that will be amortized through FY 2020-21 via the general fund budget.