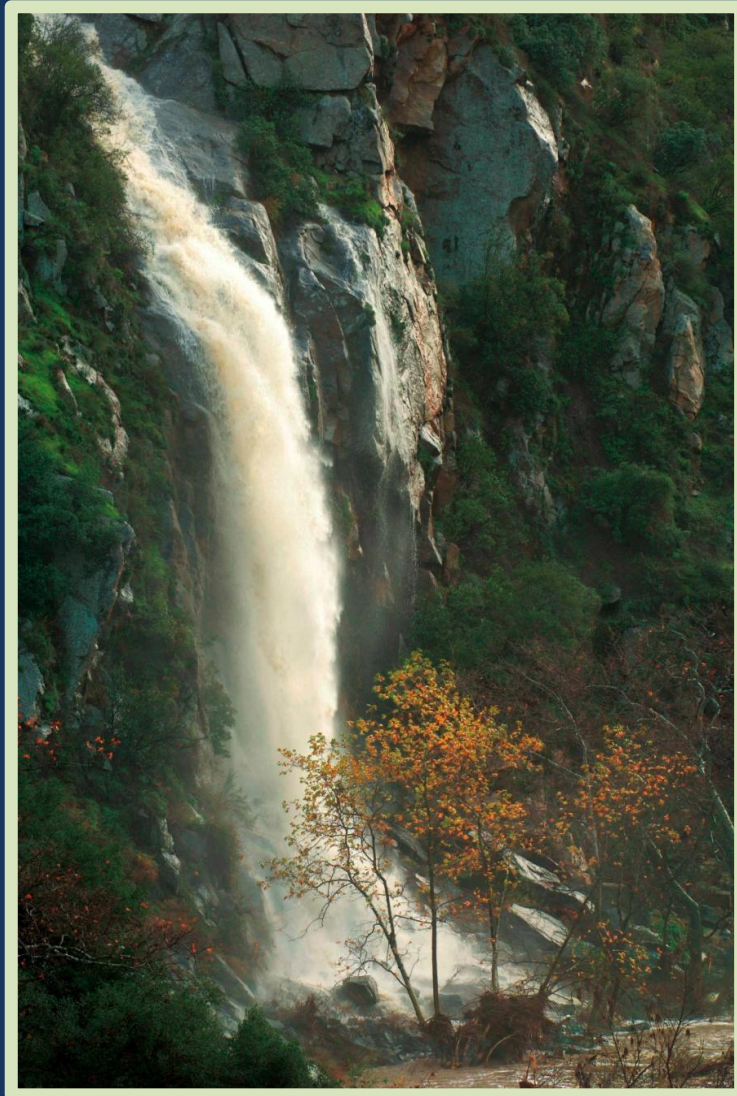


San Diego State University Research Foundation



**General Fund Budget
FY 2011-12**

Cover photo: Waterfall on the Santa Margarita River

Photographer: Doug McCullough

"For nearly fifty years, San Diego State University has owned and managed one of the largest research reserves in southern California. The Santa Margarita Ecological Reserve has served as an "outdoor laboratory and classroom" to hundreds of researchers and students. The projects have spanned the breadth and depth of the natural and physical sciences, including topics such as climate change, air pollution, water pollution, endangered species, wildfires, and earthquakes. Today, the reserve represents the last of so many things: the Santa Margarita River is the last fully-protected, free-flowing river in southern California; the reserve serves as the last connection between coastal and inland habitat in southern California; it represents an extremely sensitive cultural resource site for the Pechanga Band of Luiseño Indians; and hosts a diverse array of endemic, rare, sensitive, and endangered species. "

Matt Rahn

*Dr. Matt Rahn is the director of research and education at SDSU's Santa Margarita Field Station. He is the principal investigator on several awards from the U.S. Department of Agriculture, the San Diego River Conservancy, and other private sources. His diverse work has involved research on the impact of wildfires; supporting the long-term viability and sustainability of the San Diego River Watershed; studying chaparral and mangrove ecosystems; and research on the yellow bat (*Lasiurus ega*) which roosts only in palm trees!*

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Message from Management

This past year found SDSU Research Foundation continuing to do what we set out to do 68 years ago - support the programs that are critical to the mission of San Diego State University.

We collaborated with our board of directors, with the university administration, and with our funding sponsors to provide the necessary services and resources to support SDSU researchers.

We helped faculty and staff submit a record number of proposals and administer a record \$151 million in awards.

We continued to manage the awards and reports in connection with the American Recovery and Reinvestment Act (ARRA). This initiative has provided a temporary, but important, boost to SDSU's research program.

This past year also found us assessing the state of the research foundation. The University Research Council initiated an external review of SDSU's research infrastructure including SDSU Research Foundation and SDSU's Division of Research Affairs. The review is underway and expected to be complete by June 30, 2011. It is our hope that the results of this review will serve to inform research foundation and SDSU management about what we are doing well and point to ways we could improve our service to SDSU and its researchers.

Assessment has also been done in the context of the impending retirement of President Stephen Weber. President Weber has been a strong advocate for research at SDSU and of SDSU Research Foundation. Much of our success and stability can be attributed to his wise leadership. A couple of key highlights: during his tenure, the amount of research funding awarded to SDSU faculty and staff more than doubled from \$74 million to \$151 million, and our real estate portfolio surpassed one million square feet and now houses two-thirds of all SDSU research activity.

As evidenced by this 2011-12 general fund budget, SDSU Research Foundation's financial position remains stable – at a time when the same cannot be said for many state-supported organizations. This stability means we can continue to assist the university in advancing its research mission.

That said, we face our own challenges: the end of ARRA funding; new competition to fill housing units; and a change in leadership in three key management positions (SDSU president and vice president for research, and research foundation executive director). Our management team looks forward to working with the new leadership and our board of directors to meet the needs of SDSU and its researchers.



Dan M. Gilbreath
Executive Director



Melinda Coil
Chief Financial Officer

About the Research Foundation

Established in 1943, SDSU Research Foundation is an auxiliary organization authorized by the Education Code of the State of California and chartered to augment the educational, research and community service objectives of San Diego State University. As a non-profit corporation, SDSU Research Foundation is governed by a board of directors which guides the organization in achieving its objectives.

Our management team includes the executive director and four associate executive directors who work closely with SDSU’s vice presidents for research and business and financial affairs to set policies, manage resources, and guide a dedicated staff in their efforts to facilitate the work of SDSU researchers.

Grant Communications and Pre-award Services

These services are provided to faculty and staff who are seeking funding for their projects.

Our communications office helps faculty identify funding opportunities and our sponsored research development office offers proposal submission assistance to those who have decided on a potential sponsor. Last year, more than 3,000 grant-related email notices were disseminated and 29 grant-related workshops and webinars were offered to more than 300 participants. These workshops included proposal writing basics, locating funding opportunities on the web and NIH, NSF and Department of Education program-specific webinars.



Funding Opportunities Workshop

The office of communications worked with computing services to create a new scrolling feature on the research foundation home page to highlight the activities of our principal investigators (PIs), upcoming workshops, and other important campus or research foundation announcements. A new paper – and email-saving initiative automated our proposal and award reports system so that quarterly and annual reports of awards and proposals would be easily and readily accessible to deans and department chairs via PI Profile.



New home page scrolling feature

Sponsored research development specialists helped submit 1,240 proposals to 307 different sponsors during the FY 09-10 fiscal year. Proposal volume has leveled off in FY 2011, partially due to American Recovery and Reinvestment Act (ARRA) funds ending.

The Professors Helping Professors (Ph.P) mentoring program is now receiving nominations for new participants for the 2012 fiscal year. Senior researchers team with junior faculty to assist them with their grant submissions. In FY 2011, six teams from three colleges have submitted three proposals, with one previously-submitted proposal receiving an award.

While the number of new faculty continues to decline, those who have been hired during the last five years continue to submit proposals, and we continue our outreach to encourage their grant activity.

The use of the InfoEd system-to-system service continues to increase. Its main purpose is to streamline the electronic submission process. The use of InfoEd decreases the likelihood of submission errors, the system is easier to navigate, and it allows faculty to upload their proposal documents directly from any computer. InfoEd is slowly expanding the use of its application to other federal agencies, but the current focus is on NIH proposals. Sponsored research development staff helped SDSU faculty and staff submit almost 70 proposals using the InfoEd system.

A significant change in NIH's application acceptance policy (the discontinuation of the 2-day error correction "window") was implemented on January 25, 2011. This policy change means that PIs no longer have two days after the NIH deadline to correct applications that may have contained warnings or errors. SDSU Research Foundation staff communicated this change in a variety of ways, from email notices to one-on-one phone conversations with faculty and administrators. Because of this frequent and targeted communication, all PIs who submitted proposals during the first deadline cycle for NIH were successful in meeting the deadline. This process will continue to be refined as subsequent NIH deadlines approach.

The **Research Advancement** (RA) division is responsible for supporting and furthering the sponsored research and educational goals of SDSU by assisting faculty, deans and the vice president for research in devising strategies to advance and expand SDSU's research endeavor; developing cooperative multidisciplinary, multi-institutional partnerships; providing program management support for a select number of sponsored programs; protecting and commercializing the intellectual property of SDSU faculty and staff; and managing the activities of the Washington DC firm engaged as an SDSU advocate.

RA staff create marketing and information strategies to develop new funding opportunities involving multi-college, multi-institutional partnerships; 2) cultivate federal/state program officers when SDSU has special expertise to respond to national/state/local needs; 3) identify and develop new programs with local/state and federal agencies, non-profit organizations and other potential sponsors leveraging the expertise of SDSU faculty and staff; and 4) provide information to elected officials to help advance new or changes to federal policies that will allow SDSU faculty and staff to successfully compete for grants.

Last year, research advancement staff worked on behalf of SDSU's Entrepreneurial Management Center and College of Business Administration to develop a regional cluster involving prime contractors, industry associations, government agencies, and other non-profit organizations. A \$600,000 Small Business Administration award to help regional small businesses market their

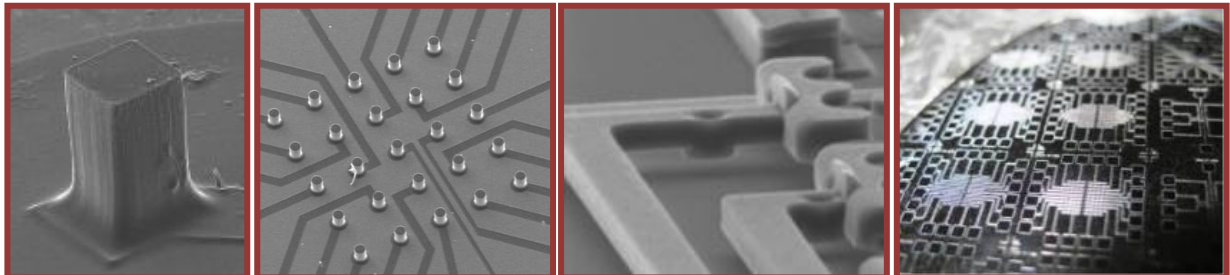
technologies to the Department of Defense was the result. This new initiative leveraged an extensive network of San Diego resources including 12 major defense prime contractors, five industry associations, seven non-profit economic development and business services providers, two universities, and three government agencies to promote small business growth and development.

After ten years of operating with congressional support totaling approximately \$43.4 million, the Department of Defense-funded multi-million dollar academic-industry-government collaborative, CCAT (Center for Commercialization of Advanced Technologies), secured new sponsorship in the form of \$1.35 million from the Office of the Assistant Secretary of Defense for Homeland Defense and Americas' Security Affairs, and \$3.65 million from the Department of Homeland Security, to develop and transition advanced technologies to the first responder community. A collaborative relationship was established with local first responder agencies to facilitate the technology tests, demonstrations, and transition.

SDSU Research Foundation continued to work on behalf of the Language Acquisition Resource Center (LARC) to obtain additional funding for the critical language programs designed for military personnel being deployed to overseas locations. Approximately \$5 million has been received through 2010 in support of new curriculum development, introduction of on-line and distant learning technologies, and other learning tools for multiple languages including Pashto and Arabic. This program continues to deliver important training to the military including cultural, political, and religious aspects unique to the forward deployed regions of Afghanistan, Iraq, etc.

Technology Transfer Services

The Technology Transfer Office (TTO) is responsible for providing technology transfer services, protecting intellectual property, commercializing technology developed at SDSU, and assisting spin-out companies based on SDSU inventions. Since its inception in 1998, TTO has managed 220 intellectual property disclosures, including 145 patentable inventions, 71 copyrightable works and 4 trademarks. The current portfolio includes 31 issued patents and 39 active license agreements. TTO continues to work with the San Diego Mayor's Office developing Cleantech research initiatives on campus, with CONNECT to develop sponsored research and license opportunities for SDSU technologies, and with a consortium of San Diego institutions headed by the San Diego Zoo that is focused around creating the world's leading center on developing Biomimicry.



Engineering professors Kee Moon, Khaled Morsi & Samuel Kassegne have developed proprietary technologies that reduce manufacturing cost and have been licensed to a "green" electronics manufacturer.

Images provided by Kassegne MEMS Lab, Dept. of M.E., SDSU.

The **Sponsored Research Contracting and Compliance (SRCC)** department has completed its first full year of operation, providing enhanced service to funded projects and research foundation departments by more efficiently processing awards and sub-agreements.

SRCC analysts are responsible for confirming with SDSU's Division of Research Affairs that awarded projects have met compliance standards. During SRCC's first year, 796 proposals were awarded. SRCC analysts also develop subrecipient agreements, some of which are quite complex and involve multiple institutions. These agreements have been negotiated with a variety of recipients, such as commercial entities, federally-funded research and development centers, hospitals, clinical/medical institutes, institutions of higher education, international organizations, local governments, non-profit entities, school districts, and sole proprietors.

In the past 15 months, two unfunded federal mandates have been implemented. The Federal Funding Accountability and Transparency Act (FFATA) requires the submission of all subrecipient related data for sub-agreements at or above \$25,000. The Responsible Conduct of Research (RCR) regulation requires RCR notification and training of individuals related to select NIH projects and NSF funded research and training programs. As the federal government continues to increase compliance requirements and as collaboration among researchers grows, it is expected that SRCC activities will also expand.

Post-award Services

These services are provided when a faculty or staff member has received word that his or her proposal has been funded.

The Sponsored Research Administration (SRA) department provides post-award administration, compliance and fiscal management services to principal investigators for their grants and contracts awarded from federal, state and local government and private funding agencies, as well as gift funds and institutional and self-support activities. During the past year sponsored research administrators provided these services to principal investigators and their staff for over 1,000 active awards and over 1,700 institutional, self-support and gift funds.

SRA provides overall fund management services including expenditure review, budget projections, financial reporting, effort certification, and sub-awards management.

During the past year SRA has continued to ensure compliance with the unique guidelines and reporting requirements for the \$29.1 million in ARRA awards received by SDSU principal investigators. Staff assisted computing services with the design and implementation of an important enhancement to the ARRA reporting system which enables PIs to easily update progress reporting for ARRA funds on-line.

SRA also implemented a comprehensive internal training program designed to provide in-depth instruction on post-award administration for SR administrators. The curriculum and learning objectives are presented in a series of five block trainings designed to cover all aspects of post-award administration from award setup through closeout. This continued focus on training ensures the staff are educated about current issues in the research administration field and leads to enhanced services to PIs and their staff.

Financial and Business Services

These services are provided to PIs and project staff to assist them as they conduct the day to day business of their programs.

The research foundation provides finance and accounting, financial systems, purchasing, human resources, payroll, and computing services for research and project funds, scholarships, institutes and The Campanile Foundation. In the last year, the research foundation payroll department processed 50,580 payroll checks and 4,461 W-2 Forms for 2,500 full and part-time central and project staff. Accounts payable paid 54,181 invoices and 6,855 purchase orders were placed by the purchasing department. Over 600 travel claims were processed each month.

In addition to providing routine system maintenance and support for the research foundation's information systems, our computing services department worked closely last year with other department personnel to develop and implement the following initiatives:

- **Responsible Conduct of Research Training**

An automated system was developed to notify employees, PIs and SRA administrators when a sponsoring agency requires Responsible Conduct in Research training – one of the new federal mandates mentioned above. The system includes audit tables that keep track of all notifications and the criteria that triggered the notification.

- **PI Profile – Accessible Technology Initiative**

As part of the CSU Accessible Technology Initiative (ATI) a major effort was undertaken to update PI Profile to meet accessibility standards, ensuring that information is accessible to a broad audience.

- **Employee Performance Review Reports**

The paper-based method of alerting supervisors of employees coming due for performance review reports was replaced with a new process that automatically generates the reports and distributes via e-mail. A new PI Profile query was also added that allows authorized users to query the status and due dates of performance reports for all active employees at any time.

Human Resources and Risk Management (HR)

HR is responsible for risk management, legal and compliance issues, recruitment, employee relations, benefits, and compensation administration. In addition to working with senior management to respond to the monumental health reform legislation passed in March 2010, key accomplishments in the past year include:

The entire research foundation workforce was “**E-Verified.**” Recent federal regulations tightened reporting requirements for employers with government contracts. As a recipient of federal funds, SDSU Research Foundation is required to use the Department of Homeland Security's E-Verify system to confirm that new employees and existing employees working on certain federal contracts are eligible to work in the U.S.

HR staff developed a task force to identify eligible new hires under the Hiring Incentives to Restore Employment (HIRE) Act. The HIRE Act provides tax-savings for organizations that hire unemployed workers. The task group succeeded in identifying these individuals which resulted in a savings of \$51,000.

E-Filing 5500s and First-Ever Retirement Plan Audit

In 2010, all 5500 filings were required to be filed electronically with the IRS and Department of Labor. HR and finance and accounting also complied with the new IRS/DOL regulations which require a full 5500 filing on employer 403(b) retirement plans and a retirement plan audit.

Facilities Management

Our Facilities Planning and Management (FP&M) department is responsible for identifying, acquiring, and managing real property in support of sponsored programs. FP&M staff oversee an SDSU Research Foundation portfolio valued at over \$135 million, with one million square feet of buildings and 700 acres of land. Management of this important array of property includes acquisition, improvements, and maintenance of the facilities that house over two-thirds of SDSU research projects. Various commercial properties share space within these properties and are held for future campus or project needs. FP&M also locates and leases space in non-foundation-owned properties to house sponsored projects as needed.

Recent highlights:

- Dr. Gregory Talavera, professor of health promotion and behavioral sciences conducts the Hispanic Community Health Study/Study of Latinos within his recently expanded space located in Chula Vista, CA. This is the largest study of Hispanic/Latino health in the history of the United States. Professors Linda Gallo, Guadalupe Ayala and John Elder share space with Dr. Talavera.
- SDSU's Department of Public Safety provided guidance for safety and efficiency improvements at Alvarado Medical Center (AMC) for the replacement and re-lamping of new and existing light fixtures throughout the complex. With last year's purchase of 6367 Alvarado Court, SDSURF operates nine buildings at AMC including a laboratory.
- In partnership with the College of Sciences, new space was identified and designed for the Center for Behavioral Teratology. The center, which leads the quest to understand fetal alcohol syndrome by conducting innovative research on the effects of prenatal alcohol exposure, now occupies the first floor of 6330 Alvarado Court and houses offices, testing rooms and space for administrators.



New location for the Center for Behavioral Teratology

- The “Grant of Easement and Agreement” for the underground seawater pipelines at the Coastal Waters Laboratory building was approved by San Diego’s City Council and Mayor. This approval was the last key piece in a multi-year permit process involving agencies such as the U.S. Army Corps of Engineers, U.S. Navy, California Coastal Commission, California Regional Water Quality Control Board, and many others. This easement permits the seawater supply and discharge lines within bay-front City Esplanade property for the duration of the research foundation’s existing ground lease, facilitating the operation of the seawater life support system, and enabling researchers in the College of Sciences Coastal and Marine Institute Laboratory to continue their successful work.



Outdoor research aquaria connected to the flow-through seawater system at the Coastal and Marine Institute Laboratory

- SDSU’s College of Sciences, San Diego’s Storm Water Department and research foundation staff combined efforts to demonstrate to the City of San Diego the impact in property damage and loss to researchers resulting from the overflowing of Alvarado Creek. This effort produced a successful outcome allowing the issuance of an emergency permit for clearing out the accumulated debris, and ensuring free flowing water in the creek. A low wall was built behind 6363 Alvarado Court, which effectively held back floodwater this past wet season. Work is underway to extend the new wall behind other research foundation properties that front the creek.
- During the last fiscal year a water savings of 18% was achieved by replacing landscaping, changing irrigation methods, and installing controls that react to weather conditions via satellite.
- Two small residences located at 5121-41 Campanile Drive, formerly occupied by fraternities, are undergoing a remodel to house SDSU Student Organization Annex, a unit of Associated Students. These structures will be brought up to code, receive new paint, windows, interiors and landscaping which will enhance their appearance and the street that serves as the ceremonial entrance to campus.
- Fraternity Row has made a research foundation-owned chapter house and apartment stack available for use by all students. With fewer fraternities needing housing during the past year, this new concept has been successful in maintaining occupancy and rental income. Last year, the Student Veteran Organization successfully operated their SDSU Veterans House located at 5500 Hardy Avenue and leased 95% of their adjacent apartments.
- Facilities has signed commercial leases for a total value of over \$2 million to be realized over a three to five year period, and has maintained a 100% retention rate in lease renewals within research foundation-owned properties during the past eight months. These tenants contribute revenue and provide flexibility in accommodating growth of sponsored research programs.

General Fund Budget Overview

BACKGROUND

Total research foundation revenue, including restricted and unrestricted, is projected to be \$182,415,000 for FY 2011-12. The general fund budget – at \$36,709,000 – makes up the unrestricted portion of total revenues generated by research foundation activities. Restricted revenue – the remaining \$145,706,000 – 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.

General fund expenditures include basic support costs which include administration and operations costs and facilities expense, allocations for enhanced program support and research initiatives, and maintenance of adequate reserves.

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 61.0% 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 20.3% of total direct costs and represents a slight increase over last year's actual recovery rate of 20.0%. This increase is attributable to a mix of grants and contracts with higher awarded F&A rates for the current year. We anticipate this upward trend to continue. Projected F&A for FY 2011-12 (\$20,866,000) reflects an 8.3% increase over the FY 2010-11 original budget and 1.0% increase over the mid-year projection. This increase is due to continued growth in anticipated awards, expenditures, and the F&A recovery rate.

The American Recovery and Reinvestment Act (ARRA) resulted in a one-time infusion of awards. SDSU researchers quickly responded to ARRA initiatives and were the recipients of more than \$29 million in awards. These awards generated more than \$4.7 million in F&A. Please see page 15 for a more detailed summary about this initiative.

Self-support programs fees (\$2,452,000) 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 we will experience a slight increase in these revenues in FY 2011-12.

Facilities rental income (\$9,926,000) is expected to show a net increase in FY 2011-12. Royalty income (\$75,000) derived from the activities of the technology transfer office will remain stable, and investment income (\$1,850,000) is projected to increase.

Overall, FY 2011-12 unrestricted revenue is expected to increase 5.4% over the 2010-11 original budget and 1.9% over the mid-year projection.

USE OF FUNDS

Basic support administration and operations expense is projected for FY 2011-12 to be \$15,009,000, an increase of \$140,000 or 0.9% from the FY 2010-11 mid-year projection. The projected increase is primarily due to increases in salaries and fringe benefit costs. The salary increase includes the full year impact of the reconstruction of the salary classifications for the sponsored research administrator and development specialist positions. The fringe benefit increases relate primarily to increased costs of providing health insurance coverage for employees.

Facilities expense, including improvements and debt service, increased by 3.2% from FY 2010-11 mid-year to \$14,814,000. The projected increase is primarily due to increases in operating expenses and debt service payments related to a property acquisition.

Research support expenditures, which include enhanced program support and research foundation board initiatives, increased by 22.0% from FY 2010 mid-year to \$6,717,000. The increase is primarily due to an anticipated increase in the number of full F&A grants which qualify for research support funds (RSF). The allocation for research initiative investments (\$690,000) remains the same from mid-year 2010-11.

General Fund Budget 2011-12

	FY 2009-10 Actual	FY 2010-11 Original	FY 2010-11 Mid Year	FY 2011-12 Proposed
SOURCE OF FUNDS				
Unrestricted Revenue:				
Grants & Contracts F&A	19,540,496	19,258,000	20,658,000	20,866,000
American Recovery and Reinvestment Act F&A	1,195,109	1,720,000	1,720,000	1,540,000
Self Support Programs Fees	<u>2,555,311</u>	<u>2,300,000</u>	<u>2,300,000</u>	<u>2,452,000</u>
<i>Total Facilities & Administrative Fees</i>	<u>23,290,916</u>	<u>23,278,000</u>	<u>24,678,000</u>	<u>24,858,000</u>
Rents				
Program Facilities	912,025	874,000	864,000	812,000
Commercial	4,389,065	4,863,000	4,752,000	4,896,000
University	1,379,944	1,359,000	1,362,000	1,342,000
Housing	<u>3,038,693</u>	<u>2,801,000</u>	<u>2,650,000</u>	<u>2,876,000</u>
<i>Subtotal Rents</i>	<u>9,719,727</u>	<u>9,897,000</u>	<u>9,628,000</u>	<u>9,926,000</u>
Royalties and Other TTO Income	<u>55,530</u>	<u>75,000</u>	<u>75,000</u>	<u>75,000</u>
Investments	<u>1,983,110</u>	<u>1,575,000</u>	<u>1,660,000</u>	<u>1,850,000</u>
Total Unrestricted Revenue	<u>35,049,283</u>	<u>34,825,000</u>	<u>36,041,000</u>	<u>36,709,000</u>
USE OF FUNDS				
Basic Support				
Administration & Operations	<u>13,852,748</u>	<u>14,246,000</u>	<u>14,869,000</u>	<u>15,009,000</u>
Facilities Operating Expenses	7,500,990	8,231,000	8,096,000	8,357,000
Capital Improvements	459,129	384,000	389,000	439,000
Tenant Improvements	560,336	504,000	514,000	624,000
Debt Service Payments	<u>5,028,261</u>	<u>5,402,000</u>	<u>5,361,000</u>	<u>5,394,000</u>
<i>Subtotal</i>	<u>13,548,716</u>	<u>14,521,000</u>	<u>14,360,000</u>	<u>14,814,000</u>
Total Basic Support	<u>27,401,464</u>	<u>28,767,000</u>	<u>29,229,000</u>	<u>29,823,000</u>
Net Remaining after Providing Basic Support	<u>7,647,819</u>	<u>6,058,000</u>	<u>6,812,000</u>	<u>6,886,000</u>
Allocations for Enhanced Program Support:				
Research Support, Provost's Office	500,000	500,000	500,000	500,000
Research Support Funds	2,543,048	2,910,000	3,119,000	3,894,000
Research Support Funds – ARRA	282,000	470,000	470,000	416,000
Research Support Funds – Library	-	50,000	50,000	50,000
BioScience Center Development	98,001	100,000	100,000	100,000
BioScience Researchers Start-up Costs	133,000	120,000	-	-
University Research Compliance Support	626,069	688,000	701,000	704,000
University Space Payment	99,124	80,000	80,000	80,000
Pilot Health Promotion Support	370,849	80,000	-	-
Biology PI Administrative Support	103,013	104,000	111,000	111,000
Biology Faculty Recruitment	68,808	-	-	-
IT Infrastructure at Alvarado	-	-	-	521,000
Other Project Support	<u>258,722</u>	<u>266,000</u>	<u>374,000</u>	<u>341,000</u>
<i>Subtotal</i>	<u>5,082,634</u>	<u>5,368,000</u>	<u>5,505,000</u>	<u>6,717,000</u>
Allocations for Research Initiative Investments:				
Bioscience Center Lease	508,225	510,000	510,000	510,000
Washington DC Representation	<u>180,000</u>	<u>180,000</u>	<u>180,000</u>	<u>180,000</u>
<i>Subtotal</i>	<u>688,225</u>	<u>690,000</u>	<u>690,000</u>	<u>690,000</u>
Total Allocations	<u>5,770,859</u>	<u>6,058,000</u>	<u>6,195,000</u>	<u>7,407,000</u>
RESERVES				
Operating Contingency	377,222	-	250,000	-
Working Capital	999,738	-	128,000	(521,000)
Facilities	500,000	-	-	-
Research Endowment	-	-	239,000	-
Net Funds to (from) Reserves	1,876,960	-	617,000	(521,000)
TOTAL SOURCE OF FUNDS	35,049,283	34,825,000	36,041,000	36,709,000
TOTAL USE OF FUNDS	35,049,283	34,825,000	36,041,000	36,709,000

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.

Historical Data

Following are tables of historical data against which the FY 2011-12 budget can be compared. Table One summarizes three years of total revenues, segregating restricted revenues from unrestricted revenues. Table Two reflects proposal and award statistics, as well as expenditures. Table Three compares grants and contracts activity, self-support program expenditures, and grants and contracts F&A cost recovery with total research foundation revenue.

Table One **FY 2009-10, FY 2010-11 AND FY 2011-12**

Fiscal Year 2009-10	Total	Restricted	General Fund (Unrestricted)
Facilities & Administrative Fees	\$ 20,736,000	-	\$ 20,736,000
Royalty Income	55,000	-	55,000
Investment Income:			
Yield and Realized Gains	3,864,000	1,881,000	1,983,000
Contributions	14,001,000	14,001,000	-
Self-Support	31,449,000	28,894,000	2,555,000
Grants and Contracts	126,100,000	126,100,000	-
Rental Income	9,720,000	-	9,720,000
Other Income	1,215,000	1,215,000	-
Eliminating Entries	<u>(23,450,000)</u>	<u>(23,450,000)</u>	<u>-</u>
Total Revenue-SDSU Research Foundation	\$ 183,690,000	148,641,000	35,049,000
<i>Revenue-Campanile Foundation</i>	<u>37,844,000</u>	(1)	
<i>Revenue administered by SDSURF</i>	<u>\$ 221,534,000</u>		
Fiscal Year 2010-11(Mid-year)	Total	Restricted	General Fund (Unrestricted)
Facilities & Administrative Fees	\$ 22,378,000	-	\$ 22,378,000
Royalty Income	75,000	-	75,000
Investment Income: (Losses):			
Yield and Realized Gains (Losses)	1,660,000	-	1,660,000
Contributions	7,000,000	7,000,000	-
Self-Support	32,300,000	30,000,000	2,300,000
Grants and Contracts	132,966,000	132,966,000	-
Rental Income	9,628,000	-	9,628,000
Eliminating Entries	<u>(25,030,000)</u>	<u>(25,030,000)</u>	<u>-</u>
Total Revenue-SDSU Research Foundation	\$ 180,977,000	144,936,000	36,041,000
<i>Revenue-Campanile Foundation</i>	<u>30,000,000</u>	(1)	
<i>Revenue administered by SDSURF</i>	<u>\$ 210,977,000</u>		
Fiscal Year 2011-12 (Projected)	Total	Restricted	General Fund (Unrestricted)
Facilities & Administrative Fees	\$ 22,406,000	-	\$ 22,406,000
Self-Support Program fees	2,452,000	-	2,452,000
Royalty Income	75,000	-	75,000
Investment Income: (Losses)			
Yield and Realized Gains (Losses)	1,850,000	-	1,850,000
Contributions	7,000,000	7,000,000	-
Self-Support	31,983,000	31,983,000	-
Grants and Contracts	131,908,000	131,908,000	-
Rental Income	9,926,000	-	9,926,000
Eliminating Entries	<u>(25,185,000)</u>	<u>(25,185,000)</u>	<u>-</u>
Total Revenue-SDSU Research Foundation	\$ 182,415,000	145,706,000	36,709,000
<i>Revenue-Campanile Foundation</i>	<u>30,000,000</u>	(1)	
<i>Revenue administered by SDSURF</i>	<u>\$ 212,415,000</u>		

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

Grants and Contracts Activity ⁽¹⁾

Table Two

Fiscal Year	Number of Proposals Submitted	Total Awards Received	Amount of Awards	Total Expenditures
2001-02	1104	813	140,411,000	121,749,000
2002-03	1141	823	130,023,000	125,106,000
2003-04	1145	776	122,602,000	106,727,000
2004-05	1102	791	129,616,000	115,230,000
2005-06	1111	850	130,364,000	109,471,000
2006-07 ⁽³⁾	1094	707	109,719,000	105,406,000
2007-08	1104	806	130,908,000	109,539,000
2008-09	1113	810	131,846,000	119,238,000
2009-10	1174	743	132,251,000	120,660,000
2010-11 ⁽²⁾	1125	750	134,000,000	122,976,000
2011-12 ⁽²⁾	1125	750	134,000,000	122,976,000

(1) Does not include ARRA funding

(2) Projected Activity

(3) The decrease in the amount of awards was due to a change in award reporting methods. In 2007, SDSU Research Foundation adopted a new award reporting methodology, one used by many other research universities, which gives a timelier picture of awards received at the end of each fiscal year.

Revenue and Expenditure Data

Table Three

Fiscal Year	Total Revenue	Grants/Contracts Self-Support Programs Expenditures	Facilities & Administrative Costs & Fees ⁽¹⁾	General Operations
2001-02 ⁽³⁾	166,921,000	153,231,000	16,790,000	11,555,000
2002-03 ⁽³⁾	170,969,000	162,599,000	17,835,000	12,298,000
2003-04 ⁽³⁾	160,150,000	144,102,000	16,227,000	12,031,000
2004-05 ⁽³⁾	164,934,000	151,726,000	16,809,000	11,874,000
2005-06 ⁽³⁾	162,830,000	146,913,000	17,410,000	12,605,000
2006-07 ⁽³⁾	160,293,000	145,509,000	17,543,000	12,037,000
2007-08 ⁽³⁾	161,504,000	149,948,000	18,869,000	12,276,000
2008-09 ⁽³⁾	186,901,000	160,514,000	21,220,000	12,906,000
2009-10 ⁽³⁾	183,690,000	168,807,000	23,291,000	13,853,000 ⁽⁴⁾
2010-11 ^{(3) (2)}	180,977,000	174,784,000	24,678,000	14,869,000 ⁽⁴⁾
2011-12 ^{(3) (2)}	182,415,000	176,490,000	24,858,000	15,009,000 ⁽⁴⁾

(1) Includes recovery of facilities and administrative costs for grants/contracts and fees for self-support programs

(2) Projected Activity

(3) These numbers do not include the revenue or expenses of The Campanile Foundation. However, the general operations expenses include the cost for SDSU Research Foundation to provide fiscal services to The Campanile Foundation.

(4) These years include the technology transfer office expenses which were previously not reported in this category.

Unrestricted Revenue

Grants & Contracts F&A Revenue (\$20,866,000)

The research foundation's major source of revenue is F&A 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 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 F&A of \$20,866,000. This is an increase of \$208,000 or 1.0%, from mid-year 2010-11. The increase is based on current trends described below.

- 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. Although the total dollar amount of awards for the first nine months of FY 2010-11 has increased from the same time last year, management believes this is primarily due to differences in the timing of when awards were actually received. We are currently projecting between \$130M and \$147M for FY 2010-11 which is higher than FY 2009-10. This is a positive indicator when projecting the F&A cost recovery for FY 2011-12. However, the trend in number and dollar amount of proposals submitted has decreased compared to prior year. Management is carefully monitoring this trend so that any necessary adjustments can be made. Below is a summary of proposals and awards for FY 2009-10 and a comparison of actual numbers through March for the last two years.

Proposals Submitted/Awards Received

	Cumulative Year-to-Date through March		
	Actual FY 2010	FY 2011	FY 2010
# Proposals Submitted	1174	699	748
# Awards Received	743	557	534
\$ Awards Received	\$132,251,459	\$109,053,730	\$102,556,110
\$ F&A Costs Awarded	20,967,614	16,606,345	14,990,136
% F&A Costs Awarded/Direct Costs	18.8%	18.0%	17.1%

- Work in Process (WIP), which reflects the amount of F&A awarded but not yet spent, is also examined. As noted in the chart below, the research foundation actually has more dollars in WIP and specifically in F&A than in the prior year at this time, an indicator that reinforces the increase in the F&A FY 2011-12 budgeted amount. Following is the comparison of the amounts in WIP at March 2010 and 2011.

Work in Process

	March 2011	March 2010
Direct Costs	\$101,111,000	\$98,355,000
F&A Costs	19,031,000	17,911,000
Total Costs	120,142,000	116,266,000
F&A Rate	18.8%	18.2%

- The expected direct cost expenditure level for FY 2011-12 is dependent on the submission of proposals, receipt of awards, and the spending schedule related to the awards. The information provided above demonstrates positive trends as we prepare for

next year. The average F&A earned on expenditures for the first nine months of FY 2010-11 rose to 20.3% from 20.0% the previous year, another positive trend.

American Recovery and Reinvestment Act F&A (\$1,540,000)

ARRA Summary and Impact

The American Recovery and Reinvestment Act of 2009 (ARRA) authorized an injection of \$787 billion into the American economy. These funds were to be awarded by September 30, 2010 and last year SDSU researchers continued to receive some second-year ARRA funding. Due to the anticipated sunset of ARRA funding, this year's budget projection did consider a reduction in awards received. Nonetheless, twenty SDSU faculty and staff members have received \$8.4 million in stimulus funding for 20 awards (as of March 2011). SDSU ARRA projects include workforce training programs and research on cancer, fetal alcohol effects, poverty, and regional fuel development. SDSU researchers continued to receive funding under the prestigious NIH Challenge Grants and a Grand Opportunities award – especially competitive components of the ARRA program. Last year SDSU received its first ARRA equipment grant for a highly sophisticated imaging system which will allow researchers new insights as they study heart disease, inflammation and infections. A total of \$29.1 million for 88 ARRA awards has been awarded to SDSU researchers to date.

Accountability

SDSU researchers must demonstrate how their programs will help the government accomplish the goal of stimulating the economy. The Act imposes strict reporting requirements detailing how ARRA funds are spent, including precise data indicating the number of jobs created and retained. Each SDSU ARRA-funded program has or will add or retain students, researchers and/or other staff. More than four hundred employees have been hired with SDSU's ARRA funding.

Each quarter SDSURF prepares and submits over 75 reports comprised of more than 100 data elements each on projects funded through ARRA. The main focus has been to automate the process to the fullest extent possible to minimize the administrative burden on principal investigators, project staff and SDSURF personnel. A major enhancement this year was the automation of the process to obtain the quarterly activities section from principal investigators via a web-based upload process. PIs or their project staff are able to log on to the new system and input their program updates directly into a web-based interface. This enhancement further streamlines the process of ARRA reporting to ensure transparency and accountability to the public while minimizing the additional administrative burden and freeing faculty efforts to focus on research activities.

Below is a summary of ARRA proposals and awards.

	Actual FY 2010	Year to Date Through March FY 2011	Cumulative Through March 2010
# Proposals Submitted	66	11	203
# Awards Received	53	22	88
\$ Awards Received	\$18,784,273	\$8,410,917	\$29,143,327
\$ F&A Costs Awarded	\$2,762,253	\$1,376,194	\$4,731,242
% F&A Costs Awarded/Direct Costs	17.2%	19.6%	19.4%

Funding Outlook

Funding trends continue to be important indicators, and this year has seen interesting developments at both the federal and state levels.

Federal Outlook: Cloudy

After much conflict and conversation in Washington, the federal government averted a complete shutdown when the Democrats and Republicans finally agreed to HR 1473, the “Department of Defense and Full-year Continuing Appropriations Act of 2011.”

This resolution, which includes \$38.5 billion in budget cuts, will fund the government for the remainder of the fiscal year (through September 30, 2011) but it will surely have an impact on some of the programs SDSU faculty and staff count on to support their research. President Obama signed the continuing resolution into law, and the House has passed a FY 2012 budget proposal that would cut an additional \$31 billion from non-security discretionary spending. This would return the federal government to its FY 2006 operating level.

Because HR 1473 is being funded through a long-term Continuing Resolution, there is no explanatory statement and no accompanying funding table as there would be with a budget. Therefore, the agencies will have wide discretion over the funding levels for many individual programs unless the levels were specifically cited in bill language. The bill requires the agencies to provide a spending plan for fiscal year 2011 within 30 days of enactment. The FY 2012 bill will be taken up by the Senate when Congress returns from its April recess on May 2, 2011.

At the time of this writing nothing is final, but here is what we know about proposed **FY 2011 cuts** to specific agencies (comparisons are to FY 2010 enacted levels):

National Science Foundation

Research funding may be reduced by \$43 million.

National Institutes of Health

NIH will receive an overall reduction of \$260 million, an 0.8% decrease.

Department of Health and Human Services

The Health Resources and Services Administration’s Bureau of Health Professions may lose \$164 million. Rural health programs may lose \$35 million. The Substance Abuse and Mental Health Services Administration (SAMHSA) may be reduced by \$45 million, and the Administration on Aging may lose \$16 million.

Department of Homeland Security

Science and technology funding could be reduced by \$175 million.

Department of Education

International education and foreign language programs may lose \$50 million. Title VI and Fulbright-Hays programs would be reduced. TRIO funding and GEAR UP funding (both programs support important SDSU projects) could be reduced by \$25 million and \$20 million respectively. Another source of SDSU funding, The Fund for the Improvement of Postsecondary Education (FIPSE), may be reduced by \$140 million.

U.S. Department of State

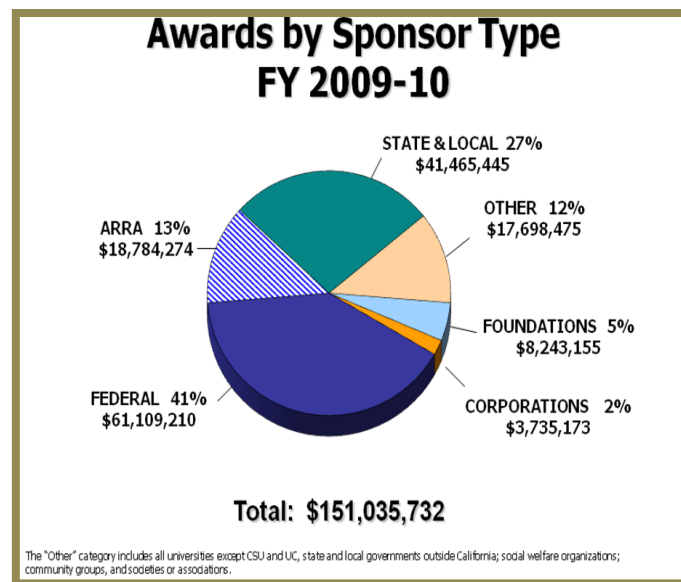
Funding for educational and cultural exchange programs may be reduced by \$35 million.

Department of Energy

The Office of Science would receive a \$20 million cut.

Unfortunately, President Bush's American Competitiveness Initiative and President Obama's Plan for Science and Innovation – both of which called for doubling the budgets of NSF, the U.S. Department of Energy Office of Science, and the National Institute of Standards and Technology – are effectively tabled.

That said, basic research has not been devastated and it is likely that we can continue to expect that approximately half of the grant and contract dollars received by SDSU faculty and staff will still come directly from the federal government and through subcontracts from other universities and organizations.



A Note about ARRA

The influx of stimulus funding received in FY 2010 gradually declined during FY 2011 as the availability of ARRA funds ended. Grantee institutions, like SDSU, received the second year funding for these programs in 2011 and continue to focus on the tracking and reporting of these ARRA funds - all of which are expected to be spent out by the end of the government's FY 2012.

Fiscal Year 2012

Given the volatility and uncertainty of the current federal budget, we hesitate to predict how the FY 2012 budget will look. Much will depend on how the \$38.5 billion in FY 2011 cuts is distributed within each agency, and on the Senate's response to the proposed 2012 bill. However, based on what has been proposed, SDSU continues to be well-positioned to respond to specific opportunities from these major agencies:

National Institutes of Health. In FY 2010, SDSU received \$37 million from NIH, an increase of 25% over FY 2009's \$29 million. The number of NIH awards SDSU received also increased by approximately 25% (from 101 to 125). President Obama's FY 2012 budget for NIH is fairly flat with small increases for all centers and institutes, and a few new initiatives. Most of the institutes that fund SDSU are proposed to receive slight increases including the National Cancer Institute (1.9% increase), the National Heart, Lung and Blood Institute (1.7% increase), the National Institute of General Medical Sciences (2.6% increase), and the National Institute of Child Health and Human Development (1.9% increase). The institutes proposed to receive the largest increases are the National Library of Medicine (13.8%) and the NIH Office of the Director (10.4%). The increase for the NIH Office of the Director includes a request for the new Cures Acceleration Network (CAN), which supports advances to translate scientific research into commercial use. NIH also plans to establish the National Center for Advancing Translational Sciences, which would include the new CAN component. SDSU's colleges of health and human services, sciences, and business administration have expertise in this new NIH focus area.

Initiatives to support new investigators continue, which is evident in the FY 2012 request to increase the NIH Director's Pioneer Awards Program by 8.4%. Other growth areas with potential for SDSU participation include translational sciences, technologies to accelerate discovery, and comparative effectiveness research. If the FY 2012 request is approved, NIH hopes to support almost 37,000 new and competing research grants next year.

Dr. Nader Amir in the department of psychology received a five-year award from the National Institute of Mental Health for his project "Attention Training and Relaxation for Generalized Anxiety Disorder (GAD): Testing the Efficacy of Home-Delivery." This project, averaging \$336,500 per year, evaluates the feasibility and effectiveness of a computer-delivered home-based treatment program for GAD that includes a combination of two interventions shown to be effective in the treatment of GAD (i.e., attention training and applied relaxation).

The National Heart, Lung and Blood Institute continues to fund Dr. Roberta Gottlieb's project titled "Rescue and Role of Complex I in Myocardial Ischemic Injury." Now in its 13th year, funded at an average of \$336,000 per year, this project explores the molecular processes that take place during and after a heart attack that may lead to new therapies for ischemic heart disease and heart failure. The project will develop a novel protein therapy treatment of heart damage after a heart attack that will bypass the damaged mitochondrial enzyme complex to restore function.

National Science Foundation. SDSU received \$11 million last year for a record 61 NSF awards. This represents an increase of \$3.7 million and an 18% increase in the number of awards over the previous year. The administration is requesting \$7.8 billion, or approximately an 11% increase, over FY 2010 for NSF. The request includes \$6.3 billion for basic research, \$224.7 million for R&D facilities and equipment, and \$911.2 million for education and training. The budget request also includes the following initiatives that cross several directorates: basic research benefitting advanced manufacturing; development and implementation of cyber infrastructure to accelerate research and education in computational science and engineering, increases in the CAREER program for early career development for promising college and university junior faculty; research efforts in nanotechnology; support for large scale networking and cybersecurity; continuation of the Science, Engineering and Education for Sustainability (SEES), Sciences and Engineering Beyond Moore's Law (SEBML), and the U.S. Global Change Research Program (USGCRP) programs; and the establishment of a new program, Research at the Interface of Biological, Mathematical and Physical Sciences (BioMaPS) which supports interdisciplinary research between the biological, mathematical and physical sciences. SDSU researchers have expertise in all of the above areas. Graduate fellowships are requested at a 9.8% increase over FY 2010, and other Education and Human Resources directorate programs have requested continued funding for science, technology, engineering and mathematics (STEM) education.

Through NSF's Dimensions of Biodiversity Program, Dr. Forest Rohwer in the department of biology received a four-year award, averaging \$750,000 per year that includes collaborations among several researchers. The project, "Dimensions: Shedding Light on Viral Dark Matter-Genetic, Taxonomic, and Functional Diversity of Coral Reef Viromes," will address what is probably the largest gap in understanding biodiversity on earth - viruses. A major goal is to determine just how large the global virosphere is, and the project may determine that viruses may be the largest reservoir of biodiversity on the planet. There is a reasonable possibility that the most common biological entity on the planet is a hereto unknown virus. Impacts to society from

this work will include improved knowledge of global viral diversity and the role of viruses in the microbial ecology of coral reefs—valuable ecosystems that are under considerable stress due to climate change, overfishing, and other anthropogenic effects. As community outreach, the researchers will provide local high school biology teachers and students with stimulating course material, host class field trips at SDSU research labs, and offer a summer internship program for several students.

U.S. Department of Education. SDSU faculty received \$6.1 million from the U.S. Department of Education in FY 2010, a 33% reduction over the previous year. This drop is being monitored and evaluated. The President is requesting \$77.4 billion for the Department of Education in FY 2012. STEM programs continued to be represented in the education budget at both the undergraduate and graduate levels. These include: “Improving Effective Teaching and Learning in STEM;” “Investing in Innovation (i3),” which develops effective models and interventions with the potential to improve educational outcomes for hundreds of thousands of students; a new STEM initiative under the Fund for the Improvement of Postsecondary Education (FIPSE) called “First in the World”; and the “Teacher and Leader Pathways” program to prepare new STEM teachers over the next two years. The Institute of Education Sciences (IES) is slated to receive a 15.4% increase. This program funds R&D and dissemination of its results related to education practice and policy. A new initiative to support activities of the Advanced Research Projects Agency– Education is proposed. This program would pursue cutting-edge developments in educational technology and learning systems and tools. There could be opportunities for SDSU through this initiative.

The project, “Capacity Building for Traditionally Underserved Populations: Capacity Building Success II,” directed by Dr. Bobbie Atkins in the department of Administration, Rehabilitation and Postsecondary Education (ARPE), received a three-year award from the Office of Special Education and Rehabilitative Services. This project, averaging \$298,000 per year, recognizes the ongoing need to be increasingly effective in serving individuals with disabilities from underserved and underrepresented groups. Minorities with disabilities tend not to have as much success when compared to majority consumers in employment and earning outcomes. The project will provide training and technical assistance to enhance the capacity of minority entities and Indian tribes to participate in Rehabilitation Services Administration (RSA) and National Institute on Disability and Rehabilitation Research (NIDRR) funded programs.

State and Local Funding Outlook

In 2011, Jerry Brown become California’s governor. Unfortunately, Governor Brown’s plan to have a budget in place by mid-March did not materialize. And while they supported the Governor’s proposal to cut \$12 billion, members of the legislature did not reach agreement on a proposed June ballot measure to extend certain taxes that are set to expire in June. This is likely to result in additional reductions.

State Budget Outlook: Cloudy With a Chance of More Cuts

In FY 2010, San Diego State University received approximately 27% (\$41.4 million) of its grant and contract dollars from state and local funding sources, compared to 53% from federal sources. Much of the state money is actually “flow through” from the federal government. One example of a federal flow-through state contract is the Family Empowerment Center, directed by Dr. Caren Sax, Administration, Rehabilitation, and Postsecondary Education and Ms. Sherry Torok, Exceptional Family Resource Center. This project has been funded for almost 10 years and

provides training, access to information, outreach and community involvement, and other resources to parents, guardians, and professionals working with children with disabilities. Funds are provided to the California Department of Education through the U.S. Department of Education Office of Special Education. This project is funded with an average of \$250,000 per year.

California State Opportunities: The state's continuing budget crisis will have an impact on some contracts made to SDSU during the next year, potentially reducing the dollar amount of ongoing projects. With a new governor in office, it is still uncertain how his administration will change the portfolio of funding for research, education, and other services projects. However, San Diego State University faculty continue to take advantage of available state funding for smoking prevention programs, training and professional development of K-12 teachers, AIDS research and prevention, and health promotion. Large energy-related contracts from the California Energy Commission will continue. Caltrans continues to support SDSU's biology department and College of Engineering faculty. SDSU faculty continue to receive funds from the California Institute for Regenerative Medicine for stem cell research-related studies.

The STAKE Act was enacted by the California Legislature in September 1994 and requires California to comply with the law commonly referred to as the Synar Amendment. This federal law requires states to provide effective enforcement prohibiting the sale of tobacco products to persons under 18 years of age. Dr. Elizabeth Klonoff's project titled "STAKE Act" (Stop Tobacco Access to Kids Enforcement) is funded at \$770,000 and conducts tobacco product purchase surveys among minors at a number of stores that sell tobacco products. Its purpose is to prevent future sales of these products to minors.

Local Government Agencies

SDSU Research Foundation continues its working relationship with San Diego County's Office of Education, and other agencies. SDSURF also works closely with the San Diego Unified School District, the City of San Diego, and other local jurisdictions.

The San Diego County Health and Human Services Agency currently funds two training projects under its Workforce Education and Training Program (WET). Dr. Gerald Monk from the School of Counseling and School Psychology is currently in his first year of a four-year project, funded at \$70,000 per year. The program, "Linguistically, Ethnically, and Diverse (Lead) Interns Training in Marriage and Family Therapy," will increase the presence of licensed individuals in San Diego County by funding stipends to offer Marriage and Family Therapy interns compensation in exchange for a commitment to practice in San Diego County's public mental health workforce. Dr. Thomas Reilly from the School of Social Work also receives funding through the WET program. This award provides stipends to masters of social work students in the Advanced Standing Program (ASP) in exchange for a commitment to practice in San Diego County's public mental health workforce. His project, "San Diego County Public Mental Health Stipends for MSW Advanced Standing Students," is funded at an average of \$54,000 per year for a four-year period.

While the state budget crisis has certainly impacted many state and local functions, SDSU faculty remain well-positioned to compete for additional opportunities as they become available.

(Note: Some of the information above is excerpted from the State Science and Technology Institute's "SSTI Weekly Digest," and based on information from AASCU's Grants Resource Center.)

Self-Support Program Fees (\$2,452,000)

It is anticipated that we will experience a slight increase in these revenues in FY 2011-12.

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 and its gift funds are also included in this category.

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 research foundation retaining investment income.

Rents (\$9,926,000)

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 \$9,926,000 for FY 2011-12. This represents an increase of \$298,000 or 3.1% from mid-year 2010-11. See page 28 for a more detailed discussion of facilities revenue and expenses.

Royalties and Other TTO Income (\$75,000)

The research foundation earns royalty income from the sale of each product or service licensed under specific copyright or patent agreements. Royalty and other TTO income is expected to remain approximately the same as the mid-year FY 2010-11 budget.

Investments (\$1,850,000)

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 the 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. The increase of \$190,000 or 11.4% compared to the mid-year FY 2010-11 budget is due to higher than anticipated cash balances and a change in investment strategy.

Use of Funds

Basic Support

Administration and Operations (\$15,009,000)

Background. Administration and operations costs cover the support functions necessary to provide an appropriate level of service to research foundation clients (the university community, funding agencies, etc.) 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 comply with policies and procedures of SDSU as well as 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 procedures to properly manage and account for all funds and other assets under our care, custody, and control.

Administration and Operations expense as a percent of total revenue administered has ranged from 6.4% to 7.1% over the past 15 years. Following is a summary of general operations expenses by expense type.

Administration & Operations by Expense Type

	Mid-year FY 2010-11	% of Total	Proposed FY 2011-12	% of Total
Personnel Costs:				
Salaries	9,167,000	61.65%	9,272,000	61.78%
Benefits (1)	3,518,000	23.66%	3,663,000	24.41%
Operating Costs:				
Legal	213,000	1.43%	125,000	0.83%
Insurance	80,000	0.54%	82,000	0.55%
Supplies	94,000	0.63%	94,000	0.63%
Equipment	126,000	0.85%	174,000	1.16%
Travel	119,000	0.80%	147,000	.98%
Contracted Services (2)	718,000	4.83%	674,000	4.49%
Audit	241,000	1.62%	251,000	1.67%
Other (3)	<u>593,000</u>	<u>3.99%</u>	<u>527,000</u>	<u>3.50%</u>
Total	<u>14,869,000</u>	<u>100.00%</u>	<u>15,009,000</u>	<u>100.00%</u>

(1) Retiree medical is included in this line.

(2) Contracted services include computer maintenance services 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 \$15,009,000 for FY 2011-12 is \$140,000 above the mid-year 2010-11 budget. Major changes from mid-year 2010-11 budget:

- The research foundation is required to maintain employee salary and benefits comparable with university staff in similar positions. Management has assumed for budget purposes that the CSU budget plan for FY 2011-12 will not include a mandatory merit increase

given the current challenges with the state budget. (However, the proposed budget includes a 1% pool for potential market salary adjustments if needed in FY 2011-12).

- Salaries increased by \$105,000 due to the full year impact of the reconstruction of the salary classifications for the sponsored research administrator and development specialist positions. Additional levels were built into these classifications to allow for growth and progression within the range. These changes were implemented to address the salary compression issues contributing to high turnover levels in these critical positions.
- Fringe Benefits Costs: the cost of overall employee fringe benefits increased over the prior year. As noted below, the research foundation average fringe benefits rates show a steady increase in costs. The research foundation is required to maintain benefits packages that are comparable to those of the university. Management works continually with its insurance providers to reduce the cost as much as is feasible and prudent while maintaining comparable benefits.

Benefits as a Percentage of Salaries

FY 2006-07	30.4%
FY 2007-08	31.6%
FY 2008-09	32.6%
FY 2009-10	34.0%
FY 2010-11	36.2% (projected)
FY 2011-12	37.2% (projected)

A breakdown of projected administration and operations expenses by department is presented in the following table.

Administration & Operations Expenses by Department

	Mid-year FY 2010-11	Proposed FY 2011-12
Office of the Executive Director & Communications	721,000	694,000
Finance & Accounting	1,738,000	1,763,000
Receiving	122,000	124,000
Business Services	1,401,000	1,405,000
Human Resources	1,905,000	1,811,000
Computing Services	2,064,000	2,164,000
Sponsored Research Services Division	866,000	919,000
Sponsored Research Development	739,000	820,000
Contracting & Compliance Administration	616,000	618,000
Sponsored Research Administration	2,642,000	2,844,000
Sponsored Research Advancement Division	547,000	555,000
Technology Transfer Office	404,000	446,000
Legal Settlements	213,000	125,000
Insurance	80,000	82,000
Retiree Medical Benefits	300,000	263,000
Audit Services	241,000	251,000
Reserve for possible salary adjustments	<u>250,000</u>	<u>125,000</u>
Total	<u>14,869,000</u>	<u>15,009,000</u>

The significant changes in the departmental budgets are generally made up of the following:

- Human resources decreased because mid-year FY 2010-11 included recruitment costs for the executive director position.
- Computing services increased due to the need to replace servers that are no longer under warranty.
- Sponsored research administration increased due to the reconstruction of the salary classification described above.

Facilities Expenses (\$14,814,000)

Program facilities expenses include the operating expenses related to administering the space provided to sponsored grants and contracts projects. Total program facilities expenses of \$14,814,000 increased by \$454,000 or 3.2%. See page 29 for a more detailed discussion.

Enhanced Program Support

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

Research Support, Provost's Office (\$500,000)

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.

Research Support Funds (\$3,894,000)

The amount allocated increased by \$775,000 or 24.8% as compared to mid-year 2010-11. These funds may only be used to support existing sponsored projects or to develop new ones. Under policies established by the board, these funds are provided directly to college deans and to PIs whose projects recover full F&A costs. In addition, institutional support funds are available to assist the colleges and PIs when their RSF funds are not sufficient to respond to project development opportunities or unexpected project needs. RSF distributions are based on target percentages of the full F&A recovered the prior fiscal year: 15% to colleges/units (adjusted by space operating costs); 10% to PIs; an additional 10% to high volume PIs; and, for institutional support, 10% of the amounts distributed to the colleges and PIs.

Although the distributions are based on F&A recovered, most of the F&A recovered is needed to pay for the administrative and facilities costs of the projects. Therefore the ability to provide the target rate is impacted by total revenues received by the research foundation and the requirement to cover mandatory expenses. The proposed FY 2011-12 budget contains an estimated 100% of the target percentages. However, as in previous years, only 80% of the budgeted amount will be provided at the beginning of FY 2011-12. The remaining 20% will be distributed as part of the mid-year 2011-12 budget if the projected unrestricted revenue goals are achieved.

Research Support Funds – ARRA (\$416,000)

These funds follow the research support funds policies described above. It has been the practice to fund the RSF distribution in the year following the year in which the F&A was earned. Due to the short-term nature of ARRA funding, the related RSF distribution is being reserved in the year the F&A is earned. This ensures that there will be funds available when the RSF-ARRA distribution is made.

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 these activities.

BioScience Center Development (\$100,000)

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

The BioScience Center Development fund provides support to the BSC director equivalent to 10% of the F&A generated by PIs occupying BSC space. Funds are to be used to assist in the goals outlined above.

Under Dr. Gottlieb's leadership, Donald and Darlene Shiley initially donated funds to build out an additional floor of laboratory space which houses the five immunologists who joined the BioScience Center in 2009. An additional \$5 million pledge from Mrs. Shiley will rename the BioScience Center to honor her late husband. BioScience Center researchers and their colleagues are conducting over \$9.6 million of research and providing exceptional opportunities for SDSU graduate and undergraduate to experience cutting edge research.

BioScience Researchers' Start-up Costs (\$0)

A distinguished heart surgeon and recognized world leader in cardiovascular research, Dr. Robert Mentzer, joined the BioScience Center in 2009. To ensure an orderly transfer of his research program to SDSU, a start-up package of \$120,000 was needed to secure specialized heart research equipment and assist with the salary of another senior scientist who is joining his group. This allocation was funded in FY 2009-10.

University Research Compliance Support (\$704,000)

SDSU Research Foundation provides support to the university to offset research compliance activities including oversight of the functions that ensure training and compliance with human subjects and animal subject regulations, biosafety and the safe use of radioactive materials on sponsored research programs. This includes support for the following graduate and research affairs staff positions: vice president for research (100%); director of research affairs (100%); two full-time and two 50% FTE radiation and biosafety personnel.

University Space Payment (\$80,000)

This line item is the result of a policy established by the CSU Chancellor's Office in accordance with Executive Order #1000 to provide a mechanism for the state 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.

Pilot Health Promotion Support (\$0)

In March 2004, the board of directors approved a resolution to fund the Pilot Health Promotion Project to support the research activities of Dr. Hovell's Center for Behavioral Epidemiology and Community Health (CBEACH) and Dr. Elder's Institute for Behavioral and Community Health Studies (IBACH). The commitment provided up to \$300,000 each for start-up expenses for the

recruitment of new researchers to be paid back over a five year period from F&A earned by new awards received. This commitment was fully funded in the FY 2009-10 budget.

Biology PI Administrative Support (\$111,000)

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 who are contributing additional funds they control to support the administrative assistance.

Biology Faculty Recruitment (\$0)

This line item represents start-up funds for newly-hired biology faculty. This commitment was funded in the FY 2009-10 budget.

IT Infrastructure Upgrade at Alvarado (\$521,000)

The planned IT connectivity upgrade project at Alvarado Medical Center involves the installation of Category 6 cabling and equipment throughout all previously non-upgraded research space at the Alvarado site. Internet tools such as web searching, email, chat, and online collaboration have become vital to present day research, requiring higher bandwidth infrastructure to keep up with increasing data transfer of information. The existing 20 year-old Category 3 cabling within research office and laboratory space is being replaced with Category 6 cabling to utilize the full potential of the university's fiber system, thereby providing the ability for higher research productivity.

Project Support (\$341,000)

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.

Research Initiatives Investments

This category of allocations is intended to improve the volume of future sponsored program activity and the F&A rate.

BioScience Center Lease (\$510,000)

In FY 2006-07, the BioScience Center was completed and the research foundation began making lease payments for the use of this building. The research foundation board of directors agreed to pay an annual lease payment equal to the amount of the debt service payments by the university. The \$510,000 represents the lease payment that is required each year through 2036.

Washington, D.C. Representation (\$180,000)

Funds are requested to continue the services of the Washington D.C.-based firm of Carpi & Clay, Inc. through June 2012. They have been a key participant for the last three years in the annual strategy session with senior university officials and were instrumental in the release of \$1.7 million from the FY10 appropriations for continuation of the Center for Commercialization of Advanced Technologies (CCAT).

With the elimination of "earmarks" there is an even greater need for SDSU to have a presence in Washington to facilitate access to federal agencies with discretionary funds and to our elected

officials to promote authorization of new federally-sponsored programs such as was done with critical language and veterans initiatives.

CSU Day

As part of CSU Day in Washington D.C., in March 2011, Carpi & Clay arranged for meetings with congressional representatives Davis, Filner, and Hunter, and senior staff of Senators Boxer and Feinstein and Congressman Bilbray. Members of the San Diego delegation have been strong supporters of San Diego State University. In addition, meetings with several government officials from Customs & Border Patrol were arranged by Carpi & Clay for President Weber and Dr. Eric Frost in support of SDSU border-related research activities.

Reserves/Unfunded Obligations

Net Funds (\$521,000)

The budget shows \$521,000 from General Fund Reserves for FY 2011-12 to fund the IT infrastructure upgrade at Alvarado described on page 26.

Detailed information concerning reserves/unfunded obligations starts on page 33.

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. Initially, property was purchased to satisfy space needs of the research foundation and the university. Over the years, additional objectives of the property acquisition program were to manage the development of the land area adjacent to the campus and to incorporate real property equity into the research foundation's unrestricted investment portfolio. 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 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 a mixed use 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 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 houses the SDSU Coastal and Marine Institute Laboratory and the U.S. Geological Survey, a major tenant that occupies three fourths of the building.

Rental Income

Rental income is projected to rise by 3.1% to \$9,926,000. The change in the budget is due to the following:

- *Program Facilities* – rent from less than full F&A projects in research foundation space is expected to decrease slightly.
- *Commercial* – rent is anticipated to rise due to better occupancy at the Sanctuary building.
- *University* – no significant change in university rents is anticipated. The rent credit provided on certain lease agreements due to the state budget constraints in FY 2009-10 and FY 2010-11 is projected to continue in FY 2011-12.
- *Housing* – rent reflects an increase due to a projected increase in occupancy at the Piedra del Sol and Fraternity Row locations.

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 rate includes provisions for space usage, rent cannot be charged as a direct cost to projects with full F&A recovery.

Facilities Expenses

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

Facilities Operating Expenses (\$8,357,000)

This category includes all costs of the facilities management function with the exception of capital and tenant improvements and debt service payments, which are stated separately. A breakdown is presented below.

Facilities Operating Expenses

	Operating	Housing Bonds	Total	Operating	Housing Bonds	Total
	FY 2010-11			FY 2011-12		
Salaries	\$1,841,000	\$65,000	\$1,906,000	\$1,866,000	\$46,000	\$1,912,000
Administrative	124,000	18,000	142,000	122,000	16,000	138,000
Vehicles	51,000	-	51,000	61,000	-	61,000
Insurance	538,000	164,000	702,000	565,000	172,000	737,000
Maintenance	212,000	309,000	521,000	184,000	310,000	494,000
Utilities	1,345,000	279,000	1,624,000	1,367,000	349,000	1,716,000
Property Taxes	232,000	15,000	247,000	240,000	11,000	251,000
Contracted Services	1,295,000	300,000	1,595,000	1,288,000	353,000	1,641,000
Leased Project Space	559,000	-	559,000	579,000	-	579,000
University Services	601,000	34,000	635,000	683,000	31,000	714,000
Parking	114,000	-	114,000	114,000	-	114,000
Total	\$6,912,000	\$1,184,000	\$8,096,000	\$7,069,000	\$1,288,000	\$8,357,000

Facilities Capital Improvements (\$439,000)

Capital Improvements are costs to upgrade the condition of buildings, their 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. Aging buildings, past deferred maintenance and improved security measures add to increasing costs.



Upgraded exterior light fixtures at Alvarado properties provide improved safety and energy efficiency.

Facilities Tenant Improvements (\$624,000)

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

Facilities Debt Service (\$5,394,000)

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

Summary of Debt Service

2002 Bond Issue	\$2,106,000
2010 SRB Bond Issue	997,000
Fraternity Row Bond Issue	743,000
Internal Financing	
Sky Park Court	187,000
6367 Alvarado Court	348,000
6386 Alvarado Court	236,000
333 E. 6 th Street, IV	10,000
619 Heber, IV	12,000
5706 Hardy	14,000
5840-46 Hardy	342,000
Fraternity Row	132,000
Piedra del Sol	31,000
SD County Credit Union	<u>236,000</u>
Total	<u>\$5,394,000</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.

Fiscal Year 2010-11

	Project Activity	Non-Project Activity	Housing Bonds	Total Facilities
Revenue				
Rental Income	\$ 864,000	\$ 4,752,000	\$ 2,265,000	\$ 8,266,000
Rental Income – University Paid	-	1,362,000	-	1,362,000
Total Rental Income	864,000	6,114,000	2,650,000	9,628,000
Operating Costs	4,203,000	2,709,000	1,184,000	8,096,000
Net Income (Loss) before Debt Service, Tenant and Capital Improvements	(3,339,000)	3,405,000	1,466,000	1,532,000
Debt Service	1,734,000	2,289,000	1,338,000	5,361,000
Capital Improvements	211,000	113,000	65,000	389,000
Tenant Improvements	80,000	434,000	-	514,000
Net Income (Loss) after Debt Service, Tenant and Capital Improvements	\$ (5,364,000)	\$ 569,000	\$ 63,000	\$ (4,732,000) *

Fiscal Year 2011-12

	Project Activity	Non-Project Activity	Housing Bonds	Total Facilities
Revenue				
Rental Income	\$ 812,000	\$ 4,896,000	\$ 2,876,000	\$ 8,584,000
Rental Income – University Paid	-	1,342,000	-	1,342,000
Total Rental Income	812,000	6,238,000	2,876,000	9,926,000
Operating Costs	4,362,000	2,707,000	1,288,000	8,357,000
Net Income (Loss) before Debt Service, Tenant and Capital Improvements	(3,550,000)	3,531,000	1,588,000	1,569,000
Debt Service	1,762,000	2,276,000	1,356,000	5,394,000
Capital Improvements	209,000	165,000	65,000	439,000
Tenant Improvements	246,000	378,000	-	624,000
Net Income (Loss) after Debt Service, Tenant and Capital Improvements	\$ (5,767,000)	\$ 712,000	\$ 167,000	\$ (4,888,000) *

* 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. Services provided to projects (but not housing or non-projects) include: space planning and construction; telephone/data hook-up; purchasing of furniture, bolting furniture to walls for earthquake preparedness; mail delivery; copier machines; paper; conference room maintenance; emergency services; maintenance and repairs. 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.** The allocation was determined by the budgeted amount of expense and whether the improvement benefited any of the three categories.

Reserves/Unfunded Obligations

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, and to cover possible unallowable costs for grants and contracts.

The general fund budget includes the net change in reserves that is affected by the annual budgets presented. Projected reserve activity during FY 2010-11 is outlined in the table below. Descriptions of established reserves follow.

Established Reserves Balances

	Actual Balance 6/30/2010	Projected Activity			Projected Balance 6/30/11
		GF Allocation	Market Value Changes	Activity	
Discretionary					
Operating Reserves					
Income Equalization	\$500,000	\$ -	\$ -	\$ -	\$ 500,000
Working Capital	3,376,000	128,000	-	-	3,504,000
Operating Contingency	501,000	250,000	-	(16,000)	735,000
Utilities	-	-	-	-	-
Facilities	500,000	-	-	-	500,000
Quasi-Endowments					
General Fund	2,430,000	-	333,000	(9,000)	2,754,000
Research Endowment	1,454,000	239,000	237,000	(7,000)	1,923,000
Research Endowment Income	277,000	-	5,000	(16,000)	266,000
Total Discretionary	9,038,000	617,000	575,000	(48,000)	10,182,000
Non-discretionary					
Debt Service	3,548,000	-	-	-	3,548,000
Repair, Replacement	697,000	-	-	32,000	729,000
Rate Stabilization Fund	250,000	-	-	-	250,000
Employee Related					
Retiree Medical VEBA Trust	4,990,000	300,000	827,000	(43,000)	6,074,000
Employee Fringe Benefits	1,350,000	-	23,000	-	1,373,000
Workers' Compensation	2,442,000	-	-	130,000	2,572,000
Unemployment Insurance	1,537,000	-	-	(37,000)	1,500,000
Total Non-discretionary	14,814,000	300,000	850,000	82,000	16,046,000
Real Property Equity	56,563,000	-	-	1,095,000	57,658,000
Totals	\$ 80,415,000	\$ 917,000	\$ 1,425,000	\$ 1,129,000	\$ 83,886,000

Income Equalization (\$500,000)

The budgeted amount for F&A cost recovery each year is only an estimate and represents approximately 60% 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 revenue, 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 2.2% of annual F&A cost recovery. A reasonable goal for this reserve is five percent of F&A cost recovery (\$1,119,000). Management's intention is to add to this reserve as funds become available.

Working Capital (\$3,504,000)

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. Agencies use a variety of methods to reimburse universities for costs incurred on grants and contracts. The more common methods are cost reimbursement, letters of credit and advance payment. The letters 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 utilize the cost reimbursement method. The research foundation's outstanding receivables on sponsored programs average \$15 to \$25 million at any point in time.

Board-designated, Campanile Foundation, and self-support program cash balances are used to provide cash as needed for operations. If these cash balances were not available to help finance short-term working capital, 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 \$6,007,000. It is a top priority for management to increase the level of this reserve.

Operating Contingency (\$735,000)

FY 2010-11 activity may require the use of \$16,000 of this reserve for miscellaneous write-offs due to collection issues and disallowed costs.

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;
- Experience level 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 \$1,319,000. 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 is \$601,000. 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.

Quasi-Endowment/General Fund (\$2,754,000)

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 \$333,000 gain (based upon the latest available market values).

Quasi-Endowment/Research Endowment (\$1,923,000)

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 principal is \$1,761,000 including re-invested dividends. As such, this budget reflects the addition of \$239,000 in FY 2011 to bring the total contributed capital to \$2 million. The projected year-end balance of \$1,923,000 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 (\$266,000)

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.

Debt Service (\$3,548,000)

This balance was reduced by \$1,250,000 in FY 2009-10 due to the refinancing of the 1998 and 1999 series bonds. The new refunded 2010 bonds do not require reserves.

As a condition of the remaining 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 (\$729,000)

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.

Rate Stabilization Fund (\$250,000)

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, 2009 and 2010, such a deficit occurred. It is anticipated that this reserve will be needed as of June 30, 2011 as well.

Retiree Medical VEBA Trust (\$6,074,000)

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 the Retiree Medical VEBA 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 (\$1,373,000)

For FY 2010-11, there is an anticipated \$23,000 net increase in this line item due to changes in market value of the underlying assets.

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 (\$2,572,000)

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 (\$1,500,000)

In FY 2010-11, there is an anticipated decrease in the level of this reserve line item due to an increase in claims. 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.

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 (\$57,658,000)

The net increase of \$1,095,000 in this reserve is due entirely to the pay down of debt. 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 debt. Periodically the research foundation reviews the value of its real estate and modifies the market values if a significant change is noted. The associate executive director of facilities 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 million in facilities capital and tenant improvements that will be funded through FY 2017 via the annual general fund budget.

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)

	6/30/2009	6/30/2010	12/31/2010
Endowment Funds			
Investment Pools			
Balanced	\$ -	\$ -	\$ -
TCF Endowment Pool	10,736	12,172	13,898
Current Income	3,033	3,240	3,301
Gift Annuity	2,134	1,886	1,887
Unpooled	2,285	2,397	2,420
Subtotal	18,186	19,695	21,506
Working Capital and Other Funds			
Fixed Income and Cash Equivalents	51,779	64,938	66,033 *
Real Property	121,299	121,579	121,916
Subtotal	173,078	186,517	187,949
Total	\$ 191,266	\$ 206,212	\$ 209,455

* Includes \$15,782,000 of internal financing at 12/31/2010

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 history of both pools.

**Endowment Performance as of 6/30/2010
Annualized Total Return**

	1 year	3 years	5 years	10 years
TCF Endowment Pool	16.2	-3.3	3.0	3.2
NACUBO Benchmark (\$50 to \$100 million)	11.8	-4.3	2.7	3.3

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



Research Foundation Executive Director Dan Gilbreath (second from left) with Associate Executive Directors Norma Clark, Melinda Coil, Michele Goetz and Tim Hushen