Institution Finance Presentation

March 4, 2014

Questions & Answers:

Q 1: What is our YTD 2014 actual Sponsored Research?
A 1: Total 2014 Sponsored Research – awarded / received – is $136M. Total 2012-2014 proposals that we expected to win equal $56M and additional OOI funding will total $16M. So, the latest total forecasted Sponsored Research is $208M, which is right in line with our 2014 budget.

Q 2: Do we have projections of the Defined Benefit Plan? What is the percent in out years for the DB plan?
A 2: Since the change in interest rates is so volatile, presenting a projection would be misleading.

Q 3: Are we looking at Service Center costs?
A 3: Yes, we are currently in the process of reviewing the service centers.

Q 4: Where does the Whitney Property donation show up on the Unrestricted Revenue slide (#24)?
A 4: We received title of the Whitney Estate in October 2003. It was recorded at that time with a FV of $7.6M. The chart depicts data from 2004 and beyond.

Q 5: Are there gifts in the "Unrestricted Gift Revenue" bucket on the Unrestricted Revenue slide (#24)?
A 5: Yes, this bucket contains all other smaller dollar gifts (less than $500k). We broke out the larger gifts, including donated property, to highlight these larger gifts that helped our unrestricted bottom line.

Q 6: What are the components of the "Stable Revenue" bucket on the Unrestricted Revenue slide (#24)?
A 6: Stable revenue includes: endowment income, joint program income, investment income, fee income, fixed price income, public information income and rental income.

Q 7: Can we challenge the auditors on how much bridge can be charged to overhead?
A 7: Bridge support overhead is restricted to 1.25% of the lab base through an MOU (memorandum of understanding) with ONR. The more bridge support we put into overhead, the higher the rates are. This is something we continue to pursue with ONR, but need to handle carefully with them.

Q 8: How will MTDC affect bridge?
A 8: MTDC will have a favorable impact on bridge because the base has been expanded to include all direct costs, therefore benefitting projects with a high proportion of salary.

Q 9: What drove the large scientific salary increases in 2008-2010 (referring to Bridge Support slide #32)?
A 9: A salary benchmarking identified a gap in scientific job salary pay grades. Adjustments to salary levels were made during these years to bring the levels closer to that of the market median. These adjustments were in addition to merit, based on performance.

Q 10: What are some examples of "Endowment - Unrestricted General" (referring to slide #37).

A 10: A small portion of the endowment has been set aside to help fund general unrestricted operating expenses and initiatives of the institution, such as: bridge support, development, cost share, communications, institutes, and other directorate costs.

Q 11: Is any of the "Restricted Fund" money that we can't or aren't able to use (e.g. for science we're no longer doing?)
A 11: All restricted endowment is restricted by the donor and only the donor can change the designation. We will review the endowments to ensure they are all being utilized. If any are not being utilized, it will require consent from the donor to change designation.

Q 12: How will the endowment pie change over time if we can free up some of the Temporary Restricted funds?
A12: Temporarily restricted endowment still receives a 5% distribution and the Corpus remains intact, unless the donor gives permission for the Corpus to be used. At this time, we have chosen not to draw down the Corpus, so we are only utilizing the 5% distribution.

Q 13: Is there a way to model future "infusions of cash" (unrestricted revenues) as they have been significant in the past for our unrestricted revenue? And, have the past infusions been a result of capital campaigns?
A 13: Our unrestricted projection includes a projection of sales of various properties through 2016. Infusions of other large cash donations have been sporadic and there is no reliable trend data. We instead felt it was more prudent to remain conservative and not include projections for sporadic infusions. And, no, past infusions don't correlate directly with a capital campaign.

Q 14: What drives our increasing projections of "Stable Revenues" (on Unrestricted Revenue slide #24)?
A 14: Endowment distribution projections based on the 36 month rolling market value and a projection for Joint Program income, with other revenues remaining stable are the basis for our "Stable Revenue" projections.

Q 15: What is your "charge" or the "take away" we should draw from all of this in regards to the Blueprint Committee given the financial situation?
A 15: I am concerned that we could be seeing relatively flat budgets for the next several years. The 2015 proposed NSF budget is essentially flat, and there does not seem to be a congressional push to increase this. At the same time, there are investments that we should be making in our IT and physical infrastructure that would require higher support budgets. One positive result of the blueprint process would be to increase revenues from non-NSF sources.

Q 16: What do we need to have occur to be "healthy" and "balanced" (i.e. growth levels, etc) in the Unrestricted Fund?
A 16: We are currently projecting a $2M deficit against our 2016 goal of a balanced unrestricted budget. This is based on a projected $17M of unrestricted revenue (a 9% increase vs. 2014 Budget) and $19M of unrestricted expense in 2016 (a 4% decrease vs. 2014 Budget). To close this gap we either need to identify and generate more revenue, and/or reduce costs.

Q 17: Is it time to do another capital campaign?
A 17: It may be, and this could be one outcome of the blueprint process.

Q 18: Why are we hiring outside consultants for a Blueprint Project when we have internal resources such as Development?
A 18: Fourth Quadrant Partners (4QP) has been engaged to assist us in gaining a deeper understanding of the major challenges we are facing due to the significant erosion of sustainable funding to federal agencies, and to consciously choose options that create greater long-term viability into the future. 4QP is well suited to the Institution's culture and needs, with significant experience in leading organizations like ours through an examination of current operations and helping to identify a path toward a more sustainable model.

Q 19: What are some examples of "Unrestricted Committed" funds?
A 19: Some examples of "Unrestricted Committed" funds are: Institutes, Science Chairs, and Townsend Horner.

Q 20: Are the Scientific salaries gross salaries (referring to Bridge Support slide #32)?
A 20: Yes, these are gross salaries – they include fringe and overhead.

Q 21: The Blueprint project is to help us with a longer term plan on how the institution will operate. Are we also preparing a similar long-term (5-10 yr) financial plan?
A 21: Yes, the project will incorporate a long term financial plan.

Q 22: Are all endowment returns unrestricted?
A 22: No, the returns follow their parentage. Note that permanent gains and losses are allocated to temp, due to GAAP rules and MA law.

Q 23: How will MTDC improve our future? Will it change the way we operate? Is it a 'net zero' gain?
A 23: While it is a net zero gain, the cost of a person will be less, allowing science to put more time on a grant (depending on the project) and it will position us more competitively against our peers.

Q 24: What was the upside of the decision to not give merit increases this year?
A 24: The decision to not give merit increases this year yielded a $2.5M of cost savings, which allows more time to be charged to a grant.

Q 25: As we transition to MTDC, will multi-year proposals be calculated based on both rates?
A 25: Yes, it is likely we will experience a two-three year lag from when we receive approval to make the change to MTDC until we actually cut-over to using MTDC. For example, we could receive approval during 2014 but not actually implement MTDC until 2016 or later. To illustrate via an example: assume we receive approval in 2014 and implement MTDC in 2016. A three year proposal submitted in 2014 for years 2015-2017, would be submitted using the current rate structure for 2015 and MTDC for 2016 and 2017.