The Research Foundation serves and supports The State University of New York and strengthens the economic impact of the University by:

- Attracting resources to expand research and scholarship
- Cultivating relationships and attracting philanthropic and grant support from individuals, corporations, and foundations
- Maximizing the impact of financial resources through sound management of sponsored program and philanthropic revenues
- Ensuring responsible stewardship of the University’s research enterprise through effective administration and oversight
- Creating partnerships with business and industry, government, higher education, and research institutions to expand research and encourage the start up of new companies
- Developing, identifying, protecting, marketing and licensing University faculty-developed intellectual property and inventions
The Research Foundation set a new standard of excellence this past year as key corporate indicators continued their upward climb. The corporation is administering a record number of sponsored programs and sustaining significant growth in the areas of federal advocacy and philanthropy.

The Research Foundation is a private, nonprofit corporation created in 1951 to support research, education and public service at The State University of New York. Through a 1977 agreement with SUNY, the corporation was designated as the organization responsible for managing all sponsored programs and activities. The corporation’s success at this over the past 53 years has spurred unprecedented growth of the State University’s research enterprise. Since 2001 external funding has increased each year by an average of 14 percent. The fact that this growth occurred at a time when competition for research money was becoming more and more intense speaks volumes about the quality of the research conducted at SUNY and the management provided by the corporation.

The Research Foundation is also responsible for protecting and promoting the intellectual capital that derives from SUNY research. Its five Technology Transfer Offices serve as catalysts for converting faculty, staff and even students’ inventions and ideas into commercial products. In FY 2004, 44 U.S. Patents were issued to the Research Foundation on behalf of researchers for inventions as diverse as chemical sensor elements, processes for developing thin films used to make computer chips, and methods of manufacturing a new generation of cancer drugs.

While valuing its primary mission, the corporation has broadened its scope to include a full range of professional programs and services needed to sustain and enhance the University’s reputation and stature. The additional financial resources obtained with the help of the Research Foundation provide SUNY with the margin of excellence in research, education and service that are the hallmarks of a truly world-class public university.

The corporation remains focused on quality and efficiency, which together ensure that we continue to provide the high level of service to which our customers are accustomed. We are grateful for the confidence shown in us by the many principal investigators, campus-based foundations, affiliated corporations and other customers who made use of our services in 2003-04.

Robert L. King
Chair, The Board of Directors
Chancellor, The State University of New York
The Research Foundation managed a record $710.2 million in contract and grant funding in 2003–04.
Project

Stony Brook University was awarded a $4.1 million grant from the U.S. Agency for International Development (USAID) to support reconstruction efforts in Iraq by strengthening academic programs in archaeology and environmental health at four Iraqi universities. In addition, six Iraqi students will come to Stony Brook to pursue master’s degrees in archaeology and the university library will create a digital library of materials related to Mesopotamian culture.

Principal Investigator

Dr. Elizabeth C. Stone, professor of anthropology and project director and principal investigator on the archaeology component, is shown here with (left) Dr. Robert McGrath, Chief Academic Officer, Stony Brook University and (right) Randy A. Daniels, Vice Chairman, SUNY Board of Trustees. One of five Americans permitted to do archaeological research in Iraq before the gulf war, Dr. Stone is among the very few scholars who have worked both with archaeological data and with the written record of city state and territorial state societies in the ancient Near East. She has directed excavations at ‘Ain Dara, Syria, Mashkan-shapir, Iraq and at Ayanis in Eastern Turkey.

Since its establishment in 1951, the Research Foundation has efficiently and effectively administered a diverse portfolio of projects funded by a wide range of sponsoring agencies including governments, corporations, foundations and other organizations.

In fiscal 2003-04, the RF managed a record $710.2 million in contract and grant funding for more than 8,800 SUNY research projects covering the entire gamut of academic pursuits — from preventing, detecting and treating diseases to discovering and preserving cultural artifacts, creating next-generation computer and communication tools and developing alternative energy solutions. By administering grants and contracts, advancing funds to get projects up and running and providing fiscal guidance, the RF gives SUNY researchers the resources, services and flexibility they need to pursue their research goals.

Statutory colleges at Cornell and Alfred reported research volumes of $136.9 million and $4.1 million, respectively, bringing the total for the entire University system to over $851.2 million. This represents an increase of $76.7 million over FY 2002-03 and puts the University on track for reaching the $1 billion dollar annual goal set by Chancellor King.

In addition to sponsored projects, the Research Foundation also administers agency funds totalling almost $111 million. These funds are used to support clinical practice plans, campus-based foundations, faculty-student associations and other University-related organizations. The RF also manages several endowment funds and investment pools designed to help campuses generate revenue for important programs.

Broadening its scope to include the full range of professional programs and services needed to sustain and enhance the University’s reputation and stature, the Research Foundation has applied the innovative and efficient management techniques that proved so successful in the sponsored programs arena to achieve extraordinary results in the areas of federal advocacy and philanthropy.

To support a rapidly growing research enterprise and make a full spectrum of services available to all 64 SUNY campuses, the RF expanded and improved its service infrastructure and strengthened its business processes. With more than 50 years of experience, the RF has earned a national reputation for providing superior and highly cost-effective professional services.
The spintronics program at Albany NanoTech focuses on developing magnetically-doped semiconductors to produce novel devices and interconnects that can improve chip performance. The research program is also developing nanoscale spin probes that can measure electron spin transport on the atomic scale. Semiconductor devices that use the spin of the electron (spintronic devices) have the potential to achieve higher speeds with lower power consumption than conventional devices. The program is supported by the National Science Foundation (NSF), NYSTAR and the Microelectronics Advanced Research Corporation (MARCO).

Dr. Vincent LaBella is an assistant professor at the University at Albany’s College of Nanoscale Science and Engineering (CNSE) and a senior scientist at Albany NanoTech. An expert in surface nanosciences and the emerging field of spintronics, Dr. LaBella was recently awarded a $400,000 National Science Foundation grant through its Faculty Early Career Development Program.

The Research Foundation is unique in its ability to bring together the resources of organizations having different legal or management systems. By nurturing relationships with sponsors, donors, business leaders and government officials, the RF is helping SUNY solidify its position as one of the top public higher education institutions in America.

Working in concert with SUNY’s 64 campuses, the RF provides various levels of service and support to build vital public-private partnerships and expand the flow of gifts, grants and bequests that will help SUNY carry out its mission.

Through strategic partnerships with business and industry, the RF is advancing the technology economy of the 21st century. Inventions and discoveries stemming from SUNY research have become commercial products that benefit the world thanks to the efforts of the RF’s five technology transfer offices. The RF identifies and protects university-developed intellectual property and helps researchers market new technology by offering inventors valuable links to business and industry partners.

The Research Foundation initiates a system-wide commitment to federal advocacy that has reengaged the State University with the members of New York’s congressional delegation. Strengthening ties with key decision makers has greatly improved SUNY’s ability to attract congressional appropriations and compete aggressively for funding from all sources.

Separate from the State University, the Research Foundation is able to form partnerships that cannot be accommodated through state processes. These partnerships are enhancing SUNY’s education, research and public service mission and spurring economic development across New York State.
RF affiliated corporations bring university-industry-government resources together to address a wide range of needs
start-up companies based on SUNY research are creating new jobs around the state
The unique partnership formed by the Research Foundation and SUNY has fostered the development of a world-class public university system. Today, the State University conducts more sponsored research, attracts more federal funding and receives more philanthropic gifts than at any time in its history.

During the past decade the volume of research and other sponsored programs funded through the Research Foundation has climbed by more than 80 percent. SUNY faculty conduct some of the most sophisticated and complex research in the world. By extending the boundaries of knowledge they are driving innovation that will improve our quality of life and spur economic growth.

To date, more than 650 patents have been issued to the Research Foundation, placing SUNY among such top patent producing universities as Columbia, Harvard and Cornell. The State University ranks 14th among U.S. colleges and universities for royalties received on inventions licensed to industry. An important engine of economic growth, the knowledge generated by SUNY’s researchers has led to the establishment of 46 new companies that are providing new products and services and creating new jobs around the state.

Since the RF began coordinating SUNY requests for federal funds three years ago, congressional appropriations to SUNY increased ten-fold, vaulting from $3.1 million in fiscal 2002 to $33.2 million in fiscal 2004. This additional $59 million in federal funding has supported more than 40 projects at SUNY institutions, touching every region of the state.

Fiscal 2004 marked the close of the first SUNY system-wide fundraising campaign, which reached its $1 billion target 18 months ahead of schedule. Subsequently, the RF worked with SUNY campus presidents and development staff on an even more ambitious fundraising effort called “The SUNY $3 Billion Challenge.” This campaign brings together 64 campuses with one vision—to move SUNY into the front ranks of American public higher education. The SUNY $3 Billion Challenge, which officially began Jan. 1, 2004, and concludes June 30, 2012, is the largest fundraising goal ever set by a comprehensive university system.

This unprecedented rate of growth proves that the original concept of the Research Foundation functioning as a private, nonprofit corporation is as timely today as it was 53 years ago.
2004 RF Highlights

SPONSORED PROGRAMS ADMINISTRATION

The volume of research and other sponsored programs administered by the Research Foundation of State University of New York, representing activity at 29 state-operated campuses and system administration, achieved a new high in fiscal year 2003-04, climbing 13 percent to $710.2 million, continuing an eight-year upward trend. Statutory colleges at Cornell and Alfred reported research volumes of $136.9 million and $4.1 million, respectively, bringing the total for the entire State University system to an all-time high of over $851 million. This represents an increase of $76.7 million over FY 2003-04. The most recent system total is 10 percent higher than last fiscal year’s total.

The University at Albany, with $132.1 million in sponsored funding, experienced a 69 percent increase in funding over last year, primarily because of the new College of Nanoscale Science and Engineering and the Center of Excellence in Nanoelectronics. These programs support the University’s strategy to establish the critical mass of intellectual know-how and state-of-the-art educational and research facilities in emerging scientific disciplines that aim to understand and manipulate physical, chemical, and biological systems at the molecular level. Stony Brook University garnered nearly $159.9 million in sponsored funding, followed by University at Buffalo with more than $134.3 million.

The volume of sponsored programs administered by the Research Foundation has increased each year for the last eight years. Overall growth in research funding since 1998 is 80 percent. More than 17,000 full- and part-time jobs statewide are supported by more than 8,800 SUNY research projects administered by the Research Foundation, contributing to the state’s economic well-being. This research leads to new discoveries, new patents, and new products and services, all of which drive the economy and provide jobs and a better future for all the people of New York.

The United States government provided more than half of the research funds for SUNY with the largest sponsors being the U.S. Department of Health and Human Services, the National Science Foundation, the Department of Education and the Department of Defense. Examples of federally funded research include:

- Dr. Claes Lundgren, professor, Department of Physiology and Biophysics at the University at Buffalo School of Medicine and Biomedical Sciences, was awarded a $1.5 million grant from the National Institutes of Health (NIH) to develop a blood substitute.
- Dr. Scott Oliver, assistant professor, Department of Chemistry at Binghamton University, was awarded a $500,000 NSF Career Award to support his research into synthetics that could soon make it possible to safely and permanently “mop up” some of the most common and dangerous industrial pollutants.
- Thomas W. White, assistant professor, Department of Physiology and Biophysics at Stony Brook University, received a $274,000 NIH grant to research deafness.

THE CHALLENGE

The Research Foundation’s sponsored program administration office at Binghamton University needed to provide its researchers and administrative staff with timely, accurate financial data in an electronic format. After the RF debuted the Principal Investigator Award Interface (PIAI) in March 2004, Binghamton decided it needed to roll out this online tool to its users.

THE SOLUTION

The RF’s Binghamton University staff conducted an aggressive customer relations campaign to promote the use of PIAI, an intuitive online tool that provides summary and detailed financial information for research grants. A series of training sessions were scheduled, and the RF staff made sure that login IDs and passwords were established for participants prior to their training session. This ensured a truly hands-on training approach, as participants were able to go in to the PIAI tool and access data pertinent to their projects during their training session. Binghamton’s RF staff worked closely with its faculty to implement this tool and continues to offer monthly training sessions as well as individual training.

THE RESULTS

The RF set up PIAI access for over 120 people at Binghamton University, and response to the tool and its rollout was very positive. Binghamton’s faculty and administrative staff like the user friendly PIAI and have much more confidence in the accuracy of their financial data. Now that researchers have the financial data they need right at their fingertips, the RF staff at Binghamton are responding to fewer information requests and have more time to focus on their operational responsibilities, strengthen their relationships with faculty and further improve their customer service.
The Research Foundation also experienced a 37 percent increase in funding from nonfederal sources, such as business and industry, philanthropic organizations, state agencies, and foreign sources. For example:

- **Lydia Davis**, an acclaimed fiction writer and associate professor/writer-in-residence in the English Department at the University at Albany, received $500,000 in “no strings attached” support from the John D. and Catherine T. MacArthur Foundation. The MacArthur Fellows Program offers highly creative people the gift of time and the unfettered opportunity to explore, create, and accomplish.

The enormous scope of SUNY’s research enterprise was made clear on October 20, 2003 when Randy Daniels, Vice Chair of the SUNY Board of Trustees and John J. O’Connor, President of the Research Foundation, honored 58 of New York’s most innovative scholars and scientists. The honorees, who represent 24 SUNY campuses, are responsible for generating nearly $70 million in research funding from such organizations as the National Institutes of Health (NIH), the National Aeronautical and Space Administration (NASA), Pfizer, the American Heart Association, the Environmental Protection Agency, the National Oceanographic and Atmospheric Administration (NOAA), the Wildlife Conservation Society, the National Science Foundation (NSF), the U.S. Department of Energy, General Motors, and the American Chemical Society. Their research spans 21 disciplines ranging from biology, chemistry, geology and physics to medicine, computer science, materials science and engineering.

**STRATEGIC PARTNERSHIPS**

This surge in research funding is the result of a system-wide effort to build partnerships to attract federal, state and private funds to the State University. Across the state, the Research Foundation is forging new government and industry alliances that are furthering university-based research and speeding the movement of SUNY inventions from the lab bench to the marketplace.

Chancellor Robert L. King hosted a Partners in Leadership dinner in Albany on March 15, 2004 to salute individuals from the public and private sectors and the University who are working together to support Governor Pataki’s Centers of Excellence program and enhance economic development efforts across New York State. The honorees were cited for their support of new groundbreaking academic research, the generation of problem solving technologies and the advancement of economic development at three of New York’s Centers of Excellence and eight innovative research partnerships that are located on SUNY campuses. The high turnout for the event is testimony to the University’s rising visibility as a source of world-class research talent across a broad range of disciplines.
2004 RF Highlights

- **Affiliated Corporations**

  Campuses are increasingly turning to the Research Foundation to establish affiliated corporations to provide a mechanism for achieving their economic development goals. The SUNY Board of Trustees, following a thorough examination of the roles and relationships of campus foundations, auxiliary service corporations and alumni associations, adopted formal policies for those campus-based entities that preclude their involvement in economic development activities.

  Since 1983, the Research Foundation has established affiliated corporations to facilitate university-industry-government partnerships and accelerate the growth of sponsored programs and applied research opportunities at SUNY. These range from real estate holding companies and business incubators to limited liability partnerships and include nationally recognized organizations including:

  - **Brookhaven Science Associates LLC (BSA)** which operates the world-famous Brookhaven National Laboratory under a $2 billion contract with the U.S. Department of Energy. Since assuming management of the laboratory in 1998, BSA has received numerous accolades for making lasting improvements in environmental, safety and health performance at the facility.

  - **Calspan-UB Research Center Inc. (CUBRC)** is a strategic partnership that has brought together scientists, engineers and resources from academia and industry to provide business development opportunities in Western New York.

  - **Long Island High Technology Incubator (LIHTI)**, New York’s most successful incubator. LIHTI was ranked a top-performing technology incubator in a 2002 report produced by the National Business Incubation Association.

  The Research Foundation created two new affiliated corporations in fiscal 2004. NanoTech Resources Inc. will work with the University at Albany to help it meet its obligations in support of the Center of Excellence in Nanoelectronics by assisting in exploring and implementing corporate partnerships and securing external funding; to partner with the College of Nanoscale Science and Engineering at the University at Albany; and to link academic teaching and research with technology development. The Purchase College Advancement Corporation will operate facilities that will support the College’s academic mission and spur economic development in the mid-Hudson region.

  This is a growing segment of the RF business with additional corporations currently in development. Recognizing the need to provide oversight and manage this rapidly expanding program, the RF appointed Retired Vice Admiral John Craine to the post of Senior Vice President. In addition to ensuring continuity and growth of existing links with agencies, organizations and major corporations, this office will facilitate collaborative efforts to promote economic development in New York State by furthering research and intellectual property development.

  **Sound Business Processes**

  A strong business entity with solid corporate standing, The Research Foundation provides an innovative, effective and efficient infrastructure that facilitates cost-effective and efficient administrative processes.

  The Research Foundation consists of a central office that works with operating units at 30 campus locations across New York State. The campus offices, under the supervision of RF operations managers (OMs), are responsible for the day-to-day administration of sponsored programs including financial, human resources, procurement,
The Challenge
As the first campus to decentralize after implementation of the Oracle business system, the Research Foundation staff at Buffalo State College faced a daunting task. Decentralization involves transferring responsibility for performing pre- and post award activities (billings, account establishment and monitoring, award request forms, etc.) from the RF’s central office to the campus RF office. The last time a campus decentralized was 12 years ago.

The Solution
Since the pre- and post award staff at the campus shared many of the same functions, these teams worked together to write procedures tailored to the RF’s business at Buffalo State. They started with a clean slate and developed internal policies, forms, documents, procedures and simple work instructions to ensure a strong framework was in place for their business processes. They also realized a separate grants management unit was needed to ensure staff had easy access to necessary information and the ability to collaboratively solve problems. This unit was established with staff from existing functions within the office, and they only needed to hire one additional staff member.

The Results
In August 2003, Buffalo State College received final approval of its status as a decentralized location. An internal decentralization audit, completed in February 2004, demonstrated that the business processes put in place by the Buffalo State RF staff were working. The team received an excellent review, with only a few minor issues that have since been resolved.

In an increasingly complex regulatory environment, the Research Foundation ensures the integrity of the University's research mission through strict adherence to sponsor and government regulations. The RF keeps abreast of changes in federal and state regulations in the sponsored programs arena, informs campuses of new requirements and facilitates related compliance efforts, brings in workshops and other forms of education and training, and coordinates university-wide responses to proposed regulations.

Developed to help employees understand compliance rules and regulations, the RF’s Sponsored Programs Fundamentals Training series covers topics ranging from pre- and post award overviews to research compliance, travel and property management, and personnel and salary-related issues. More than 1,400 participants from 30 campuses participated in one or more of these sessions. The RF also conducted four training sessions that focused on internal controls.

Export control regulations increasingly affect much of the research administered by the RF. University compliance has come under increased scrutiny due to the intersection of cutting-edge science, technology and engineering research with national security, foreign policy and homeland security. A project team composed of RF and SUNY members developed a comprehensive Web page and other materials to help researchers understand the implications of export control regulations.

The RF has been working to implement new Fair Labor Standards Act (FLSA) regulations issued by the Department of Labor. To comply with these new regulations, the RF is re-examining exempt positions; converting exempt positions that no longer qualify as exempt, and the employees in those jobs, to non-exempt positions; and ensuring the salary of exempt employees is at least $455 per week. The RF is also making every effort to minimize the impact of these changes on employees, campuses and grant-funded projects.

The Communications Workers of America (CWA) filed a petition at SUNY ESF seeking to represent various job titles, including research project assistants (RPAs), funded through the RF’s sponsored programs. An election was held on April 16, 2004 to allow RPAs to vote on whether or not they want union representation. The votes were impounded pending a determination by the National Labor Relations Board (NLRB) on whether RPAs are students or employees. On July 13, 2004, the NLRB issued a decision on Brown University vs. United Auto Workers, which held that a similar group of graduate students at Brown University do not fit the definition of employees under the National Labor Relations Act. As a result, the NLRB referred the RF’s case back to the regional director for reconsideration consistent with the Brown decision, an action that is still pending.
With health care insurance rates increasing at double-digit rates the RF, like many employers, is seeking to control costs of its fringe benefit programs without sacrificing the value that these programs confer. A team composed of campus operations managers, principal investigators and HR directors worked closely with the RF central office, with support from Mercer HR Consulting, to assess current offerings and determine what changes may be possible in order to maintain the important balance between benefits and costs. As a result of this collaborative effort, the fringe benefit rate for regular employees for fiscal year 2004-05, approved by the Department of Health and Human Services, was lowered from an estimated 35 percent to 33 percent. The projected rates for 2006 and 2007 and the rates for summer employees were also lowered.

In a gesture of corporate transparency, the RF allowed the Office of the State Comptroller (OSC) to audit its discretionary fund expenditures. The OSC auditors spent about five months examining the discretionary expenditures of the RF. At the conclusion, the auditors shared their preliminary findings with the RF. None of the findings raised significant issues and the auditors indicated that the expenditures were generally in accordance with RF guidelines.

The 2002 Sarbanes-Oxley Act implemented rules affecting corporate governance, financial disclosure and the practice of public accounting. While these rules do not apply to nonprofit organizations, the RF devoted considerable focus over the past fiscal year on applying best practices from Sarbanes-Oxley, particularly in the areas of educating employees and implementing strong control processes. The RF analyzed its business operations and began an internal process to identify potential risks and classify their priority by use of risk assessment “heat maps” that show the probability of a risk occurring and the impact if it does happen.

Business System

The Research Foundation uses a computerized business system to support sponsored programs administration and corporate financial reporting. The system has grants management, finance and human resources components to help principal investigators manage their projects.

In fiscal year 2004, the enhancement of the business system continued with the implementation of a customized payroll encumbering module and Principal Investigator Award Interface (PIAI). The payroll encumbering project, which debuted in January 2004, allows principal investigators (PIs) to encumber for the life of a person’s assignment or labor schedule and for full and partial pay periods—providing grants staff a clear financial picture of their grant balances. The PIAI allows users to quickly and easily get both summary and detailed information on their sponsored funds. Both of these projects garnered very positive feedback from principal investigators at all RF locations.

License/Option Revenue (in millions)

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Frank Zuraf, vice president for Internal Audit and Management Advisory Services, leads a department that is responsible for providing an independent appraisal of RF operations and ensuring the integrity and accuracy of corporate records and reports.

New York State Senator Michael A.L. Balboni, Chairman, Committee on Veterans, Homeland Security and Military Affairs, was the guest speaker at the networking luncheon which was part of the Homeland Security Business-to-Business Conference held on June 2 at SUNY Maritime College.

U.S Representative Thomas Reynolds visits the Cluster Computing Facility at SUNY Geneseo.

The Research Foundation board of directors elected four new board members (clockwise from top left): at-large member Dr. Randall D. Isaac, faculty representative Dr. Bahgat Sammakia and campus administrator representatives Dr. John Simpson and Dr. Raymond Cross.

Dr. Randall D. Isaac

Dr. Randall D. Isaac is the vice president, strategic alliances, for the IBM Technology Group. He has held management and executive leadership positions within IBM as director of silicon technology in IBM Research Division; senior manager of the Microelectronics Division Semiconductor Research and Development Center, where he was responsible for 64Mb DRAM development; founder and Director of the IBM Austin Research Laboratory, responsible for high-performance microprocessor design; and for eight years the research division vice president of science and technology.

Dr. Bahgat G. Sammakia

Bahgat Sammakia joined Binghamton University in 1998 as director of the Integrated Electronics Engineering Center (IEEC). A research consortium in the area of Electronic Packaging and Small Scale Systems Packaging, the IEEC is a New York State Center for Advanced Technology (CAT). Member companies include Universal Instruments, Lockheed Martin, IBM, Analog Devices, GE Corporate Research and Development, Endicott Interconnect Technologies, Samsung and BAE. Prior to coming to SUNY, Dr. Sammakia held various management positions at IBM. He holds 14 U.S. patents, 12 IBM technical disclosures and has contributed to three books on natural convection heat transfer and electronics packaging.

Dr. John B. Simpson

John B. Simpson, Ph.D., took office as the 14th president of the University at Buffalo on January 1, 2004. He came to UB following a distinguished 30-year career in higher education. Most recently, Dr. Simpson was executive vice chancellor and provost of the University of California, Santa Cruz where he oversaw the creation of new graduate programs in digital arts and new media, bioinformatics, electrical engineering, and politics, and an innovative Ed.D. degree with San Jose State University. These developments were framed by a campus-wide, long-term strategic planning process completed under his leadership as provost. Prior to that, he had a 23-year teaching, research, and administrative career at the University of Washington in Seattle, where he was dean of the College of Arts and Sciences from 1994-98.

Dr. Raymond W. Cross

Raymond Wayne Cross was named the seventh president of Morrisville State College on January 27, 1998. Since his arrival, he has led the college in new and exciting directions. In partnership with IBM, Morrisville State College is a ThinkPad University and the campus has expanded distance-learning courses and has begun offering courses via the Internet. President Cross has involved the campus in a variety of initiatives, including the creation of a strategic plan for Morrisville State College and laying the groundwork for an Entrepreneurial Center for students, staff and alumni. Plans are underway for a Java Institute, and Equine Institute, and the expansion of the Norwich Campus. Prior to joining SUNY, Dr. Cross was president and CEO of Northwest Technical College, where he was responsible for the leadership, supervision, planning, operation and performance of the five-campus college.
Following the successful collaboration on these and other projects, the Research Foundation formed the Customer Connection Team to strengthen the working relationship between central office and campus employees. The team aims to gain understanding of business needs and underlying risks and issues, assess where efforts should be applied to improve business performance and mitigate risk, identify opportunities for additional value-added services, and engage campus staff on an ongoing basis.

**Sponsored Programs Advisory Council**

The Research Foundation is also working closely with the Sponsored Programs Advisory Council (SPAC) on a wide range of issues. Composed of principal investigators on the State-operated campuses, SPAC serves as an advisory body to the Research Foundation on matters affecting sponsored programs administration in the areas of advocacy, compliance, the business system and personnel issues.

SPAC presented the principal investigator point of view as the Research Foundation made decisions about modifying its employee benefits package, worked on health insurance issues, and provided key guidance from a user’s perspective in the development of the PIAI and other business system enhancements. SPAC is also working on a quick reference compliance guide for new principal investigators and is exploring ways that faculty can work with the Research Foundation to advance SUNY initiatives with key government agencies and officials.

### Representing SUNY in Washington DC

The Research Foundation coordinates SUNY’s system-wide request for federal funds to leverage the size, strength and diversity of the largest and most comprehensive higher education system in the world for the benefit of its students, New York citizens and businesses.

As a single entity, the RF brings the weight of the entire State University system behind each individual campus request. This advocacy effort is aided by the Washington law firm of Akin, Gump, Strauss, Hauer & Feld, LLP, which helps the Research Foundation identify discretionary congressional budget lines that could potentially benefit SUNY, helps campuses align their requests with those funding accounts and facilitates access to leadership in the Congress and federal agencies.

The Research Foundation also builds strong relationships in Washington by showcasing the State University’s human and economic impact. The presence of more than 700 SUNY alumni and 30 campus presidents who joined Chancellor King at the 2004 SUNY Day in DC federal advocacy program reinforced the message that the State University is one of the nation’s leading universities. The SUNY Day DC program also included a tour and briefing at the Pentagon, followed by a concerted advocacy effort that involved system administration, campus leaders and faculty researchers. The result: SUNY’s appropriations performance within the Defense budget is maintaining a steady rate of growth.

### NYS Strategic Center for Port and Maritime Security

**The Challenge**

SUNY Maritime College, Stony Brook University, the Brookhaven National Laboratory and the Port Authority of New York and New Jersey pooled their resources to create the first-in-the-nation focused Center for Port and Maritime Security. The partners needed to secure funding to establish a home base for this collaborative effort.

**The Solution**

Working with the RF, the partners developed a plan that aligned the Center’s activities with the National Strategy for Homeland Security border and transportation initiatives and promoted the local, national and global economic benefits of improved security in the maritime transportation industry. Activities included a series of advocacy visits at both the state and federal levels and publications that summarized the issue of port security and provided government officials with at-a-glance information about the unique facilities, resources, expertise and talent that each partner brings to the Center.

**The Results**

In December 2003, New York State allocated $1.5 million in start up funds to establish the NYS Strategic Center for Port and Maritime Security on the SUNY Maritime campus. These funds are being used in conjunction with a $1.7 million commitment from federal sources for material and equipment. The Center is pursuing its mission by developing port security microsensor technology, uncovering flaws in threat assessment protocol, disaster response and infrastructure protection, and offering advanced education and training in port security.
Working in concert with campus presidents, the State University has reengaged the members of New York’s congressional delegation. With a clearer understanding of just how important SUNY is to their districts, delegation members are elevating the University’s stature with key federal policy makers by arranging tours and meetings, hosting receptions and expressing their strong support for the State University.

National decision makers, who participated in SUNY Day DC activities in record numbers this year, have been increasingly visible on SUNY campuses:

- **Congressman Sherwood Boehlert**, Chairman of the House Science Committee, gave a special presentation about the national research agenda at the fall SUNY President’s meeting on November 13, 2003.

- **The Center of Excellence in Nanoelectronics at the University at Albany hosted a visit by Phillip Bond, undersecretary for technology at the U.S. Department of Commerce, who noted that the Center is well-positioned to obtain significant federal funding.**

- **Senator Hillary Rodham Clinton served as moderator, along with College of Environmental Science and Forestry President Dr. Cornelius B. Murphy Jr., at a state-wide conference to promote homeland security technologies held in Syracuse.**

### Advocacy Success

The combination of a unified appropriations request and a system-wide commitment to federal advocacy has greatly enhanced SUNY’s ability to gain recognition and support in the national arena. Congressional appropriations to SUNY for the fiscal year that began Oct. 1, 2003 totaled more than $33.2 million, representing a more than 117 percent increase over the previous year. The congressional funding for SUNY in FY2004 is in support of 23 different projects. Nearly half of this federal funding, $14.4 million, was earmarked for two Centers of Excellence that are located on SUNY campuses. Significant funding was also provided for medical research and development, homeland security, environmental projects and educational initiatives.

To further this effort, the Research Foundation launched a Federal Affairs Web site to enhance communication with campuses on national issues and share best practices in such areas as advocacy and grantsmanship. In addition, the RF developed an Appropriations 101 presentation to introduce new campus presidents to federal affairs, earmarkable accounts and to review the SUNY system-wide appropriations process.
COMMERCIALIZING SUNY INVENTIONS

For 25 years the Research Foundation has played a pivotal role in managing and nurturing SUNY ideas and discoveries to a stage where they have grown into commercially viable products, services and business ventures. The RF fosters collaborative relationships between industry and the SUNY academic research communities that are moving ideas from the lab bench to the marketplace, providing critical jobs for highly skilled graduates, and driving New York State’s economic engine.

Thanks to steadily increasing interest and participation by the SUNY academic research community, the five RF Technology Transfer Offices closed fiscal 2004 with a critical up-tick in a key technology transfer indicator - 253 invention disclosures were submitted, representing a 7.6 percent increase over the previous year.

During fiscal 2004 the Technology Transfer staff in the RF’s central office in Albany and on the campuses in Albany, Binghamton, Buffalo and Stony Brook also worked with SUNY faculty to develop their ideas and discoveries beyond a novel hypothesis or lab experiment and into protected intellectual capital.

These activities resulted in the RF recording 169 patent applications in fiscal 2004. The RF also was awarded 44 patents in fiscal 2004.

Equally important to managing and nurturing intellectual property and innovation is the RF’s expertise and guidance in converting SUNY technology into products, services and business ventures.

The RF received $13.4 million in royalties on all license and option agreements during fiscal 2004. The RF also reported six new business start-ups launched in fiscal 2004, bringing the total number of start-ups based on SUNY technology to 46.

Moving into fiscal 2005, the RF will focus on invention and commercialization activity in its ongoing efforts to increase the licensing of RF technologies. As commercialization activities improve, The Research Foundation of SUNY expects to increase royalties for the inventor and respective campus, and increase the number of SUNY innovations turned into commercial products.

The RF also expects more university-industry collaborative relationships to emerge from the commercialization process, which will bolster the standing of SUNY as a leading research system while promoting economic development in New York State.

CAMPUS CASE STUDY
RF Links SUNY Innovation With Business To Assist Success

THE CHALLENGE
Success for technology transfer activities hinges on the ability of the Research Foundation to pull together resources, alliances and networks of expertise with optimal combinations of people, technologies and talents that will eventually improve the quality of life in the U.S. and across the globe.

THE SOLUTION
The RF facilitates interactions between the business community and SUNY researchers to forge relationships with businesses such as Myomatrix Therapeutics LLC., a privately held biopharmaceutical company that relies on novel technologies to develop commercial pharmaceutical therapies. Introduced to a new target for treatment of heart failure and hypertension identified by researchers at SUNY Downstate Medical Center and validated in animal models and human tissue during an initial meeting, Myomatrix worked with RF technology transfer professionals to obtain a world wide exclusive license to the technology. The RF also facilitated the appointment of Dr. M.A.Q. Siddiqui, professor and chairman of Anatomy and Cell Biology at SUNY Downstate to the Myomatrix scientific advisory board.

THE RESULTS
Today, thanks to the $5 million exclusive licensing agreement negotiated by the RF, Myomatrix is collaborating with the Australian biotech company, Cytopia, on breakthrough treatments for heart failure and hypertension. Under the jointly funded work program, Myomatrix is testing Cytopia’s improved kinase inhibitors in the same animal model used by the SUNY Downstate team. Success in this animal model could pave the way for pre-clinical development of the molecules for a number of applications such as heart failure and pulmonary hypertension.

Invention Disclosures

00 01 02 03 04
186 174 209 235 253

Given Yalcintas, Vice President for Technology Transfer, participates in a discussion about joint venture and licensing agreements during the Technology Transfer Directors meeting held November 6, 2003, at Stony Brook University.
In FY04 RF Technology Transfer activities took a number of forms, among them:

- Partnering with industry, several patent donations from U.S. corporations were accepted so SUNY faculty researchers can build on the existing patented research to develop new technologies for use in new products.

- Bringing SUNY inventors and researchers into direct contact with entrepreneurs, venture capitalists, start-up specialists and other commercial partners through events and programs such as UNYTECH03 — Universities of Uptown New York Venture Forum.

- Interacting with faculty and research scientists throughout the SUNY system to bring resources and options to innovation opportunities.

- Developing solid relationships with business and federal, state and local governments that will result in projects such as the three Centers of Excellence and eight research partnerships at SUNY campuses that are supported by the public and private sector.

- Forging commercial collaborations between SUNY innovators and business that will provide the foundation for New York’s future and lead to greater economic and social prosperity.

Some examples of commercial collaboration in FY04 include:

- Patented F11 protein developed at Downstate Medical Center — Zymed Laboratories Inc. and R&D Systems licensed a newly discovered adhesion protein that could lead to the development of a new generation of therapeutic agents to treat thrombosis and atherosclerosis, and prevent heart attacks and stroke.

- Video rental software developed at SUNY Brockport — ArchSynergy Ltd. licensed the software for use in its management tool designed for small-scale video stores.

- Drug screen for neurological disorder developed at Downstate Medical Center — Zymed Laboratories Inc. licensed this technology that some day may help diagnose Alzheimer’s disease.

- Electronic prescription system developed at University at Buffalo — mobileLexis Inc. licensed Accuscript, a technology that allows for unmatched handwriting recognition on digital paper.

- Prevention or Reversal of Sensorineural Hearing Loss developed at University at Buffalo — American BioHealth Group licensed a family of unique antioxidant compounds that prevent and treat acute hearing loss resulting from noise and chemical exposure.

- Stackable encryption file system developed at Stony Brook University — Packet General Networks, a start-up company in Stony Brook University’s software incubator, licensed software adapted to transparently encrypt and decrypt data from a computer file passing through a stackable file system.

- Portable suction device developed at Stony Brook University — Sopho Inc. licensed technology that is designed for battlefield settings to clear the throat and wounds of blood, mucous, etc. and for collecting suspicious powders into a container that has color changing reagents that can screen for biohazards.

- Hydrogen sensor developed at University at Albany — A New York State company has optioned sensor technology that can detect hydrogen leaks, which is essential to the successful implementation of any hydrogen-based energy system.

- Protein kinase inhibitors developed at University at Buffalo — Kinex Pharmaceuticals, a faculty start-up, has an exclusive option to license the technology for a unique method for designing and synthesizing anti-cancer compounds.
CAMPUS CASE STUDY
SUNY Oswego Increases Research Volume by Encouraging New Researchers

THE CHALLENGE
SUNY Oswego sought to increase the level and breadth of externally sponsored program activity on campus to enhance teaching, research and training opportunities for faculty and students.

THE SOLUTION
The campus and the Research Foundation encouraged interdisciplinary collaborations focusing on modern science and technology to enhance teaching and research. Six researchers representing the Biology and Chemistry departments teamed up to develop a cooperative plan of research activities and equipment needs.

THE RESULTS
The Research Foundation was awarded almost $250,000 from the National Science Foundation to support a project entitled, “Acquisition of Proteomics Equipment and a MALDI-TOF Mass Spectrometer for Establishment of a Proteomics/Mass Spectrometry Facility”, under the direction of Anthony J.A. Ouellette, Kestutis Bendinskas, Casey C. Raymond, Martha Bruch, Webe Kadima, and J. Alden Lackey. This facility will advance teaching, research, and training in mass spectrometry and proteomics.
CAMPUS CASE STUDY
Morrisville Alumni Board Members Become Energized Ambassadors

THE CHALLENGE
Morrisville State College named Jessica Moquin as coordinator of alumni affairs in 2002. From the outset, she recognized she needed to learn how to work with a 15-member Alumni Board of Directors with a limited understanding of how to serve as campus ambassadors, and to teach them how to raise funds from significant prospects as effectively as the Morrisville College Foundation Board was able to do.

THE SOLUTION
Moquin turned to the Research Foundation for expert counsel, tactics, and techniques that would help her become more effective in setting a new agenda for the alumni board. She attended RF-sponsored workshops where she was able to talk to experts in the field and learn best practices used by her counterparts on other campuses.

THE RESULTS
President Ray Cross and Vice President of Institutional Advancement James Hastie were able to help Moquin transform the Morrisville State College Alumni Board into a "dedicated and energized group of passionate campus supporters." Today, Morrisville State College development initiatives are being facilitated in collaboration with alumni volunteers who are now responding to the call of philanthropy as never before.

2004 RF Highlights

PROMOTING PHILANTHROPY
The Research Foundation helped the State University of New York set the right balance of advancement activity throughout its 64-campus system in fiscal 2004.

One component of this balance creates a vital three-way partnership that will enhance world-class academic and cultural programs, provide critical student support, attract and retain internationally recognized faculty and advance intellectual inquiry and research:

- **Dependable Philanthropy — Serious fundraising programs secure critical leadership gifts from individuals, corporations and foundations to create an extra margin of excellence at SUNY.**

- **Affordable Tuition and Fees — SUNY continues to maintain undergraduate tuition and fees at affordable levels so students can attain the quality education they need and deserve.**

- **Reasonable Tax Support — New York State officials and legislators recognize the importance of SUNY and allocate important funding that helps the University maintain the health and well-being of the various campus communities for the benefit of all the state’s citizens.**

Another component involves a system approach that complements and coordinates with 64 autonomous campus advancement operations. The RF supports the broader approach by providing various levels of support and encouragement that strengthen campus development and alumni activities.

Fiscal 2004 marked the close of the first SUNY system-wide fundraising campaign, which reached the $1 billion target 18 months ahead of schedule, and the launch of The State University of New York $3 Billion Challenge, that brings together 64 campuses with one vision — to keep SUNY in the front ranks of American public higher education. The RF worked with SUNY campus presidents and development staff throughout the SUNY system to develop reasonable but optimistic target goals toward the SUNY $3 Billion Challenge.

System Administration and Research Foundation central office employees contributed to this fundraising goal with more than $40,000 in pledges for SUNY campuses during the second annual SUNY Spring Campaign. Giving opportunities were extended for the first time to more than half a million New York state, county, and municipal employees thanks to new legislation supported by the RF. Public employees now can make a contribution via payroll deduction to any SUNY campus, including community colleges for the first time.

SUNY institutions also collaborated on RF developed alumni relations activities, including “All SUNY” alumni events in Tampa and Boca Raton, Fla., and Washington, D.C., which brought together more than 1,000 SUNY alumni from about half of the SUNY campuses. Attendees learned first-hand how alumni can aid the transformation of the State University. These cooperative gatherings gave individual campuses an opportunity to bring their alumni together under a campus banner and meet their president, all within the framework of a large SUNY reception.

In fiscal 2004, the RF held its second annual joint meeting for SUNY chief advancement and chief alumni officers where more than 80 development and alumni professionals and campus presidents discussed fundraising dynamics, ideas and tactics, and prospective donor relationship building. These fundraising themes were repeated throughout the year in various workshops and panel presentations at multiple locations throughout New York State. Chancellor Robert L. King also met with campus presidents during a special fundraising session held by the RF.
Some campus highlights in FY 04 include:

- Paul Weigand, a professor at Triple Cities College and Harpur College for 32 years, bequeathed his $1 million estate to Binghamton University. Weigand’s endowment will support both undergraduate and graduate students in German language or literature. In addition to tuition support, the endowment may fund study abroad opportunities in Germany or the German-speaking nations.

- Ray and Wanda Osterhout made a $1 million gift to establish a Distinguished Professorship in Entrepreneurship at the School of Management at Binghamton University.

- Luella Slaner, a community leader and philanthropist, left a $1 million bequest for Asian Studies at Purchase College to bring leading scholars to the campus and, through an expanding roster of courses, engage students and the public in discussions on timely topics about cultural and political events in Asian countries.

- Professor emeritus Richard W. Miller became the Canton College Foundation’s first $1 million donor. The State University of New York Board of Trustees approved a resolution supporting Canton’s action to name their campus center the Richard W. Miller Campus Center.

- An anonymous donor gave $600,000 to modernize and expand the North Country Community College’s Allied Health programs with special emphasis on the Licensed Practical Nurse and Registered Nurse programs. This is the largest single gift in the College’s 38-year history.

- Students voted in favor of a referendum to voluntarily contribute to the Dutchess Community College Foundation. The funds donated by full- and part-time students over five years are projected to establish a $500,000 endowment for technology and equipment upgrades at the college.

- The Seneca Falls Savings Bank pledged $100,000 in June 2004 in support of the Cayuga Community College’s “Community Partners Building for the Future” campaign.

- Upstate Medical Center received a $1 million donation, the largest individual philanthropic gift received by the campus.

- Sullivan County Community College received a $3 million anonymous donation, the largest gift received in its 39-year history.

- About 40 SUNY campuses have completed or launched a capital campaign.

For fiscal 2005, the Research Foundation plans to expand its system approach to philanthropic and alumni services and introduce new initiatives in support of the campuses.

Foremost will be the Research Foundation’s planned giving services, an offering of administrative and management services, in cooperation with TIAA-CREF that are exclusively designed to help all the campus foundations significantly improve the acquisition of major and planned gifts.

Collectively, the campuses are stronger, richer, and better positioned than they are individually. The Research Foundation collaborates with the campuses to develop strategies, share best practices, join forces to disseminate information to legislators and policy makers, establish brands that raise the University system’s profile, market to parents and prospective students, and collaborate on alumni functions.

The collective approach sometimes functions best as a unit directed from the RF, sometimes as a collection of entrepreneurs, and sometimes as a combination of these configurations. The RF strives to balance its operations so all the campuses — from the youngest and smallest institutions to the flagships — benefit.

**CAMPUS CASE STUDY**

**RF Helps HVCC Shift Philanthropy Efforts Into High Gear**

**THE CHALLENGE**

Under the direction of Sarah M. Boggess, Vice President for Institutional Advancement, Hudson Valley Community College is in the early stages of creating an effective development program that will have a positive and beneficial impact upon both the college and the community it serves.

**THE SOLUTION**

To advance the process, Boggess enlisted the Research Foundation to provide a host of “incredibly important” philanthropy and alumni support services, from advice and counsel to sample documents that helped her office establish and implement policies. Through her association with the RF she has “little nuggets of information” that have helped the Hudson Valley Community College Foundation reach out to donors and friends.

**THE RESULTS**

Today, Hudson Valley Community College has an evolving development program that is projecting a positive image of the campus and SUNY. The success of this program can be measured: In fiscal 2004, Hudson Valley leapt past the $320,000 raised the previous year to surpass the $1 million fundraising threshold, a level Boggess believes never would have been achieved so quickly without assistance from the Research Foundation.
Another year of double-digit growth confirmed that the Research Foundation’s sound business practices drive the strength of its balance sheet. Total assets climbed 16 percent to $489 million, while total liabilities were $385 million, leaving a net asset balance of $104 million for the fiscal year ending June 30, 2004. Cash and investment balances grew for the third consecutive year, and sponsored program revenue increased 14 percent to $723 million.

MANAGING GROWTH

Over the past seven years, the RF experienced unparalleled growth. Sponsored research is at an all time high of $723 million, an increase of 93 percent from fiscal year 1997. During a time when many companies experienced slow economic growth, the RF’s total assets grew 228 percent and the cash and investment pool grew 176 percent. This growth is the result of the RF’s well-earned reputation as an able administrator of funds and its prudent investment management and portfolio diversification.

It is important to note that this growth occurred while the RF was implementing a major initiative to improve key components of its technology. This project included improving the RF’s business systems, performing business process re-engineering and applying an integrated general ledger system. Despite completing a total overhaul of its back-end financial system, the RF accommodated the demands of SUNY’s expanding research enterprise and resource development initiatives with very few additional staff and an unqualified audit opinion.

NURTURING A STRONG BUSINESS FRAMEWORK

Much of the RF’s focus over the past fiscal year aimed at mitigating corporate risk by examining key business operations, implementing best practices taken from the 2002 Sarbanes-Oxley Act, educating employees on the importance of sound fiscal management and carefully monitoring business processes. One effort to ensure the RF’s solid corporate standing included comparing data in the payroll system against data in the vendor system to detect possible overpayments or expenditures made to vendors in violation of sponsor or RF rules and regulations. The RF also addressed the issue of older delinquent accounts receivable balances on awards with more expenditures than cash received. At the beginning of this effort, the RF had delinquent accounts receivable balances on 458 awards, representing over $11 million in uncollected revenue. As a result of the RF’s work, delinquent accounts receivable balances were reduced to just over $2.5 million, representing a 77 percent decrease.

GROWING INVESTMENTS

Changes made over the past few years to the RF’s investment strategy set the stage for a fundamentally strong investment program. Through close collaboration with the finance committee of the RF’s board of directors, and with the approval of the full board, the RF continued to diversify its investment portfolio in fiscal year 2004. This goal of consistent and periodic asset reallocations to maximize return on investment is paying off. In fiscal year 2004, the RF’s investment portfolio was just over $274 million, an increase of 18 percent over the prior fiscal year.

Under Financial Accounting Standard (FAS) 106, employers who offer retirement medical benefits calculate the liability of current and future retiree benefits each year. The RF sets money aside to pay for these benefits by placing funds in a retiree medical insurance investment pool. With health care costs increasing at double-digit rates each year, the RF reviewed its medical benefits program during fiscal year 2004 to offset the economic impact of this trend and to ensure the
strong fiscal health of its retiree medical insurance investment pool. Changes made as a result of this review, supported by our strong investment strategy, will strengthen our asset and liability position for retiree medical benefits.

LOOKING TOWARDS THE NEXT SEA CHANGE

The RF is poised at the cusp of its next big transformation: managing, nurturing and growing the services needed to help the State University of New York advance education, research and discovery. Throughout fiscal year 2004, the RF continued its efforts to provide comprehensive services and expertise to SUNY—leveraging technology to efficiently and effectively monitor business processes through Web-based tools; launching investment and planned giving services to maximize SUNY funds; and improving its customer service model to meet the needs of consumers both within and outside the corporation. As the RF approaches its $1 billion milestone, its efficient and effective operations will pave the way for recognition as an able partner and a fiscally sound corporation.

INTEGRITY OF FINANCIAL INFORMATION

Research Foundation management is responsible for the integrity of the financial information presented in this Annual Report. The accompanying financial statements were prepared in conformity with generally accepted accounting principles. Data in this report is presented on an accrual basis.

BALANCE SHEET ASSETS

During fiscal year 2003-2004, the Research Foundation’s total assets increased $67 million or 16 percent in comparison to the prior year. The overall increase was due to the growth in sponsored program activity and proper investment portfolio and cash management processes. A comparison of the major components of the RF’s assets for the year ending June 30, 2004 to the previous year-end amounts is shown below:

### Assets

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current assets:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$1,298</td>
<td>$1,568</td>
</tr>
<tr>
<td>Accounts receivable, net</td>
<td>170,738</td>
<td>139,329</td>
</tr>
<tr>
<td>Advances to others</td>
<td>6,270</td>
<td>—</td>
</tr>
<tr>
<td>Short-term investments</td>
<td>139,442</td>
<td>74,215</td>
</tr>
<tr>
<td>Total current assets</td>
<td>317,748</td>
<td>215,112</td>
</tr>
<tr>
<td><strong>Non-current assets:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long-term investments</td>
<td>95,382</td>
<td>121,068</td>
</tr>
<tr>
<td>Long-term investments designated for post-retirement benefit obligation</td>
<td>39,549</td>
<td>37,588</td>
</tr>
<tr>
<td>Due from broker for securities sold</td>
<td>6,071</td>
<td>12,667</td>
</tr>
<tr>
<td>Fixed assets, net</td>
<td>28,943</td>
<td>34,818</td>
</tr>
<tr>
<td>Other</td>
<td>914</td>
<td>511</td>
</tr>
<tr>
<td>Total non-current assets</td>
<td>170,859</td>
<td>206,652</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$488,607</td>
<td>$421,764</td>
</tr>
</tbody>
</table>

CURRENT ASSETS

Cash and cash equivalents decreased by $300,000 from 2003. The Research Foundation increased its Line of Credit (LOC) borrowing program from $10 million to $30 million to support major campus programs that are waiting for state funding.

Accounts receivable, net (amounts due from sponsors) balances increased by $31.4 million or 23 percent. Timing differences related to funding of the nanoelectronics program at the University at Albany contributed to this rise. Eliminating the timing difference brings the accounts receivable balance increase to just 9 percent, which is more in line with the RF’s sponsored program revenue growth of 14 percent. As a result
of the successful effort to reduce the delinquent accounts receivable balances, management lowered its allowance for uncollectible accounts from $9 million to $8 million.

**Short-Term Investments** increased by approximately $65 million. The RF has two types of short-term investments: liquid and operational. A liquid money market fund of $81 million is invested for the major nanoelectronics program at the University at Albany. The associated sponsor agreement dictates the type of investment instrument, generally government securities. This program receives an annual advance for program costs, and the cash balance for this program increased by $35 million through June 30, 2004. In addition, to enhance investment income, the RF monitors daily inflows and outflows of cash in its main checking account. Each night, all available cash from the account is invested in an overnight money market account. Cash that will not be used for 30 days is moved to a professionally managed investment pool, the RF’s “Operational Pool.” This pool is intended to enhance the RF’s investment income, while ensuring there is adequate liquidity for daily cash needs. The Operational Pool is invested 20 percent in the equity market and 80 percent in fixed income instruments. For the fixed income portion, $55 million is invested in short-term fixed income instruments as determined by an asset allocation study. This short-term fixed income investment increased $30 million in fiscal year 2004 as a result of investment re-balancing, income earned and increases in operational cash. The Operational Pool generated a return, net of fees, of 4.7 percent for the fiscal year ending June 30, 2004.

**NON-CURRENT ASSETS**

**Long-term investments** decreased by approximately $26 million during fiscal year 2004. As noted in the short-term investment narrative, the Research Foundation maintains an Operational Pool that consists of equity and fixed income investments. This past year, to comply with board-directed asset allocation targets, the RF moved assets from long-term investments to short-term fixed income investments. The equity component of the Operational Pool, in which approximately $27 million was invested, consists of asset classes or strategies of large cap growth, large cap enhanced S&P 500 index, large cap equal weighted S&P 500 index, core small cap and international equities. The long-term fixed income component, in which approximately $68 million was invested, consists of securities traded in domestic markets and may include U.S. Government and Agency obligations, mortgage-backed securities, corporate bonds, debentures, commercial paper and Yankee bonds. The overall average quality of the long-term fixed income fund is rated “A” or better, and its total return, net of fees, is expected to equal or exceed the Lehman Aggregate Bond Index over a rolling three- to five-year period. A portion of the fixed income fund is also invested in high-yield fixed income securities. As stated earlier, the Operational Pool (long- and short-term investments) generated a return, net of fees, of 4.7 percent.

**Long-term investments designated for post-retirement benefit obligations** increased by $2 million, or approximately 5 percent, due to market performance. This investment represents assets that are restricted by the board to pay post-retirement medical benefits for current and future retirees.

**Assets due the Research Foundation from broker for securities sold** decreased by $6.6 million and represent investment trade activity that occurred prior to June 30, 2004 that was not settled by June 30, 2004. The settlement date is usually three to five days after the trade date.

**Fixed assets, net** represent office furniture, equipment, the RF’s information system and the corporate office building. These assets decreased $5.9 million or 17 percent over the
prior year-end balance due to current year depreciation levels in excess of fixed asset purchases.

**Other assets balance** is comprised of funds maintained as part of a Deferred Compensation Plan set up in accordance with section 457 (b) of the Internal Revenue Code. Fiscal year 2004 marked the second year of the plan’s operation.

**Balance Sheet Liabilities**

Total liabilities as of June 30, 2004 were $385 million, an increase of $65 million or 20 percent over the prior year. The major components of the Research Foundation’s liabilities compared to balances from the previous year are shown below:

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current liabilities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable and other accruals</td>
<td>$80,346</td>
<td>$69,283</td>
</tr>
<tr>
<td>Deferred revenue and deposits held for others</td>
<td>164,590</td>
<td>129,351</td>
</tr>
<tr>
<td>Post-retirement benefit obligations</td>
<td>3,888</td>
<td>3,027</td>
</tr>
<tr>
<td>Other current liabilities</td>
<td>3,286</td>
<td>3,205</td>
</tr>
<tr>
<td>Line of credit</td>
<td>30,000</td>
<td>10,000</td>
</tr>
<tr>
<td>Total current liabilities</td>
<td>282,110</td>
<td>214,866</td>
</tr>
<tr>
<td><strong>Non-current liabilities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deposits held for others</td>
<td>2,376</td>
<td>2,936</td>
</tr>
<tr>
<td>Post-retirement benefit obligations</td>
<td>70,039</td>
<td>52,630</td>
</tr>
<tr>
<td>Due to broker for securities purchased</td>
<td>18,230</td>
<td>33,974</td>
</tr>
<tr>
<td>Long-term debt</td>
<td>10,978</td>
<td>14,332</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>914</td>
<td>511</td>
</tr>
<tr>
<td>Total non-current liabilities</td>
<td>102,537</td>
<td>104,383</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$384,647</td>
<td>$319,249</td>
</tr>
</tbody>
</table>

Accounts payable and other accruals represent amounts due to vendors, accrued compensation and the RF’s vacation liability. These accruals increased $111 million, or 16 percent, primarily due to increased activity with sponsors in comparison to the prior year.

Deferred revenue and deposits held for others represent amounts received from sponsors that are not yet expended. The increase of approximately $35.5 million from the prior year is primarily the result of cash received in connection with the nanoelectronics program at the University at Albany.

Other current liabilities represent the portion of payments expected to be distributed in fiscal year 2005 for post-retirement benefits and include the current portion of the RF’s long-term debt.

Line of credit is the amount the RF borrowed on an overnight basis to supplement daily cash flow needs. The line of credit enables the RF to minimize the impact that routine fluctuations in daily cash flow have on its investment program, allowing investment managers to maintain a steady portfolio level which enhances earnings over the long term. As noted previously, the line of credit was increased from $10 million to $30 million during fiscal year 2004 to support major campus programs that are waiting for state funding.

Post-retirement benefit obligation increased by $18.3 million or 33 percent from the prior year. This liability represents the actuarially-determined amount incurred to pay current and future retiree medical benefits. The RF, like many employers, is incurring significant increases in retiree medical benefits costs. Rising health care costs, changes in workforce census data and increasing trend rates are all contributing to this increase in liability. (See Footnote F in the Notes to the Financial Statements)

Amounts due to broker for securities purchased decreased $15.7 million and represent investment trade activity that...
occurred prior to June 30, 2004 that was not settled by June 30, 2004. The settlement date is usually three to five days after the trade date.

Long-term debt balance is comprised of amounts borrowed to finance the corporate office building, the RF information system and some capital leases. Long-term debt declined by approximately $3.4 million or 23 percent during fiscal year 2004 due to debt principal payments made by the RF during the year. Additionally, debt on the information system was refinanced in 2003 to allow for further debt reduction.

**BALANCE SHEET NET ASSETS**

The net assets of the Research Foundation represent funds specified for development activity at the campuses as outlined in the RF’s board-approved financial plan.

**STATEMENT OF ACTIVITIES: REVENUES**

Total operating revenues of the Research Foundation for fiscal year 2004 exceeded $744 million, an increase of $90 million or 14 percent compared to the previous year. The RF’s primary source of revenue is grants and gifts awarded for sponsored research activities, which represented 97 percent of total revenues for the current fiscal year.

<table>
<thead>
<tr>
<th>Revenues (in thousands)</th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grants and gifts awarded for research and other sponsored activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct revenues</td>
<td>$599,659</td>
<td>$524,974</td>
</tr>
<tr>
<td>F&amp;A revenues</td>
<td>123,254</td>
<td>108,996</td>
</tr>
<tr>
<td></td>
<td>$722,913</td>
<td>$633,970</td>
</tr>
<tr>
<td>Investment income</td>
<td>6,765</td>
<td>8,246</td>
</tr>
<tr>
<td>Inventions and licenses income</td>
<td>14,491</td>
<td>11,662</td>
</tr>
<tr>
<td>Total</td>
<td>$744,169</td>
<td>$653,878</td>
</tr>
</tbody>
</table>

Total revenue awarded for sponsored activities, including facilities and administrative (F&A) recoveries, increased by $89 million to $723 million, an increase of 14 percent in comparison to the prior year. For the second consecutive year, the University at Albany experienced the most significant growth with sponsored program activity increasing by 69 percent or $54 million. The nanoelectronics program contributed significantly to this increase. Stony Brook University also showed substantial growth in sponsored program volume with an increase of $19 million or 13 percent. Binghamton University and the University at Buffalo reported increases of 11 percent and 4 percent, respectively.

New York State sponsored program revenue increased by 30 percent while federally sponsored program revenue increased by 8 percent. F&A recoveries earned on grants and contracts administered by the RF were $123 million for the fiscal year ending June 30, 2004, an increase of 13 percent over the prior year. Investment income decreased by approximately $1.5 million to a total of $6.8 million, but remained a solid contributor.

**SOURCES OF REVENUE**

Revenue from projects sponsored directly by the federal government totaled $361 million or 50 percent of total sponsored revenues. Of these federally sponsored projects, 55 percent of the funding was received from the Public Health Service. Other major federal sponsors include the National Science Foundation, the Agency for International Development and the Departments of Education, Defense and Energy. Revenue from projects sponsored by nonfederal sponsors-including federal flow-through funding-totaled $362 million or 50 percent of the total. The combination of all federal funds (direct and flow-through) represents $524 million or 73 percent.
STATEMENT OF ACTIVITIES: EXPENSES

Total expenses of the Research Foundation for fiscal year 2004 were $743 million, an increase of $85 million or 13 percent compared to the previous year. The RF’s expenses consist of sponsored program expenditures and administration and support costs.

<table>
<thead>
<tr>
<th>Expenses</th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sponsored programs</td>
<td>$599,426</td>
<td>$524,914</td>
</tr>
<tr>
<td>Administration and support</td>
<td>143,297</td>
<td>132,807</td>
</tr>
<tr>
<td>Total</td>
<td>742,723</td>
<td>657,721</td>
</tr>
</tbody>
</table>

Sponsored program expenses increased $75 million primarily as a result of increased sponsored program activity during the fiscal year. Contrary to most businesses, the 14 percent increase is a positive sign for the RF. Increased sponsored program revenues are driven by increased sponsored program expenditures. This revenue provides research and educational benefits to the State University of New York while increasing economic activity throughout New York State.

Administration and support expenses grew by $10 million or 8 percent. This increase was mainly due to the significant increase in post-retirement medical costs.
To the Board of Directors
The Research Foundation of State University of New York

In our opinion, the accompanying balance sheets and the related statements of activities and of cash flows present fairly, in all material respects, the financial position of The Research Foundation of State University of New York (the “Foundation”) at June 30, 2004 and 2003, and the changes in its net assets and its cash flows for each of the years then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Foundation’s management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

August 13, 2004
## Balance Sheets

For the Years Ended, June 30, 2004 and 2003

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current Assets:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$ 1,297,661</td>
<td>$ 1,568,049</td>
</tr>
<tr>
<td>Accounts receivable, net</td>
<td>170,737,954</td>
<td>139,329,120</td>
</tr>
<tr>
<td>Advances to others</td>
<td>6,269,681</td>
<td></td>
</tr>
<tr>
<td>Short-term investments</td>
<td>135,554,644</td>
<td>71,187,425</td>
</tr>
<tr>
<td>Short-term investments — designated for post-retirement benefit obligation</td>
<td>3,888,000</td>
<td>3,027,400</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td>317,747,940</td>
<td>215,111,994</td>
</tr>
<tr>
<td>Non-current Assets:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long-term investments</td>
<td>95,382,574</td>
<td>121,067,672</td>
</tr>
<tr>
<td>Long-term investments — designated for post-retirement benefit obligation</td>
<td>39,548,828</td>
<td>37,587,860</td>
</tr>
<tr>
<td>Due from broker for securities sold</td>
<td>6,070,623</td>
<td>12,666,591</td>
</tr>
<tr>
<td>Fixed assets, net</td>
<td>28,942,734</td>
<td>34,818,471</td>
</tr>
<tr>
<td>Other assets</td>
<td>914,305</td>
<td>511,171</td>
</tr>
<tr>
<td><strong>Total non-current assets</strong></td>
<td>170,859,064</td>
<td>206,651,765</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>$488,607,004</td>
<td>$421,763,759</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current liabilities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable and accrued expenses</td>
<td>$ 49,930,923</td>
<td>$ 41,384,383</td>
</tr>
<tr>
<td>Accrued compensation</td>
<td>11,180,933</td>
<td>8,809,505</td>
</tr>
<tr>
<td>Accrued vacation</td>
<td>19,234,998</td>
<td>19,088,669</td>
</tr>
<tr>
<td>Deferred revenue</td>
<td>164,589,530</td>
<td>125,606,305</td>
</tr>
<tr>
<td>Deposits held for others</td>
<td>—</td>
<td>3,744,803</td>
</tr>
<tr>
<td>Current portion of post-retirement benefit obligation</td>
<td>3,888,000</td>
<td>3,027,400</td>
</tr>
<tr>
<td>Current portion of long-term debt</td>
<td>3,285,858</td>
<td>3,204,426</td>
</tr>
<tr>
<td>Line of credit</td>
<td>30,000,000</td>
<td>10,000,000</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td>282,110,242</td>
<td>214,865,491</td>
</tr>
<tr>
<td>Non-current liabilities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deposits held for others</td>
<td>2,376,357</td>
<td>2,936,340</td>
</tr>
<tr>
<td>Post-retirement benefit obligation</td>
<td>70,038,828</td>
<td>52,630,278</td>
</tr>
<tr>
<td>Due to broker for securities purchased</td>
<td>18,229,505</td>
<td>33,973,601</td>
</tr>
<tr>
<td>Long-term debt, net of current portion</td>
<td>10,977,670</td>
<td>14,332,046</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>914,305</td>
<td>511,171</td>
</tr>
<tr>
<td><strong>Total non-current liabilities</strong></td>
<td>102,536,665</td>
<td>104,383,436</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>384,646,907</td>
<td>319,248,927</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unrestricted</td>
<td>103,960,097</td>
<td>102,514,832</td>
</tr>
<tr>
<td><strong>Total liabilities and net assets</strong></td>
<td>$488,607,004</td>
<td>$421,763,759</td>
</tr>
</tbody>
</table>
## Statements of Activities

For the Years Ended, June 30, 2004 and 2003

<table>
<thead>
<tr>
<th>Description</th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenues</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grants and gifts awarded for research and other sponsored activities</td>
<td>$722,913,102</td>
<td>$633,969,453</td>
</tr>
<tr>
<td>Investment income</td>
<td>6,764,437</td>
<td>8,246,376</td>
</tr>
<tr>
<td>Inventions and licenses income</td>
<td>14,491,096</td>
<td>11,662,197</td>
</tr>
<tr>
<td>Total revenues</td>
<td>744,168,635</td>
<td>653,878,026</td>
</tr>
<tr>
<td><strong>Expenses</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sponsored programs</td>
<td>599,426,445</td>
<td>524,914,218</td>
</tr>
<tr>
<td>Administration and support</td>
<td>143,296,925</td>
<td>132,807,216</td>
</tr>
<tr>
<td>Total expenses</td>
<td>742,723,370</td>
<td>657,721,434</td>
</tr>
<tr>
<td>Net increase (decrease) in net assets</td>
<td>1,445,265</td>
<td>(3,843,408)</td>
</tr>
<tr>
<td>Net assets at beginning of year</td>
<td>102,514,832</td>
<td>106,358,240</td>
</tr>
<tr>
<td>Net assets at end of year</td>
<td>$103,960,097</td>
<td>$102,514,832</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of the Financial Statements.
### Statements of Cash Flows

For the Years Ended, June 30, 2004 and 2003

#### Cash flows from operating activities

<table>
<thead>
<tr>
<th>Description</th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal grants and contracts</td>
<td>$ 515,443,492</td>
<td>$ 507,480,654</td>
</tr>
<tr>
<td>State and local grants and contracts</td>
<td>110,365,510</td>
<td>127,351,286</td>
</tr>
<tr>
<td>Private gifts and grants</td>
<td>103,888,967</td>
<td>85,881,411</td>
</tr>
<tr>
<td>Other receipts</td>
<td>115,250,061</td>
<td>115,729,681</td>
</tr>
<tr>
<td>Salaries and wages payments</td>
<td>(322,532,751)</td>
<td>(308,680,558)</td>
</tr>
<tr>
<td>Employee benefits payments</td>
<td>(88,314,610)</td>
<td>(81,815,745)</td>
</tr>
<tr>
<td>Payments to suppliers/vendors</td>
<td>(387,995,966)</td>
<td>(378,360,784)</td>
</tr>
<tr>
<td>Operating interest, dividends and investment gains</td>
<td>4,067,785</td>
<td>1,967,089</td>
</tr>
<tr>
<td>Interest payments on capital debt/notes</td>
<td>(311,059)</td>
<td>(567,980)</td>
</tr>
<tr>
<td>Other payments</td>
<td>(16,542,780)</td>
<td>(12,338,413)</td>
</tr>
<tr>
<td><strong>Net cash provided by operating activities</strong></td>
<td><strong>33,318,649</strong></td>
<td><strong>56,646,641</strong></td>
</tr>
</tbody>
</table>

#### Cash flows from financing activities

<table>
<thead>
<tr>
<th>Description</th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash overdraft</td>
<td>2,037,562</td>
<td>5,343,747</td>
</tr>
<tr>
<td>Proceeds from capital debt/notes</td>
<td>—</td>
<td>7,806,080</td>
</tr>
<tr>
<td>Principal payments on capital debt/notes</td>
<td>(3,272,944)</td>
<td>(10,096,110)</td>
</tr>
<tr>
<td>Proceeds from line of credit</td>
<td>234,082,704</td>
<td>81,389,892</td>
</tr>
<tr>
<td>Payments on line of credit</td>
<td>(214,082,704)</td>
<td>(80,366,052)</td>
</tr>
<tr>
<td><strong>Net cash provided by financing activities</strong></td>
<td><strong>18,764,618</strong></td>
<td><strong>4,077,557</strong></td>
</tr>
</tbody>
</table>

#### Cash flows from investing activities

<table>
<thead>
<tr>
<th>Description</th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Restricted cash and cash equivalents</td>
<td>—</td>
<td>1,615,820</td>
</tr>
<tr>
<td>Proceeds from sales of investments</td>
<td>691,820,599</td>
<td>708,915,168</td>
</tr>
<tr>
<td>Purchases of investments</td>
<td>(741,374,556)</td>
<td>(762,313,561)</td>
</tr>
<tr>
<td>Cash paid for purchases of fixed assets</td>
<td>(2,799,698)</td>
<td>(8,529,736)</td>
</tr>
<tr>
<td><strong>Net cash used in investing activities</strong></td>
<td><strong>(52,353,655)</strong></td>
<td><strong>(60,312,309)</strong></td>
</tr>
<tr>
<td>Net (decrease) increase in cash and cash equivalents</td>
<td>(270,388)</td>
<td>411,889</td>
</tr>
<tr>
<td>Cash and cash equivalents, beginning of year</td>
<td>1,568,049</td>
<td>1,156,160</td>
</tr>
<tr>
<td><strong>Cash and cash equivalents, end of year</strong></td>
<td><strong>$ 1,297,661</strong></td>
<td><strong>$ 1,568,049</strong></td>
</tr>
</tbody>
</table>

#### Reconciliation of change in net assets to net cash provided by operating activities

<table>
<thead>
<tr>
<th>Description</th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change in net assets</td>
<td>$ 1,445,265</td>
<td>$(3,843,408)</td>
</tr>
<tr>
<td>Adjustments to reconcile change in net assets to net cash provided by operating activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Realized and unrealized gain on investments</td>
<td>(897,174)</td>
<td>(2,890,341)</td>
</tr>
<tr>
<td>Depreciation</td>
<td>8,342,093</td>
<td>7,734,426</td>
</tr>
<tr>
<td>Loss on disposal of fixed assets</td>
<td>333,342</td>
<td>486,031</td>
</tr>
<tr>
<td>Bad debt (recovery) expense</td>
<td>(1,000,000)</td>
<td>2,000,000</td>
</tr>
<tr>
<td>Change in assets and liabilities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts receivable and other assets</td>
<td>(30,811,968)</td>
<td>(1,725,938)</td>
</tr>
<tr>
<td>Accrued investment income</td>
<td>(200,686)</td>
<td>(151,890)</td>
</tr>
<tr>
<td>Accounts payable and accrued expenses, net of cash overdraft</td>
<td>6,508,978</td>
<td>3,422,881</td>
</tr>
<tr>
<td>Other accruals and other liabilities</td>
<td>2,920,891</td>
<td>2,322,822</td>
</tr>
<tr>
<td>Deferred revenue</td>
<td>38,983,225</td>
<td>45,623,207</td>
</tr>
<tr>
<td>Deposits held for and advances to others</td>
<td>(10,574,467)</td>
<td>(4,151,774)</td>
</tr>
<tr>
<td>Post-retirement benefit obligation</td>
<td>18,269,150</td>
<td>7,820,625</td>
</tr>
<tr>
<td><strong>Net cash provided by operating activities</strong></td>
<td><strong>$ 33,318,649</strong></td>
<td><strong>$ 56,646,641</strong></td>
</tr>
</tbody>
</table>

#### Non-cash activity

<table>
<thead>
<tr>
<th>Description</th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital lease obligation</td>
<td>$ —</td>
<td>$ 1,615,820</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of the Financial Statements.
Notes to Financial Statements

NOTE A

Organization
The Research Foundation of State University of New York (the “Foundation”) is a private, non-profit, educational corporation chartered by the Board of Regents of the State of New York to further the educational purposes of the State University of New York (SUNY). The Foundation is tax-exempt under Internal Revenue Service Code Section 501(c)(3). The Foundation is primarily responsible for the fiscal administration of grants, contracts and gifts supporting research, training, public service and related programs carried out by, or under the supervision of, faculty or staff members of the State-operated campuses of SUNY.

The Foundation also acts as fiscal agent in the receipt and distribution of specific funds that have been awarded to SUNY by outside organizations. The respective campuses of SUNY are responsible for general administration of these programs.

The services provided by the Foundation do not extend to program review and evaluation or consideration of the technical merits of sponsored programs.

NOTE B

Summary of significant accounting policies

(a) Basis of presentation
The financial statements of the Foundation have been prepared on the accrual basis of accounting.

(b) Use of estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make significant estimates and assumptions that affect the reported amount of net assets and disclosures of contingent assets and liabilities as of the date of the financial statements and the reported amounts of change in net assets during the reporting period. Actual results could differ from those estimates.

(c) Revenue recognition
Substantially all of the Foundation’s revenues are exchange transactions derived from restricted grants and cost reimbursement contracts that provide for the recovery of direct and indirect costs, subject to audit. In the opinion of management no material adjustments are expected as a result of such audits. Grants and contracts awarded for research and other sponsored activities are recognized only to the extent of direct costs incurred or when such costs are eligible for reimbursement. Amounts received in excess of expenses are recorded as deferred revenues. The Foundation funds its operations primarily from recoveries of indirect costs provided from grants and contracts. Such recoveries are recorded in the year in which the direct costs are incurred or when such costs are eligible for reimbursement.

(d) Investments
Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value based upon quoted market prices. Purchases and sales of securities are recorded on a trade-date basis. Dividend income is recorded on the ex-dividend date. Interest income is recorded on the accrual basis.

The captions “Due from broker for securities sold” and “Due to broker for securities purchased” represent investment trade activity that took place prior to year end but had not been settled by year end. Net appreciation (depreciation) in the fair value of investments, which consists of the realized gains or losses and unrealized appreciation (depreciation), is reported in the statement of activities. The average cost of securities sold is used to determine the basis for computing realized gains or losses.

The Foundation does not require its investments to be collateralized. To minimize potential losses, the Foundation maintains a diversified investment portfolio and, with respect to debt instruments, has a policy of investing in primarily high quality securities with a minimum rating of BBB or equivalent. The portfolio maintains an average investment grade of AA. Investments are held with the investment custodian in the Foundation’s name.

(e) Fixed assets
Fixed assets are stated at cost, net of accumulated depreciation, and are depreciated on a straight-line basis over the estimated useful life of the assets. Estimated useful life (in years) of the Foundation’s fixed assets is as follows:

- Equipment and information system 5
- Office furniture 7
- Building 50

Upon sale or retirement of fixed assets, the cost and the related accumulated depreciation are removed from the accounts and the resulting gain or loss is recorded. Depreciation expense for the years ended June 30, 2004 and 2003 was $8,342,093 and $7,734,426, respectively. Generally, title to equipment purchased using sponsored funds is retained by the grantor institution until such time as final disposition is determined. Accordingly, purchases of equipment charged to the respective grant or contract are not capitalized.

(f) Accrued vacation
Foundation employees are granted vacation and sick leave in varying amounts. In the event of termination an employee is reimbursed for accumulated vacation up to a maximum of thirty days. Employees are not reimbursed for accumulated sick leave at termination.

(g) Cash equivalents
Cash equivalents include short-term, highly liquid investments with a maturity of three months or less at the time of purchase.
Notes to Financial Statements

Cash and cash equivalents representing assets of the long-term investment portfolio are classified as long-term investments.

(h) Reclassifications
Certain 2003 amounts have been reclassified to conform with the 2004 classified balance sheet presentation.

(i) Other information
Accounts receivable as of June 30, 2004 and 2003 are reported net of an allowance for doubtful accounts of $8,000,000 and $9,000,000, respectively.

Advances to others and deposits held for others represent amounts related to agency activity at the campus locations.

The Foundation has been awarded approximately $863,192,000 and $767,683,000 of grants and contracts that have not been advanced or expended as of June 30, 2004 and 2003, respectively, and accordingly, such amounts have not been recorded in the financial statements.

The Foundation maintains a Deferred Compensation Plan established in accordance with Section 457(b) of the Internal Revenue Code. Plan funds are a part of the general assets of the Foundation and are subject to claims of creditors of the Foundation.

The net assets of the Foundationprimarily represent funds specified for development activity at the campuses as outlined in the Foundation's Board-approved financial plan.

NOTE C

Affiliated organizations
The Foundation has established twelve affiliated organizations to facilitate university-industry-government partnerships and accelerate the growth of sponsored program and applied research opportunities at SUNY. This is sometimes done in cooperation with campus based or related organizations. These entities limit liability to the Research Foundation and SUNY and often are able to meet the needs of SUNY and/or SUNY campuses that cannot be easily accomplished through existing structures. The Foundation does not have a financial interest in nor is it contingently liable to these affiliated organizations. The affiliated organizations are as follows:

(a) Binghamton Technologies Corporation (BTC)
BTC is a private, not-for-profit corporation formed by the Research Foundation to construct a high technology facility at the eastern edge of the Binghamton University campus to assist in the economic development of the region. The Innovative Technologies Complex will house a new Bioengineering Department, the Center for Protein Dynamics, technology incubators for biotech and advanced sensor design companies, research laboratories, and Binghamton University's Division of Research, which oversees technology transfer and economic outreach. It will also serve as a magnet for faculty and graduate students and an engine for new ideas and businesses.

(b) Broad Hollow Bioscience Park, Inc.
Broad Hollow Bioscience Park, Inc. is a not-for-profit corporation formed by the Research Foundation and Cold Spring Harbor Laboratory to establish a high technology incubator facility on the Farmingdale State campus. Its purpose is to assist in the economic development of the region by attracting public and private funds to further research and biotechnology development, by facilitating the transfer of biotechnology resources to the marketplace and by creating jobs.

(c) Brookhaven Science Associates
In a national competition against the country's leading research universities, the U.S. Department of Energy in 1997 selected Brookhaven Science Associates, LLC (BSA) to operate the world-famous Brookhaven National Laboratory (BNL) — a $2 billion contract. Formed as a limited liability company by Battelle Memorial Institute (BMI) and the Research Foundation on behalf of the Stony Brook University, BSA is the legal entity responsible for leading BNL successfully through the 21st century. In accordance with the LLC agreement, member profits and losses are allocated 50% each to Battelle and the Foundation. During 1998, Battelle and the Foundation each made an initial capital contribution of $125,000 each.

The total assets of BSA as of September 30, 2003 and 2002 are $10,804,757 and $8,913,207, respectively. Total revenue for the years ended September 30, 2003 and 2002 are $6,706,548 and $6,884,950, respectively. Total expenses for the years ended September 30, 2003 and 2002 are $2,811,968 and $2,620,006, respectively. The Foundation records its share of the net earnings of BSA from BSA's most recent completed fiscal year. The Foundation records distributions received as a reduction of the investment balance.

(d) Calspan-UB Research Center, Inc. (CUBRC)
Calspan-UB Research Center, Inc. (CUBRC) is a strategic partnership whose mission is to bring together scientists, engineers and resources from academia and industry to provide the synergy to expand the research capabilities of all and to provide significant growth opportunities in Western New York. Founded by Calspan Corporation, now General Dynamics, Inc., and The Research Foundation, acting on behalf of the University at Buffalo, CUBRC was incorporated in New York State in 1983 as an independent, not-for-profit, multidisciplinary research center. By making available the resources of both UB and General Dynamics, CUBRC competes for research programs that would not be available to UB or General Dynamics separately.

(e) Downstate Technology Center, Inc.
Downstate Technology Center, Inc. is a private, not-for-profit corporation formed by the Health Science Center at Brooklyn Foundation, Inc. and the Research Foundation to provide a vehicle for the construction of an advanced biotechnology
research park adjacent to the Downstate Medical Center to advance medical research, provide incubator space and assist in the economic development of the Borough of Brooklyn.

(f) Fuller Road Management Corporation (FRMC)
Fuller Road Management Corporation (FRMC), a private, not-for-profit corporation, is a partnership between the Research Foundation and the University at Albany Foundation, Inc. to provide a vehicle for the construction of comprehensive research facilities that support a high-tech business incubator, workforce development, research and development and technology acceleration. On July 2, 2002, the Foundation guaranteed a loan in the amount of $8,966,000 on behalf of FRMC. The outstanding balance of this loan at June 30, 2004 is $8,803,067. As the assets of FRMC would not be distributed to the Foundation in the event of liquidation, and the Foundation is not receiving distributions, no equity investment has been recorded.

(g) Griffiss Institute Inc.
The Griffiss Institute Inc. is a private, not-for-profit corporation formed by the Research Foundation in partnership with Mohawk Valley EDGE, Inc., Syracuse University, Polytechnic University and Utica College to establish a research facility at the Griffiss Business and Technology Park in Rome, New York. The mission of the Institute is to advance the study of the security and vulnerability of public and private information systems and infrastructure in the United States. The Institute will focus on ensuring the security of information systems, developing a workforce of information security professionals, and creating a locale for information assurance services and products.

(h) Long Island High Technology Incubator (LIHTI)
The Long Island High Technology Incubator (LIHTI), a private, not-for-profit corporation incorporated in 1989, is a partnership between the Research Foundation and the Stony Brook Foundation, Inc. LIHTI’s mission is to target the development of new high technology companies in a limited number of overlapping technology growth areas including biotechnology, environmental technologies, electronics, information technologies and new materials technologies.

(i) NanoTech Resources, Inc.
NanoTech Resources, Inc. is a private, not-for-profit corporation formed by the Research Foundation to support high technology development and deployment throughout New York State by coordinating nanotechnology research and education programs within the State University of New York. As the lead entity on behalf of SUNY for its strategic involvement in nanotechnology efforts, NanoTech Resources, Inc. is responsible for assisting in implementing university-industry and corporate partnerships, securing external funding from public and private sources, facilitating donations and organizing fundraising activities, and coordinating resources and capabilities within the SUNY system and with other higher education and research institutions in New York and across the U.S.

(j) New York Maritime College Sailing Foundation, Inc. (NYMCSF)
New York Maritime College Sailing Foundation, Inc. (NYMCSF) is a private, not-for-profit corporation formed by the Research Foundation to serve as the funding and supportive body in support of sailing programs at the State University of New York Maritime College. The goal of NYMCSF is to advance the college’s mission through the enhancement of the faculty, student and staff for the benefit of midshipmen and to facilitate the program’s short and long-term excellence through donations of funds, equipment or boats.

(k) Purchase College Advancement Corporation
Purchase College Advancement Corporation is a private, not-for-profit corporation formed by the Research Foundation on behalf of the State University College at Purchase to develop a retirement community, faculty and staff housing and a hotel/conference center on the grounds of the State University at Purchase to further the objectives and purposes of the State University of New York.

(l) State Street Management Inc. (SSMI)
SSMI is a not-for-profit realty holding corporation, incorporated in 1990, to purchase and hold real estate for the benefit of the Nelson A. Rockefeller Institute of Government.

NOTE D
Investments
Investments by type, exclusive of investments designated for the post-retirement benefit obligation, consist of the following as of June 30:

<table>
<thead>
<tr>
<th>Investment Type</th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash equivalents</td>
<td>$91,049,607</td>
<td>$59,727,382</td>
</tr>
<tr>
<td>U.S. Government Securities</td>
<td>83,832,058</td>
<td>69,360,065</td>
</tr>
<tr>
<td>Mortgage/asset-backed securities</td>
<td>5,126,551</td>
<td>14,998,890</td>
</tr>
<tr>
<td>Corporate debt securities</td>
<td>13,322,823</td>
<td>17,314,455</td>
</tr>
<tr>
<td>Common stocks</td>
<td>28,819,423</td>
<td>28,440,130</td>
</tr>
<tr>
<td>Investment in equity partnership</td>
<td>730,925</td>
<td>365,235</td>
</tr>
<tr>
<td>Other</td>
<td>8,055,831</td>
<td>2,048,940</td>
</tr>
<tr>
<td>Total</td>
<td>$230,937,218</td>
<td>$192,255,097</td>
</tr>
</tbody>
</table>

For the years ended June 30, 2004 and June 30, 2003, investments classified as long term are $95,382,574 and $121,067,672, respectively; investments classified as short term are $135,554,644 and $71,187,425, respectively, exclusive of investments designated for the post-retirement benefit obligation.
Notes to Financial Statements

The following is the composition of investment income in the financial statements:

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividends and interest</td>
<td>$3,919,973</td>
<td>$3,223,563</td>
</tr>
<tr>
<td>Realized and unrealized gains, net</td>
<td>897,174</td>
<td>2,890,341</td>
</tr>
<tr>
<td>Income from investment in equity partnership</td>
<td>1,947,290</td>
<td>2,132,472</td>
</tr>
<tr>
<td><strong>Total return on investments</strong></td>
<td><strong>$6,764,437</strong></td>
<td><strong>$8,246,376</strong></td>
</tr>
</tbody>
</table>

The Board of Directors has designated certain investments in common stocks for the purpose of funding post-retirement benefit obligations. These investments are separately disclosed on the balance sheet, and amounted to $43,436,828 and $40,615,260 at June 30, 2004 and 2003, respectively.

**NOTE E**

**Fixed assets**

Fixed assets consist of the following at June 30:

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Building</td>
<td>$6,500,000</td>
<td>$6,500,000</td>
</tr>
<tr>
<td>Office furniture and equipment</td>
<td>42,434,045</td>
<td>41,232,920</td>
</tr>
<tr>
<td>Information systems</td>
<td>23,690,231</td>
<td>23,457,110</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>72,624,276</strong></td>
<td><strong>71,190,030</strong></td>
</tr>
<tr>
<td>Less: accumulated depreciation</td>
<td>(43,681,542)</td>
<td>(36,371,559)</td>
</tr>
<tr>
<td>Fixed assets, net</td>
<td><strong>$28,942,734</strong></td>
<td><strong>$34,818,471</strong></td>
</tr>
</tbody>
</table>

**NOTE F**

**Post-retirement benefit obligation**

The Foundation sponsors a defined benefit plan that covers substantially all employees. The plan provides post-retirement medical benefits and is contributory for employees hired after 1985. Retirees who were employed after 1985 are subject to the same cost sharing requirements as active employees. Annual allocations are made by management pursuant to a funding policy established by the Board of Directors. The assets are held in an unrestricted investment account designated by the Board of Directors. The following table sets forth the plan’s funded status reconciled with the amount shown in the Foundation’s financial statements at June 30:

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Change in benefit obligation</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Benefit obligation at beginning of year</td>
<td>$131,055,678</td>
<td>$86,271,053</td>
</tr>
<tr>
<td>Service cost</td>
<td>5,960,000</td>
<td>4,586,000</td>
</tr>
<tr>
<td>Interest cost</td>
<td>8,169,000</td>
<td>7,123,000</td>
</tr>
<tr>
<td>Plan participant’s contributions</td>
<td>61,000</td>
<td>37,625</td>
</tr>
<tr>
<td>Actuarial (gain) loss</td>
<td>(5,259,000)</td>
<td>36,103,000</td>
</tr>
<tr>
<td>Benefits paid</td>
<td>(3,567,000)</td>
<td>(3,065,000)</td>
</tr>
<tr>
<td>Benefit obligation at the end of the year</td>
<td>$136,419,678</td>
<td>$131,055,678</td>
</tr>
<tr>
<td>Benefit obligation at the end of the year</td>
<td>$(136,419,678)</td>
<td>$(131,055,678)</td>
</tr>
<tr>
<td>Unrecognized actuarial loss</td>
<td>59,165,000</td>
<td>71,516,000</td>
</tr>
<tr>
<td>Unrecognized transition cost</td>
<td>3,327,850</td>
<td>3,882,000</td>
</tr>
<tr>
<td>Accrued benefit cost</td>
<td>$(73,926,828)</td>
<td>$(55,657,678)</td>
</tr>
</tbody>
</table>

**Weighted-average assumptions as of June 30**

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount rate</td>
<td>6.25%</td>
<td>6%</td>
</tr>
<tr>
<td>Expected return on plan assets</td>
<td>8%</td>
<td>8%</td>
</tr>
</tbody>
</table>

**Components of net periodic benefit cost**

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service cost</td>
<td>$5,960,000</td>
<td>$4,586,207</td>
</tr>
<tr>
<td>Interest cost</td>
<td>8,169,000</td>
<td>7,123,000</td>
</tr>
<tr>
<td>Expected return on plan assets</td>
<td>(3,354,000)</td>
<td>(3,444,000)</td>
</tr>
<tr>
<td>Amortization of transition obligation</td>
<td>555,000</td>
<td>555,000</td>
</tr>
<tr>
<td>Net amortization and deferral</td>
<td>5,124,000</td>
<td>3,116,000</td>
</tr>
<tr>
<td><strong>Net periodic benefit cost</strong></td>
<td><strong>$16,454,000</strong></td>
<td><strong>$12,036,207</strong></td>
</tr>
</tbody>
</table>

**Estimated future benefit payments (net of retiree contributions)**

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>First year</td>
<td>$3,888,000</td>
<td></td>
</tr>
<tr>
<td>Second year</td>
<td>4,384,000</td>
<td></td>
</tr>
<tr>
<td>Third year</td>
<td>4,925,000</td>
<td></td>
</tr>
<tr>
<td>Fourth year</td>
<td>5,582,000</td>
<td></td>
</tr>
<tr>
<td>Fifth year</td>
<td>6,183,000</td>
<td></td>
</tr>
<tr>
<td>Next five years</td>
<td>42,150,000</td>
<td></td>
</tr>
</tbody>
</table>

For measurement purposes, annual rates of increase in the per capita cost of covered health care benefits of 11.5% for both the indemnity plan and for the health maintenance organization (HMO) plan were assumed for 2004. The rate for both plans was assumed to decrease gradually to 5% through 2013 and remain at that level thereafter. The Foundation recorded an expense of $20,782,000 and $9,708,000 in 2004 and 2003, respectively, to recognize the unrecoverable amount of the unfunded plan obligation.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans.
A one-percentage-point change in assumed health care cost trend rates would have the following effects:

<table>
<thead>
<tr>
<th>Effect on total of service and interest cost components</th>
<th>1-Percentage Point Increase</th>
<th>1-Percentage Point Decrease</th>
</tr>
</thead>
<tbody>
<tr>
<td>Effect on post-retirement benefit obligation</td>
<td>$23,807,000</td>
<td>$(19,268,000)</td>
</tr>
</tbody>
</table>

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the “Act”) was reflected on December 8, 2003 assuming that the Foundation will continue to provide a prescription drug benefit to retirees in the preferred provider organization (PPO) plan that is at least actuarially equivalent to Medicare Part D and that the Foundation will receive the federal subsidy. Based on the design of the HMO plans, it is assumed that there will be no savings to the Foundation as a result of the Act.

As a result of reflecting the effects of the Act as of December 8, 2003, the liabilities were remeasured at that date with a discount rate of 6.25%. The accumulated post-retirement benefit obligation (APBO) at December 8, 2003 decreased by $5,436,000 from $143,187,000 to $137,751,000 due to the change in discount rate. The APBO at December 8, 2003 decreased by $7,143,000 from $137,751,000 to $130,608,000 due to the effect of the Act. The net periodic post-retirement benefit cost (NPPBC) decreased by $740,000 from $17,194,000 to $16,454,000. The effect of the subsidy by NPPBC component is shown below:

<table>
<thead>
<tr>
<th>Effect of Remeasurement</th>
<th>Effect of Subsidy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service cost</td>
<td>$(367,000)</td>
</tr>
<tr>
<td>Interest cost</td>
<td>223,000</td>
</tr>
<tr>
<td>Expected return on plan assets</td>
<td>(105,000)</td>
</tr>
<tr>
<td>Amortization of transition obligation</td>
<td>—</td>
</tr>
<tr>
<td>Amortization of prior service cost</td>
<td>—</td>
</tr>
<tr>
<td>Net amortization and deferral of actuarial (gain) loss</td>
<td>(451,000)</td>
</tr>
<tr>
<td>Net periodic post-retirement benefit cost</td>
<td>$(700,000)</td>
</tr>
</tbody>
</table>

The estimated gross amount of subsidy receipts includes:

- First year: $(0)
- Second year: (102,000)
- Third year: (230,000)
- Fourth year: (261,000)
- Fifth year: (298,000)
- Next five years: (2,158,000)

### Investment Policies and Strategies

The plan's primary investment goal is to achieve the expected required return, consistent with prudent investment management. The plan's asset allocation is structured to meet a long-term targeted total return. Borrowing from the diversification techniques developed under Modern Portfolio Theory, the plan's assets are invested so that total portfolio risk exposure and risk-adjusted returns meet the plan's long-term total return goal.

The Foundation's investment managers exercise full investment discretion within guidelines outlined in the Foundation's Investment Policy. The investment managers are charged with the responsibility of managing the assets with the care, skill, prudence and diligence that a prudent investment professional in similar circumstances would exercise.

The individual investment managers are provided specific investment guidelines under which they are to invest their assets. In general, investment managers are expected to remain fully invested. Equity and fixed income managers are expected to invest, through best execution, in assets that they deem to be prudent investments.

The Foundation’s Investment Policy prohibits the use of derivatives for purposes of leverage or unrelated speculation. The Policy also outlines certain securities, strategies and investments that are ineligible for inclusion within the plan.

### Basis Used to Determine the Overall Expected Long-Term Rate-of-Return-on-Assets Assumption

The Foundation works with a consultant to develop the long-term rate of return assumptions used to model and determine the overall asset allocation. The consultant’s asset allocation committee is responsible for determining the asset class assumptions. Forecast returns are based on a combination of historical returns, current market conditions and their forecast for the capital markets over the next 5-7 years. The consultant analyzes the historic trends of asset class index returns since inception of the asset class over various market cycles and economic conditions. Approximately 75% of the return assumption is based on historical information and 25% is based on current or forward-looking information. All asset class assumptions are within certain bands around the long-term historical averages. Adjustments to historical returns are based on a number of factors including, but not limited to, current market valuations, yield, inflation and various economic indicators.

The plan’s asset allocation in the table below is expected to meet the plan’s expected return.

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Target</th>
<th>Permissible Ranges</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Equities</strong></td>
<td>58%</td>
<td>48-68%</td>
</tr>
<tr>
<td>Large Cap Growth</td>
<td>19</td>
<td></td>
</tr>
<tr>
<td>Large Cap Core</td>
<td>19</td>
<td></td>
</tr>
<tr>
<td>Small Cap Core</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>International</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td><strong>Fixed Income</strong></td>
<td>42%</td>
<td>32-52%</td>
</tr>
<tr>
<td>Large Term FI</td>
<td>32</td>
<td></td>
</tr>
<tr>
<td>High Yield FI</td>
<td>10</td>
<td></td>
</tr>
</tbody>
</table>
Notes to Financial Statements

NOTE G
Retirement plans
The Foundation maintains a non-contributory defined contribution retirement plan for substantially all employees. Contributions are based on a percentage of regular salary and range from 8% to 15%. Employees become fully vested in contributions made by the Foundation after the completion of five years of service. Contributions are allocated to individual employee accounts. Vested participants have the option of having contributions to their accounts deposited in either the Teachers Insurance and Annuity Association (TIAA), which is similar to a fixed income account, or in the College Retirement Equities Fund (CREF), a common stock fund. Pension expense was approximately $22,169,000 and $20,490,000 for the years ended June 30, 2004 and 2003, respectively.

NOTE H
Long-term debt
The Foundation entered into an agreement during fiscal 2002 with the City of Albany Industrial Development Agency (IDA) whereby the IDA issued both a taxable and a tax exempt series of bonds for the purpose of providing funds to acquire a parcel of real estate together with the existing building thereon. The Foundation occupies and conducts most of its Central Office operations from this location. For the year ended June 30, 2004, the long term debt associated with these bond issuances is as follows: The tax exempt bond issuance totaled $5,600,000 with maturity in 2032. The interest rate of 1.16% at June 30, 2004, is applicable through July 1, 2004. The taxable bond issuance totaled $900,000 with maturity in 2009. The interest rate is 1.44% at June 30, 2004, and is also applicable through July 1, 2004. Thereafter, the bonds will bear interest at variable rates as established by First Albany Corporation, as remarketing agent. The adjustable rate for the tax exempt bonds will not exceed 12% per annum and the adjustable rate for the taxable bonds will not exceed 15% per annum.

In fiscal 1999, the Foundation entered into a tax-exempt leasing program through the City of Albany Industrial Development Agency to finance development of a new information system. The borrowing totaled $16,300,000 and was collateralized by the associated equipment. During fiscal 2003, the Foundation refinanced the amount outstanding on this borrowing. The amount refinanced, including additional costs associated with the refinancing, was $7,806,080. The refinanced amount is at an effective annual rate of 2.67% and all other terms and conditions of the original tax-exempt lease remain the same. The refinancing will result in interest savings of approximately $113,000.

The Foundation is also contractually obligated per long term lease agreements for capital equipment.

Payments on the debt are due on the first day of each calendar quarter. A summary of the aggregate annual principal amounts of the debt obligation due during each fiscal year is noted below.

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Fiscal 2002 Issuance</th>
<th>Fiscal 2003 Refinancing</th>
<th>Total Issuance/Refinancing</th>
<th>Capital Lease Agreements</th>
<th>Total Debt</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>$2,601,413</td>
<td>$2,601,413</td>
<td>$684,445</td>
<td>3,285,858</td>
<td></td>
</tr>
<tr>
<td>2006</td>
<td>130,000</td>
<td>2,671,543</td>
<td>699,382</td>
<td>3,500,925</td>
<td></td>
</tr>
<tr>
<td>2007</td>
<td>135,000</td>
<td>135,000</td>
<td>714,994</td>
<td>849,994</td>
<td></td>
</tr>
<tr>
<td>2008</td>
<td>145,000</td>
<td>145,000</td>
<td>636,751</td>
<td>781,751</td>
<td></td>
</tr>
<tr>
<td>2009</td>
<td>150,000</td>
<td>150,000</td>
<td>—</td>
<td>150,000</td>
<td></td>
</tr>
<tr>
<td>Thereafter</td>
<td>5,695,000</td>
<td>5,695,000</td>
<td>—</td>
<td>5,695,000</td>
<td></td>
</tr>
</tbody>
</table>

$6,255,000 $5,272,956 $11,527,956 $2,735,572 $14,263,528

Line of credit
The Foundation maintains one revolving line of credit for $30,000,000 of which $30,000,000 was used as of June 30, 2004. The agreement for the revolving line of credit was executed during the year ended June 30, 2002. The lending is at prime rate less 2% and is payable daily based upon the available amount in the Foundation’s overnight investment account. The line of credit was increased from $10,000,000 to $30,000,000 during the year ended June 30, 2004.

NOTE I
University at Buffalo Foundation Services, Inc.
The Foundation has signed an agreement with the University at Buffalo Foundation Services, Inc. (UBFS) to enable UBFS to enter into contracts and accept grants for certain sponsored programs (generally excluding Federal, New York State and Foreign) on behalf of the State University of New York at Buffalo. Under this agreement, UBFS serves as an agent for the Foundation. Activity through UBFS amounted to approximately $3,416,000 and $4,119,000 for the years ended June 30, 2004 and 2003, respectively.

NOTE J
Administration and support
These expenses are funded primarily from revenue received from grants for the reimbursement of Facilities and Administrative (F&A) costs. F&A costs are overhead expenses incurred to support sponsored research and other sponsored programs within the university. Expenses incurred include sponsored program support and development, institutional and departmental support, academic support, maintenance and operations and administrative costs. Unreimbursed post-retirement medical expense, included in administration and support expense, was $20,782,000 and $9,708,000 in 2004 and 2003, respectively (Note F).
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