THE RESEARCH FOUNDATION FOR THE STATE UNIVERSITY OF NEW YORK

Financial Statements

June 30, 2012 and 2011

(With Independent Auditors' Report Thereon)

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THE STATE UNIVERSITY OF NEW YORK

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KPMG LLP
515 Broadway
Albany, NY 12207-2974

Independent Auditors' Report

The Board of Directors
The Research Foundation for the State University of New York:

We have audited the accompanying balance sheets of The Research Foundation for the State University of New York (the RF) as of June 30, 2012 and 2011, and the related statements of activities, and cash flows for the years then ended. 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 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the RF's internal control over financial reporting. Accordingly we express no such opinion. An audit also 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, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion the financial statements referred to above present fairly, in all material respects, the financial position of The Research Foundation for the State University of New York as of June 30, 2012 and 2011, and the changes in its net deficit and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

Albany, New York
September 27, 2012

THE RESEARCH FOUNDATION FOR
THE STATE UNIVERSITY OF NEW YORK

Balance Sheets

June 30, 2012 and 2011

Assets		**2012**	**2011**
Current assets:			
Cash and cash equivalents	$	916,046	1,076,799
Accounts receivable, net		218,675,127	185,534,049
Advances to others		13,074,958	17,348,401
Short-term investments		192,272,655	200,328,317
Due from broker for securities sold		18,873,180	—
Other assets		8,771,195	2,988,355
Total current assets		452,583,161	407,275,921
Noncurrent assets:			
Long-term investments		17,439,439	64,939,976
Long-term investments pledged		10,000,000	—
Fixed assets, net		29,377,905	21,077,123
Intangible assets, net		46,849,500	24,200,000
Other assets		20,653,262	14,868,670
Total noncurrent assets		124,320,106	125,085,769
Total assets	$	576,903,267	532,361,690
Liabilities and Net Deficit			
Current liabilities:			
Accounts payable and accrued expenses	$	85,799,427	62,937,794
Accrued compensation		12,805,346	23,321,268
Accrued vacation		28,413,229	27,610,292
Deferred revenue		155,799,328	155,999,406
Deposits held for others		32,759,801	45,444,785
Current portion of capital lease obligations		6,452,681	—
Current portion of long-term debt		656,812	188,666
Line of credit		28,176,445	29,200,000
Total current liabilities		350,863,069	344,702,211
Noncurrent liabilities:			
Deposits held for others		1,237,554	1,460,785
Post-retirement benefit obligation		303,580,000	209,035,000
Capital lease obligations, net of current portion		17,408,526	—
Long-term debt, net of current portion		9,612,288	5,205,000
Other liabilities		5,535,572	4,469,453
Total noncurrent liabilities		337,373,940	220,170,238
Total liabilities		688,237,009	564,872,449
Net deficit:			
Unrestricted		(111,333,742)	(32,510,759)
Total liabilities and net deficit	$	576,903,267	532,361,690

See accompanying notes to financial statements.

THE RESEARCH FOUNDATION FOR
THE STATE UNIVERSITY OF NEW YORK

Statements of Activities

Years ended June 30, 2012 and 2011

		2012	2011
Revenues:			
Grants awarded for research and other sponsored activities:			
Federal	$	390,740,646	414,574,635
Federal flow through		157,520,496	163,817,516
New York State		154,341,772	163,585,941
Private and other		179,392,842	180,286,492
Total grants awarded for research and other sponsored activities		881,995,756	922,264,584
Investment income, net		5,380,612	19,921,549
Inventions and licenses income		10,853,368	11,924,304
Other income		40,189,091	20,677,684
Total revenues		938,418,827	974,788,121
Expenses:			
Sponsored programs and other activities		743,425,005	776,145,290
Administration and support		177,715,256	178,986,188
Total expenses		921,140,261	955,131,478
Change in net assets from revenues and expenses		17,278,566	19,656,643
Other changes:			
Inherent net contribution from ITC/STC acquisition		7,763,451	—
Transfer to affiliate organization FRMC		(10,000,000)	—
Post-retirement related change other than net periodic benefit costs		(93,865,000)	51,818,000
Change in net assets		(78,822,983)	71,474,643
Net deficit at beginning of year		(32,510,759)	(103,985,402)
Net deficit at end of year	$	(111,333,742)	(32,510,759)

See accompanying notes to financial statements.

THE RESEARCH FOUNDATION FOR
THE STATE UNIVERSITY OF NEW YORK

Statements of Cash Flow

Years ended June 30, 2012 and 2011

		2012	2011
Cash flow from operating activities:			
Federal grants and contracts	$	531,084,663	587,559,328
State and local grants and contracts		140,554,572	213,878,937
Private gifts and grants		190,864,048	176,385,796
Other receipts		211,535,183	183,934,019
Salaries and wages payments		(419,576,297)	(405,401,916)
Employee benefits payments		(149,723,030)	(147,584,496)
Payments to suppliers and vendors		(457,480,640)	(470,667,718)
Operating interest, dividends and investment gains		2,949,055	2,877,365
Distribution from BSA partnership		1,584,000	1,919,825
Interest payments on capital debt and notes		(729,808)	(212,499)
Other payments		(80,265,306)	(78,619,285)
Net cash (used) provided by operating activities		(29,203,560)	64,069,356
Cash flows from investing activities:			
Proceeds from sales of investments		260,297,462	313,948,062
Purchases of investments		(233,071,249)	(370,557,915)
Cash paid for purchases of fixed and intangible assets		(25,896,492)	(26,964,723)
Net cash provided (used) by investing activities		1,329,721	(83,574,576)
Cash flows from financing activities:			
Principal payments on long-term debt		(3,327,459)	(199,712)
Proceeds from Simons Foundation Loan (for NYGC)		2,564,100	—
Proceeds from Upstate Medical Loan		2,500,000	—
Proceeds from Sale leaseback at CNSE		27,000,000	—
Proceeds from line of credit		107,711,763	110,770,693
Payments on line of credit		(108,735,318)	(91,999,745)
Net cash provided by financing activities		27,713,086	18,571,236
Net decrease in cash and cash equivalents		(160,753)	(933,984)
Cash and cash equivalents, beginning of year		1,076,799	2,010,783
Cash and cash equivalents, end of year	$	916,046	1,076,799
Reconciliation of change in net assets to net cash (used) provided by operating activities:			
Change in net assets	$	(78,822,983)	71,474,643
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:			
Realized and unrealized gains on investments		(471,531)	(13,448,858)
Change in fair value of interest rate swap		550,483	(151,026)
Net change in equity investment of BSA partnership		(500,624)	(1,675,500)
Inherent net contribution from ITC/STC acquisition, net of cash		(6,768,016)	—
Depreciation and amortization		15,561,752	4,465,283
Loss on disposal of fixed assets		255,858	243,133
Accretion of deferred gain on sale leaseback transaction		(3,375,000)	—
Donated fixed assets		—	(15,000)
Change in assets and liabilities:			
Accounts receivable and other assets		(39,923,336)	(4,910,889)
Accrued investment income		188	1,396,204
Accounts payable and accrued expenses		1,318,315	6,892,432
Other accruals and other liabilities		1,534,627	262,232
Deferred revenue		(200,078)	43,950,545
Deposits held for and advances to others		(12,908,215)	(1,923,843)
Post-retirement benefit obligation		94,545,000	(42,490,000)
Net cash (used) provided by operating activities	$	(29,203,560)	64,069,356

See accompanying notes to financial statements.

(1) Organization

The Research Foundation for the State University of New York (RF), known until June 19, 2012 as "The Research Foundation of State University of New York," exists to serve SUNY and to capitalize on the scope, scale and diversity of SUNY as an engine of New York State's innovation economy.

The RF supports nearly $1 billion in SUNY research activity annually, providing sponsored programs administration and commercialization support services to SUNY faculty performing research in life sciences and medicine; engineering and nanotechnology; physical sciences and energy; social sciences, and computer and information sciences.

The reach and impact of SUNY research – its people, infrastructure and technology – demonstrate the many ways the RF functions to support the SUNY research enterprise; to administer sponsored grants; to help faculty inventors turn their ideas into products that benefit the world; to create new pathways that foster collaboration and advance vital research, and to initiate programs that lead to economic development and entrepreneurial opportunity in New York.

The RF comprises a central office and operating units at 30 campus locations across New York State. Research Foundation business conducted on campuses is supervised by RF operations managers who report to and are appointed by the RF's president on recommendation by campus presidents.

The RF is led by a president who also serves as the Vice Chancellor for Research for the State University of New York (SUNY). It is governed by a 17 member board of directors drawn from business, industry, research and higher education administration.

The RF is a private nonprofit educational corporation that is tax-exempt under Internal Revenue Code (IRC) Section 501(c) (3).

(2) Summary of Significant Accounting Polices

(a) Basis of Presentation

The accompanying financial statements of the RF are presented consistent with the Financial Accounting Standards Board Accounting Standards Codification (ASC) 958, which addresses the presentation of financial statements for not-for-profit organizations. In accordance with the provisions of ASC 958, net assets and revenue, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, unrestricted net assets are amounts not subject to donor-imposed stipulations and are available for operations.

(b) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make significant estimates and assumptions that affect the reported amounts of liabilities and net assets and disclosures of contingencies as of the date of the financial statements and the reported amount of change in net assets during the reporting period. The most significant areas which are affected by the use of estimates include balances for allowance for doubtful accounts, valuation of certain alternative investments, and the post-retirement benefit obligation. Actual results could differ from those estimates and the differences between estimates and actual results could be significant.

(c) Revenue Recognition

Grants awarded for research and other sponsored activities represent exchange transactions derived from 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 costs incurred, in the year in which the 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 costs are eligible for reimbursement.

Investment income or loss is comprised of dividends and interest, realized and changes in unrealized gains and losses, and income from investment in the Brookhaven Science Associates partnership.

Inventions and licenses income include the total amount derived 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. The RF follows the SUNY policy of apportioning up to 40% of the royalties to the inventors, with the rest apportioned to the campuses. The inventors' shares of the royalties are reflected in the RF's administration and support expenses. Campus portions are spent under the provisions of the Bayh-Dole Act and are also reflected in the RF's administration and support expenses.

Other income consists of third party service center revenue, nonsponsored 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.

(d) Cash Equivalents

For the purpose of presenting the statements of cash flows, cash equivalents include short-term, highly liquid investments with an original maturity of three months or less at the time of purchase, exclusive of amounts classified as short-term, long-term, and long-term pledged investments. As more fully described in note 6, cash equivalents are stated at fair value and are considered a Level 1 financial asset.

(e) *Investments*

Investments are reported at fair value pursuant to ASC 820, Fair Value Measurements and Disclosures. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between participants at the measurement date. See note 6 for a discussion of fair value measurements.

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

Short-term investments reflect the RF's anticipated need to fulfill current obligations under sponsored awards and agency agreements, using approximately the amounts represented in the deferred revenue and current deposits held for others captions on the RF balance sheet. Investment holdings in excess of these needs are classified as long-term investments.

During the fiscal year ended June 30, 2012, the RF designated $10 million of its investments as collateral for a loan between the Dormitory Authority of the State of New York (DASNY) and SUNY Upstate Medical University (Upstate Medical) to effectuate the latter's purchase of Community General Hospital. This collateral balance is expected to be released over the ten-year term of the loan between DASNY and Upstate Medical. See note 12 for information on a related $2.5 million loan taken out by the RF in order to obtain the full collateral required by DASNY.

On its operating funds, to minimize potential losses, the RF maintains a diversified investment portfolio. Investments are held with the investment custodian in the RF's name.

Under ASC 715-20-50 and 55, employers are required to disclose information about fair value measurements of plan assets similar to the disclosures required under ASC 820. See note 10.

(f) *Fixed and Intangible Assets*

Fixed and intangible assets are stated at cost, net of accumulated depreciation and amortization, and are depreciated on a straight-line basis over the estimated useful life of the assets. Using historical and industry experience, estimated useful lives, with the exception of land, range from five to 50 years. Certain technology licenses purchased from IBM, Inc. to support research infrastructure and development as well as entrepreneurial opportunities in New York are capitalized as intangibles and amortized over eight years. The RF monitors its long-lived assets for impairment indicators on an ongoing basis. If impairment indicators existed, the RF would perform the required analysis and, if applicable, would record impairment charges.

Upon sale or retirement of capitalized assets, the cost and the related accumulated depreciation and amortization are removed from the accounts and the resulting gain or loss is recorded. Depreciation and amortization expense for the years ended June 30, 2012 and 2011 was $15,561,752 and $4,465,283, 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.

(Continued)

(g) Capital Leases

During fiscal 2012, the RF engaged in two sale-leaseback transactions for capital equipment acquired under prior-year programs or by way of donations from business partners at the College of Nanoscale Science and Engineering (CNSE). Each sale-leaseback was for $13.5 million, for a total of $27 million. Both transactions required treatment as capital leases, with ownership of the underlying assets reverting to the RF at the end of the four-year lease terms. The lease transactions resulted in a gain that has been deferred and recognized over the life of the lease. As of June 30, 2012, the RF owes $23.9 million under these capital leases. See note 8.

(h) Derivative Instruments and Hedging Activities

The RF accounts for derivative investments in accordance with the ASC Topic 815, Derivative and Hedging, which requires that all derivative instruments be recognized in the financial statements and measured at fair value regardless of the purpose or intent for holding them. The RF currently has an interest rate swap that is adjusted to fair value, through net assets. In the prior year, the RF also had a forward rate contract for a CNSE sponsored program which the difference between market and contract rates was borne by the sponsor; the forward rate contract was reflected at fair value on the RF balance sheet as equal asset and liability balances.

(i) Deferred Revenue

Deferred revenue represents three types of activities: (1) surplus amounts for sponsored program activity that occur when funds are received in advance of spending, (2) surplus amounts on balance awards that represent the balance of funds that remain after termination of a project (either grant or contract) supported by a fixed price award which can be used in the future to support research, and (3) surplus balances related to service centers that 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.

(j) 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 30 days. Employees are not reimbursed for accumulated sick leave at termination; however, as described in note 11, upon retirement up to 200 days of accumulated sick leave is considered in the computation of retirement benefits.

(k) Post-Retirement Benefit Obligation

In 2009, the RF established a Voluntary Employee Benefit Association (VEBA) trust for the post-retirement benefit plan. The assets held in the VEBA trust reduce the accumulated post-retirement benefit obligation, as reported on the RF's balance sheet. The VEBA trust held assets of $106,602,000 and $101,424,000 as of June 30, 2012 and 2011, respectively.

(l) Other Information

Accounts receivable as of June 30, 2012 and 2011 are reported net of an allowance for doubtful accounts of approximately $7,522,000 and $7,146,000, respectively.

Advances to others and deposits held for others represent amounts related to agency activity at the campus and affiliated organization locations. Agency activity refers to 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 administration services. Included in the noncurrent deposits held for others are planned gifts donated to RF to ultimately benefit the campus foundations of approximately $1,238,000 and $1,461,000 at June 30, 2012 and 2011, respectively. Included in the current portion of deposits held for others are approximately $29,510,000 and $32,974,000 of construction funds for an affiliated organization at June 30, 2012 and 2011 respectively.

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 are included in accrued compensation and consist of both a known and estimated component. The total liability to SUNY at June 30, 2012 and 2011 is approximately $7,020,000 and $5,735,000, respectively.

The RF maintains a deferred compensation plan established in accordance with Section 457(b) of the IRC. Plan funds, totaling approximately $4,355,000 and $3,839,000 as of June 30, 2012 and 2011, respectively, are a part of the general assets of the RF, which are subject to claims of creditors of the RF.

The RF assisted in the creation and expansion of the CNSE facilities. The RF leases various areas of clean room space from Fuller Road Management Corporation to facilitate research and development related activities at the University at Albany in the field of nanotechnology (see note 4). The RF maintains a service center where costs are incurred for the operation of this facility and supported by recharges to sponsored programs or third-party use. Agreements have been executed between the RF and various third parties for the use of tools and facilities for which the revenue is included in other income in the statements of activities.

(m) Fair Value of Financial Instruments

The carrying amounts of accounts receivable, other current assets, accounts payable and accrued expenses, and deposits held for others approximate fair value due to the short maturity of these financial instruments. ASU 2010-20 has been considered for the two long-term notes receivable, the University at Buffalo Associates (UBA) note for $13.7 million and the New York Genome Center (NYGC) note for $2.6 million. In both cases, no bad debt allowance is considered necessary as of June 30, 2012 and no adverse information on collectability has been received as of financial statement issuance date. Since there are only two notes with maturities that exceed one year, further disclosure by class or portfolio segment would not be applicable.

The carrying amount of long-term debt and the line of credit approximate fair value because these loans bear interest at a variable rate that is not significantly different than current market rates for loans with similar maturities and credit quality. See note 6 for additional information regarding fair value considerations with respect to investments.

(n) Tax Status

The RF has been determined by the Internal Revenue Service to be an organization described in the Internal Revenue Code (the Code) Section 501(c)(3) and, therefore, is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. The RF follows the provisions of ASC 740-10, *Accounting for Uncertainty in Income Taxes*. Management has evaluated ASC 740-10 and has determined there are no unlikely tax positions to be recorded in the financial statements for the years ended June 30, 2012 and 2011.

(o) Reclassifications

Certain 2011 amounts have been reclassified to conform to the 2012 presentation.

(3) Business Acquisition

Effective January 1, 2012, the RF acquired substantially all of the assets and assumed the liabilities of Infotonics Technology Center Inc. (Infotonics), now doing business as Smart System Technology and Commercialization Center (STC). ITC was originally formed as a collaboration among industry, universities, and government to establish a national center of excellence for phototonics and microsystems. Its three core areas of competency, in device research and engineering, packaging and assembly, and prototype and pilot-scale fabrication, are complementary to the RF’s commitment to spur economic development and increase collaboration in advance research in New York State through SUNY research.

The fair value of the assets acquired approximated $12.5 million, net of approximately $8 million in building and land assets initially assumed by the RF and then transferred to Fuller Road Management Corporation. Liabilities assumed totaled approximately $4.7 million. The furniture and equipment were appraised at $11.0 million, which represents the fair market value assigned by an independent appraiser. The RF assumed $3.7 million of debt owed to Genesee Regional Bank and $351,000 owed to Ontario County, both of which were paid off during the fiscal year.

The statement of activities reflects the operations of ITC/STC from the effective date of January 1, 2012 through June 30, 2012. No consideration was exchanged for the net assets contributed. In conjunction with this acquisition, under ASC 958-805 the RF recorded an inherent net contribution of $7.8 million, representing the excess of the fair value of the assets over the liabilities assumed.

(4) Affiliated Organization

The RF has 19 affiliated organizations as of June 30, 2012 that have been established to facilitate university-industry-government partnerships and accelerate the growth of sponsored program and applied research opportunities at SUNY. The affiliated organizations are as follows:

(a) Binghamton Center for Emerging Technologies

Binghamton Center for Emerging Technologies is a private, not-for-profit corporation formed by the RF (acting on behalf of Binghamton University) and Endicott Interconnect Technologies, to work in partnership with Endicott and the RF, with support from Binghamton University's Small Scale Systems Integration and Packaging (S^3IP) Center, to fulfill technical needs of the Department of Defense and other federal agencies at an accelerated pace.

(b) BioBAT Holdings, Inc.

BioBAT Holdings 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 (on behalf of the City of New York). It was established to provide further support for the development of the Brooklyn Army Terminal by providing a vehicle through which active development and construction could be facilitated in support of the mission and purpose of BioBAT, Inc.

(c) 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 (on behalf of the City of New York) to develop the Brooklyn Army Terminal into a site for biotechnology expansion, manufacturing, and research. This facility will provide a committed location in New York City where new and growth stage biotechnology and biopharmaceutical companies can expand, create jobs, and manufacture products for market.

(d) 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 an 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 biotechnology development through the commercialization of new technologies and the creation of new companies and new jobs.

(e) Brookhaven Science Associates, LLC

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

The accompanying financial statements of the RF include its share of the net earnings of BSA based on the operating results for the years ended June 30, 2012 and 2011. The RF records distributions received as a reduction of the investment balance.

(f) Buffalo 2020 Development Corporation

Buffalo 2020 Development Corporation was formed by the RF (on behalf of University at Buffalo) in partnership with FNUB, Inc., a subsidiary of the University at Buffalo Foundation, in an effort to enable the purchase, development and construction of research-based facilities and infrastructure on University at Buffalo property on the downtown Buffalo, NY campus. These facilities will support the research, academic and economic development mission of the SUNY campus at Buffalo.

(g) Central New York Biotechnology Research Center, Inc.

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 seeks to promote economic development in Central New York and across New York State by supporting technology transfer, workforce development, and a high-tech business incubator.

(h) 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, Inc. CUBRC, Inc.'s mission is to leverage the capabilities of scientists from academia and industry to expand capability and to provide economic and industrial 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.

(i) 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 incubator adjacent to the SUNY Downstate Medical Center. The facility seeks to advance medical research, provide incubator space and assist in the economic development of the Borough of Brooklyn.

(j) Fort Schuyler Management Corporation

Fort Schuyler Management Corporation (FSMC) is a private, not-for-profit corporation, formed by the RF in partnership with the SUNYIT Foundation. FSMC will facilitate the construction of a nanotechnology and semiconductor development and manufacturing facility adjacent to the SUNY Institute of Technology (SUNYIT) campus in partnership with local economic development institutions. FSMC will advance the growth of an emerging nanotechnology and semiconductor research and development cluster in New York that includes CNSE at the University at Albany.

(k) Fuller Road Management Corporation

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 at CNSE in an effort to promote the advancement of the research portfolio of the University at Albany, as well as to assist in the development of early and late stage companies, the creation of jobs and the development of the region's economy.

In May 2005, the RF, as tenant, and FRMC, as landlord, executed an agreement for the lease of clean room facilities, which are used for nanotechnology-related research and development at CNSE. Rent payments made by the RF pursuant to the agreement for each of the years ended June 30, 2012 and 2011 were $7,014,458. The annual rental payment may escalate annually at a rate not to exceed one percent. The term of the lease is from May 20, 2005 through September 30, 2035.

In November 2011, the RF, as tenant, and FRMC, as landlord, executed an agreement for a second lease of clean room facilities which are used for nanotechnology research and development activities at the NanoFabXtension (NFX) facility at CNSE. Rent payments by the RF are not scheduled to commence until conclusion of construction and fit out of NFX. The term of the lease payments is from January 1, 2013 through December 31, 2021, at an annual amount of $36 million.

Annual minimum lease payments for both of these leases are shown in note 15.

Additionally, FRMC has historically been a source of funding under NYS-sponsored programs taking place at CNSE. The RF has also made contributions to FRMC to assist with the NFX facility project.

(l) Long Island High Technology Incubator

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 technology and new materials technology.

(m) New York Maritime College Sailing Foundation, Inc.

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. This corporation is inactive and is expected to be dissolved during fiscal year 2013.

(n) New York Genome Center LLC

New York Genome Center (NYGC) is a private, nonprofit organization formed in an effort to leverage the collaborative resources of leading academic medical centers, research universities, and commercial organizations. The vision of NYGC is to transform medical research and clinical care in and around New York City through the creation of what will become one of the largest genomics and bioinformatics facilities in North America. The RF participates in NYGC as an Institutional Founding Member on behalf of Stony Brook University; NYGC's other members include an array of New York-based universities and health institutions.

(o) Purchase College Advancement Corporation

Purchase College Advancement Corporation is a private, not-for-profit corporation formed by the RF (on behalf of the State University College at Purchase) and, as of fiscal 2010, the Purchase College Foundation, to operate facilities that will support the college's academic mission and spur economic development in the mid-Hudson region.

(p) 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.

(q) SUNY China International Corporation

SUNY China International Corporation is a private, not-for-profit corporation formed by the RF, and, as of fiscal 2009, the Neil D. Levin Graduate Institute of International Relations and Commerce Foundation, Inc., to foster and develop new academic and research collaborations, programs and initiatives between SUNY and Chinese universities. The organization was formerly known as State University of New York China Representative Office, Inc., and was renamed during fiscal year 2009. This corporation is inactive and will be dissolved during fiscal year 2013.

(r) SUNY Fredonia Technology Incubator, Inc

SUNY Fredonia Technology Incubator, Inc. (SFTI) is a private not-for-profit corporation formed by the RF and the Fredonia College Foundation to develop and manage a technology incubator facility in Dunkirk, NY for the benefit of the State University of New York, SUNY Fredonia, and Western New York State. The incubator will house new technology companies in order to further the early stage business capacity of the region, create jobs and promote economic development.

(s) U.S. Photovoltaic Manufacturing Consortium, Inc.

The Photovoltaic Manufacturing Consortium (PVMC) is a private, not-for-profit corporation, formed by the RF and Sematech, Inc. to facilitate an industry-led consortium for cooperative research and development among industry, university, and government partners to accelerate the development, commercialization, and manufacturing of next-generation solar photovoltaic (PV) systems. Through its programs and advanced manufacturing development facilities, PVMC is a proving ground for innovative solar technologies and manufacturing processes. The RF participates in PVMC on behalf of CNSE.

(5) Investments

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

		2012	2011
Cash equivalents	$	81,926,902	78,587,008
U.S. government agency		—	7,995,840
Mutual funds		55,828,857	75,476,401
Exchange traded funds		11,568,188	10,727,437
Alternative investments		65,875,791	87,914,281
Other		1,253,936	1,809,530
		216,453,674	262,510,497
Investment in BSA partnership		3,258,420	2,757,796
Total	$	219,712,094	265,268,293

Alternative investments consist of diversified investments of hedge fund of funds, real estate, domestic and foreign equity funds, fixed income securities and private equity funds in various investment vehicles, such as limited liability partnerships and corporations. See note 6 for discussion of fair value measurements.

The RF's investments are kept in pools based on business needs. Short-term needs are covered by holdings in short-term and liquid pools, while the remainder of the investments are kept in medium-duration and long-duration investment pools depending on expected duration of funds and spending needs.

The strategy of the RF's medium-duration pool is based on a long-term annual return target of 7%. The goal is to minimize the probability of a decline in excess of 5% in any single year, while ensuring quarterly liquidity of 30% of the portfolio to meet possible withdrawal on relatively short notice. As a result of these diverse needs, the desired risk levels are below those typically encountered in longer-term restricted funds. The largest portfolio allocations in the medium-duration pool are fixed-income bond funds, absolute return hedge funds, hedged equities and equity funds.

The RF's long-duration pool is intended for funds that can be reasonably expected to remain unspent or consistently replenished over a long period of time. The long-duration strategy is a higher risk allocation with a long-term annual return target of 10%. The goal is to minimize the probability of a decline in excess of 15% in any single year, with 60% of the portfolio assumed to have a duration of three years or longer. The longest portfolio allocations in the long-duration pool are equity funds, hedged equities and real estate.

Long term investments pledged of $10 million represent collateralized investments arising from the financing agreement between DASNY and Upstate Medical. As security on the loan, $10 million of RF long term investments have been pledged which includes $2.5 million loaned to the campus out of the campus-affiliated organization's allocation funds. See note 2(e) for additional details.

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

		2012	2011
Dividends and interest	$	2,949,457	2,877,366
Net realized and unrealized gains		471,531	13,448,858
Income from investment in BSA partnership		1,959,624	3,595,325
Total return on investments	$	5,380,612	19,921,549

(6) Fair Value Measurements

Fair value is measured with ASC 820, *Fair Value Measurements and Disclosures*. The three levels of the fair value hierarchy established under ASC 820 are described below:

Level 1: Inputs are unadjusted quoted market prices in active markets for identical assets or liabilities that are assessable at the measurement date.

Level 2: Inputs are other than quoted prices in active markets that are observable either directly or indirectly and fair value is determined through the use of models or other valuation methodologies.

Level 3: Inputs are unobservable and are used to measure fair value to the extent that observable inputs are not available.

The following is a description of the valuation methodologies used for investments measured at fair value:

Cash equivalents are valued at the net asset value (NAV) reported by the financial institution (Level 1 measurement).

U.S. government securities, mutual and exchange traded funds are valued based on quoted market prices or dealer quotes, where available (Level 1 measurement). When quoted market prices are not available, fair values are based on quoted market prices of comparable instruments. When necessary, the RF utilizes matrix pricing from a third party vendor to determine fair value pricing (Level 2 measurement).

The RF's various alternative investments are typically redeemable with the fund at NAV under the terms of the investment agreements. The estimation of fair value of alternative investments for which the underlying securities do not have readily determinable value is made using NAV per share or its equivalent as a practical expedient in accordance with Accounting Standards Update (ASU) 2009-12, *Investments in Certain Entities that Calculate Net Asset Value per Share (or its Equivalent)*. The RF owns interests in funds rather than in securities or assets underlying each fund. The NAV is derived primarily using market values of the underlying holdings. The level in the fair value hierarchy in which each investment's fair value is classified is based primarily on the RF's ability to redeem its interests in each account at or near the date of the balance sheet (Level 2 or 3 measurement).

The preceding methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although RF believes its valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Financial instruments are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The following tables summarize, as of June 30, 2012 and 2011, the RF's investments that are measured at fair value on a recurring basis as well as the liquidity redemption and notification provisions.

	2012					
	Level 1	**Level 2**	**Level 3**	**Total**	**Redemption frequency**	**Days notice**
Investments:						
Cash equivalents	$ 81,926,902	—	—	81,926,902	Daily	1
Mutual funds:						
U.S. government fixed income	21,237,479	—	—	21,237,479	Daily	1
U.S. corporate credit securities	2,738,652	—	—	2,738,652	Daily	1
U.S. equities	9,733,123	—	—	9,733,123	Daily	1
Foreign equities	19,035,850	—	—	19,035,850	Daily	1
Real estate	3,083,753	—	—	3,083,753	Daily	1
Exchange traded funds:						
Real estate	4,649,433	—	—	4,649,433	Daily	4
Commodities	4,357,029	—	—	4,357,029	Daily	4
Energy stocks	2,561,726	—	—	2,561,726	Daily	4
Alternative investments:						
Absolute multistrategy return	—	35,193,817	—	35,193,817	Quarterly	45 to 95
Hedged equities	—	14,204,490	—	14,204,490	Quarterly	65 to 95
U.S. equities	—	2,447,137	—	2,447,137	Quarterly	45
U.S. corporate credit securities	—	9,519,534	—	9,519,534	Monthly/ Quarterly	30 to 90
Foreign corporate credit securities	—	2,050,426	—	2,050,426	Monthly/ Quarterly	10 to 45
Private equity	—	—	2,460,387	2,460,387	See (a) below	N/A
Other	1,253,936	—	—	1,253,936	Daily	4
Total	$ 150,577,883	63,415,404	2,460,387	216,453,674		

(a) Certain alternative investments include noncontrolling shares or interests in funds where the controlling general partner serves as the investments manager. Such investments are typically not eligible for redemption from the fund or general partner, but are typically sold to third party buyers in private transactions that typically can be completed in approximately 90 days. It is the intent of the RF to hold these investments until the fund has fully distributed all proceeds to the investors.

	2011					
	Level 1	**Level 2**	**Level 3**	**Total**	**Redemption frequency**	**Days notice**
Investments:						
Cash equivalents	$ 78,587,008	—	—	78,587,008	Daily	1
U.S. government agency	7,995,840	—	—	7,995,840	Daily	4
Mutual funds:						
U.S. government fixed income	43,681,869	—	—	43,681,869	Daily	1
U.S. corporate credit securities	2,578,870	—	—	2,578,870	Daily	1
U.S. equities	10,362,250	—	—	10,362,250	Daily	1
Foreign equities	14,500,836	—	—	14,500,836	Daily	1
Real estate	4,352,576	—	—	4,352,576	Daily	1
Exchange traded funds:						
Real estate	4,688,424	—	—	4,688,424	Daily	4
Commodities	3,990,514	—	—	3,990,514	Daily	4
Energy stocks	2,048,499	—	—	2,048,499	Daily	4
Alternative investments:						
Absolute multistrategy return	—	39,447,587	—	39,447,587	Quarterly	60 to 95
Hedged equities	—	24,450,164	—	24,450,164	Quarterly	65 to 95
U.S. equities	—	1,512,000	—	1,512,000	Quarterly	45
Foreign equities	—	4,046,431	—	4,046,431	Quarterly	90
U.S. corporate credit securities	—	11,884,254	—	11,884,254	Monthly/ Quarterly	30 to 90
Foreign corporate credit securities	—	5,495,087	—	5,495,087	Monthly/ Quarterly	10 to 45
Private equity	—	—	1,078,758	1,078,758	See (a) below	N/A
Other	1,809,530	—	—	1,809,530	Daily	4
Total	$ 174,596,216	86,835,523	1,078,758	262,510,497		

A summary of activity for investments with Level 3 fair value measurements for the years ended June 30 follows:

	2012	**2011**
Balance, beginning of year	$ 1,078,758	—
Purchases	1,366,478	1,027,407
Sales	(27,067)	—
Unrealized gains	42,218	51,351
Balance, end of year	$ 2,460,387	1,078,758

There has been no significant transfer activity between Level 1 and Level 2 investments during fiscal 2012 and 2011. The RF has unfunded commitments to alternative investments at June 30, 2012 of approximately $3.2 million.

(7) Other Assets and Other Liabilities

Other assets and liabilities consist of the following at June 30:

		2012	2011
Other assets:			
Current:			
Royalties receivable	$	3,376,243	3,068,140
Advance payments – sponsored programs		5,370,429	—
Loans receivable		24,343	7,830
Prepaid and other		180	(87,615)
Total other current assets		8,771,195	2,988,355
Noncurrent:			
UBA loan receivable		13,734,084	11,029,228
NY Genome Ctr. loan receivable		2,564,100	—
Section 457(b) assets		4,355,078	3,839,442
Total other noncurrent assets		20,653,262	14,868,670
Total other assets	$	29,424,457	17,857,025
Other liabilities – noncurrent:			
Section 457(b) obligation	$	4,355,078	3,839,442
Interest rate swap		1,180,494	630,011
Total other liabilities	$	5,535,572	4,469,453

The RF records the interest rate swap agreement at fair value and considered it a Level 2 financial liability.

(8) Fixed Assets

Fixed assets consist of the following at June 30:

Fixed asset classification	Fixed assets June 30, 2011	Additions	Dispositions/ retirements	Fixed assets June 30, 2012
Building	$ 6,500,000	—	—	6,500,000
Office furniture and equipment	44,903,693	13,084,718	1,068,091	56,920,320
Clean-room tools, pursuant to sale-leaseback	—	3,375,000	—	3,375,000
Information systems	32,919,591	308,174	—	33,227,765
Total fixed assets	84,323,284	16,767,892	1,068,091	100,023,085
Less accumulated depreciation:				
Building	1,170,000	130,000	—	1,300,000
Office furniture and equipment	29,374,785	4,527,265	812,233	33,089,817
Clean-room tools, pursuant to sale-leaseback	—	3,375,000	—	3,375,000
Information systems	32,701,376	178,987	—	32,880,363
Total accumulated depreciation	63,246,161	8,211,252	812,233	70,645,180
Fixed assets, net	$ 21,077,123	8,556,640	255,858	29,377,905

During 2012, the RF entered into sale-lease back transactions for certain owned clean-room tools with a bank. The gross value of the right-to-use asset was $27 million, which is presented above, net of $23.6 million of the June 30, 2012 value of a deferred gain on the sale-leaseback transaction that is being recognized over the four-year life of the lease. This results in no net increase to the fixed asset balances at year-end; this treatment is consistent with the guidance in ASC 840.

(9) Intangible Assets

Intangible assets at June 30, consist of technology licenses purchased from IBM as follows:

Intangible asset classification		Intangible assets June 30, 2011	Additions	Dispositions/ retirements	Intangible assets June 30, 2012
Technology License – 28 nm program	$	24,200,000	—	—	24,200,000
Technology License – 32 nm program		—	30,000,000	—	30,000,000
Total intangible assets		24,200,000	30,000,000	—	54,200,000
Less accumulated amortization:					
Technology License – 28 nm program		—	4,538,000	—	4,538,000
Technology License – 32 nm program		—	2,812,500	—	2,812,500
Total accumulated amortization		—	7,350,500	—	7,350,500
Intangible assets, net	$	24,200,000	22,649,500	—	46,849,500

The expected annual amortization over the next 5 years approximates $6,775,000.

(10) Post-Retirement Benefit Obligation

The RF sponsors a defined benefit post-retirement plan that covers substantially all nonstudent employees. The plan provides post-retirement medical benefits and is contributory for employees hired after 1985. Retirees who were hired after 1985 are subject to the same cost sharing requirements as active employees, with respect to medical coverage. With respect to dental coverage, retirees must pay the full premium cost of the coverage selected.

In November 2010 the RF board of directors approved plan amendments increasing monthly participant (employee) contributions for all future retirees hired after 1985, and not eligible to retire as of January 1, 2012, as well as eliminating a rule that a one-year break in service negated previous service. The following table identifies the revised contribution percentages based on employees' years of service and date of hire.

	Employees hired		Dependents
Years of service	**Prior to January 1, 2012**	**On or after January 1, 2012**	**Effective January 1, 2012**
10 – 14	40%	80%	85%
15 – 19	20	35	50
20 or greater	10	10	25

Participants who were retired or eligible to retire as of January 1, 2012 or were hired prior to January 1, 1986 were grandfathered under the pre-January 1, 2012 contribution percentages. Pre-January 1, 2012 contribution percentages for participants hired after 1985 were 10% of the individual coverage premium and for dependents 25% of the difference between individual and couple coverage premiums. No contributions are made by employees hired before January 1, 1986.

Annual allocations to fund the plan are made by management pursuant to a funding policy established by the Board of Directors.

For payment of benefits under the plan, as discussed in note 2(k) above, the RF established a VEBA trust in 2009 with Bank of New York Mellon as the trustee. The VEBA trust held assets of $106,602,000 and $101,424,000 as of June 30, 2012 and 2011, respectively. The assets held in the VEBA trust reduce the accumulated post-retirement benefit obligation, as reported on the RF's balance sheets. As noted in the table below, current obligations are assumed to be paid out of the trust assets, with the remaining unfunded obligation to be reflected as a noncurrent liability. There were 6,548 participants in the plan as of July 1, 2011.

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 nearest thousand):

		2012	2011
Change in benefit obligation:			
Benefit obligation at beginning of year	$	310,459,000	331,971,000
Service cost		7,627,000	10,762,000
Interest cost		16,794,000	16,423,000
Plan participants' contributions		496,000	398,000
Retiree drug subsidy receipts		472,000	616,000
Plan amendments		—	(37,095,000)
Actuarial loss (gain)		84,468,000	(4,942,000)
Benefits paid		(10,134,000)	(7,674,000)
Benefit obligation at end of year		410,182,000	310,459,000
Change in plan assets:			
Fair value of plan assets at beginning of year		101,424,000	80,446,000
Return on plan assets		(1,638,000)	12,149,000
Employer contributions		15,982,000	15,489,000
Plan participants' contributions		496,000	398,000
Retiree drug subsidy receipts		472,000	616,000
Benefits paid		(10,134,000)	(7,674,000)
Fair value of plan assets at end of year		106,602,000	101,424,000
Funded status	$	(303,580,000)	(209,035,000)
Amount recognized in the balance sheet:			
Noncurrent liability	$	(303,580,000)	(209,035,000)
Amount recognized in unrestricted net assets:			
Prior service credit	$	28,527,000	34,105,000
Net actuarial loss		(187,389,000)	(99,102,000)
Total	$	(158,862,000)	(64,997,000)

		2012	2011
Weighted average assumptions used to determine benefit obligation:			
Discount rate at end of year	$	4.05%	5.60%
Components of net periodic benefit cost:			
Service cost		7,627,000	10,762,000
Interest cost		16,794,000	16,423,000
Expected return on plan assets		(8,417,000)	(6,819,000)
Amortization of:			
Prior service credit		(5,578,000)	(3,829,000)
Actuarial loss		6,236,000	8,280,000
Net periodic post-retirement benefit cost	$	16,662,000	24,817,000
Weighted average assumptions used to determine net periodic benefit cost:			
Discount rate for the year		5.60%	5.43%
Expected long term rate of return		8.00	8.00

		2012	2011
Other changes in plan assets and benefit obligations recognized in unrestricted net assets:			
Net actuarial (loss) gain	$	(94,523,000)	10,272,000
Amortization of:			
Prior service (credit) cost		(5,578,000)	33,266,000
Actuarial loss		6,236,000	8,280,000
Total recognized as a (decrease) increase in unrestricted net assets	$	(93,865,000)	51,818,000

Expected amounts amortized from unrestricted net assets into net periodic benefit cost for fiscal year ending 2013 include prior service credit of $5,578,000 and actuarial loss of $(14,637,000).

Estimated gross benefit payments (net of participants' contributions):		
Fiscal year ending 2013	$	10,270,000
Fiscal year ending 2014		11,514,000
Fiscal year ending 2015		12,793,000
Fiscal year ending 2016		14,203,000
Fiscal year ending 2017		15,573,000
Fiscal year ending 2018 – 2022		99,871,000
Estimated gross amount of subsidy receipts:		
Fiscal year ending 2013	$	742,000
Fiscal year ending 2014		876,000
Fiscal year ending 2015		1,011,000
Fiscal year ending 2016		1,158,000
Fiscal year ending 2017		1,333,000
Fiscal year ending 2018 – 2022		9,618,000
Estimated net benefits payments:		
Fiscal year ending 2013	$	9,528,000
Fiscal year ending 2014		10,638,000
Fiscal year ending 2015		11,782,000
Fiscal year ending 2016		13,045,000
Fiscal year ending 2017		14,240,000
Fiscal year ending 2018 – 2022		90,253,000

For measurement purposes, the initial trend rates vary by coverage. The health maintenance organization rate is 7.00%, the preferred provider organization (PPO) Medical Pre-65 rate is 6.25%, the PPO Medical Post-65 rate is 6.25%, the PPO Rx rate is 7.00% and administrative fees are 5.0%. Trend rates grade down to an ultimate rate of 5.0% in 2018 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:

		One-percentage point increase	One-percentage point decrease
Effect on total service and interest cost components	$	5,026,000	(3,945,000)
Effect on post-retirement benefit obligation		79,654,000	(63,368,000)

The following tables summarize as of June 30, 2012 and 2011 the RF's defined benefit post-retirement plan's investments held in the VEBA trust, measured at fair value on a recurring basis including the liquidity redemption and notification provisions (amounts recorded to nearest thousand). The hierarchy and inputs to valuation techniques to measure fair value of the plan's investments are the same as outlined above in note 6.

	2012					
	Level 1	Level 2	Level 3	Total	Redemption frequency	Days' notice
Investments:						
Cash equivalents	$ 271,000	—	—	271,000	Daily	1
Mutual funds:						
U.S. government fixed income	9,851,000	—	—	9,851,000	Daily	1
U.S. equities	14,190,000	—	—	14,190,000	Daily	1
Foreign equities	21,604,000	—	—	21,604,000	Daily	1
Real estate	3,281,000	—	—	3,281,000	Daily	1
Exchange traded funds:						
Real estate	3,892,000	—	—	3,892,000	Daily	4
Commodities	3,709,000	—	—	3,709,000	Daily	4
Energy stocks	1,782,000	—	—	1,782,000	Daily	4
Alternative investments:						
Absolute multistrategy return	—	15,482,000	—	15,482,000	Quarterly	95
Hedged equities	—	24,925,000	—	24,925,000	Quarterly	95
U.S. equities	—	979,000	—	979,000	Quarterly	45
Real estate	—	—	1,125,000	1,125,000	See note 6(a)	N/A
Private equity	—	—	5,511,000	5,511,000	See note 6(a)	N/A
	$ 58,580,000	41,386,000	6,636,000	106,602,000		

	2011					
	Level 1	Level 2	Level 3	Total	Redemption frequency	Days' notice
Investments:						
Cash equivalents	$ 1,663,000	—	—	1,663,000	Daily	1
Mutual funds:						
U.S. government fixed income	15,533,000	—	—	15,533,000	Daily	1
U.S. equities	10,186,000	—	—	10,186,000	Daily	1
Foreign equities	12,194,000	—	—	12,194,000	Daily	1
Real estate	3,924,000	—	—	3,924,000	Daily	1
Exchange traded funds:						
Real estate	3,922,000	—	—	3,922,000	Daily	4
Commodities	3,017,000	—	—	3,017,000	Daily	4
Energy stocks	1,707,000	—	—	1,707,000	Daily	4
Alternative investments:						
Absolute multistrategy return	—	15,535,000	—	15,535,000	Quarterly	95
Hedged equities	—	24,180,000	—	24,180,000	Quarterly	95
U.S. equities	—	1,008,000	—	1,008,000	Quarterly	45
Foreign equities	—	4,816,000	—	4,816,000	Quarterly	90
Real estate	—	—	144,000	144,000	See note 6(a)	N/A
Private equity	—	—	3,595,000	3,595,000	See note 6(a)	N/A
	$ 52,146,000	45,539,000	3,739,000	101,424,000		

A summary of activity for investments with Level 3 fair value measurements for the years ended June 30, follows (amounts rounded to nearest thousand):

		2012	2011
Balance, beginning of year	$	3,739,000	1,893,000
Purchases		3,419,000	1,762,000
Sales		(503,000)	(328,000)
Realized gains		203,000	—
Realized losses		(12,000)	(7,000)
Net unrealized (losses) gains		(210,000)	419,000
Balance, end of year	$	6,636,000	3,739,000

There has been no significant transfer activity between Level 1 and Level 2 investments during fiscal 2012 and 2011. The RF has unfunded commitments to the plan's alternative fund investments at June 30, 2012 of approximately $7.0 million.

(a) Investment Policies and Strategies

The plan's primary investment goal is to meet the ongoing obligations while minimizing contributions and controlling risks. Ordinarily, the asset allocation plan would be structured such that 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 under agreement to manage the plan assets kept in the VEBA trust, exercise full investment discretion within the investment policy approved by the RF board of directors, and guidelines as described in the respective investment agreements. However, assets must be managed with the care, skill, prudence and diligence that a prudent investment professional in similar circumstances would exercise. Investment practices must comply with the applicable laws and regulations.

(b) 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 including, but not limited to, current market valuations, yield, inflation and various economic indicators.

The plan's asset allocation, utilizing various investment vehicles, as of June 30, 2012, as shown in the table below, is expected to meet the plan's expected return.

Asset class	Target	Ranges	Actual
Cash	2%	0%-10%	12.9%
Fixed income	10	5%-20%	4.0
Equities:			
Global equities	25	20%-33%	34.5
Hedged equities	16	10%-30%	18.7
Private equity	10	0%-10%	4.1
Absolute return	15	5%-25%	11.3
Real assets:			
Inflation-protected	5	3%-10%	0.5
Commodities	5	2%-7%	5.2
Global real estate	12	4%-14%	8.8

(11) Retirement Plan

The RF maintains a noncontributory Section 401(a) retirement plan for substantially all nonstudent 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 after completing one year of service (a one-year waiting period from their date of hire). At that time, contributions begin and they gain ownership of all future contributions made to their retirement accounts while employed by the RF.

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, the College Retirement Equities Fund (CREF), which offers an assortment of mutual funds, stocks, bonds, real estate, and money market investments, or a selection of nonproprietary funds that are offered on TIAA-CREF's platform. The payroll for RF employees covered by TIAA-CREF for the years ended June 30, 2012 and 2011 was approximately $371,764,000 and $361,045,000 respectively. The RF pension contributions were approximately $31,557,000 and $30,794,000 for the years ended June 30, 2012 and 2011, respectively. These contributions are equal to 100% of the required contribution for the year.

(12) 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, 2012, the tax-exempt bond debt totaled $5,205,000 with maturity in 2032 at an interest rate of 0.32% at June 30,

(Continued)

2012. The taxable bond debt was extinguished in 2009. Subsequent to June 30, 2012, the tax-exempt bonds bear interest at variable rates as established by the remarketing agent. The adjustable rate for the tax exempt bonds will not exceed 12% per annum. The RF must meet certain liquidity requirements while the tax-exempt bonds are outstanding.

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 original 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, 2012 and 2011 was $(1,180,495) and $(630,011), respectively. The balances are included within other liabilities in the accompanying balance sheets; see note 7.

During fiscal 2012, the RF took on two more debt agreements: A note payable to the Simons Foundation for a loan made to fund the RF's payment, as a founding member of the New York Genome Center, of $2.5 million; and another note for $2.5 million to provide Upstate Medical University (Upstate) with collateral on its debt to the NYS Dormitory Authority to facilitate Upstate's purchase of the Community General Hospital.

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

	Balance June 30, 2011	Additions	Reductions	Balance June 30, 2012	Current Portion
Long-term debt:					
Capital lease obligations	$ 18,666	27,000,000	3,157,459	23,861,207	6,452,681
Loan – Genome Ctr (SB)	—	2,564,100	—	2,564,100	—
Adv. Demand Note (Upstate)	—	2,500,000	—	2,500,000	481,812
Bonds payable	5,375,000	—	170,000	5,205,000	175,000
Total long-term debt	5,393,666	32,064,100	3,327,459	34,130,307	7,109,493
Other long-term liabilities:					
Post-retirement benefit obligation	209,035,000	94,545,000	—	303,580,000	—
Deposits held for others	1,460,785	29,054	252,285	1,237,554	—
Other liabilities	4,469,453	1,066,119	—	5,535,572	—
Total other long-term liabilities	214,965,238	95,640,173	252,285	310,353,126	—
Total long-term liabilities	$ 220,358,904	127,704,273	3,579,744	344,483,433	7,109,493

(Continued)

Future payments of long-term debt as of June 30, 2012 are as follows:

		Bonds and notes payable		Capital leases		Total	
		Principal	Interest	Principal	Interest	Principal	Interest
Fiscal year:							
2013	$	656,812	20,120	6,452,681	913,109	7,109,493	933,229
2014		1,150,878	19,400	6,738,508	627,281	7,889,386	646,681
2015		1,165,631	18,660	7,037,035	328,754	8,202,666	347,414
2016		261,679	17,880	3,632,983	58,466	3,894,662	76,346
2017		200,000	17,080	—	—	200,000	17,080
2018 – 2022		1,105,000	72,440	—	—	1,105,000	72,440
2023 – 2027		1,300,000	48,020	—	—	1,300,000	48,020
2028 – 2032		4,089,100	19,400	—	—	4,089,100	19,400
2033		340,000	—	—	—	340,000	—
Total	$	10,269,100	233,000	23,861,207	1,927,610	34,130,307	2,160,610
		See above for interest rates		Interest rate 4.11-4.58%			

Line of Credit

The RF maintains an unsecured line of credit in the amount of $65,000,000 of which $28,176,445 and $29,200,000 were used as of June 30, 2012 and 2011 respectively. The terms of the line include the specification that each draw must be repaid within one year. During this fiscal year, the borrowing rate ranged between 0.94% and 2%.

(13) Revenues

Revenues, by type, consist of the following for the years ended June 30:

		2012	2011
Federal grants and contracts	$	548,261,142	578,392,151
State grants and contracts		145,903,894	152,211,386
Local grants and contracts		8,437,878	11,374,555
Private grants and contracts		179,392,842	180,286,492
Investment income		4,909,081	6,472,452
Net realized and unrealized gains on investments		471,531	13,449,097
Gifts, capital gifts and grants		57,649	20,116
Inventions and licenses income		10,853,368	11,924,304
Other income		40,131,442	20,657,568
Total revenues	$	938,418,827	974,788,121

(14) Expenses

Expenses consist of the following for the years ended June 30:

	2012	2011
Instruction	$ 101,926,516	108,603,265
Research	500,459,836	516,469,626
Public service	110,737,279	139,845,824
Academic support	21,151,153	19,925,125
Student services	2,492,122	1,797,863
Operations and maintenance	26,815,877	37,625,767
Institutional support	136,791,558	122,958,216
Scholarships and fellowships	4,136,780	2,973,094
Auxiliary enterprises	9,938	11,783
Hospitals	71,784	—
Depreciation and amortization expense	15,561,752	4,465,283
Interest expense on capital related debt	729,808	212,499
Loss on disposal of fixed assets	255,858	243,133
Total expenses	$ 921,140,261	955,131,478

(15) Commitments and Contingencies

Lease Obligations

In addition to the long-term leases with FRMC, described in note 4(k), the RF contracts with various entities to lease space as part of its mission to support SUNY research and university-industry-government partnerships. Future minimum payments, as of June 30, 2012, for lease terms in excess of one year are as follows:

Fiscal year	FRMC	Other	Total
2013	$ 25,014,458	7,632,753	32,647,211
2014	43,014,458	6,378,756	49,393,214
2015	43,014,458	5,698,556	48,713,014
2016	43,014,458	2,735,308	45,749,766
2017	43,014,458	2,229,379	45,243,837
Thereafter	254,013,859	2,288,699	256,302,558
Total	$ 451,086,149	26,963,451	478,049,600

Collateral

As mentioned in note 5, the RF has placed $10 million in collateral for a loan furnished by the Dormitory Authority of the State of New York to SUNY Upstate Medical University in order to facilitate the purchase of Community General Hospital. This collateral will be released at the rate of $1 million per year over the next 10 years.

(Continued)

Contingencies

The RF has certain contingencies resulting from litigation and claims, incident to the ordinary course of business. As of financial statement issuance date, there was an audit pending conclusion by the New York State Office of the State Comptroller (OSC). Relating to the same facts and circumstances as the OSC audit, there is an investigation by the New York State Inspector General and Attorney General. Additionally, there is an open investigation relating to programs at Buffalo State College. Potential liability resulting from these matters cannot reasonably be determined at this time. However, management believes that the probable resolution of such contingencies will not likely materially affect the financial position or operations of the RF.

(16) Subsequent Events

The RF considers events or transactions that occur after the balance sheet date, but before the financial statements are issued, to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure. These financial statements covering the year ended June 30, 2012 were available to be issued on September 27, 2012 and subsequent events have been evaluated through that date.