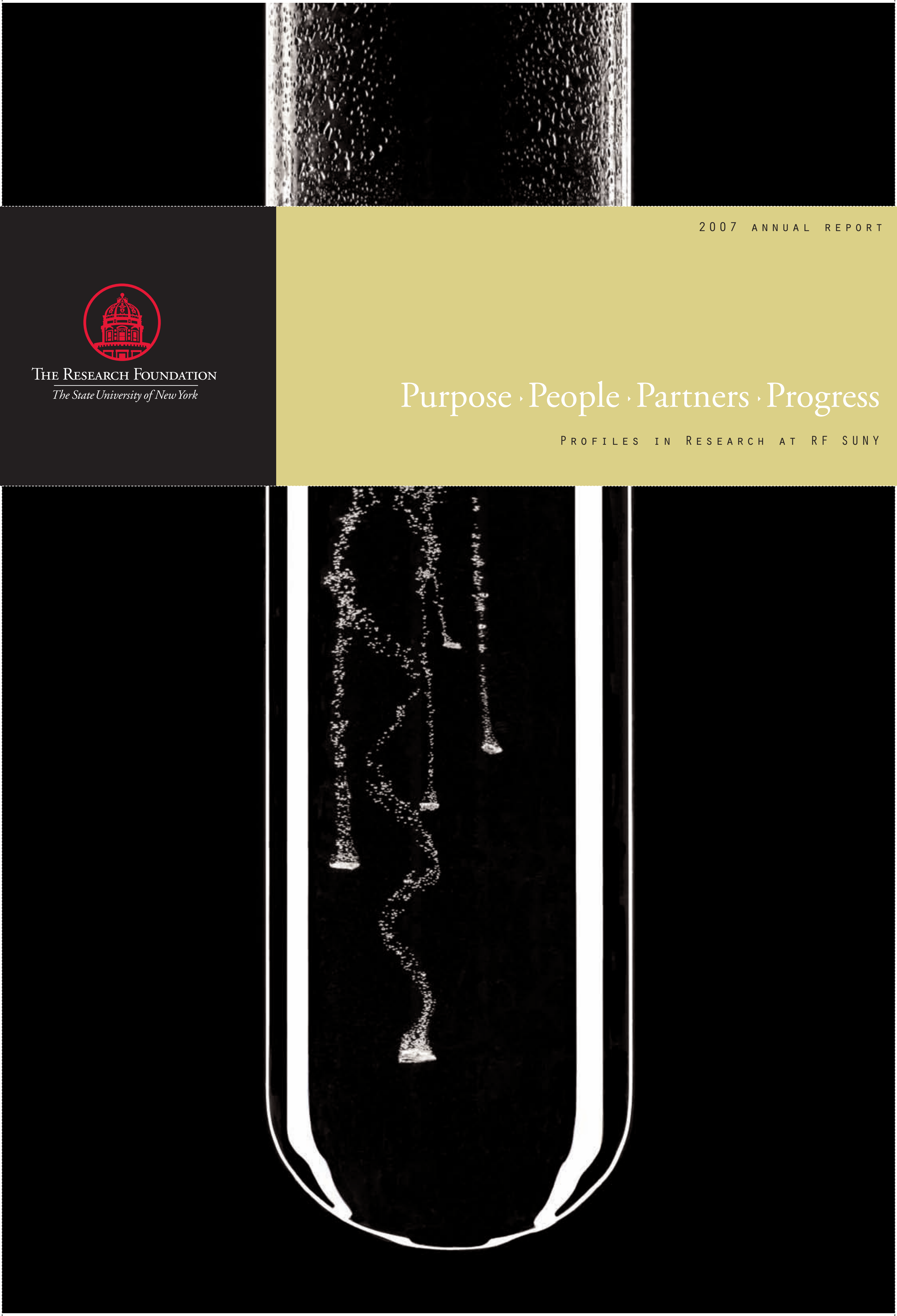


2007 ANNUAL REPORT

The Research Foundation
The State University of New York

Purpose · People · Partners · Progress

PROFILES IN RESEARCH AT RF SUNY

Table of Contents

The Research Foundation (RF) is a private, not for profit educational corporation that supports the advancement of education, research and discovery at the State University of New York (SUNY).

The RF provides SUNY with the following professional programs and services:

SPONSORED PROGRAMS ADMINISTRATION

Sponsored programs are externally funded activities in which a formal written grant, contract, or cooperative agreement is received by the RF. Sponsors - including federal and state governments, corporations and foundations - fund programs to conduct research, training and public service. In fiscal year 2007, the RF managed over $781.9 million in sponsored funding in support of more than 7,400 campus-based programs.

The RF gives SUNY researchers the resources and flexibility they need to pursue their research goals. Sponsored programs operate on very short time frames (usually only one year to complete the project) and require:

- Compliance with federal and state regulations and sponsor terms and conditions
- Prefunding of expenditures prior to sponsor reimbursement
- Flexibility to employ people within the project start and end dates
- Timely purchase of supplies and equipment and reimbursement of travel costs
- Ability to subcontract to third parties to conduct a portion of the program
- Timely billing of sponsors for payment, including drawing down from federal letters of credit
- Timely submission of sponsor-required financial reports.

TECHNOLOGY TRANSFER

Technology transfer is the process of identifying and protecting intellectual property, and marketing and creating partnerships with industry to further research and commercialize discoveries for the public good. In fiscal year 2007, the RF managed 284 new invention disclosures, filed 193 patent applications, executed 45 licensing and option agreements and generated $10.8 million in royalties from licensing SUNY inventions. The RF also received 33 U.S. patents, raising the total number of patents issued to the RF to more than 750.

The RF provides the flexibility and expertise needed to guide inventions through the technology transfer process, which includes:

- Creating targeted marketing programs using trade shows and personal solicitations
- Entering into agreements such as confidentiality agreements, license agreements and option agreements
- Engaging legal expertise needed to navigate through the patent process
- Facilitating payment of the costs involved with patenting an invention.

AFFILIATED CORPORATIONS.

Affiliated corporations help SUNY campuses achieve their education, research and public service missions by addressing a wide range of needs, such as managing the world-famous Brookhaven National Laboratory, providing incubator space for emerging technologies, fostering collaboration and accelerating the growth of research opportunities at SUNY. The RF has 16 affiliated corporations across New York State.

The RF establishes affiliated corporations for a variety of reasons:

- Pursue funding that is not otherwise available to the RF, the University or to its members
- Provide flexibility to manage a program independently
- Maintain campus control, through the corporation's board, over the purposes of the corporation and its mission
- Expand University partnerships and minimize risk.

AGENCY FUND ADMINISTRATION

The RF provides human resources/payroll and purchasing/payables administration services to campus-related organizations such as clinical practice plans (to manage the funds brought in by University clinical faculty at University hospitals, outpatient facilities and affiliated health care facilities) or campus-based foundations (separate organizations that support the fundraising efforts of the campus). Agency expenditures totaled $137.8 million in fiscal year 2007, an increase of $8.1 million over last year.

The RF is working to enhance transparency, simplify processes to further improve efficiency and effectiveness, assure compliance with a widening array of laws, regulations, policies and guidelines, and promote greater collaboration both within and outside the SUNY system.

TRANSPARENCY

The RF is providing timely, reliable and meaningful disclosures about its financial performance and operating processes.

The RF updated its external website www.rfsuny.org to include the following information:

- A profile of sponsored program expenditures by campus and by sponsor
- Report of Independent Auditors on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133 (A-133 reports and certifications)
- Return of Organization Exempt From Income Tax (IRS Form 990)
- Annual Reports, which include the Audited Financial Statements
- The RF's annual budget, known as the Financial Plan

The RF has annual audits of the financial statements and its handling of federal funds (A133 audit) consistently resulting in clean opinions. PricewaterhouseCoopers (PwC) applied SAS 112 criteria, which make standards used for audits of nonprofit organizations more consistent with those in place for audits of public companies, to the RF's fiscal year 2007 A-133 audit.

In addition, two sponsoring agencies, Defense Contract Audit Agency (DCAA) and the Environmental Protection Agency (EPA), performed routine program audits to examine the RF's administrative and financial management of awards. Both audits resulted in clean opinions. No reportable deficiencies or weaknesses were found and no corrective actions were required.

SIMPLICITY

Nationally recognized for providing superior and cost effective services, the RF continues to leverage technology and streamline processes to improve productivity.

- The upgrade of the RF's Oracle Applications to version 11i was implemented on time and under budget. Several improvements have been realized, including increased system availability, reduced nightly processing time, enhanced usability and enhanced security.
- As a result of the Oracle Upgrade project, the RF's Web site is better integrated with the business applications. An important improvement is single sign-on to both the portal and the applications, which facilitates easy access to the information and data needed by principal investigators, campus operations managers, and RF administrators.
- The RF successfully rolled out its electronic process for depositing cash receipts to eight campuses that handle their own deposits. By leveraging technology and consolidating the number of banks, remote deposit will improve efficiency and the effectiveness of the RF's cash deposit process.

COMPLIANCE

The RF has a proven track record of quickly adapting to meet the demands of an increasingly complex and rapidly changing regulatory environment.

- The RF developed an education and communication program to ensure compliance with complex federal laws governing exports and licensed software that screens an array of federal government lists to help campuses assess potential export control situations.
- The RF implemented an Ethics Hotline 800-670-7225 to receive allegations of fraud, waste and abuse. Allegations are referred to Internal Audit and the Office of General Counsel and investigated in accordance with existing policy.
- The RF maintained full compliance with RF policy and federal regulations requiring annual affirmative action plans for campuses having 50 or more employees and contracts of $50,000 or more.
- The RF developed materials to help campuses comply with NYS requirements that contractors provide planned employment information.

COLLABORATION

As a private corporation, the RF is able to build business-government-university partnerships that address a variety of needs across New York State.

- The RF acknowledged the achievements of 30 SUNY professors during the Recognition Dinner Honoring Research & Scholarship held on May 2, 2007.
- The RF showcased 40-plus faculty innovations at the BIO 2007 Annual International Convention as part of a unified effort to develop commercialization opportunities.
- The RF established two affiliated corporations to promote collaboration with business, government and university partners.
- State University of New York China Representative Office was formed to foster and develop new academic and research collaborations between SUNY and Chinese universities.
- The University at Albany Bioscience Development Center (UABDC) was formed to provide facilities to advance the educational and research mission of SUNY and the University at Albany and enhance their ability to attract public and private funds.

Fuller Road Management Corporation (FRMC)

1

LOCATION: University at Albany

TYPE: 501(c) 25 incorporated September 13, 1993

PURPOSE: To provide a vehicle for the construction and maintenance of comprehensive research facilities that support a high-tech business incubator, workforce development, research and development, and technology acceleration.

PARTNERS: The Research Foundation and the University at Albany Foundation, Inc.

Fuller Road Management Corporation is playing a behind the scenes role in the Capital Region's emergence as "Tech Valley" by facilitating the creation and ongoing expansion of the University at Albany College of Nanoscale Science and Engineering's (CNSE) Albany NanoTech complex. FRMC entered into a ground lease for the parcel of land upon which the complex is built, obtained necessary funding, entered into a strategic alliance with International SEMATECH and disbursed grants from government and business partners. The state-of-the-art infrastructure and unparalleled tools and technology at Albany Nanotech create the ideal setting for business incubation, technology acceleration, and prototype testing. Currently, more than 250 U.S. and international organizations access CNSE's laboratories, supercomputer center, scientific centers, and other shared-user facilities.

Mary Graham,
Graduate Research Assistant, College of Nanoscale Science and Engineering

Brookhaven Science Associates

2

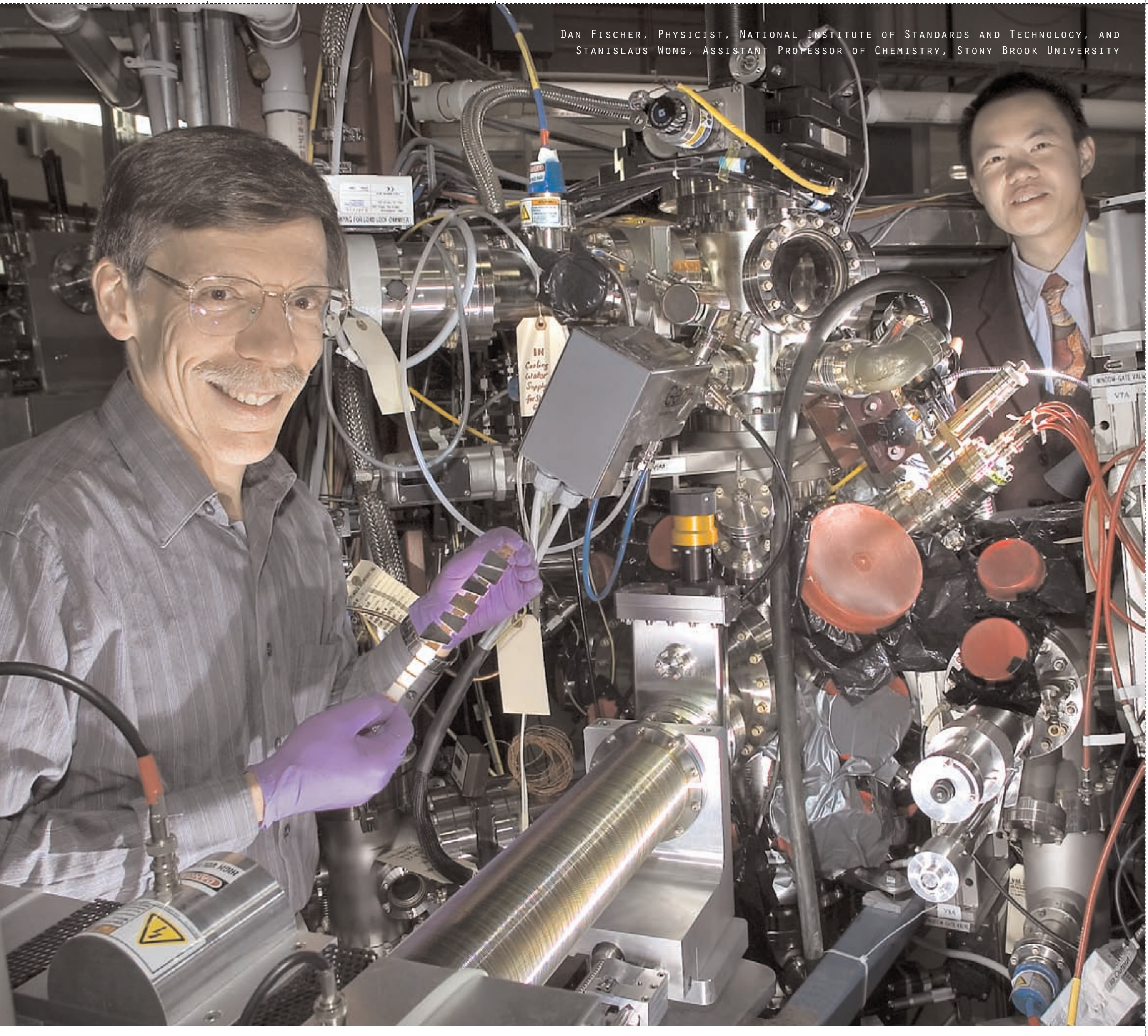
LOCATION: Brookhaven National Laboratory

TYPE: Not-for-profit limited liability company formed October 28, 1997 in Delaware

PURPOSE: To operate Brookhaven National Laboratory – a $2 billion contract from the U.S. Department of Energy

PARTNERS: The Research Foundation on behalf of Stony Brook University, Battelle Memorial Institute

Brookhaven Science Associates (BSA) was formed exclusively to compete for the contract to manage the Department of Energy's (DOE) Brookhaven National Laboratory. Home to world-class research facilities and scientific departments that attract thousands of researchers from around the world, the laboratory continues to produce excellent science with the cooperation, support, and involvement of the scientific and local communities. So far six Nobel Prizes have been awarded for discoveries made at the laboratory. BSA receives an annual management fee from DOE, which is split evenly between the RF and Battelle. The RF uses this fee to directly support the mission of research and development at Stony Brook University, the largest institutional scientific user of the laboratory.



Dan Fischer, Physicist, National Institute of Standards and Technology, and Stanislaus Wong, Assistant Professor of Chemistry, Stony Brook University

Promoting Environmentally Sustainable Economic Development

3

PROJECT: The Center of Excellence in Watershed Applications and Technology-Based Economic Revitalization (COE in WATER)

CAMPUS: SUNY Delhi, SUNY College of Environmental Science and Forestry

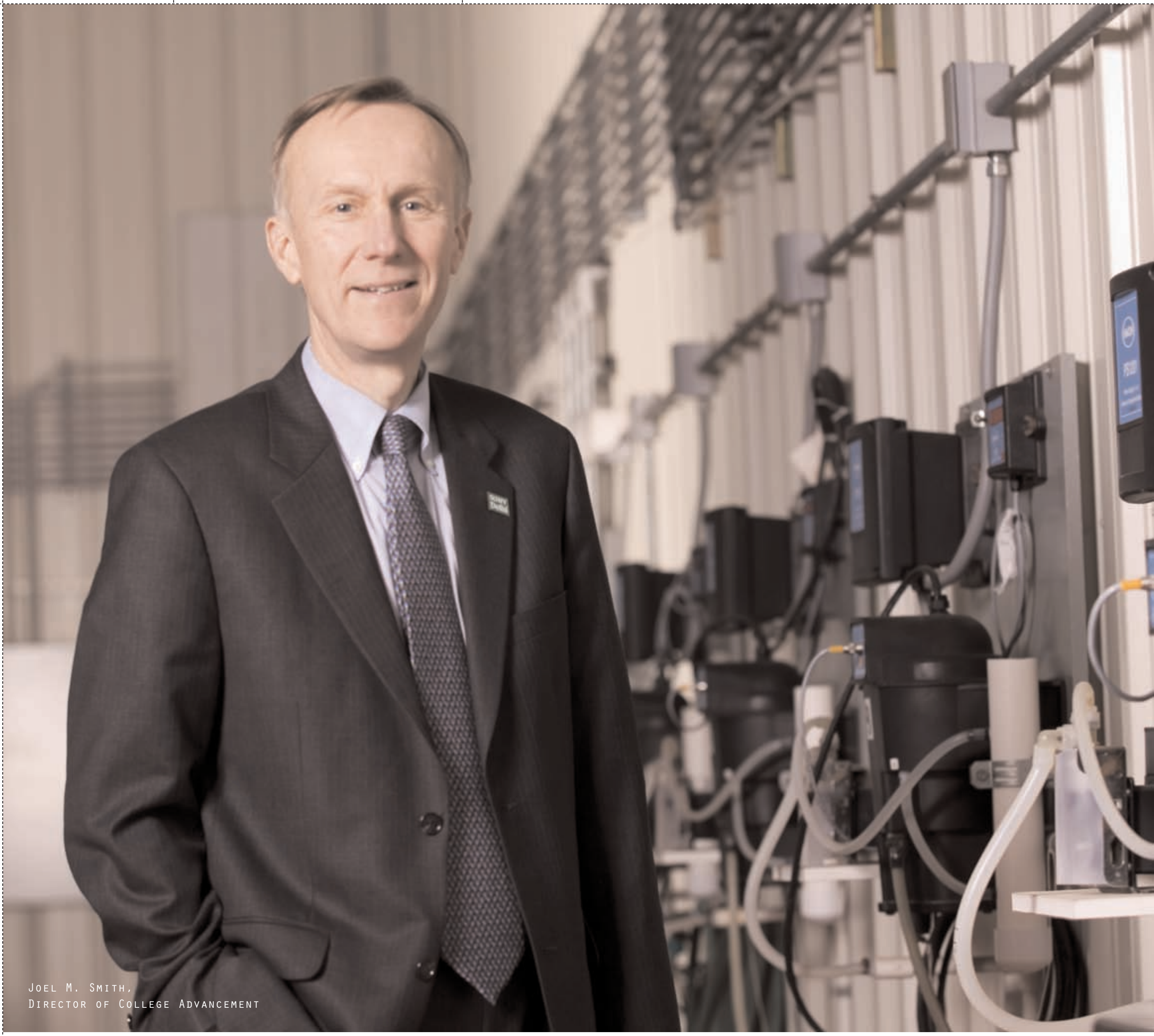
PROJECT DIRECTOR: Mr. Joel M. Smith

SPONSOR: New York City Dept of Environmental Protection

AMOUNT: $1,000,000

PERIOD OF AWARD: 7/1/06 – 6/30/09

A model for creating high-tech economic development and educational partnerships in watershed regions, this collaboration between SUNY Delhi and the SUNY College of Environmental Science and Forestry harnesses research and applied technology to create jobs, protect the environment, improve water quality, and expand tourism and recreation. The COE in WATER, which is committed to stimulating economic development in rural upstate New York while protecting the New York City watershed, will implement an irrigation project that will increase capacity at the Village of Delhi waste water plant, establish a state-certified water testing laboratory at SUNY Delhi, conduct willow biomass research, and set up a demonstration gasifier project that will use biofuels to provide a portion of SUNY Delhi's energy needs.



Joel M. Smith,
Director of College Advancement

Turning New York's Wood Into the Energy of the Future

4

PROJECT: Biorefinery Process

CAMPUS: SUNY College of Environmental Science and Forestry (ESF)

PROJECT DIRECTOR: Dr. Thomas Amidon

SPONSOR: VARIOUS*

AMOUNT: $4,184,306

PERIOD OF AWARD: 1/2006-12/2009

Researchers at SUNY ESF invented a method for removing energy-rich sugars from wood that can be fermented to produce ethanol. While the energy factor is the focus now, this process also separates out the wood's acetic acid, which is used to manufacture polyvinyl acetate, a plastic used in home construction and other consumer products. The process involves heating a mixture of wood chips and water at very high temperatures for a specified time. The solution that remains after the chips are removed is forced through a membrane that separates the sugars and acetic acid from the water. Once these components are extracted, the residue can be burned or gasified to provide heat and power.

Project is supported by federal, state and private funding sources including U.S. Dept. of Energy, NASA, NYS Dept. of Agriculture & Markets, Empire State Paper Research Institute and American Forest and Paper Assn.

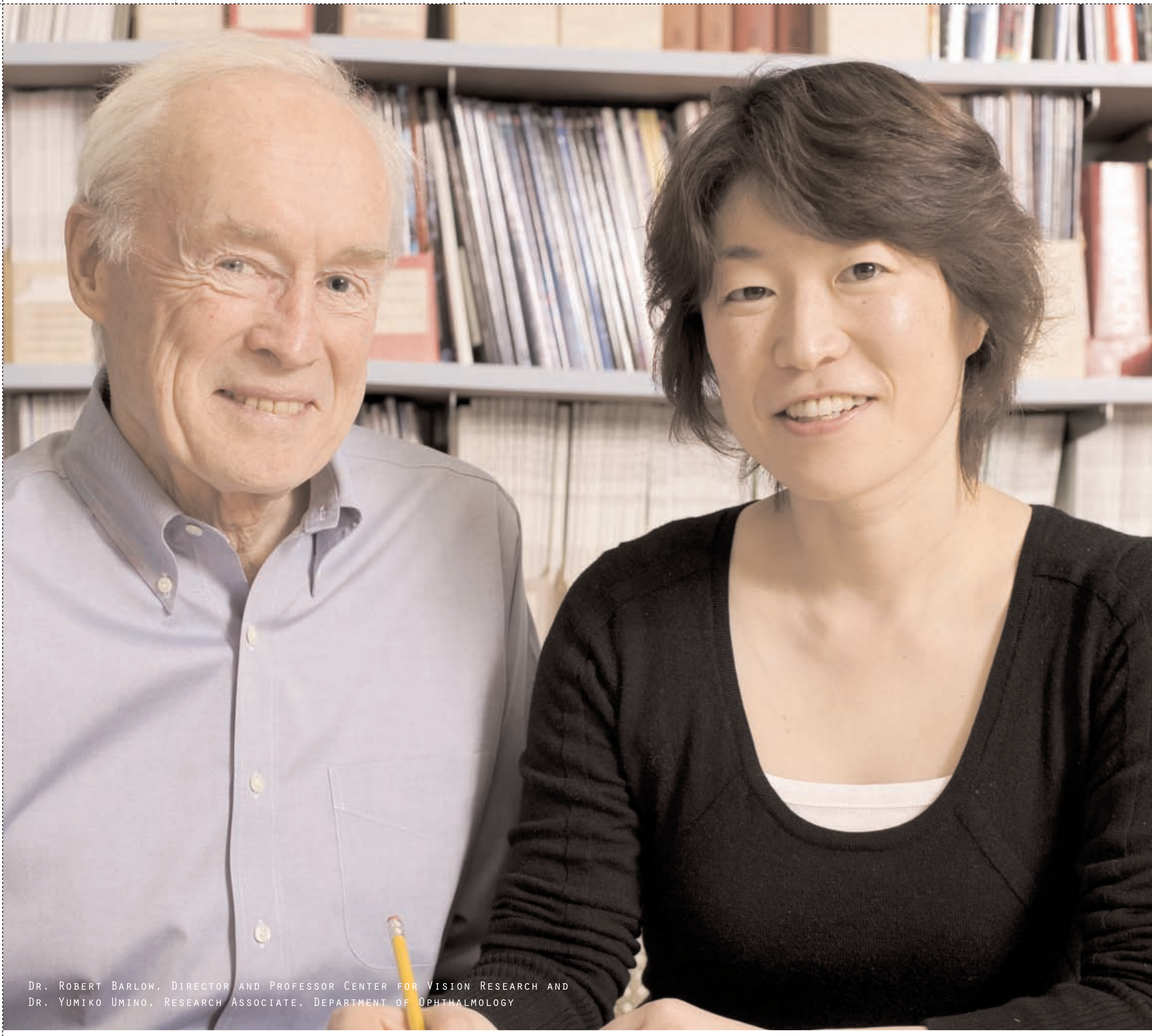
Dr. Thomas Amidon, Director, Empire State Paper Research Institute

Exploring Causes of Vision Loss

5

PROJECT: Metabolic Modulation of Vision
CAMPUS: Upstate Medical University
PROJECT DIRECTOR: Dr. Robert Barlow
SPONSOR: NIH/National Eye Institute
AMOUNT: $ 1,165,115
PERIOD OF AWARD: 5/1/05 - 4/30/08 (renewable to 4/30/09) Total period of award is 33 years (1975-present).

Researchers at SUNY Upstate Medical Center were the first to demonstrate that chronic low blood sugar leads to vision loss in mammals, a finding that may be of importance to diabetics, who are susceptible to hypoglycemia because of intensive insulin treatment. The study revealed that mice with chronic low blood sugar lost visual acuity by 10 months of age, while mice with normal blood sugar levels retained visual acuity past 16 months. Restoring blood glucose to normal levels through the diet delayed vision loss by several months. The connection between low blood sugar and loss of vision in mice may highlight the importance for glycemic control in diabetics and retinal diseases related to metabolic stress, such as macular degeneration.



Dr. Robert Barlow, Director and Professor Center for Vision Research and Dr. Yumiko Umino, Research Associate, Department of Ophthalmology

Creating Educational Opportunity

6

PROJECT:	College Assistance Migrant Program (CAMP)
CAMPUS:	Oneonta
PROJECT DIRECTOR:	Mr. Roger Sullivan
SPONSOR:	U.S. Department of Education
AMOUNT:	$2,044,066
PERIOD OF AWARD:	10/1/06 – 9/30/07

The Census Bureau reports that over 54,000 persons in New York State work in agriculture and an additional 47,000 migrant farm workers and their family members come to the state each year. Low income, transiency and lack of exposure to post-secondary opportunities prevent the vast majority of students from migrant and seasonal farm working families from reaching their educational potential. The College Assistance Migrant Program (CAMP) enables eligible students to pursue higher education by providing counseling and financial and tutorial assistance. Since its inception in 2001, CAMP has served 123 migrant or seasonal farm working students with impressive results — 87% completed their freshman year. Intensive follow-up assistance helping the students earn their degrees. This successful project has been renewed through 2011.

Patti Hanley, MSW, CAMP Director

Promoting Academic Success

7

PROJECT:	Upward Bound Program
CAMPUS:	SUNY Plattsburgh
PROJECT DIRECTOR:	Ms. D. Elaine Leavitt
SPONSOR:	U.S. Department of Education
AMOUNT:	$584,979
PERIOD OF AWARD:	06/01/07 - 05/31/08

Continuously funded since 1966, the Upward Bound program at SUNY Plattsburgh is one of the oldest Upward Bounds in the United States. The program provides opportunities for participants to succeed in their pre-college performance and ultimately in their higher education pursuits. Long-term data shows that Upward Bound works. Since its inception, Plattsburgh's program has successfully guided over 1,500 low income, "first generation" high school students to college and beyond by providing intensive counseling, academic enrichment and mind expanding opportunities. Plattsburgh Upward Bound alumni graduate from college at double the rate of other low-income students and at higher rates than all U.S. adults.

D. Elaine Leavitt, Director, Upward Bound

Preserving New York's Past

8

PROJECT: 2007/2008 Cultural Resources Survey Program

CAMPUS: Binghamton University

PROJECT DIRECTOR: Dr. Nina M. Versaggi

SPONSOR: NYS Education Department

AMOUNT: $4,000,000

PERIOD OF AWARD: 04/01/07 - 03/31/08

Across the country national heritage sites are vanishing, mainly as a result of construction and development. To preserve these fragile and non-renewable resources, the Public Archaeology Facility (PAF) will examine 100-150 Department of Transportation projects assigned to it annually by the New York State Museum. The archaeologists will field check these project areas and consult with Native American groups, historical societies, and others to determine the significance of the archaeological sites and historical buildings present. These investigations will contribute to research on prehistoric and historic land use in New York over the last 12,000 years. Their results also will encourage proper stewardship of these important pieces of our past.

Dr. Nina M. Versaggi, Director, Public Archaeology Facility

Toward Terahertz Detectors on a Single, Conventional Chip

9

PROJECT: Nanostructure Components for Terahertz Spectroscopy

CAMPUS: University at Buffalo

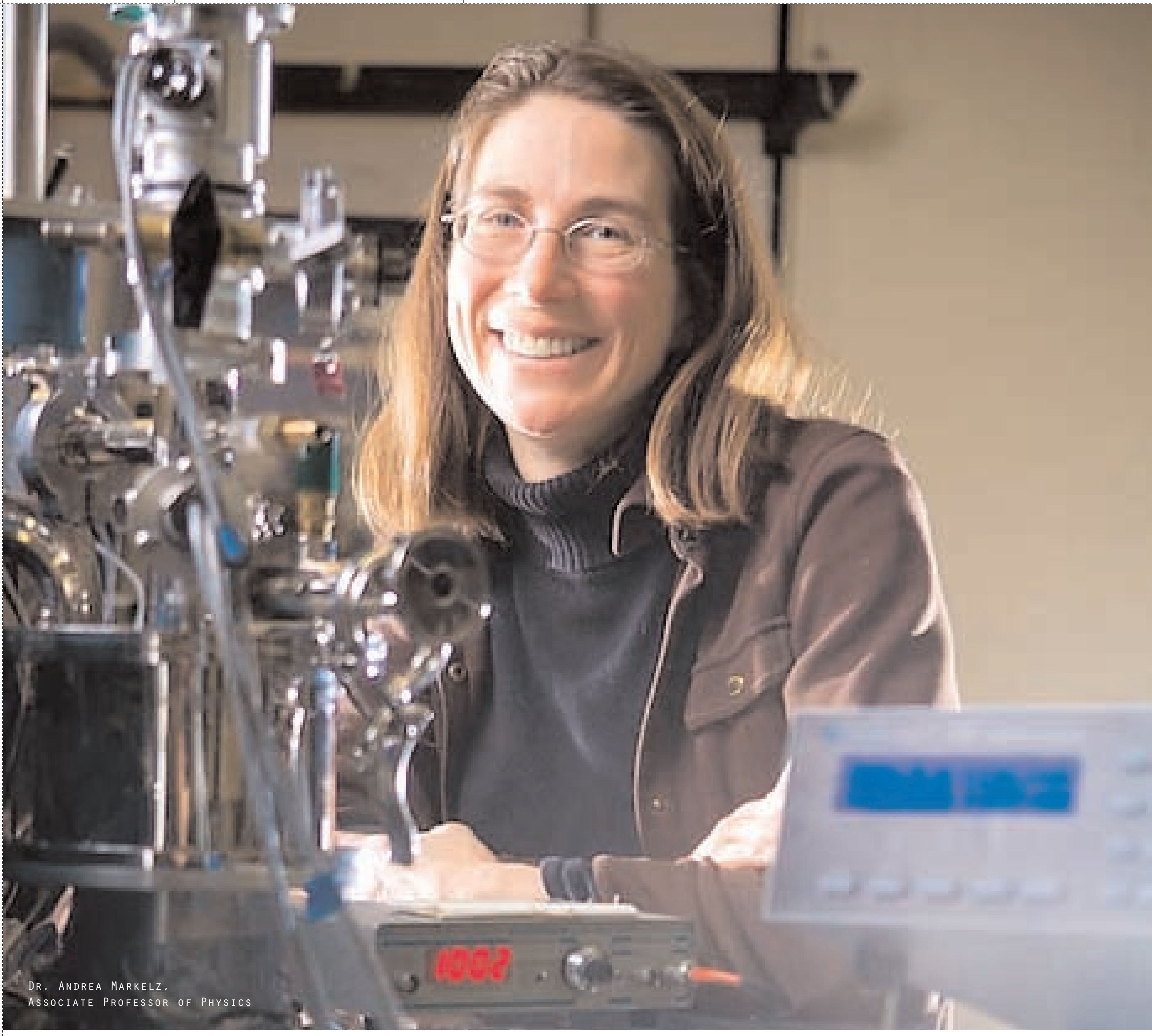
PROJECT DIRECTOR: Andrea Markelz, Physics

SPONSOR: National Science Foundation

AMOUNT: $1,180,000

PERIOD OF AWARD: 7/2006 - 6/2010

Sensors and detectors that would work in the terahertz range of the electromagnetic spectrum promise a range of tantalizing properties, from precise identification of concealed weapons to the ability to distinguish between different tissue types for disease screening. But because signals in the terahertz range have traditionally been incompatible with conventional microelectronics, this potential has been slow to realize. Experimental and theoretical physicists have teamed up with electrical engineers to explore new materials that could be used to develop semiconductor-based terahertz detectors that can be integrated seamlessly with conventional electronics. Potential applications are wide-ranging: from more secure signal-processing in telecommunications and precise imaging of real-time protein-binding in pharmaceutical research to more powerful homeland defense technologies.



Dr. Andrea Markelz, Associate Professor of Physics

Empowering Representative Government in the Middle East

10

PROJECT: Jordan Legislative Strengthening Program

CAMPUS: University at Albany

PROJECT DIRECTOR: Ms. Sladjana Bijelic

SPONSOR: US Agency for International Development

AMOUNT: $8,669,707.00

PERIOD OF AWARD: 06/23/07 - 05/31/08

Located in the heart of the Middle East, the Hashemite Kingdom of Jordan is steadily moving closer to democracy. The Center for International Development (SUNY CID) began working with the Parliament of Jordan in 2005 to increase transparency, accountability and oversight, strengthen its ability to draft legislation, improve committee work, review budgets and monitor public expenditures. SUNY/CID's role is to guide Jordan in the direction of its choosing. First and foremost an instrument of education, SUNY/CID also organizes fellowship placements for Jordanian parliamentary staff in the New York State Senate and provides internships to American and Jordanian students, including summer internships in Amman for University at Albany students. This successful project was extended through May 2008.

Sladjana Bjelic,
Senior Associate, SUNY Center for International Development

Slowing the Spread of HIV

11

PROJECT: Women's Interagency HIV Study	
CAMPUS: SUNY Downstate Medical Center	
PROJECT DIRECTOR: Dr. Howard L. Minkoff	
SPONSOR: National Institute of Allergy & Infectious Disease	
AMOUNT: $2,786,280	
PERIOD OF AWARD: 11/30/07 - 2/28/08	

Since the HIV/AIDS pandemic began in the 1980s, SUNY Downstate has been at the leading edge of research on HIV's impact on women and children. This research is changing the standard of care in many areas – i.e. routine HIV screening for all pregnant women and elective cesarean section to lower the risk of transmitting the infection from mother to infant -- and with it, the course of the HIV epidemic. As a result, maternal-infant HIV transmission has been virtually wiped out in the developed world. Downstate researchers pioneered research on developmental delay and regression in HIV-positive infants and children, and are exploring HIV and aging in women, specifically the effect hormonal changes may have on the virus and the long-term toxicities associated with taking potent medications.

The physicians, scientists, public health investigators, and nurses who collectively are part of SUNY Downstate's Interagency HIV Study. Study PI Howard Minkoff, MD, is in the back row, fifth from left. HIV Center Director Jack Dehovitz, MD, MPH, is seated in the front row, second from left.

Partnering with Private Industry

12

PROJECT: Center for Pharmacokinetics and Pharmacodynamics

CAMPUS: University at Buffalo

PROJECT DIRECTOR: Dr. William Jusko

SPONSOR: Pfizer

AMOUNT: $4,500,000

PERIOD OF AWARD: 10/2006 - 10/2008 (exercise of option for 2-year extension at $1.5 million/year likely)

This center aims to provide life-saving medicine for millions of patients worldwide by bringing UB and Pfizer scientists together to explore new approaches to drug development, therapy and response. The alliance with Pfizer supports research in pharmacokinetics, the study of how the body processes drugs, and pharmacodynamics, which studies physiological responses to drugs. It also provides funding for two new faculty members and $300,000 for new equipment. The partnership brings the promise of even more research dollars and accolades for the work being done at UB and across the Buffalo Niagara region. In the long term, this center will offer significant opportunities for economic development because investors are attracted to areas where technology and human resources are available.

Dr. William Jusko,
Professor and Chairman of Pharmaceutical Sciences

Protecting Against Cyber Attacks

13

PROJECT: New Techniques for Attack Detection, Prevention and Immunization

CAMPUS: Stony Brook University

PROJECT DIRECTOR: Dr. R. Sekar

SPONSOR: National Science Foundation

AMOUNT: $350,000

PERIOD OF AWARD: September 2006 - August 2009

Spam, malware, and targeted cyber attacks cause multi-billion dollar losses despite increased investment in computer security technologies. Many of these security problems can be traced to the lack of effective solutions for managing trust. This project seeks to alter the balance of power between those trying to secure systems and those attempting to defeat the security measures by developing a way to correlate the trustworthiness of a piece of data with the security privileges exercised while processing it. These techniques can be used to defend applications from known and unknown attacks as well as to immunize against future attack. To maximize impact, the techniques developed in the project will be implemented into open-source software prototypes.

Dr. R. Sekar,
Director, Center for Cybersecurity

Helping New York Businesses Succeed for Over 20 years

14

PROJECT: Small Business Development Center

CAMPUS: SUNY System Administration

PROJECT DIRECTOR: Mr. James L. King

SPONSOR: Small Business Administration

AMOUNT: $5,294,013

PERIOD OF AWARD: 10/01/06 - 09/30/07

Any New York resident who wants to start a small business – or improve the performance of an existing business – can make an appointment with the New York State Small Business Development Center (SBDC). The statewide network of 23 SBDC regional centers – and numerous full-time outreach locations – is a fully integrated and interactive small business consulting and training delivery system. Clients receive personalized and confidential assistance in blazing a trail through the forest of financial, regulatory, customer and competitor information. Since the program was established in 1984, the SBDC has worked with more than 259,000 New Yorkers, helping them locate over $3.1 billion to start or grow their businesses, and creating or saving more than 121,800 jobs.

Jill Frechtman,
Founder and President of Fretzels by Jill, Inc.

Next Generation of Chemical and Biological Sensors

15

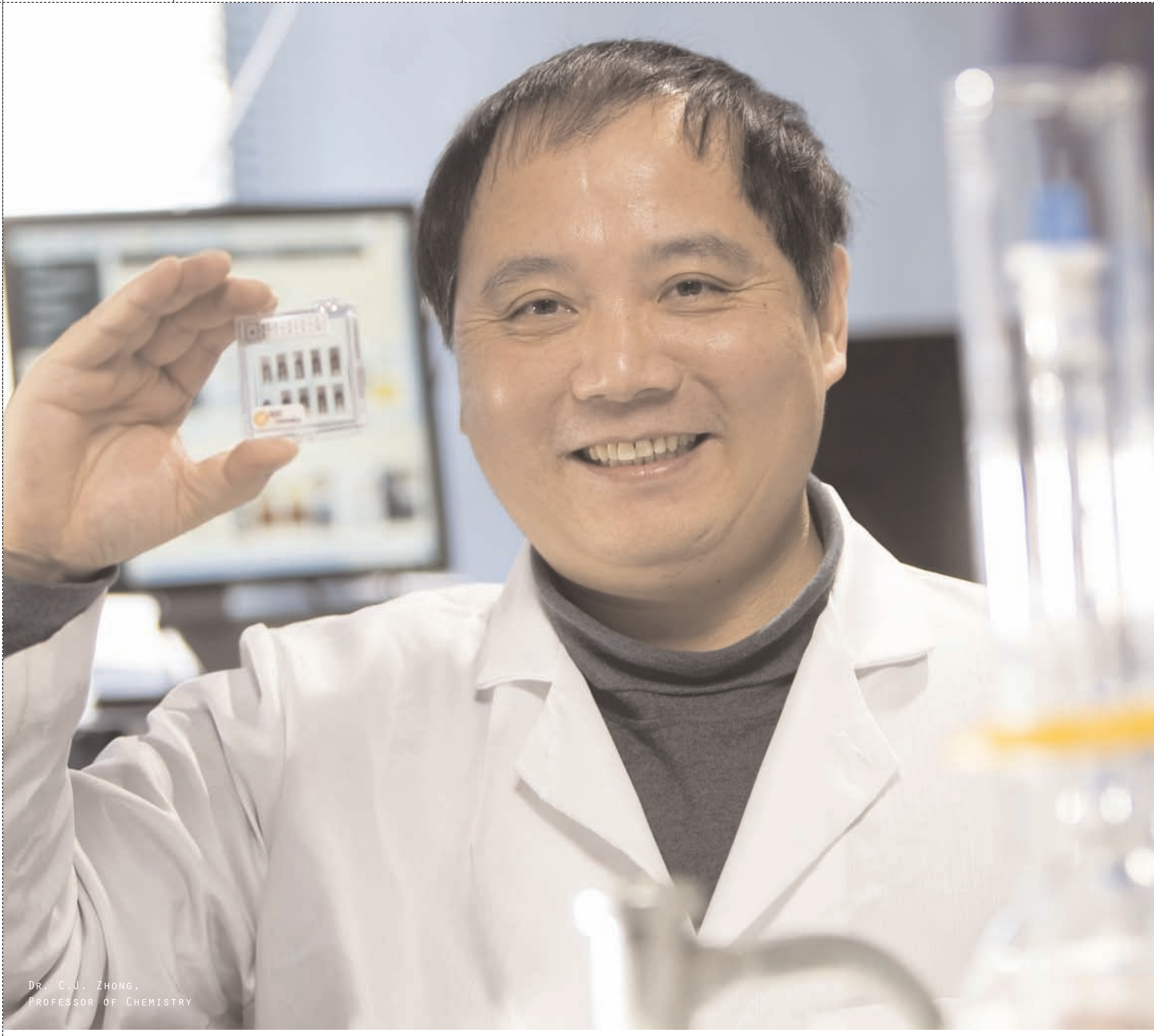
INVENTION: Nanoparticle-based Sensor Arrays

INVENTORS: C.J. Zhong, L.W. Wang, J. Luo, S. Lu, X. Shi, W. Hao

CAMPUS: Binghamton University

LICENSOR: NSC Technology

C.J. Zhong, a professor of chemistry, has developed nanoparticle-based sensor arrays that could someday monitor air for noxious chemicals, or check diabetics' sugar levels without drawing blood. Zhong's lab has created chips containing nanoparticles of different metals and metal oxides, each of which emits an electronic signal when it comes into contact with a specific chemical. The chips will be packaged in handheld devices with software to interpret the electronic signals, alerting the user to the presence of the target chemicals. The technology was licensed to NSC Technology, a university start-up company that received Small Business Innovative Research (SBIR) grants totaling $850,000 from the U.S Air Force to develop air-quality sensors for aircraft cockpits and turn the prototype sensors into products.



Dr. C.J. Zhong,
Professor of Chemistry

Novel Diagnostic Technology to Test for Birth Defects

16

INVENTION: Novel Diagnostic Technology to Test for Birth Defects

INVENTORS: Dr. Sheldon Rothenberg, Dr. Maria da Costa, Dr. Edward Quadros, and Jeffrey Sequeira

CAMPUS: SUNY Downstate Medical Center

LICENSOR: IMMCO Diagnostics

Researchers at SUNY Downstate Medical Center developed a simple blood test that will reduce the number of babies born with birth defects. The novel diagnostic technology may be used to screen women who are or wish to become pregnant for autoantibodies to folate receptors (FR), which could induce embryonic and fetal malformation. Women who test positive for the FR autoantibodies can begin taking folic acid supplements prior to becoming pregnant to minimize their risk of an abnormal pregnancy. IMMCO Diagnostics plans to begin commercial development of this exciting technology immediately.

Dr. Edward Quadros, Research Associate Professor of Medicine (left), with Jeffrey Sequeira, Research Associate.

During the past year, the RF provided a full range of financial and administrative services for 7,435 campus-based research projects.

In today's global economy knowledge, research, innovation and economic growth are intertwined.

The volume of research and other sponsored programs funded through the Research Foundation (RF) achieved a new high in fiscal year 2006-07, climbing eight percent to $781.8 million. Research expenditures are the first measure of success in the "innovation pipeline," the support and process infrastructures that enable a university to convert its research and creativity into intellectual property that can be commercialized to create new products, industries and jobs.

With our history of effectively administering research at SUNY and commercializing discoveries emanating from sponsored research, the RF is uniquely qualified to work with university-industry-government partners to advance economic development. During the past year, the RF provided a full range of financial and administrative services for 7,435 campus-based research projects. These projects are addressing many of today's most pressing issues – health, education, the environment, energy, and homeland security.

The RF strongly supports efforts to create a more vibrant R&D enterprise by helping SUNY to recruite full-time faculty, including eminent scholars, and stands ready to support new faculty in conducting their cutting-edge research. We upgraded our state-of-the-art business system and strengthened the infrastructure that enables us to support sponsored projects and people anywhere in the world. We also launched a project to help principal investigators manage their awards. The new tool, RF Quick View, will provide them with direct access to award balances and other key project information.

The RF is unique among the nation's higher education research foundations in that it administers sponsored contracts, grants and gifts for 30 state-operated SUNY campuses. This year we are embarking on a project to improve our operations and service to better meet the diverse needs of a customer base that includes research universities, medical schools, university colleges and technology colleges.

The RF is also unique in its ability to bring together resources of organizations having different legal or management systems to achieve a common goal. The RF, in cooperation with SUNY Plattsburgh, is coordinating an effort to provide accessible and affordable broadband service in geographically remote areas of the Adirondack region. To encourage economic development in New York City, the RF, on behalf of SUNY Downstate Medical Center, formed BioBAT to develop the Brooklyn Army Terminal into a site for biotechnology expansion, manufacturing and research.

The RF is preparing to go beyond its current role as effective administrator to stimulate, facilitate, support and promote research at SUNY. As an important step, we announced that James A. Weyhenmeyer, Ph.D., will become senior vice president (Research Foundation) and senior vice provost for research (SUNY). Dr. Weyhenmeyer brings vast experience in research, technological innovation and economic development to this newly created position spanning the RF and SUNY.

Through its strengthened partnership with SUNY the RF will help New York State strengthen its powerful position as a global center for ideas and innovation.

Dr. John B. Clark
Interim Chancellor
State University of New York

John J. O'Connor
President
The Research Foundation

The Research Foundation of State University of New York

Board of Directors

The Research Foundation of State University of New York

Officers/Senior Vice Presidents

Appointed by the board of directors, the Research Foundation's officers are responsible for directing and managing the affairs of the corporation.

Mr. John J. O'Connor, President - Mr. O'Connor has broad business, academic and government experience, having previously held senior positions at New York University, and worked as press secretary and special assistant to the majority whip of the U.S. House of Representatives. Mr. O'Connor serves as vice chancellor and secretary of SUNY.

Ms. Bonny G. Boice, Senior Vice President for Finance and Treasurer - The RF's chief financial officer for the past ten years, Ms. Boice has held positions of increasing responsibility since joining the organization as business manager in 1986. She previously worked as audit manager at Ernst & Young.

Mr. James R. Dennehey, Senior Vice President for Legal Affairs/General Counsel and Secretary - Mr. Dennehey is admitted to practice before all courts in the State of New York, the United States Supreme Court and the Federal District Courts of the Northern and Western districts of New York State. Prior to his appointment as general counsel and secretary, Mr. Dennehey was in private practice.

James A. Weyhenmeyer, Ph.D., Senior Vice President for Research – A veteran senior administrator, Dr. Weyhenmeyer has vast experience in research, technological innovation and economic development. He most recently served as the interim vice president for technology and economic development at the University of Illinois. Dr. Weyhenmeyer serves as senior vice provost for research at SUNY.

Operations Managers

The RF comprises a central office and operating units at 30 campus locations across New York State. Sponsored program functions delegated to the campuses are conducted under the supervision of RF operations managers, who are appointed by the RF's board of directors on the recommendation of the respective campus presidents.

Ms. Kathryn K. Lowery,
Vice President for Finance and Business
University at Albany

Mr. Stephen A. Gilje,
Associate Vice President for Research
Binghamton University

Dr. James (Beau) A. Willis,
Chief of Staff and Special Assistant to the President & Interim Executive Vice President for Finance and Operations
University at Buffalo

Mr. Frederick J. Hammond, Jr.,
Senior Vice President and
Chief Financial Officer
SUNY Downstate Medical Center

Ms. Connie S. Webb,
Vice President for Administration
SUNY ESF

Mr. David A. Bowers,
Vice President for
Administration and Finance
College of Optometry

Dr. Gail Habicht,
Vice President for Research
Stony Brook University

Mr. Steven C. Brady,
Senior Vice President for
Administration and Finance
Upstate Medical University

Mr. Louis M. Spiro,
Vice President for
Administration and Finance
SUNY Brockport

Dr. Dennis K. Ponton,
Provost and Vice President
for Academic Affairs
Buffalo State College

Dr. William E. Shaut,
Vice President for Finance
and Management
SUNY Cortland

Mr. Paul Tucci,
Assistant Vice President
for Administration
Empire State College

Mr. Tracy S. Bennett,
Vice President for Administration
SUNY Fredonia

Dr. Kenneth H. Levison,
Vice President for Administration
SUNY Geneseo

Ms. Julieta M. Majak,
Director for Administrative Services
SUNY New Paltz

Mr. Arthur H. Angst, Jr.,
Associate Vice President
for Business Compliance
Old Westbury

Dr. Leif S. Hartmark,
Vice President for Finance
and Administration
College at Oneonta

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Administration and Finance
SUNY Oswego

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Vice President for Administration
SUNY Plattsburgh

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Vice President for Business Affairs
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Affairs and Technology Services
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Mr. Frank Zuraf, CPA, CGFM
Vice President for Internal Audit and Management Advisory Services

Introduction

The management of the Research Foundation (RF) is committed to comprehensive and judicious management of the resources under its control, as well as the preparation, integrity and fair presentation of the financial statements. These statements have been prepared in conformity with generally accepted accounting principles and, as such, include amounts based on judgments and estimates by management.

The financial statements have been audited by the independent accounting firm PricewaterhouseCoopers (PwC), which was given unrestricted access to all financial records and related data. The RF believes that all representations made to PwC during its audit were valid and appropriate. The independent auditors' report expresses an independent opinion on the fairness of presentation of these financial statements.

The RF maintains a system of internal controls over financial reporting that is designed to provide reasonable assurance to the RF's management and Board of Directors regarding the reliability of published financial statements. Over the past four years, the Research Foundation has been systematically analyzing and documenting business processes, risks and controls to ensure efficient and effective operations, compliance with laws and regulations, and accuracy of financial data. In 2007, the RF identified and evaluated the key internal controls over financial reporting in coordination with PricewaterhouseCoopers in order to comply with Statement of Accounting Standards 112 "Communicating Internal Control Related Matters Identified in an Audit."

We are providing this management discussion and analysis in an effort to make the financial statements more informative for our readers.

Trends

The management of the Research Foundation has identified three key trends impacting the RF's financial position in FY2007:

- Evolving mix of sponsors
- Post-retirement benefits obligation
- Strong stock market performance

Evolving mix of sponsors

The bulk of the RF's revenue comes from grants awarded for research and other sponsored activities. In 2007, revenue from federally sponsored programs declined relative to revenue from New York State and private sponsors. The type of sponsor—federal government, state government, or private–has an impact on the RF's revenue and also on the level of accounts receivable.

Impact on revenue

When the percentage of activity sponsored by New York State and private sponsors climbs relative to federal activity, unrestricted revenue may be adversely impacted. Federal sponsors provide full facilities & administration (F&A) cost recovery most of the time, while state and private sponsors generally limit the amount of F&A that can be recovered.

Impact on accounts receivable

State sponsors take the longest to reimburse the RF for expenses incurred. In fiscal year 2007, state sponsors made up 57% of the accounts receivable balance although state sponsored revenue was only 31% of total revenue.

Post-retirement benefits obligation

The post-retirement benefits obligation is the actuarially-determined amount required to pay future retiree medical benefits. Adopting FAS158 "Employers' Accounting for Postretirement Benefits Other Than Pensions" caused the total liability ($196.1 million) to be recognized in this year's financial statements rather than amortized over 20 years. This created a one-time decrease in net assets of $51.3 million. Note 6 in the Notes to Financial Statements provides detail on the retiree health program and the policy in place to fund the liability.

Strong stock market performance

The RF invests the cash it receives from sponsors, campus-related organizations and its own operating reserves in its operational pool to earn income. The RF also invests the funds needed to meet the cost of health insurance provided to current and future retirees in a retiree health pool. The investment plan is governed by the RF's board-approved investment policy and guidelines. This year, the RF implemented procedures and monitoring controls to specifically address risks related to alternative investments (hedge funds) due to the lack of full transparency into the underlying assets of this type of fund.

The RF benefited from strong performance in the equity markets. The RF's investment pools had year-to-date rates of return (ROR) that far exceeded both target rates and previous year's ROR (see table below). The ROR tells us how current investment performance compares to the targets for the pool. In accordance with sound market management practices, RF uses an asset allocation target to balance its investment portfolio. The RF's philosophy is centered on the belief that a professionally-managed and well-diversified portfolio is necessary to achieve the highest level of return with a balanced level of risk.

	FY2007 ROR	FY2007 Target	FY2006 ROR	FY2006 Target
Operational pool	14.30%	8.40%	5.6%	6.00%
Retiree health pool	17.30%	9.40%	9.9%	8.25%

BALANCE SHEET

The fiscal year 2007 balance sheet shows that the Research Foundation (RF) is financially strong. This is evidenced by:

- The RF's ability to meet its current liabilities.
- The RF's ability to support all current obligations.
- The RF's ability to finance its mission without relying on long-term debt.

The RF is able to meet its current liabilities

The RF's ability to meet current liabilities is demonstrated through the current ratio, which is current assets divided by current liabilities. The National Association of College and University Business Officers (NACUBO) gold standard is a 2:1 ratio – or for every dollar of liability, there should be two dollars of assets. While the RF's current ratio is not yet at that level, the table below shows that over the past two years, the RF has had more than enough current assets to meet current liabilities.

	FY2007	FY2006
Current ratio	1.16:1	1.10:1

An $80 million line of credit is available to provide short-term cash to pre-fund expenditures on sponsored projects. The line of credit helps mitigate the need to liquidate assets to meet liabilities. The line of credit also minimizes the impact of daily fluctuations in cash flow by allowing investment managers to maintain a steady portfolio level and enhance long-term earnings.

The RF is able to support its current obligations

The RF's ability to support current operations from all available expendable resources without relying on additional net assets is demonstrated through the primary reserve ratio, which is net assets divided by total expenses.

	FY2007	FY2006
Primary reserve ratio	0.30:1	0.51:1

The RF's primary reserve ratio has decreased, but remains in a tolerable range, despite negative impact from the post-retirement benefit obligation (PBO) liability. This means the RF could operate for three months without additional net assets. Statement of Financial Accounting Standards No. 158 (FAS158) requires the PBO to be fully recognized in the financial statements, which increases noncurrent liabilities and decreases net assets.

The RF does not rely on long-term debt as a source of financing for its mission.

The RF's debt burden ratio, which is debt service (cash required over a given period for the repayment of interest and principal on a debt) divided by operating expenses, dropped to 5.13:1 in fiscal year 2007. A rule of thumb among investment bankers is that debt service should not be greater than 7:1 of operating expenses; the RF's debt burden falls below that threshold. A decline in the RF's debt burden ratio means that additional resources can be applied to campus' general operating purposes and that the RF can cover debt service.

	FY2007	FY2006
Debt burden ratio	5.13:1	6.43:1

Furthermore, the RF paid off a debt incurred in 2001 for the project to implement Oracle Applications as the RF's business automation system. An upgrade to Oracle release 11i in FY2007 was paid for using corporate reserves, not additional debt.

ASSETS AND LIABILITIES SUMMARY

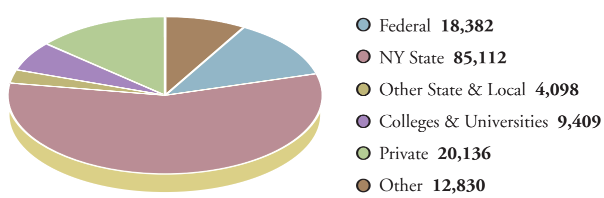
Assets

Assets grew by $30 million in fiscal year 2007 to $489.8 million, due in part to increased accounts receivable and return from long-term investments.

Investments totaled $309.7 million in fiscal year 2007, an $11 million increase over the prior fiscal year. The growth can be attributed to strong capital markets and an investment strategy that emphasizes a diversified portfolio.

Accounts receivable, which represents the amount due to the RF from sponsors, increased by $23.6 million or 19% in fiscal year 2007. The increase can be attributed mainly to an increase in receivables from New York State, which has taken longer to reimburse the RF for expenditures incurred on sponsored programs.

ACCOUNTS RECEIVABLE $149,967
in thousands



Growth in investment income and accounts receivable was offset by a $5.2 million decrease in cash and cash equivalents. This decrease is attributed to a net decrease in cash flows from operating activities (for more information, see Statement of Cash Flows, page 10).

Liabilities

The RF's liabilities grew by $64 million in fiscal year 2007, mostly due to a change in accounting requirements related to the post-retirement benefit obligation. Previously, the RF was allowed to amortize this liability over 20 years. In 2007, the RF adopted FAS158, which requires that the entire liability be recognized in this year's financial statements. This resulted in a $79.2 million increase in liabilities in fiscal year 2007.

The balance sheet line "Accounts Payable and Accrued Expenses," which represents amounts the RF owes for vendor payments and the incurred but not recorded accrual for benefit costs, equaled $60.2 million as of June 30. This represents an 18.8% increase over fiscal year 2006 and is mainly due to an increased accounts payable accrual. The accounts payable accrual is an estimate that is based on the average number of days between the date the RF is invoiced and the date the RF makes the payment.

Deferred revenue is money that the RF receives from sponsors in advance of expenditures. For fiscal year 2007, this decreased $28.4 million from fiscal year 2006, due to a decrease in NYS sponsored surplus balances related to nanotechnology activity at University at Albany.

Net Assets

The net assets of the RF represent primarily unrestricted revenue allocated in the RF's board-approved Financial Plan to campuses, central office and reserves. It's important to note that certain expenditure accruals are not fully funded, particularly the post-retirement benefit obligation, which is approximately 60% funded.

As of June 30, 2007, the RF's net assets were $51.8 million, a decrease of $33.8 million from the prior fiscal year, due to the partially funded expenditure accruals cited above. The following chart displays the RF's net assets and their specific purposes:

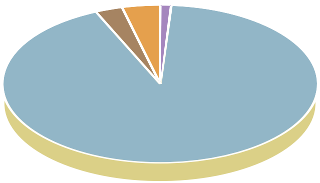
	FYE 2007	FYE 2006
Designated for development activity at the campuses as outlined in the RF's board approved Financial Plan	$162,848	$134,016
Invested in fixed assets, net of related debt	11,705	11,607
Reserve	27,161	10,653
Liabilities unfunded	(149,923)	(70,684)
Total unrestricted net assets	$ 51,791	$ 85,592

Statement of Activities

Revenues

Total revenue increased by $116 million or 16% in FY 2007. The RF's primary source of revenue is grants awarded for sponsored research activities, which represents 92% of total revenue. Additional revenue comes from investment income and intellectual property royalties as well as gift income and fees earned for providing services to campus-related organizations and third party use of service centers.

Revenues $858,292
in thousands



Grants awarded for research and other sponsored activity

Federal

Total federal funds represent $509 million or 64% of total sponsored revenues. Direct federal revenue—revenue from federal projects awarded directly to the RF not through other non-federal organizations—totaled $341 million or 43% of total sponsored revenues. Flow-through funding—revenue from federal projects awarded to the RF through nonfederal organizations such as New York State or other nonprofit organizations including universities—totaled $168 million or 21% of total sponsored revenues (a 5.9% increase over prior year). This increase is primarily due to funding through the NYS Department of Health.

Of the federally sponsored projects, 54% of the funding was received from the Department of Health and Human Services. Other major federal sponsors include

- National Science Foundation
- Agency for International Development
- Department of Education
- Department of Defense
- Department of Energy.

Non-federal

Revenue from non-federal awards totaled $281 million or 36% of total sponsored revenues. Nonfederal revenue increased 34% over the prior fiscal year due to NYS funding. Within the non-federal category, New York State sponsored programs revenue increased by 32%.

The largest increases were funded from:

- NYS Commissions and Centers (contracts from Dormitory Authority for projects at Stony Brook University and University at Albany)
- NYS Department of Health.

Industry and other is up 11% mainly due to increased research activity at University at Albany, College of Nanoscale Science and Engineering.

Facilities & administration (F&A) cost recoveries

One element of the total within the line "Grants awarded for research and other sponsored activity" is F&A cost recovery, which represents reimbursements for the use of facilities and administrative costs that cannot be directly and uniquely assigned to any particular project. F&A recoveries earned on grants and contracts administered by the RF were $123.5 million for the fiscal year ending June 30, 2007, remaining flat from the prior year.

The RF negotiates F&A rates with the US Department of Health and Human Services for each SUNY campus every three to four years. The table below displays for each campus that has a rate, the federally negotiated F&A rate, its term date and the actual rate of return in 2007.

The actual rate of return (ROR) is calculated by dividing total F&A cost recovery by total direct expenditures. Actual ROR is lower than the negotiated rate for several reasons:

1. The rate is not applied to all direct costs; for the larger volume campuses, it is applied to a base of "modified total direct costs," which can exclude certain cost categories such as equipment
2. In accepting awards, campuses sometimes elect to reduce or waive total F&A cost recovery as part of their negotiations with sponsors.

Location	Federal 2007 On-Campus Rate (in %)	Term	Actual 2007 ROR (in %)
Applied to a Modified Total Direct Cost Base			
University at Albany	50.4	2010	11.1
Binghamton University	50.5	2011	22.2
University at Buffalo	58.5	2008	28.6
Stony Brook University	55.0	2011	23.2
Upstate Medical University (Syracuse)	55.0	2009	26.9
Downstate Medical Center (Brooklyn)	54.0	2008	17.6
SUNY ESF	52.5	2009	18.7
Buffalo State College	43.0	2008	19.1
System Administration – Provost	27.0	2007	10.1
SUNY Cortland	56.5	2009	9.4
SUNY Delhi	56.5	2011	5.3
Empire State College	27.2	2011	8.1
Applied to Salary and Wage Base			
SUNY Brockport	75.0	2010	11.6
SUNY Fredonia	70.0	2009	9.8
SUNY Geneseo	75.0	2011	13.8
SUNY New Paltz	78.0	2010	7.4
Old Westbury	70.5	2009	18.6
College at Oneonta	72.0	2010	10.6
SUNY Oswego	76.0	2009	12.8
SUNY Plattsburgh	70.6	2010	10.0
SUNY Potsdam	73.5	2011	7.7
Purchase College	75.0	2010	11.1
Maritime College	70.0	2011	2.8
College of Optometry	79.5	2010	44.0
SUNYIT (Utica/Rome)	70.0	2011	17.5
Alfred State	70.0	2011	3.4
SUNY Canton	72.0	2010	7.2
SUNY Cobleskill	70.0	2010	6.3
Farmingdale State College	75.0	2009	6.4
Morrisville State College	70.0	2011	8.0

Investment income

Investment income totals $32.5 million, an $18.2 million increase from last fiscal year due to strong markets and prudent portfolio management.

Inventions and license income

Inventions that result from sponsored research belong to the RF, which is responsible for protecting the intellectual property and commercializing these technologies as part of its technology transfer service. Royalty income for fiscal year 2007 totaled $11.1 million, an increase of 9.9% percent from last year. Stony Brook University generates almost 90% of the inventions and license income. The slight growth in income in fiscal year 2007 is due to new inventions at University at Buffalo, SUNY Downstate Medical Center and College of Optometry.

Other income

Other income represents:

- Revenues from third parties for use of service centers
- Gift income
- Non-sponsored income
- Fees earned for providing human resources/payroll and purchasing/payable services to campus-related organizations such as outpatient clinics at SUNY hospitals.

Other income increased by $16.6 million in fiscal year 2007, mainly due to revenues collected from third parties using clean room space at the University at Albany nanotechnology service center.

Expenses

Total expenses for the RF for fiscal year 2007 were $841 million and consist of expenditures for:

- Sponsored programs
- Administration and support (campus and central office operations).

Sponsored programs

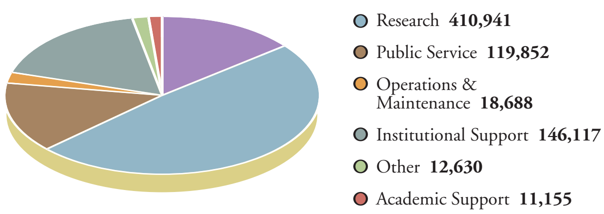
The direct portion of sponsored programs expenditures (exclusive of overhead and including such things as salaries and equipment) was $667 million in fiscal year 2007, an increase of $79.5 million or 13% from last fiscal year. This points to a positive trend in the RF's financial position.

Administration and support

The RF's campus and central office locations incur costs to have the infrastructure in place to support research activity and the staff to administer sponsored programs and provide other services. The RF uses the money it receives from F&A cost recovery, investments and fees to pay for these expenditures. Expenditures were $174 million in fiscal year 2007, an increase of $2.3 million or 1%.

The following chart shows the $841 million in sponsored program and administration/support expenses broken down by functional expense category. These functional expense categories are typical of institutions of higher education; the categorization was defined by the National Association of College and University Business Officers (NACUBO).

Expenses $840,804
in thousands



Statement of Cash Flows

In 2007, cash and cash equivalents decreased by over $5 million, primarily due to the need to prefund expenditures on New York State sponsored programs. The majority of NYS sponsored programs are cost reimbursable contracts, which require expenditures to be prefunded by the RF. The RF is then reimbursed by NY State.

The timing of expenditures is determined by the principal investigator (faculty member conducting the sponsored project) based on the requirements for completing the project. The RF manages cash to be able to support principal investigators, using cash in the operational investment pool or the line of credit, as necessary.

Cash received from sponsors in advance of expenditure is placed in the operational investment pool. Note that in 2006, NYS provided a large cash advance for one program; this was unique to that fiscal year.

Looking Ahead

The RF proactively identifies and manages its financial risks. In fiscal 2007, projects to implement the following corrective actions were begun in order to strengthen the RF's financial position. These projects are expected to be complete within the next fiscal year:

- Put in place an accounts receivable risk tolerance by campus that will help mitigate the risk of campuses incurring accounts receivable deficits that they are unable to cover from their own working capital.
- Implement Oracle's Treasury module to automate the forecasting of working capital. This allows the RF to more efficiently manage cash flow and maximize investment earnings.
- Implement automatic closing capabilities at the end of financial periods to minimize the risk of inaccurate data and untimely financial reports.
- Streamline file approved and preferred suppliers to mitigate procurement risks and allow the RF to make more payments electronically.

Looking to the future, many of the issues affecting fiscal year 2007 are expected to continue to influence the RF's financial position. The RF will continue to anticipate key issues and proactively mitigate risks in the following areas:

- Evolving mix of sponsors
- Post-retirement benefits obligation
- Rising cost of employee benefits
- Growth in services to affiliated corporations
- Investments
- Corporate reserve

Evolving mix of sponsors

Like many other universities in the U.S., SUNY's campuses are adapting to the expected declines in federal funding for health and biological research and increases in federal funding in the areas of energy and homeland security. Campuses are also adapting to the federal government's emphasis on interdisciplinary research. Projections indicate that sponsored program revenue will continue to increase, with the mix continuing to evolve toward more awards sponsored by New York State and private sponsors. This evolution will invariably impact revenue and accounts receivable in the future due to NYS's historical lag in accounts receivable. To reduce this anticipated impact, the RF is working with individual New York state agencies and others in state government to streamline the grants process and increase the timeliness of reimbursements to the Research Foundation, thus reducing accounts receivable.

Post-retirement benefits obligation

The RF is committed to funding the liability for retiree health insurance. During fiscal year 2005 the RF board of directors approved a funding policy whereby money from current grants (calculated by applying a fringe benefit rate to salaries and wages), will be collected and placed into the retiree health reserve fund over time. The retiree health insurance portion of the fringe benefit rate could increase or decrease in future years depending on the investment returns of this pool. In fiscal year 2007 the RF contributed $7.7 million to this pool which earned $11.5 million in investment income. The RF will continue to fund the reserve and manage the investment portfolio prudently in order to build on this success. This obligation is currently approximately 60% funded.

Rising cost of employee benefits

The RF recovers the funds needed to pay for the cost of employee fringe benefit programs by applying fringe benefit rates to accounts that fund employee salaries and wages. The rates are based on the current fiscal year's approved fringe benefit rate, as established with the US Department of Health and Human Services. Fringe benefits are made up of the following components: retirement; health, dental, vision, NYS unemployment, long term disability, group life, and NYS disability insurances; social security; workers' compensation; vacation and sick leave payments. The rates for FY 2007 and 2008 are presented below.

	FY 2007	FY 2008
Regular	34.50%	37.00%
Graduate Student	10.50%	11.50%
Undergraduate Student	4.00%	4.50%
Summer-Only	14.50%	14.50%
SUNY Employee (IFR)	43.34%	45.53%

We are projecting an increase in all expenses and will be working to negotiate fringe benefit rates to allow us to continue to be competitive for research activity and provide our employees with comprehensive benefits comparable to those provided to SUNY employees.

Growth in services to affiliated corporations

Several of the Research Foundation's 16 affiliated corporations use the RF's HR/payroll and purchasing/payables services. In the future, it is expected that the RF will participate in the creation of additional affiliated corporations and that more corporations will take advantage of the RF's services. Therefore, this activity is expected to increase, which will impact assets, liabilities, revenues, expenses and cash flows. This is a positive trend in the RF's support of SUNY's research enterprise and its role in economic development.

Investments

The successful investment of funds calls for continuous diligence as industries change and become more complex. The RF's investment goal is to reduce volatility while enhancing returns. For example, going forward, RF recognizes that a portfolio of traditional equities and bonds may not generate enough return to meet income and spending requirements. The RF's investment approach is to create a management process with sufficient flexibility to capture investment opportunities as they may occur, yet maintain reasonable parameters to ensure prudence and care in the execution of the investment program.

Corporate reserve

The RF has historically maintained a corporate reserve that has primarily been used for corporate initiatives and to cover contingencies. At the end of FY 2007, the reserve has a $4.2 million balance. Acting on a recommendation from the RF Board of Directors, the RF will build up the corporate reserve to equal 10% of F&A revenue, or $12.4 million for FY 2007. In order to reach the 10% goal, the RF is funding the reserve from investment income each year and it is anticipated to take three years to be fully funded.

Report of Independent Auditors

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 "RF") at June 30, 2007 and 2006, 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 RF'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. Those standards 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.

As discussed in Note 6 of the financial statements, in 2007, the RF adopted the provisions of SFAS No. 158 Employers' Accounting for Defined Benefit and Other Post-retirement Plans, and changed the manner in which it accounts for its post-retirement plan.

PricewaterhouseCoopers LLP

Albany, New York August 28, 2007

Balance Sheets

June 30, 2007 and 2006

	2007	2006
Assets		
Current assets		
Cash and cash equivalents	$ 647,707	$ 5,805,330
Accounts receivable, net	149,966,645	126,322,789
Advances from others	582,105	589,143
Short-term investments	108,012,414	131,230,097
Short-term investments - designated for post-retirement benefit obligation	5,314,000	4,432,000
Total current assets	264,522,871	268,379,359
Noncurrent assets		
Long-term investments	124,439,126	107,674,387
Long-term investments - designated for post-retirement benefit obligation	74,723,719	56,399,529
Due from broker for securities sold	2,981,321	2,202,942
Fixed assets, net	20,637,193	22,662,257
Other assets	2,528,653	1,915,432
Total noncurrent assets	225,310,012	190,854,547
Total assets	$489,832,883	$459,233,906
Liabilities		
Current liabilities		
Accounts payable and accrued expenses	60,167,825	$ 50,642,799
Accrued compensation	15,085,530	13,122,608
Accrued vacation	22,563,534	21,457,504
Deferred revenue	108,660,121	137,035,427
Current portion of post-retirement benefit obligation	5,314,000	4,432,000
Current portion of long-term debt	1,527,280	1,978,248
Line of credit	14,613,865	15,000,000
Total current liabilities	227,932,155	243,668,586
Noncurrent liabilities		
Deposits held for others	3,755,609	3,170,923
Post-retirement benefit obligation, net of current portion	190,835,000	112,529,529
Due to broker for securities purchased	5,753,552	3,469,791
Long-term debt, net of current portion	7,404,332	9,076,613
Other liabilities	2,361,109	1,726,036
Total noncurrent liabilities	210,109,602	129,972,892
Total liabilities	438,041,757	373,641,478
Net Assets		
Unrestricted	51,791,126	85,592,428
Total liabilities and net assets	$489,832,883	$459,233,906

The accompanying notes are an integral part of the financial statements.

Statements of Activities

Years Ended June 30, 2007 and 2006

	2007	2006
Revenues		
Grants awarded for research and other sponsored activities	$790,877,032	$709,991,111
Investment income	32,527,221	14,342,783
Inventions and licenses income	11,108,624	10,122,079
Other income	23,779,196	7,148,731
Total revenues	858,292,073	741,604,704
Expenses		
Sponsored programs and other activities	666,572,487	587,061,706
Administration and support	174,230,888	171,933,877
Total expenses	840,803,375	758,995,583
Net increase (decrease) in net assets before cumulative effect of change in accounting principle	17,488,698	(17,390,879)
Cumulative effect of change in accounting principle (Note 6)	(51,290,000)	–
Net decrease in net assets	(33,801,302)	(17,390,879)
Net assets at beginning of year	85,592,428	102,983,307
Net assets at end of year	$ 51,791,126	$ 85,592,428

The accompanying notes are an integral part of the financial statements.

Statements of Cash Flows

Years Ended June 30, 2007 and 2006

	2007	2006
Cash flows from operating activities		
Federal grants and contracts	$ 497,430,258	$ 507,305,762
State and local grants and contracts	114,700,479	137,429,582
Private gifts and grants	119,732,748	102,823,761
Other receipts	164,879,453	143,533,159
Salaries and wages payments	(363,868,262)	(350,794,755)
Employee benefits payments	(112,122,948)	(109,265,788)
Payments to suppliers/vendors	(424,760,533)	(376,929,743)
Operating interest, dividends and investment gains	8,332,762	8,230,577
Equity investment partnership income	1,470,652	2,092,986
Interest payments on capital debt/notes	(379,462)	(324,889)
Other payments	(16,194,053)	(12,098,252)
Net cash (used in) provided by operating activities	(10,778,906)	52,002,400
Cash flows from investing activities		
Proceeds from sales of investments	478,413,143	727,639,475
Purchases of investments	(467,799,916)	(761,616,869)
Equity investment partnership distribution	1,045,869	1,043,799
Cash paid for purchases of fixed assets	(3,528,429)	(3,519,787)
Net cash provided by (used in) investing activities	8,130,667	(36,453,382)
Cash flows from financing activities		
Cash overdraft	–	131,081
Principal payments on long-term debt	(2,123,249)	(4,357,250)
Proceeds from line of credit	124,926,544	81,238,294
Payments on line of credit	(125,312,679)	(88,229,810)
Net cash used in financing activities	(2,509,384)	(11,217,685)
Net (decrease) increase in cash and cash equivalents	(5,157,623)	4,331,333
Cash and cash equivalents, beginning of year	5,805,330	1,473,997
Cash and cash equivalents, end of year	$ 647,707	$ 5,805,330
Reconciliation of change in net assets to net cash (used in) provided by operating activities		
Change in net assets	$ (33,801,302)	$ (17,390,879)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Realized and unrealized gains on investments	(22,723,807)	(4,019,220)
Unrealized loss (gain), interest rate swap	21,852	(189,396)
Depreciation expense	4,304,629	7,560,361
Loss on disposal of fixed assets	1,286,764	460,506
Donated fixed assets	(37,900)	(16,000)
Cumulative effect of change in accounting principle	51,290,000	–
Change in assets and liabilities		
Accounts receivable and other assets	(24,257,077)	30,711,364
Accrued investment income	(183,153)	245,829
Accounts payable and accrued expenses	9,503,174	(3,913,183)
Other accruals and other liabilities	3,704,025	2,646,902
Deferred revenue	(28,375,306)	10,214,529
Deposits held for and advances to others	591,724	346,753
Post-retirement benefit obligation	27,897,471	25,344,834
Net cash (used in) provided by operating activities	$ (10,778,906)	$ 52,002,400
Supplemental disclosure of noncash activity		
Capital lease obligation	$ –	$ 3,586,507

The accompanying notes are an integral part of the financial statements.

Note 1 | Organization

The Research Foundation (the "RF") is a private, non-profit corporation that supports the advancement of education, research and discovery at the State University of New York (SUNY). Established in 1951, the RF carries out its responsibilities pursuant to a formal contract with the University that has been in force since 1977. The RF is tax-exempt under Internal Revenue Code Section 501(c)(3).

Separate from SUNY, the RF is able to form partnerships that enhance SUNY's education, research and public service mission and spur economic development across New York State. The primary service offered by the RF is sponsored programs administration. The infrastructure in place for sponsored programs allows the RF to also administer agency funds and assist campuses with establishing affiliated corporations.

The RF comprises a central office and operating units at 30 campus locations across New York State. Sponsored program functions delegated to the campuses are conducted under the supervision of RF operations managers who are appointed by the RF's board of directors on the recommendation of the respective campus presidents.

The RF is governed by a board of directors composed of researchers, campus and system administrators, and representatives of business and industry. The chancellor of SUNY serves as chair of the board ex officio.

Note 2 | Summary of Significant Accounting Policies

Basis of Presentation

The financial statements of the RF have been prepared on the accrual basis of accounting.

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. Significant estimates are used to calculate the balances for accounts payable and accrued expenses and for the post-retirement benefit obligation. Actual results could differ from those estimates.

Revenue Recognition

Grants awarded for research and other sponsored activities represent exchange transactions derived from restricted grants, cost reimbursement contracts, and cooperative agreements 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 revenue. The RF 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.

Investment income is comprised of dividends and interest, realized and unrealized gains, and income from investment in equity partnerships. In 2007, investment expenses of $2,932,988 were included in administration and support expenses. Accordingly, $3,805,466 of investment expenses were reclassified from investment income to administration and support expenses in 2006.

Inventions and licenses income derives from inventions that result from sponsored research. The RF is responsible for protecting the intellectual property and commercializing these technologies as part of its technology transfer service.

Other income consists of third party service center revenue, gift income, non-sponsored income from activities such as fees for the use of the automated grants accounting system, and fees earned for administering agency funds such as fiscal and personnel staffing agreements. Other income was not presented as a separate revenue category in 2006. Accordingly, $7,148,731 was reclassified from grants awarded for research and other sponsored activities to other income in 2006.

Cash Equivalents

Cash equivalents include short-term, highly liquid investments with a maturity of three months or less at the time of purchase. Cash and cash equivalents included in the long-term investment portfolio are classified as long-term investments.

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.

Hedge funds are valued using current estimates of fair value by management based on information provided by the general partner or investment manager for the respective funds. Because these investments are not readily marketable, their estimated value is subject to uncertainty and therefore may differ materially from the value that would have been used had a ready market for such investments existed.

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 of accounting.

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. The average cost of securities sold is used to determine the basis for computing realized gains or losses.

The RF does not utilize its investments as collateral. To minimize potential losses, the RF 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. Investments are held with the investment custodian in the RF's name.

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 lives with the exception of land, using historical and industry experience, range from 5 to 50 years.

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, 2007 and 2006 was $4,304,629 and $7,560,361, 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.

Deferred Revenue

Deferred revenue represents three types of activity: (1) surplus amounts for sponsored programs activity that occur when funds are received in advance of spending, (2) surplus amounts on balance awards which represent the balance of funds that remain after termination of a project (either grant or contract) supported by a fixed price award which must be used in the future to support research, and (3) surplus balances related to service centers which are established and maintained to provide a specific service and charge to sponsored programs and other users, in which billing rates are reviewed at a minimum of every two years and rates are adjusted prospectively to reduce surplus/deficit amounts.

Accrued Vacation

RF 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.

Reclassifications

Certain 2006 amounts have been reclassified to conform with the 2007 presentation.

Other Information

Accounts receivable as of June 30, 2007 and 2006 are reported net of an allowance for doubtful accounts of $8,000,000 and $8,000,000, respectively.

In accordance with FASB Interpretation 39, Offsetting of Amounts Related to Certain Contracts (FIN39), the RF has recorded its workers' compensation accrual (for incurred but not reported claims) at the gross amount. As such, a receivable and offsetting payable has been recorded to account for losses which will be recovered through the RF's existing insurance policies. This receivable amounted to $2,347,000 in 2007 and $2,217,000 in 2006. The related 2006 receivable has been reclassified to conform with current year presentation.

Advances to others and deposits held for others represent amounts related to agency activity at the campus locations. Agency designates those university-related organizations, such as campus based foundations or campus based clinical practice plans that use RF-provided human resources, payroll and purchasing and payables administrations services. Included in deposits held for others are planned gifts donated to campus foundations of approximately $981,000 and $687,000 at June 30, 2007 and 2006, respectively.

The RF 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 RF and are subject to claims of creditors of the RF.

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

Various SUNY employees perform work on RF sponsored grants. SUNY pays these employees directly, and is reimbursed by the RF on a monthly basis. The related amounts due to SUNY consist of both a known and estimated component. The total liability to SUNY at June 30, 2007 is $6,287,910 of which $2,079,469 is known and $4,208,411 is estimated. The total liability to SUNY at June 30, 2006 was $5,096,884 of which $2,114,715 is known and $2,982,169 is estimated.

The RF assisted in the creation and expansion of the University at Albany College of Nanoscale Science and Engineering's Albany NanoTech complex. The RF leases various areas of clean room space from FRMC in the NanoFab 300 North and South buildings to facilitate research and development related activities at the University at Albany in the field of nanotechnology. The RF established a service center, in conjunction with its facilities and administrative rate proposal submission, where costs are incurred for the operation of this facility and supported by recharges to sponsored programs or third party use. In 2007, agreements have been executed between the RF and various third parties for the use of tools and facilities.

Note 3 | Affiliated Organizations

As of June 30, 2007, the RF has sixteen active affiliated organizations that have been established 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 RF and SUNY and are often able to meet a variety of needs, normally out of reach given existing structures, for one or both organizations. The RF does not have a financial interest in nor is it contingently liable to these affiliated organizations. The affiliated organizations are as follows:

Binghamton Technologies Corporation (BTC)

BTC is a private, not-for-profit corporation formed by the RF (acting on behalf of Binghamton University) to construct a high technology facility at the eastern edge of the Binghamton University campus to assist in the economic development of the region.

BioBAT, Inc.

BioBAT, Inc. is a private, not-for-profit corporation formed by the RF (acting on behalf of SUNY Downstate Medical Center) and the New York City Economic Development Corporation to develop the Brooklyn Army Terminal into a site for biotechnology expansion, manufacturing and research. The world class facility will provide a committed location in New York City for growing biopharmaceutical companies and a place where biotechnology companies can expand and manufacture products for market, generating economic development.

Broad Hollow Bioscience Park, Inc.

Broad Hollow Bioscience Park, Inc. is a not-for-profit corporation formed by the RF (acting on behalf of Farmingdale State College) and Cold Spring Harbor Laboratory to operate 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.

Brookhaven Science Associates, LLC (BSA)

Brookhaven Science Associates is a not-for-profit Limited Liability Company formed by the RF (acting on behalf of Stony Brook University) and Battelle Memorial Institute. In a national competition against the country's leading research universities, the U.S. Department of Energy in 1997 selected BSA to operate Brookhaven National Laboratory (BNL) – a $2 billion contract. In accordance with the LLC agreement, BSA profits and losses are allocated 50% each to Battelle and the RF. In 1998, Battelle and the RF each made an initial capital contribution of $125,000.

Total assets of BSA as of September 30, 2006 and 2005 are $19,922,820 and $13,580,593 respectively. Total equity of BSA as of September 30, 2006 and 2005 are $5,728,698 and $4,874,992, respectively. Total revenue for the years ended September 30, 2006 and 2005 are $6,949,674 and $7,175,310, respectively. Total expenses for the years ended September 30, 2006 and 2005 are $4,008,370 and $2,989,338, respectively. The RF records its share of the net earnings of BSA from BSA's most recent completed fiscal year. The RF records distributions received as a reduction of the investment balance.

CUBRC, Inc.

CUBRC, Inc. is a private, not-for-profit corporation formed by the RF (acting on behalf of the University at Buffalo) and, as of May 2006, The University at Buffalo Foundation Incubator. The CUBRC, Inc. mission is to bring together scientists, engineers and resources from academia and industry to expand research capabilities and to provide significant growth opportunities in Western New York. Incorporated in 1983, CUBRC, Inc. competes for research programs that would not otherwise be available to the University at Buffalo. During fiscal year 2007, the name of the corporation was officially changed from Calspan-UB Research Center, Inc. to CUBRC, Inc.

Central New York Biotechnology Research Center (CNYBRC)

Central New York Biotechnology Research Center (CNYBRC) is a private not-for-profit corporation formed by the RF (acting on behalf of SUNY Upstate Medical University and SUNY College of Environmental Science and Forestry), Metropolitan Development Association of Syracuse and Central New York, LeMoyne College and Syracuse University. CNYBRC brings together scientists, engineers and resources from academia and industry to advance research in bioprocessing and biomanufacturing. CNYBRC promotes economic development in the Syracuse area and across New York State by supporting technology transfer, workforce development and a high-tech business incubator.

Downstate Technology Center, Inc.

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

Fuller Road Management Corporation (FRMC)

Fuller Road Management Corporation (FRMC) is a private, not-for-profit corporation formed by the RF (acting on behalf of the University at Albany) and the University at Albany Foundation. FRMC provides a vehicle for the construction of comprehensive research facilities that support a high-tech business incubator, promote workforce development, and encourage research, development and technology acceleration.

In May of 2005, the RF, as tenant, and FRMC, as landlord, executed an agreement for the lease of a clean room facility, which will be used for nanotechnology related research and development at the University at Albany. Rent payments made by the RF pursuant to the agreement for the year ended June 30, 2007 and June 30, 2006 were $5,397,443 and $537,110, respectively. Going forward, the rents may escalate annually at a rate not to exceed 1%. The term of the lease is from May 20, 2005 through September 30, 2035.

At June 30, 2007 annual minimum lease payments on the Fuller Road operating lease are as follows:

2007	$ 7,014,458
2008	$ 7,014,458
2009	$ 7,014,458
2010	$ 7,014,458
2011	$ 7,014,458
Thereafter	$ 170,100,607

Long Island High Technology Incubator (LIHTI)

The Long Island High Technology Incubator (LIHTI) is a private, not-for-profit corporation incorporated in 1989 by the RF (acting on behalf of Stony Brook University) and the Stony Brook Foundation, Inc. LIHTI's mission is 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.

NanoTech Resources, Inc.

NanoTech Resources, Inc. is a private, not-for-profit corporation formed by the RF (acting on behalf of the University at Albany) to 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.

Neil D. Levin Graduate Institute of International Relations and Commerce Foundation, Inc.

The Neil D. Levin Graduate Institute of International Relations and Commerce Foundation, Inc. is a not-for-profit corporation formed by the RF to facilitate donations, conduct funding raising activities and provide a source of revenue for the benefit of the Levin Institute. The goal of the Levin Foundation is to advance the mission of the Levin Institute through the enhancement of the faculty, students and staff and support of its academic, research and international programs. The RF resigned from this affiliated corporation effective November 2006.

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 RF to support 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.

Purchase College Advancement Corporation

Purchase College Advancement Corporation is a private, not-for-profit corporation formed by the RF (acting on behalf of the State University College at Purchase) to operate facilities that will support the college's academic mission and spur economic development in the mid-Hudson region.

Source Sentinel, LLC

Source Sentinel, LLC is a limited liability company formed by the RF (acting on behalf of the College of Environmental Science and Forestry), O'Brien & Gere Limited, and Sensis Corporation. Its mission is to bring together scientists, engineers, and resources from academia and industry to develop real-time detection and monitoring products for the protection of drinking water supplies, distribution systems and treatment facilities against chemical and biological threats.

State Street Management Inc. (SSMI)

SSMI, incorporated in 1990, is a not-for-profit corporation formed by the RF (acting on behalf of the University at Albany) to purchase and hold real estate for the benefit of the Nelson A. Rockefeller Institute of Government. SSMI transferred its assets to the State of New York during FY 2007. It is anticipated that this corporation will be dissolved during the first quarter of FY 2008.

State University of New York China Representative Office, Inc.

State University of New York China Representative Office is a private, not-for-profit corporation formed by the RF to foster and develop new academic and research collaborations, programs and initiatives between the State University of New York and Chinese universities.

University at Albany Bioscience Development Corporation (UABDC)

UABDC is a private, not-for-profit corporation formed by the RF (on behalf of the University at Albany) in partnership with the University at Albany Foundation to advance the educational and research mission of the State University of New York and the University at Albany and enhance their ability to attract public and private funds by providing facilities for research and scholarly programs for the benefit of faculty, visiting scholars, students and staff.

Note 4 | Investments

Investments by type consist of the following as of June 30:

	2007	2006
Cash equivalents	$ 11,390,598	$ 46,837,300
U.S. government securities	37,165,649	40,146,851
Mortgage/asset-backed securities	45,575,941	39,017,723
Corporate debt securities	15,676,422	13,827,993
Common stocks	109,547,239	87,951,551
International mutual fund	33,642,323	25,127,503
Investment in equity partnership	1,818,481	1,646,696
Hedge funds of funds	49,694,500	38,420,307
Other	7,978,106	6,760,089
Total	$312,489,259	$299,736,013

Hedge fund investments consist of alternative investments in fund of funds limited partnerships and marketable alternatives. Hedge funds may trade in derivative instruments that involve varying degrees of market risk including credit exposure, liquidity, and interest rates. Due to the level of risk associated with securities and the level of uncertainty related to changes in their value, it is possible market conditions could have a near term material affect on balances reported in the balance sheets and the statements of activities.

The RF has reviewed unrealized losses on its investments and has concluded that none represent other than temporary losses from market activities.

The following is the composition of investment income for the years ended June 30:

	2007	2006
Dividends and interest	$ 8,332,762	$ 8,230,577
Realized and unrealized gains, net	22,723,807	4,019,220
Income from investment in equity partnership	1,470,652	2,092,986
Total return on investments	$32,527,221	$14,342,783

The board of directors has designated certain investments for the purpose of funding post-retirement benefit obligations. These investments are separately disclosed on the balance sheet, and amounted to $80,037,719 and $60,831,529 at June 30, 2007 and 2006, respectively.

Note 5 | Fixed Assets

Fixed assets consist of the following at June 30:

Fixed asset classification	Fixed Assets July 1, 2006	Additions	Retirements	Fixed Assets June 30, 2007
Building	$ 6,500,000	$ –	$ –	$ 6,500,000
Office furniture and equipment	40,713,462	3,536,807	11,048,291	33,201,978
Information systems	32,516,020	29,522	–	32,545,542
Total fixed assets	79,729,482	3,566,329	11,048,291	72,247,520
Less accumulated depreciation				
Building	520,000	130,000	–	650,000
Office furniture and equipment	28,965,197	2,668,628	9,761,527	21,872,298
Information systems	27,582,028	1,506,001	–	29,088,029
Total accumulated depreciation	57,067,225	4,304,629	9,761,527	51,610,327
Fixed assets, net	$22,662,257	$ (738,300)	$ 1,286,764	$20,637,193

Note 6 | Post-Retirement Benefit Obligation

The RF sponsors a defined post-retirement plan that covers substantially all non-student 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; however are not considered plan assets under FASB Statement No. 106, Employers' Accounting for Postretirement Benefits Other Than Pensions. As of June 30, 2007 and 2006, the earmarked reserves totaled $80,037,719 and $60,831,529, respectively. There are 6,223 participants in the plan as of July 1, 2006.

Contributions by the RF consisted of $7,700,000 to increase plan reserves and $3,994,000 for payment of plan benefits during the year ended June 30, 2007. Contributions by the RF consisted of $4,600,000 to increase plan reserves and $3,938,000 for payment of plan benefits for the year ended June 30, 2006. Contributions by the RF are expected to be approximately $7,700,000 to increase plan reserves and $5,684,000 for payment of plan benefits for the year ended June 30, 2008.

In 2007, the RF adopted Financial Accounting Standards Board Statement No. 158, Employers' Accounting for Defined Benefit Pension and Other Post-retirement Plans. This statement improves financial reporting by requiring the recognition of the over funded or under funded status of a defined benefit post-retirement plan in the balance sheet and the recognition of changes in that funded status in the year in which the changes occur, in unrestricted net assets. The adoption of SFAS No. 158 resulted in a $51,290,000 adjustment to net assets, which was primarily a result of recognition of previously unrecognized actuarial losses and unrecognized prior service credits.

The following table sets forth the plan's funded status reconciled with the amount shown in the RF's financial statements at June 30: (amounts rounded to the nearest thousand)

	2007	2006
Change in benefit obligation		
Benefit obligation at beginning of year	$ 176,844,000	$ 185,467,000
Service cost	9,879,000	10,813,000
Interest cost	11,234,000	9,920,000
Plan participants' contributions	108,000	65,000
Retiree Drug Subsidy receipts	335,000	–
Actuarial (gain)/loss	1,851,000	(25,418,000)
Benefits paid	(4,102,000)	(4,003,000)
Benefit obligation at end of year	$ 196,149,000	$ 176,844,000
Change in plan assets		
Fair value at beginning of year	$ –	$ –
Employer contributions	3,994,000	3,938,000
Plan participants' contributions	108,000	65,000
Benefits paid	(4,102,000)	(4,003,000)
Fair value of plan assets at end of year	$ –	$ –
Funded status	$ (196,149,000)	$ (176,844,000)
Unrecognized transition obligation	–	2,218,000
Unrecognized prior service credit	–	(1,955,000)
Unrecognized net actuarial loss	–	59,620,000
Net amount recognized	$ (196,149,000)	$ (116,961,000)
Amounts recognized in the balance sheet		
Current liability	$ (5,314,000)	$ (4,432,000)
Noncurrent liability	$ (190,835,000)	$ (112,529,000)
Amounts recognized in unresticted net assets		
Net transition (obligation)	$ (1,662,000)	$ –
Prior service credit	$ 1,676,000	$ –
Net actuarial (loss)	$ (51,304,000)	$ –
Weighted-average assumptions used to determine benefit obligation		
Discount rate at end of year	6.33%	6.25%
Components of net periodic benefit cost / (income)		
Service cost	$ 9,879,000	$ 10,813,000
Interest cost	11,234,000	9,920,000
Expected return on plan assets	(5,438,000)	(4,433,000)
Amortization of:		
transition obligation	555,000	555,000
prior service (credit)	(279,000)	(279,000)
actuarial loss	4,237,000	7,241,000
Net periodic postretirement benefit cost	20,188,000	23,817,000
Investment return on invested reserves	11,506,000	5,329,000
Total net periodic post-retirement benefit cost	$ 31,694,000	$ 29,146,000
Weighted-average assumptions used to determine net periodic benefit cost		
Discount rate for the year	6.25%	6.25%
Expected return on plan assets	8.25%	8.25%
Other changes in plan asset and benefit obligations recognized in unrestricted net assets		
FASB No.158 cumulative effect of change in accounting principle	$ 51,290,000	$ –
Expected amounts amortized from unrestricted net assets into net periodic benefit cost for fiscal year ending 2008		
transition obligation	$ 555,000	
prior service (credit)	$ (279,000)	
actuarial loss	$ 2,881,000	

Estimated Gross Benefit Payments (net of participants' contributions)	
Fiscal year ending 2008	$ 5,684,000
Fiscal year ending 2009	6,497,000
Fiscal year ending 2010	7,481,000
Fiscal year ending 2011	8,510,000
Fiscal year ending 2012	9,684,000
Fiscal year ending 2013 - 2017	66,660,000
Estimated Gross Amount of Subsidy Receipts	
Fiscal year ending 2008	$ 370,000
Fiscal year ending 2009	433,000
Fiscal year ending 2010	503,000
Fiscal year ending 2011	587,000
Fiscal year ending 2012	688,000
Fiscal year ending 2013 - 2017	5,431,000
Estimated Net Benefit Payments	
Fiscal year ending 2008	$ 5,314,000
Fiscal year ending 2009	6,064,000
Fiscal year ending 2010	6,978,000
Fiscal year ending 2011	7,923,000
Fiscal year ending 2012	8,996,000
Fiscal year ending 2013 - 2017	61,229,000

For measurement purposes, the initial trend rates vary by coverage. The health maintenance organization (HMO) rate is 8%, the preferred provider organization (PPO) Medical Pre-65 rate is 7.8%, the PPO Medical Post-65 rate is 6.5% and administrative fees are 5%. Trend rates grade down to an ultimate rate of 5% in 2013 and later.

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:

	1-Percentage Point Increase	1-Percentage Point Decrease
Effect on total service and interest cost components	$ 4,443,000	$(3,503,000)
Effect on post-retirement benefit obligation	$ 33,192,000	$(26,897,000)

Investment Policies and Strategies

The plan's primary investment goal is to meet the ongoing obligations while minimizing contributions and controlling risks. In order to accomplish that goal, the RF's consultants worked with actuarial data to create a projection of the term structure of the liabilities. The structure of the investment portfolio is then similarly aligned with the term structure of the liabilities, so the short-term liabilities are primarily funded with lower volatility short-term assets, intermediate-term liabilities are funded with investments that exhibit moderate volatility, and the longer-term liabilities are funded by long-term assets. In addition, the plan's asset allocation is structured to meet a long-term targeted return. Borrowing from the diversification techniques developed under the 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 RF's investment managers exercise full investment discretion within guidelines outlined in the RF's Investment policy. The investment managers are charged with the responsibility of managing assets with the care, skill, prudence and diligence that a prudent investment professional in similar circumstances would exercise.

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

The RF works with a consultant to develop long-term rate of return assumptions used to model and determine the overall asset allocation. The return assumptions used in the asset allocation analysis are based on a building block approach in which risk premium is calculated for each asset class and adjusted for current market conditions. The methodology used is based on time tested relationships between fundamental drivers of financial markets. Adjustments to historical risk premia 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.

Asset Class	Target	Permissible Ranges
Equities	57%	
Large Cap Equity	29%	19%-39%
Small Cap Equity	15%	5%-25%
International	13%	3%-23%
Fixed Income	28%	
Intermediate Term FI	28%	18%-38%
Hedge Funds of Funds	15%	5%-25%

Note 7 | Retirement Plan

The RF maintains a non-contributory defined contribution retirement plan for substantially all non-student employees. Contributions are based on a percentage of earnings and range from 8% to 15%, depending on date of hire. In addition, the RF provides an additional pension contribution if an employee retires and meets the age and service requirements for retiree health insurance. This additional contribution is calculated by multiplying the value of the employee's accrued sick leave, up to a maximum of 200 days, by the employee's contribution rate at the time of retirement. Employees become fully vested in contributions made by the RF after the completion of three 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 offers a guaranteed income account, or in the College Retirement Equities Fund ("CREF"), which offers an assortment of mutual funds, stocks, bonds, real estate, and money market investments. The payroll for RF employees covered by TIAA/CREF for the year ended June 30, 2007 was $323,502,980. The RF pension contributions were approximately $25,587,000 and $23,552,000 for the years ended June 30, 2007 and 2006, respectively. These contributions are equal to 100% of the required contributions for the year.

Note 8 | Long-Term Debt and Other Long-Term Liabilities

The RF entered into an agreement during 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 RF occupies and conducts most of its central office operations from this location. At June 30, 2007, the tax exempt bond debt totaled $5,600,000 with maturity in 2032 at an interest rate of 3.83% at June 30, 2007. At June 30, 2007, the taxable bond debt totaled $245,000 with maturity in 2009 at an interest rate of 5.57%. Subsequent to June 30, 2007, 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 January 2006, the RF entered into an interest rate swap agreement with the Bank of New York (BNY) wherein the RF agreed to pay BNY a fixed rate of interest equal to 3.615% on the tax exempt bond issuance total of $5,600,000 and to receive from BNY a payment equal to 70% of the London Interbank Offered Rate (LIBOR) as published by the British Banker's Association (BBA). The monthly interest rate is calculated using the weighted average method applied to the daily USD-LIBOR-BBA rate. The agreement expires coincident with the maturity of the bonds in 2032. The RF's net benefit or obligation under the swap agreement is accounted for as an asset or liability at fair value in the financial statements. The estimated fair value of the swap at June 30, 2007 was $167,544 and is included within other assets in the accompanying balance sheet.

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

A summary of long-term debt as well as other long-term liabilities is as follows:

	Balance July 1, 2006	Additions	Reductions	Balance June 30, 2007	Current Portion
Long-term debt:					
Lease obligations	$ 5,064,861	$ –	$ 1,978,249	$ 3,086,612	$ 1,527,280
Bonds payable	5,990,000	–	145,000	5,845,000	–
Total long-term debt	11,054,861	–	2,123,249	8,931,612	1,527,280
Other long-term liabilities:					
Post-retirement benefit obligation	116,961,529	83,289,381	4,101,910	196,149,000	5,314,000
Other liabilities	1,726,036	635,073	–	2,361,109	–
Deposits held for others	3,170,923	726,815	142,129	3,755,609	–
Due to broker for securities purchased	3,469,791	5,753,552	3,469,791	5,753,552	–
Total other long-term liabilities	125,328,279	90,404,821	7,713,830	208,019,270	5,314,000
Total long-term liabilities	$136,383,140	$ 90,404,821	$ 9,837,079	$ 216,950,882	$ 6,841,280

Future payments on long-term debt as of June 30, 2007, are as follows:

	Bonds Payable-Building		Capital Leases		Total	
Fiscal Year	Principal	Interest	Principal	Interest	Principal	Interest
2008	$ –	$ 228,127	$ 1,527,280	$ 81,598	$1,527,280	$ 309,725
2009	150,000	219,772	979,763	42,558	1,129,763	262,330
2010	155,000	212,182	579,569	8,922	734,569	221,104
2011	165,000	205,863			165,000	205,863
2012	170,000	199,352			170,000	199,352
2013-17	935,000	891,816			935,000	891,816
2018-22	1,105,000	693,613			1,105,000	693,613
2023-27	1,300,000	459,792			1,300,000	459,792
2028-32	1,525,000	185,755			1,525,000	185,755
2033-37	340,000	–			340,000	0
Total	$5,845,000	$ 3,296,272	$ 3,086,612	$ 133,078	$ 8,931,612	$ 3,429,350

Interest rates range from 3.83% to 5.57% *Interest rates range from 1.55% 9.95%*

Line of Credit

The RF maintains an unsecured line of credit in the amount of $80,000,000 of which $14,613,865 was used as of June 30, 2007. The agreement for this line of credit was executed during the current year.

Note 9 | University at Buffalo Foundation Services, Inc.

The RF has 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 RF. Activity through UBFS amounted to approximately $3,959,000 and $3,549,000 for the years ended June 30, 2007 and 2006, respectively.

Note 10 | Administration and Support

Administration and support 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 approximately $8,691,000 and $15,416,000 in 2007 and 2006, respectively.

Note 11 | Revenues

Revenue, by type, consists of the following for the years ended June 30:

	2007	2006
Federal grants and contracts	$ 507,836,783	$505,437,041
State grants and contracts	139,023,333	87,330,389
Local grants and contracts	12,352,061	12,693,396
Private grants and contracts	131,664,855	104,530,285
Investment income	9,803,414	10,323,563
Net realized and unrealized gains	22,723,807	4,019,220
Gifts	184,892	117,074
Capital gifts and grants	130,000	121,000
Inventions and licenses income	11,108,624	10,122,079
Other Income	23,464,304	6,910,657
Total Revenues	$ 858,292,073	$741,604,704

Note 12 | Functional Expenses

Expenses, by function, consist of the following for the years ended June 30:

	2007	2006
Instruction	$ 121,420,686	$120,196,786
Research	410,941,272	372,525,185
Public service	119,851,967	109,581,791
Academic support	11,153,866	8,931,221
Student services	1,867,456	1,834,284
Operations and maintenance	18,688,064	6,674,828
Institutional support	146,117,497	125,209,284
Scholarships and Fellowships	4,194,083	5,690,603
Auxiliary enterprises	688,996	–
Hospitals	733	5,845
Depreciation expense	4,304,629	7,560,361
Interest expense on long-term debt	379,462	324,889
Loss on disposal of plant assets	1,194,664	460,506
Total Expenses	$ 840,803,375	$758,995,583

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Vice President, Corporate Communications:
Catherine Kaszluga

Editor:
Joanne Lafrancois

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The Research Foundation
35 State Street
Albany, NY 12207-2826
(518) 434-7000

For additional copies of the Research Foundation's 2007 annual report, please contact:

Catherine Kaszluga
Vice President
Corporate Communications
The Research Foundation
35 State Street
Albany, New York 12207-2826
(518) 434-7066
cathy.kaszluga@rfsuny.org

The Research Foundation
The State University of New York

35 State Street
Albany, NY 12207-2826
518 434 7000
www.rfsuny.org