



(a Component Unit of San Diego State University)

Financial Statements and Supplementary
Information

June 30, 2018 and 2017

(With Independent Auditors' Report Thereon)

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
San Diego State University Research Foundation

Grant Thornton LLP
515 S. Flower St., 7th Floor
Los Angeles, CA 90071-2201
T 1 213 627 1717
F 1 213 624 6793
www.GrantThornton.com

Report on the financial statements

We have audited the accompanying financial statements of the business-type activities of San Diego State University Research Foundation (a California State University Auxiliary Organization and Component Unit of San Diego State University) (“SDSU Research Foundation”) as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise SDSU Research Foundation’s basic financial statements as listed in the table of contents.

Management’s responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s responsibility

Our responsibility is to express opinions 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 and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to SDSU Research Foundation’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of SDSU Research Foundation’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of SDSU Research Foundation, as of June 30, 2018 and 2017, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other matters

Required supplementary information

Accounting principles generally accepted in the United States of America require that the Management Discussion and Analysis on pages 6-18 and the Schedule of Changes in SDSU Research Foundation's Net OPEB Liability and Related Ratios Last Fiscal Year on page 47, the Schedule of SDSU Research Foundation Contributions on page 48, and the Schedule of Post-Employment Health Care Benefits Funding Program on page 49 be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. This required supplementary information is the responsibility of management. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America. These limited procedures consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise SDSU Research Foundation's basic financial statements. The supplementary information on pages 50-55 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the basic financial statements, or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other reporting required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report, dated September 13, 2018, on our consideration of SDSU Research Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of SDSU Research Foundation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering SDSU Research Foundation's internal control over financial reporting and compliance.

Grant Thornton LLP

Los Angeles, California
September 13, 2018



**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS REQUIRED BY GOVERNMENT
AUDITING STANDARDS**

Board of Directors
San Diego State University Research Foundation

Grant Thornton LLP
515 S. Flower St., 7th Floor
Los Angeles, CA 90071-2201
T 1 213 627 1717
F 1 213 624 6793
www.GrantThornton.com

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the San Diego State University Research Foundation (a California State University Auxiliary Organization and Component Unit of San Diego State University) (“SDSU Research Foundation”) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise SDSU Research Foundation’s basic financial statements, and have issued our report thereon dated September 13, 2018.

Internal control over financial reporting

In planning and performing our audit of the financial statements, we considered SDSU Research Foundation’s internal control over financial reporting (“internal control”) to design audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of internal control. Accordingly, we do not express an opinion on the effectiveness of SDSU Research Foundation’s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of SDSU Research Foundation’s financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in SDSU Research Foundation’s internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and other matters

As part of obtaining reasonable assurance about whether SDSU Research Foundation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Intended purpose

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of SDSU Research Foundation's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering SDSU Research Foundation's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

Grant Thornton LLP

Los Angeles, California
September 13, 2018

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Management's Discussion and Analysis

(unaudited)

June 30, 2018 and 2017

Management's Discussion and Analysis (unaudited)

This section of the San Diego State University Foundation (dba San Diego State University (SDSU) Research Foundation) annual financial report includes management's discussion and analysis of the financial performance of SDSU Research Foundation for fiscal years ended June 30, 2018 and 2017. This discussion should be read in conjunction with the financial statements and notes.

Introduction to the Financial Statements

The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America, as prescribed by the Government Accounting Standards Board (GASB). Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

SDSU Research Foundation's financial statements include the Statements of Net Position; the Statements of Revenues, Expenses and Changes in Net Position; and the Statements of Cash Flows. These statements are supported by notes to the financial statements and Management's Discussion and Analysis. All sections must be considered together to obtain a complete understanding of the financial picture of SDSU Research Foundation.

Statements of Net Position

The Statements of Net Position include all assets, deferred outflows and inflows of resources, liabilities, and net position of SDSU Research Foundation. The statements also identify major categories of restrictions on the net position of SDSU Research Foundation.

Statements of Revenues, Expenses and Changes in Net Position

The Statements of Revenues, Expenses and Changes in Net Position present revenues earned and expenses incurred during the years on an accrual basis.

Statements of Cash Flows

The Statements of Cash Flows present the inflows and outflows of cash for the years and are summarized by operating, capital and related financing, noncapital financing, and investing activities. These statements are prepared using the direct method of cash flows and therefore present gross rather than net amounts for the years' activities.

Financial Overview

Summary

The following discussion highlights management's understanding of the key financial aspects of SDSU Research Foundation's financial activities as of and for the years ended June 30, 2018 and 2017 (FY 2018 and FY 2017, respectively). Included are comparative analyses of current year and prior year activities and balances; a discussion of restrictions of SDSU Research Foundation net position; and a discussion of capital assets and long-term debt.

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Management's Discussion and Analysis

(unaudited)

June 30, 2018 and 2017

Significant Events – Year Ended June 30, 2018

SDSU Research Foundation had another year of positive growth in Sponsored Programs revenue which increased from a total of \$116 million in FY 2016 to \$119 million in FY 2018, an increase of \$3 million or 2.6% over two years. Although the number of proposals submitted by SDSU faculty and staff (1,215) and the dollar amount of awards received (\$135 million) in 2018 was only slightly higher than FY 2017 (1,194 and \$134.3 million), the amount of F&A received on these awards in FY 2018 was up 15% or \$3,022,055 over the amount received in FY 2017. Twenty-three grants received in 2017-18 exceeded \$1 million and supported a variety of research areas including myocardial healing, Latino health, and cancer. The dollar amount of awards from the National Institutes of Health, a major federal funding agency, increased from \$19.7 million in FY 2017 to \$25.8 million in FY 2018. NIH also awarded a prestigious MERIT award to one of our principal investigators to recognize and support her research. This award mechanism extends her current four-year award for an additional year and allows for another five years of support beyond that.

Our F&A rate increased from 50 to 50.5% effective July 1, 2017 resulting in increased revenue on new on-campus research awards received during the FY 2017-18 fiscal year. The number of grant-supported faculty increased for the second consecutive year with 345 active researchers in 2018 compared to 324 in 2017. SDSU welcomed 44 new faculty last year. Our research foundation staff are working with them as well as the new SDSU administrators who joined the university last year including the new university president who chairs our board of directors.

Significant Events – Year Ended June 30, 2017

SDSU Research Foundation had another year of positive growth in Sponsored programs revenue which increased from a total of \$106 million in FY 2015 to \$117 million in FY 2017, an increase of \$11 million or 10.3% over two years. The number and dollar amount of awards from the National Science Foundation, one of the major federal funding agencies, increased measurably over the last year - 19% more dollars; 72% more awards; and 35% more Facilities & Administrative (F&A) Cost Recovery. SDSU Research Foundation was also part of a consortium that received \$2 million from the Department of Transportation to establish a national university transportation center. While SDSU's share was \$233,751 during the fiscal year ended June 30, 2017, management expects this center to generate additional grants in other transportation-related areas. Additionally, one of our Principal Investigators in Biology received a prestigious National Institutes of Health MERIT award in recognition of and to further support his research. This award mechanism extends his current four-year award for an additional year and allows for another five years beyond that – a potential of \$5 million in total.

SDSU Research Foundation received \$1.9 million in February 2017 related to an initial payment for a 50-year ground lease agreement executed in April 2016. This agreement with a developer is to construct and operate a student housing facility.

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Management’s Discussion and Analysis

(unaudited)

June 30, 2018 and 2017

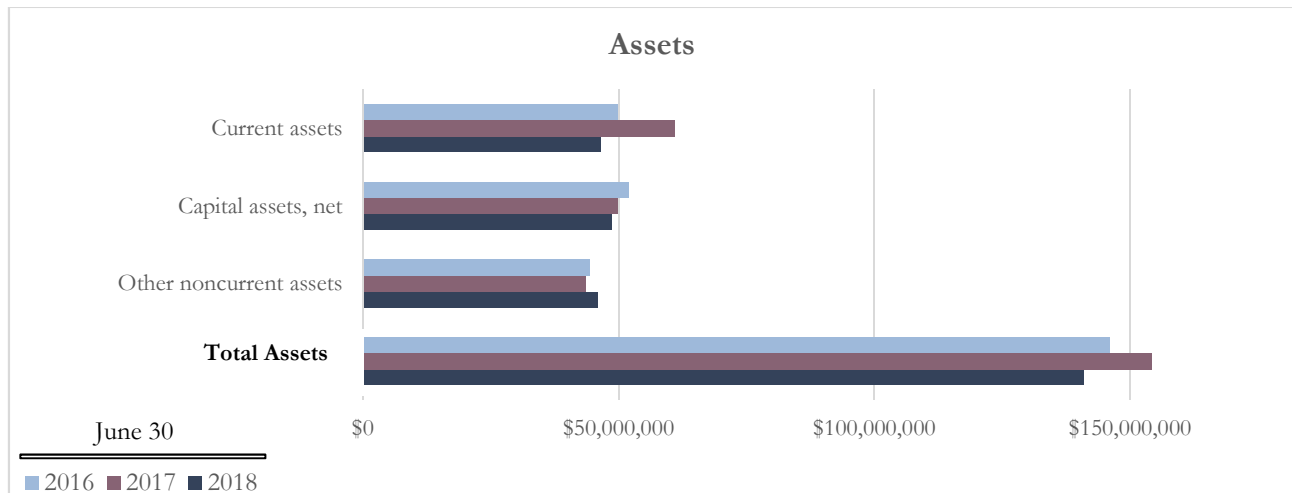
SDSU Research Foundation’s condensed summary of net position as of June 30, 2018, 2017 and 2016 follows:

Condensed Summary of Net Position

	June 30		
	2018	2017	2016
Assets:			
Current assets	\$ 46,372,168	\$ 60,972,841	\$ 49,744,846
Capital assets, net	48,598,900	49,740,684	51,925,849
Other noncurrent assets	45,890,159	43,472,169	44,291,384
Total Assets	<u>140,861,227</u>	<u>154,185,694</u>	<u>145,962,079</u>
Deferred Outflows of Resources:	<u>806,272</u>	<u>549,384</u>	<u>577,802</u>
Liabilities:			
Current liabilities	32,670,805	33,027,465	25,875,920
Noncurrent liabilities	33,826,869	34,586,756	33,103,743
Total liabilities	<u>66,497,674</u>	<u>67,614,221</u>	<u>58,979,663</u>
Deferred Inflows of Resources:	<u>804,049</u>	<u>-</u>	<u>-</u>
Net Position:			
Net investment in capital assets	20,519,041	20,858,622	22,156,928
Restricted – nonexpendable	3,834,673	3,340,670	3,295,205
Restricted – expendable	19,309,021	16,033,158	11,975,356
Unrestricted	30,703,041	46,888,407	50,132,729
Total net position	<u>\$ 74,365,776</u>	<u>\$ 87,120,857</u>	<u>\$ 87,560,218</u>

Assets

Total assets decreased by \$13.3 million from FY 2017 to FY 2018 due primarily to a decrease in Short-term investments to fund the transfer of cash to SDSU for the construction of a campus building per an agreement with SDSU, the College of Extended Studies and SDSU Research Foundation. Total assets increased by \$8.2 million from FY 2016 to FY 2017 due to a combination of an increase in Cash and cash equivalents and Short-term investments. The growth in assets is related to the increase in Due to The Campanile Foundation and the retention of cash for other short-term cash needs offset by a decrease in Capital assets, net and Other noncurrent assets.



SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Management's Discussion and Analysis

(unaudited)

June 30, 2018 and 2017

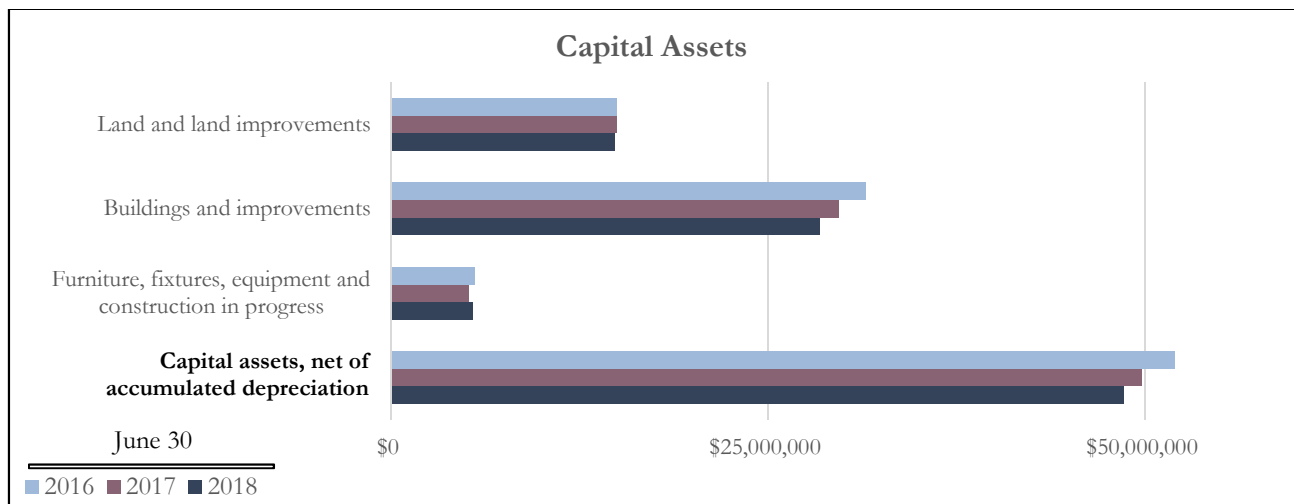
Current assets decreased by \$14.6 million from FY 2017 to FY 2018 due primarily to a decrease in Short-term investments, offset by an increase in Cash and cash equivalents. Current assets increased by \$11.2 million from FY 2016 to FY 2017 due to an increase in Cash and cash equivalents and Short-term investments.

Capital assets, net of accumulated depreciation, are shown below:

	June 30		
	2018	2017	2016
Land and land improvements	\$ 14,820,234	\$ 14,931,234	\$ 14,931,234
Buildings and improvements	28,395,840	29,666,367	31,459,627
Furniture, fixtures, equipment and construction in progress	5,382,826	5,143,083	5,534,988
Capital assets, net of accumulated depreciation	<u>\$ 48,598,900</u>	<u>\$ 49,740,684</u>	<u>\$ 51,925,849</u>

Capital assets decreased by \$1.1 million from FY 2017 to FY 2018 and by \$2.2 million from FY 2016 to FY 2017 mostly due to increased Accumulated depreciation, from depreciation expense of \$4.4 million in FY 2018 and \$4.3 million in FY 2017, offset by new additions.

Other noncurrent assets increased by \$2.4 million from FY 2017 to FY 2018 due primarily to an increase in restricted assets, offset by decreases in Long-term investments and Notes receivable. The increase in restricted assets is primarily due to a donation of land, NIH endowment, and the KPBS capital campaign. The decrease in Long-term investments is primarily to fund the Transfers of cash to SDSU and the decrease in Notes receivable is due to payments received. Other noncurrent assets decreased by \$819,000 from FY 2016 to FY 2017 due to a decrease in Accounts receivable.



SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Management’s Discussion and Analysis

(unaudited)

June 30, 2018 and 2017

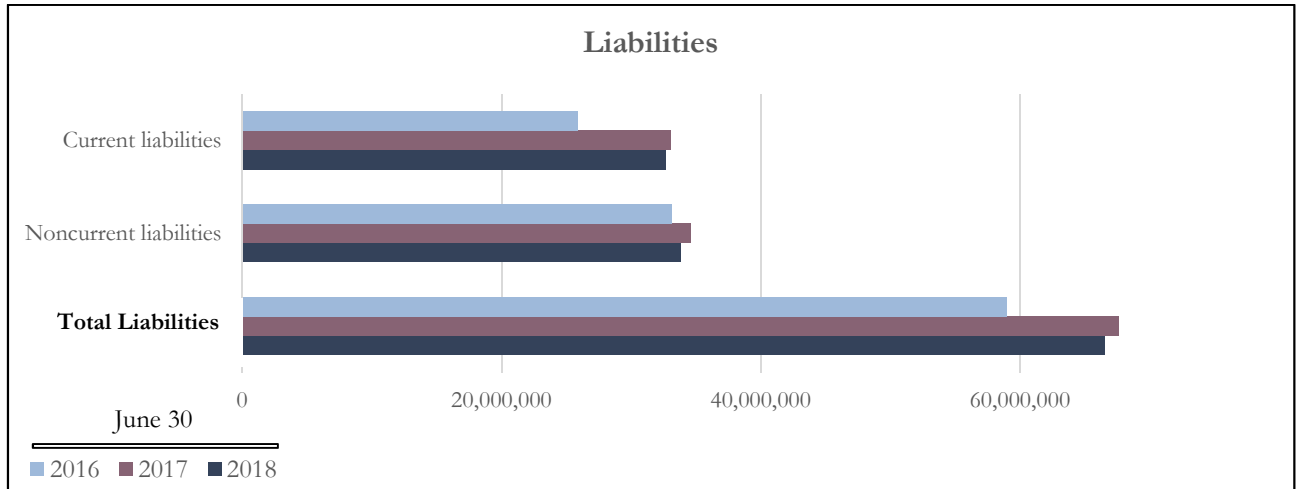
Deferred Outflows of Resources

Deferred outflows of resources increased \$257,000 from FY 2017 to FY 2018 due primarily to the recording of Other postemployment benefits (OPEB) subsequent contribution with the implementation of GASB Statement No. 75. Deferred outflows of resources decreased \$28,000 from FY 2016 to FY 2017 due to the amortization of the deferred loss on bond refunding.

Liabilities

Total liabilities decreased by \$1.1 million from FY 2017 to FY 2018 primarily due to a decrease in current liabilities of \$357,000 and a decrease in noncurrent liabilities of \$760,000. Current liabilities decreased primarily due to a decrease in amount Due to The Campanile Foundation, offset by an increase in the amount of Sponsored program receipts over expenditures. Noncurrent liabilities decreased mostly due to regular payments made towards Long-term debt.

Total liabilities increased by \$8.6 million from FY 2016 to FY 2017 primarily due to an increase in current liabilities of \$7.2 million and an increase in noncurrent liabilities of \$1.5 million. Current liabilities increased mostly due to an increase in Due to The Campanile Foundation and an increase in Sponsored program receipts over expenditure. Noncurrent liabilities increased primarily due to deferred revenue of a ground lease for a student housing project and an increase in workers compensation liability, offset by the reduction of Long-term debt.



SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Management's Discussion and Analysis

(unaudited)

June 30, 2018 and 2017

Long-Term Debt Obligations

Debt outstanding at June 30, 2018, 2017 and 2016 is summarized below by the type of debt instrument:

	June 30		
	2018	2017	2016
Revenue bonds	\$ 27,110,000	\$ 28,035,000	\$ 28,920,000
Unamortized bond premium	1,236,907	1,331,815	1,426,721
Total long-term debt	<u>28,346,907</u>	<u>29,366,815</u>	<u>30,346,721</u>
Less current portion	<u>(1,054,908)</u>	<u>(1,019,908)</u>	<u>(979,908)</u>
Long-term debt, net of current portion	<u>\$ 27,291,999</u>	<u>\$ 28,346,907</u>	<u>\$ 29,366,813</u>

Long-term debt, net of current portion, decreased by approximately \$1.1 million from FY 2017 to FY 2018 and by \$1.0 million from FY 2016 to FY 2017 due to scheduled bond payments.

Deferred Inflows of Resources

Deferred inflows of resources increased \$804,000 from FY 2017 to FY 2018 due to an addition to Other postemployment benefits (OPEB) trust investment experience with the implementation of GASB Statement No. 75.

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

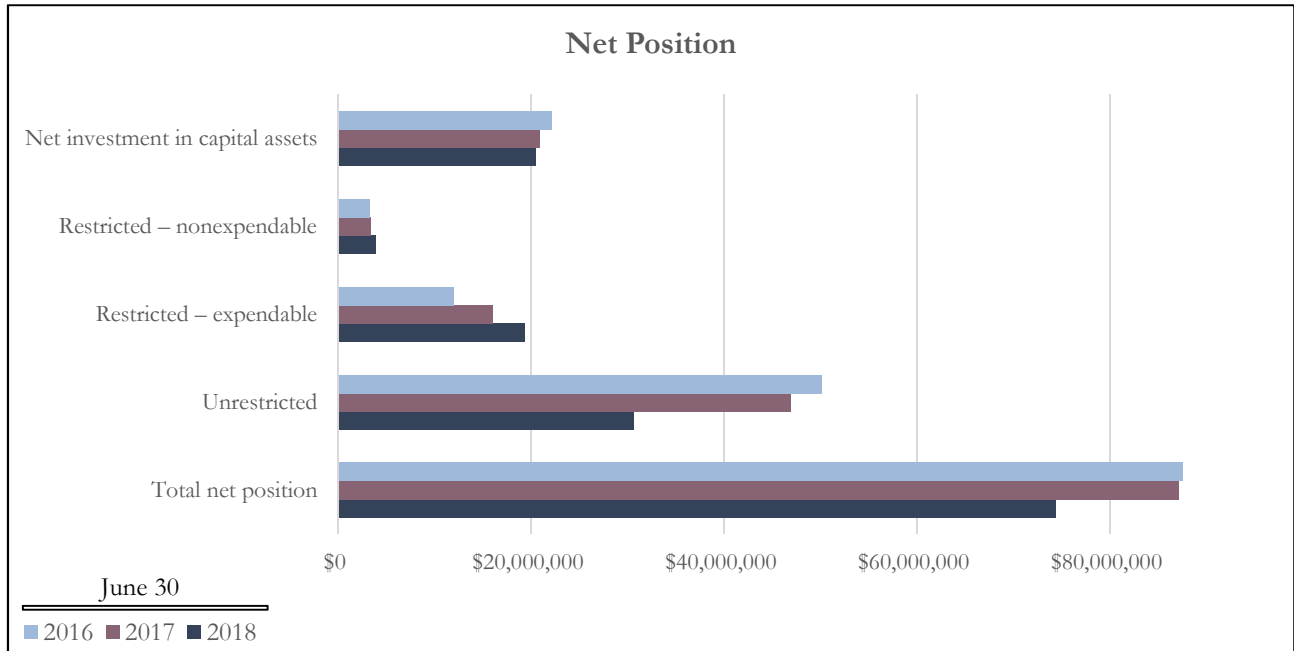
Management's Discussion and Analysis

(unaudited)

June 30, 2018 and 2017

Net Position

Total net position decreased by \$12.8 million from FY 2017 to FY 2018 primarily due to a decrease in Short-term investments due to transfers to SDSU for construction of a campus building per an agreement with College of Extended Studies and SDSU Research Foundation. Net position decreased by \$439,000 from FY 2016 to FY 2017 due to a combination of increases and decreases in multiple asset and liability categories.



Restricted Resources

The net position of SDSU Research Foundation includes funds that are restricted by donor or law. Nonexpendable net position increased by \$494,000 from FY 2017 to FY 2018 primarily due to a donation of land with restricted use which will be held in SDSU Research Foundation field station program. Nonexpendable net position increased by \$45,000 from FY 2016 to FY 2017 due to market value fluctuations.

Expendable restricted net position increased \$3.3 million from FY 2017 to FY 2018 primarily due to the third installment, \$2.2 million, of a five-year \$10 million expendable endowment from NIH, as well as an increase in the KPBS capital campaign. The increase in expendable restricted net position of \$4.0 million from FY 2016 to FY 2017 was primarily due to the receipt of the second installment, \$1.8 million, of the NIH endowment, as well as an increase in the KPBS capital campaign.

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Management's Discussion and Analysis

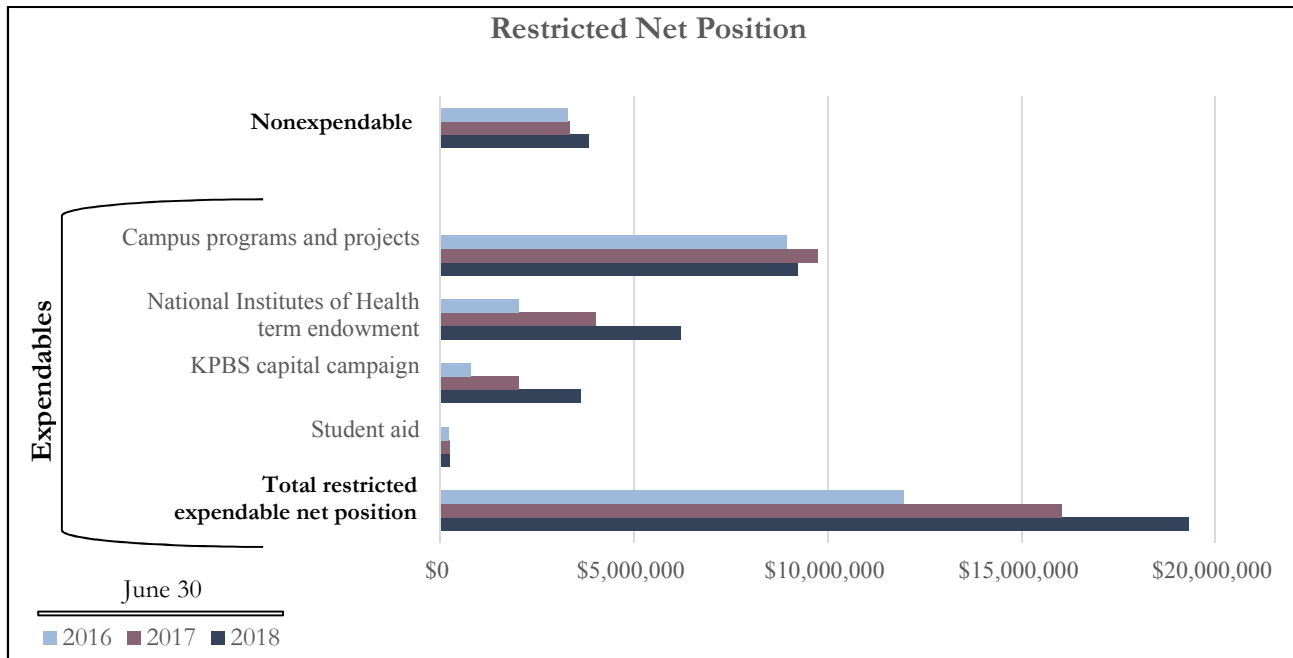
(unaudited)

June 30, 2018 and 2017

The following table summarizes restricted funds, the type of restriction and the amount:

Restricted Net Position

	June 30		
	2018	2017	2016
Nonexpendable	\$ 3,834,673	\$ 3,340,670	\$ 3,295,205
Expendable:			
Campus programs and projects	\$ 9,220,190	\$ 9,753,786	\$ 8,949,728
National Institutes of Health term endowment	6,213,363	4,016,056	2,016,953
KPBS capital campaign	3,626,335	2,013,861	779,196
Student aid	249,133	249,455	229,479
Total restricted expendable net position	<u>\$ 19,309,021</u>	<u>\$ 16,033,158</u>	<u>\$ 11,975,356</u>



SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Management's Discussion and Analysis

(unaudited)

June 30, 2018 and 2017

SDSU Research Foundation's condensed summary of revenues, expenses and changes in net position for the years ended June 30, 2018, 2017 and 2016 follows:

Condensed Summary of Revenues, Expenses and Changes in Net Position

	Years Ended June 30		
	2018	2017	2016
Operating revenues:			
Sponsored programs support	\$ 118,936,321	\$ 117,285,492	\$ 115,912,239
Community and campus programs	25,922,553	29,391,596	36,285,928
Contributions	23,286,095	19,948,984	19,735,879
Other operating revenues	8,110,134	7,908,332	7,856,682
Total operating revenues	176,255,103	174,534,404	179,790,728
Operating expenses:			
Sponsored programs	101,220,506	101,150,748	98,981,445
Community and campus programs, including fundraising	43,709,891	44,576,808	47,385,310
Other operating expenses	23,894,088	22,645,191	23,176,989
Total operating expenses	168,824,485	168,372,747	169,543,744
Operating income	7,430,618	6,161,657	10,246,984
Net nonoperating (expenses)	(20,235,168)	(6,684,388)	(8,476,108)
Increase in permanent endowments	49,469	83,370	11,560
Net (loss) income	(12,755,081)	(439,361)	1,782,436
Net position at beginning of year	87,120,857	87,560,218	85,777,782
Net position at end of year	\$ 74,365,776	\$ 87,120,857	\$ 87,560,218

Operating Revenues and Expenses

Operating revenues and expenses come from sources that are connected directly to SDSU Research Foundation's primary business functions.

Operating Revenues

Operating revenues increased by \$1.7 million from FY 2017 to FY 2018 primarily due to an increase in Sponsored programs support and Contributions revenues, offset by a decrease in Community and campus programs revenues. Operating revenues decreased by \$5.3 million from FY 2016 to FY 2017 primarily due to a decrease in Community and campus programs revenues.

Sponsored programs support increased from FY 2017 to FY 2018 by \$1.7 million and by \$1.4 million from FY 2016 to FY 2017 due to the continued success of SDSU's faculty in applying for and being awarded new grants and contracts.

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Management’s Discussion and Analysis

(unaudited)

June 30, 2018 and 2017

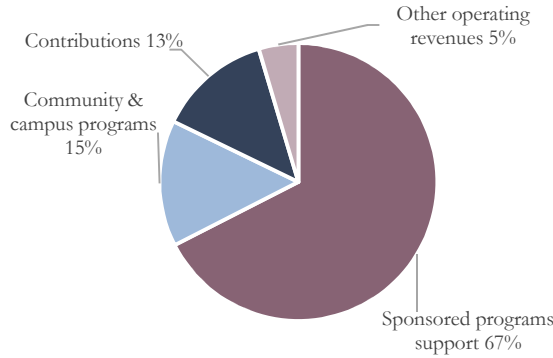
Community and campus programs include revenues generated mostly by the College of Extended Studies and KPBS as well as other campus programs. The revenues decreased by \$3.5 million from FY 2017 to FY 2018 and by \$6.9 million from FY 2016 to FY 2017 due to a decrease in activity by the College of Extended Studies as well as the reduction in revenue from the SDSU-Georgia fixed price contract.

Contributions increased \$3.3 million from FY 2017 to FY 2018 primarily due to KPBS’s capital campaign, as well as an increase in general contributions to KPBS. Contributions, primarily to KPBS, increased by \$213,000 from FY 2016 to FY 2017.

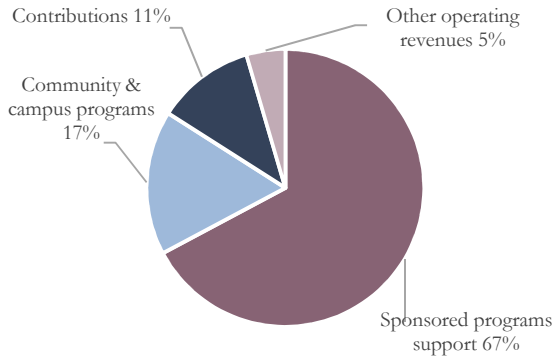
Other operating revenues increased by \$202,000 and \$52,000, respectively, from FY 2017 to FY 2018 and from FY 2016 to FY 2017 due to an increase in rental income from leases.

The following charts present the percentages that each category of operating revenue contributed to total revenues for the years ended June 30, 2018, 2017, and 2016:

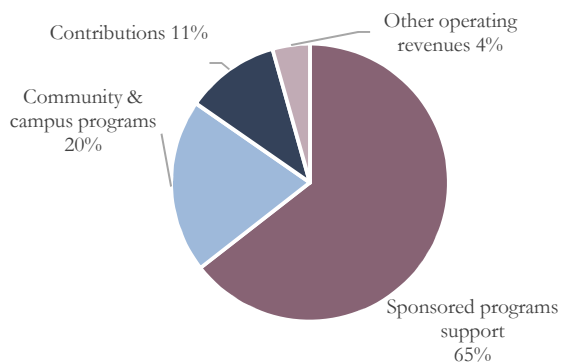
2018 Operating Revenue



2017 Operating Revenue



2016 Operating Revenue



SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Management's Discussion and Analysis

(unaudited)

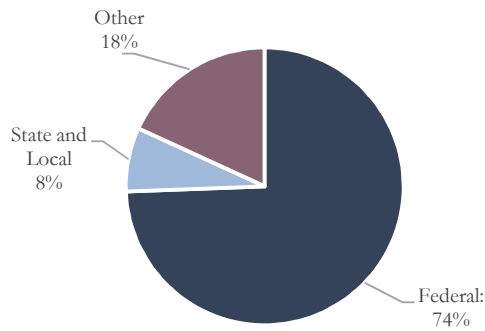
June 30, 2018 and 2017

The sources of Sponsored program support revenues for the years ended June 30, 2018, 2017, and 2016 are as follows:

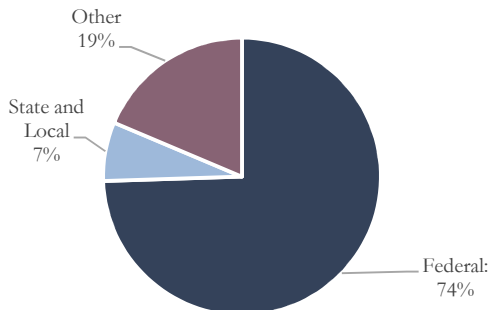
	Years Ended June 30					
	2018		2017		2016	
	\$	%	\$	%	\$	%
Federal:						
Department of Health & Human Services	42,591,398	35.8	43,905,262	37.5	39,603,114	34.2
Department of Education	12,365,258	10.4	11,724,328	10.0	10,400,980	9.0
Department of Defense	9,902,885	8.3	9,204,554	7.8	8,007,532	6.9
National Science Foundation	9,484,743	8.0	8,652,326	7.4	9,086,857	7.8
Department of Agriculture	7,094,809	6.0	6,774,828	5.8	6,410,895	5.5
Other	7,070,714	5.9	7,085,940	6.0	8,252,700	7.1
Total Federal	88,509,807	74.4	87,347,238	74.5	81,762,078	70.5
State and Local	8,825,282	7.4	8,074,388	6.9	8,823,989	7.7
Other	21,601,232	18.2	21,863,866	18.6	25,326,172	21.8
Total	118,936,321	100.0	117,285,492	100.0	115,912,239	100.0

The following charts present the percentages that each sponsor type contributed to Sponsored program support revenues for the years ended June 30, 2018, 2017, and 2016:

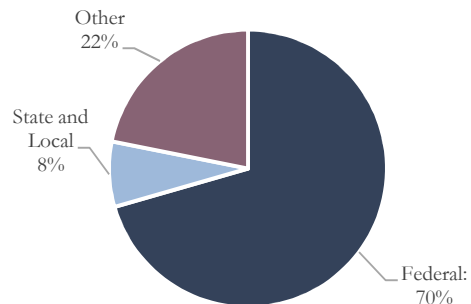
2018 Sponsored Program Support



2017 Sponsored Program Support



2016 Sponsored Program Support



SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Management's Discussion and Analysis

(unaudited)

June 30, 2018 and 2017

Operating Expenses

Operating expenses increased by \$452,000 from FY 2017 to FY 2018 primarily due to an increase in Other operating expenses. Operating expenses decreased by \$1.2 million from FY 2016 to FY 2017 primarily due to a decrease in Community and campus programs expenses.

Sponsored programs expenses increased by \$70,000 from FY 2017 to FY 2018 and \$2.2 million from FY 2016 to FY 2017 due to increased award activity.

Community and campus programs expenses decreased by \$867,000 and \$2.8 million, respectively, from FY 2017 to FY 2018 and from FY 2016 to FY 2017 due to a decrease in activity in the College of Extended Studies noncredit courses.

Other operating expenses increased by \$1.2 million from FY 2017 to FY 2018 due to an increase in general administration expenses including depreciation, facilities operating expenses, and salary cost of living increases along with fringe benefits. Other operating expenses decreased by \$532,000 from FY 2016 to FY 2017 due to a reduction in program expenses.

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

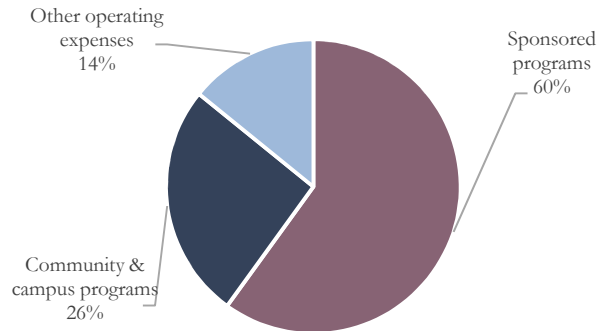
Management's Discussion and Analysis

(unaudited)

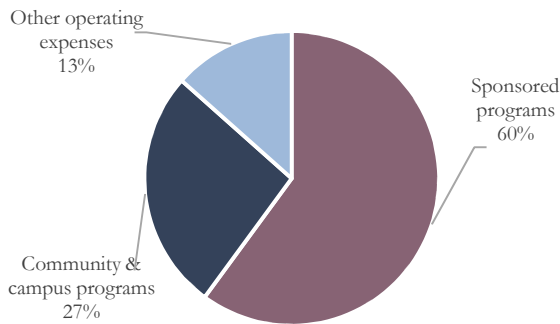
June 30, 2018 and 2017

The following charts present the distribution of resources by percentage of operating expense category in support of SDSU Research Foundation's mission for the years ended June 30, 2018, 2017, and 2016:

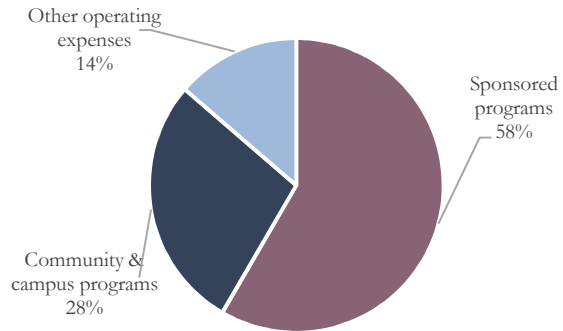
2018 Operating Expenses



2017 Operating Expenses



2016 Operating Expenses



Nonoperating Expenses

Nonoperating expenses come from sources that are not part of SDSU Research Foundation's primary business functions. Included in this classification are interest expense, investment income, changes in the fair value of investments, gains and losses from the disposition of equipment or sale of donated property and transfers to SDSU and The Campanile Foundation.

Nonoperating expenses increased by \$13.6 million from FY 2017 to FY 2018 primarily due to an increase in investment income, a reduction in fair value of investments from market value fluctuations and increased transfers to SDSU to finance the construction of a campus building per an agreement with the College of Extended Studies and SDSU Research Foundation. Additionally in FY 2017, donated property was sold for a gain.

Nonoperating expenses decreased by \$1.8 million from FY 2016 to FY 2017 due to an increase in fair value of investments from market value fluctuations, a gain on the sale of donated property in FY 2017 offset by a reduction in investment income and increased transfers to SDSU to finance the construction of a campus building per an agreement with SDSU, the College of Extended Studies and SDSU Research Foundation.

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Statements of Net Position

June 30, 2018 and 2017

Assets	2018	2017
Current assets:		
Cash and cash equivalents (note 2)	\$ 11,824,728	\$ 8,084,367
Short-term investments (note 3)	8,478,892	27,070,726
Accounts receivable (note 4)	24,936,029	25,015,508
Notes receivable – current portion (note 5)	454,300	-
Prepaid expenses	678,219	802,240
Total current assets	<u>46,372,168</u>	<u>60,972,841</u>
Noncurrent assets:		
Accounts receivable (note 4)	393,305	378,428
Long-term investments (note 3)	13,229,554	14,401,888
Restricted assets – investments (note 3)	20,835,163	17,520,296
Restricted assets – land	2,308,532	1,853,532
Notes receivable, net of current portion (note 5)	7,917,691	8,371,991
Capital assets, net (notes 2, 6 and 8)	48,598,900	49,740,684
Other assets (note 2)	1,205,914	946,034
Total noncurrent assets	<u>94,489,059</u>	<u>93,212,853</u>
Total assets	<u>140,861,227</u>	<u>154,185,694</u>
Deferred Outflows of Resources		
Deferred loss on bond refunding (notes 2 and 8)	520,967	549,384
OPEB subsequent contribution (notes 2 and 11)	285,305	-
Total deferred outflow of resources	<u>806,272</u>	<u>549,384</u>
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses (note 7)	14,238,704	14,142,303
Sponsored programs receipts over expenditures (note 2)	11,766,616	9,487,597
Long-term debt obligations – current portion (note 8)	1,054,908	1,019,908
Due to The Campanile Foundation (note 7)	5,610,577	8,377,657
Total current liabilities	<u>32,670,805</u>	<u>33,027,465</u>
Noncurrent liabilities:		
Long-term debt obligations, net of current portion (note 8)	27,291,999	28,346,907
Other liabilities (note 9)	6,534,870	6,239,849
Total noncurrent liabilities	<u>33,826,869</u>	<u>34,586,756</u>
Total liabilities	<u>66,497,674</u>	<u>67,614,221</u>
Deferred Inflows of Resources		
OPEB trust investment experience (notes 2 and 11)	804,049	-
Commitments and Contingencies (notes 9, 10, 11 and 12)		
Net Position		
Net investment in capital assets	20,519,041	20,858,622
Restricted for:		
Nonexpendable – endowments and property	3,834,673	3,340,670
Expendable:		
Campus programs and projects	9,220,190	9,753,786
National Institutes of Health term endowment	6,213,363	4,016,056
KPBS capital campaign	3,626,335	2,013,861
Student aid	249,133	249,455
Unrestricted	30,703,041	46,888,407
Total net position	<u>\$ 74,365,776</u>	<u>\$ 87,120,857</u>

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

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Statements of Revenues, Expenses and Changes in Net Position

Years ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating revenues:		
Sponsored programs support	\$ 118,936,321	\$ 117,285,492
Community and campus programs	25,922,553	29,391,596
Contributions	23,286,095	19,948,984
Rental income	5,767,903	5,675,408
Other operating revenues (note 7)	<u>2,342,231</u>	<u>2,232,924</u>
Total operating revenues	<u>176,255,103</u>	<u>174,534,404</u>
Operating expenses (notes 9, 10 and 11):		
Sponsored programs	101,220,506	101,150,748
Community and campus programs	37,175,793	38,273,367
Fundraising – broadcasting	6,534,098	6,303,441
Property management	8,635,810	8,239,584
General administration	<u>15,258,278</u>	<u>14,405,607</u>
Total operating expenses	<u>168,824,485</u>	<u>168,372,747</u>
Operating income	<u>7,430,618</u>	<u>6,161,657</u>
Nonoperating (expenses) revenues:		
Interest expense (note 8)	(1,102,467)	(1,138,889)
Investment income, net	1,122,079	860,513
Net increase in fair value of investments (note 3)	447,597	2,051,392
Loss on dispositions of property and equipment	(78,426)	(4,369)
Gain on sale of donated property	-	1,234,399
Transfers to SDSU (note 2)	(19,268,701)	(8,442,603)
Transfers to The Campanile Foundation (note 2)	<u>(1,355,250)</u>	<u>(1,244,831)</u>
Net nonoperating expenses	<u>(20,235,168)</u>	<u>(6,684,388)</u>
Loss before changes to permanent endowments	(12,804,550)	(522,731)
Increase in permanent endowments	<u>49,469</u>	<u>83,370</u>
Net loss	(12,755,081)	(439,361)
Net position:		
Net position at beginning of year	<u>87,120,857</u>	<u>87,560,218</u>
Net position at end of year	<u>\$ 74,365,776</u>	<u>\$ 87,120,857</u>

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

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Statements of Cash Flows

Years ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Sponsored programs receipts	\$ 122,561,169	\$ 122,073,016
Community and campus programs receipts	25,647,836	30,269,560
Contributions	23,114,867	20,616,608
Rents received	5,644,602	7,543,065
Payments to suppliers	(68,793,567)	(68,421,502)
Payments to employees	(95,321,206)	(95,097,843)
Transfers to SDSU	(19,268,701)	(8,442,603)
Net transfers (to) from The Campanile Foundation	(2,767,080)	1,686,582
Other receipts	1,924,777	2,031,487
Net cash (used in) provided by operating activities	<u>(7,257,303)</u>	<u>12,258,370</u>
Cash flows from capital and related financing activities:		
Principal payments on long-term debt	(925,000)	(885,000)
Interest paid	(1,174,812)	(1,211,072)
Purchase of property and equipment	(3,892,361)	(2,142,899)
Proceeds from sale of property	107,993	1,307,610
Net cash used in capital and related financing activities	<u>(5,884,180)</u>	<u>(2,931,361)</u>
Cash flows from investing activities:		
Investment income	1,290,727	736,441
Proceeds from sale of investments	54,589,809	24,975,760
Purchase of investments	(38,998,692)	(31,583,481)
Net cash provided by (used in) investing activities	<u>16,881,844</u>	<u>(5,871,280)</u>
Net increase in cash and cash equivalents	3,740,361	3,455,729
Cash and cash equivalents, beginning of year	<u>8,084,367</u>	<u>4,628,638</u>
Cash and cash equivalents, end of year	<u>\$ 11,824,728</u>	<u>\$ 8,084,367</u>

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

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Statements of Cash Flows - Continued

Years ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Reconciliation of operating income to net cash (used in) provided by operating activities:		
Operating income	\$ 7,430,618	\$ 6,161,657
Adjustments:		
Depreciation	4,392,726	4,250,484
Change in assets:		
Accounts receivable	(104,046)	992,075
Prepaid expenses and other assets	(421,164)	(323,401)
Change in liabilities:		
Accounts payable	(193,484)	571,869
Accrued expenses	295,739	(273,297)
Sponsored programs receipts over expenses	2,279,019	5,132,085
Due to The Campanile Foundation	(2,767,080)	1,686,582
Other liabilities	1,099,070	2,502,919
Transfers to SDSU	<u>(19,268,701)</u>	<u>(8,442,603)</u>
Net cash (used in) provided by operating activities	<u>\$ (7,257,303)</u>	<u>\$ 12,258,370</u>
 Supplemental disclosure of noncash investing activity:		
Increase in fair value of investments	\$ 447,597	\$ 2,051,392
Increase in permanent endowments	\$ 49,469	\$ 83,370

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

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Notes to the Financial Statements

June 30, 2018 and 2017

NOTE 1 – DESCRIPTION OF ORGANIZATION

San Diego State University Foundation (dba San Diego State University (SDSU) Research Foundation) was formed on February 11, 1943. It is an auxiliary organization of San Diego State University (the University), and is organized and operated in accordance with the Education Code of the State of California and the California Code of Regulations. It is a nonprofit corporation chartered to provide and augment programs that are an integral part of the educational and community service mission of the University. While SDSU Research Foundation is organized to function as a separate corporation, it is integrated into the goals and programs of the University. SDSU Research Foundation reports as a special-purpose government entity engaged only in business-type activities.

SDSU Research Foundation is responsible for the accomplishment of certain University objectives that require financial support not provided by the state. These activities occur in all aspects of university life, including the development and administration of sponsored grants and contracts for faculty and staff research and educational projects; the administration of community and campus-related programs; the financial administration of certain gifts and donations; and the investment of certain endowments and other funds. SDSU Research Foundation's financial statements are included as a component unit of the University's annual financial statements as required by the Government Accounting Standards Board (GASB).

Affiliated Organizations

SDSU Research Foundation is related to the three other auxiliaries of the University: Associated Students of San Diego State University, Aztec Shops, Ltd. and The Campanile Foundation (TCF). The auxiliaries and the University periodically provide various services for one another and collaborate on projects.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies utilized by SDSU Research Foundation follows:

Basis of Accounting

The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board (GASB). Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Classification of Current and Noncurrent Assets and Liabilities

SDSU Research Foundation considers assets to be current that can be reasonably expected, as a part of its normal business operations, to be converted to cash and be available for liquidation of current liabilities within twelve months of the statement of net position date. Liabilities that can be reasonably expected, as part of normal operations, to be liquidated within twelve months of the statement of net position date are considered to be current. All other assets and liabilities are considered to be noncurrent.

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Notes to the Financial Statements

June 30, 2018 and 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Cash and Cash Equivalents

SDSU Research Foundation considers cash and short-term highly liquid investments with original maturities of three months or less to be cash and cash equivalents. These short-term investments are stated at cost, which approximates fair value.

Investments

All investments are reported at fair value, which is the price that would be received to sell an asset in an orderly transaction between market participants at measurement date.

Accounts Receivable

Accounts receivable are recorded at the actual amounts expected to be collected and include both billed and unbilled amounts.

Other Assets

Other assets consist primarily of deposits held by others and the net Other Postemployment Benefits (OPEB) asset calculated by an actuarial valuation.

Capital Assets

Capital assets in excess of \$5,000 are recorded at cost, if purchased, or at estimated fair value, if donated. Certain equipment acquired through grants is subject to restrictions on use and disposition subsequent to the conclusion of the related grants.

Leased property meeting certain capital lease criteria is capitalized and the net present value of the related lease payments is recorded as a liability. Depreciation of assets under capital leases is recorded using the straight-line method over the shorter of the estimated useful lives or the lease terms.

Depreciation is computed by using the straight-line method over the useful life of the asset. For buildings, the useful life is generally 40 years. For building improvements, furniture, fixtures and equipment, the useful life is generally 5, 10 or 15 years. Improvements to leased property are amortized over the lesser of the term of the lease or the life of the improvement.

Asset Impairment

SDSU Research Foundation annually evaluates capital assets held for investment. The carrying values of such assets that are considered to be impaired are adjusted accordingly. Management has determined that there were no such impairments at June 30, 2018 and 2017.

Deferred Outflows and Inflows of Resources

Deferred Outflows for Losses on bond refundings are deferred and amortized on the straight-line method over the life of the refunded bonds.

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Notes to the Financial Statements

June 30, 2018 and 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Deferred Outflows for OPEB subsequent contributions is an actuarial calculated amount that represents the expected contributions to the OPEB Plan for the year ended June 30, 2019.

Deferred Inflows for OPEB trust investment experience is an actuarial calculated amount representing the difference between projected and actual earnings on OPEB plan investments. It is being amortized over five years.

Compensated Absences

SDSU Research Foundation accrues vacation benefits for eligible employees at various rates depending upon length of service and employee classification. Eligible full-time employees accrue sick leave at the rate of four hours per pay period; however, except in limited cases upon retirement, employees are not paid for unused sick leave at the end of employment. Liabilities for compensated absences of approximately \$3,031,000 and \$2,884,000 as of June 30, 2018 and 2017, respectively, are included in accrued expenses.

Revenue Recognition

Revenue from sponsored programs is recognized as sponsored programs support in the fiscal year in which all eligibility requirements have been satisfied. Sponsored programs revenue received prior to satisfaction of eligibility requirements and incurrence of the related expenses have been deferred and are reflected as Sponsored programs receipts over expenditures in the accompanying statements of net position.

SDSU Research Foundation received 50.2% and 50.0% of its total operating revenue from federal sources during the years ended June 30, 2018 and 2017, respectively. The Department of Health and Human Services provided 24.2% and 25.2% of the total operating revenue for the years ended June 30, 2018 and 2017, respectively.

Revenue from community and campus programs is recognized as earned, which includes the revenue related to KPBS and the College of Extended Studies.

Revenue from contributions is recognized in the fiscal year in which all eligibility requirements have been satisfied. Contributions received prior to satisfaction of eligibility requirements are deferred.

Transfers

Transfers are non-exchange cash transactions to related parties in support of the mission of the University.

Net Position

SDSU Research Foundation's net position is classified into the following categories:

Net investment in capital assets

Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Notes to the Financial Statements

June 30, 2018 and 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Restricted – nonexpendable

Assets, net of related liabilities, that are subject to externally imposed conditions that SDSU Research Foundation retains in perpetuity. Assets in this category consist of endowments, certain donations from the KPBS capital campaign, and property held by SDSU Research Foundation.

Restricted – expendable

Assets, net of related liabilities, that are subject to externally imposed conditions that can be fulfilled by the actions of SDSU Research Foundation's Board of Directors.

Unrestricted

All other categories of assets, net of related liabilities. In addition, unrestricted assets may be designated for specific purposes by SDSU Research Foundation's Board of Directors.

Restricted resources are used in accordance with SDSU Research Foundation policies. When both restricted and unrestricted resources are available for use, the determination to use restricted or unrestricted resources is made on a case-by-case basis.

Classification of Revenues and Expenses

SDSU Research Foundation considers operating revenues and expenses to be those revenues and expenses that result from exchange transactions or from activities that are connected directly to SDSU Research Foundation's primary functions. Certain other transactions are reported as nonoperating revenues and expenses, including interest expense, investment income and changes in the fair value of investments.

Included in sponsored program receipts for the years ended June 30, 2018 and 2017, were \$2.2 and \$1.8 million respectively, received from The National Institutes of Health. These amounts were transferred to a term endowment.

Functional Expense Allocations

Expenses that can be identified with a specific program or supporting service are charged directly to the related program or support services. Expenses applicable to more than one activity, such as facilities-related depreciation, are allocated amongst sponsored programs, community and campus programs, and plant fund based on an evaluation from management.

Interfund Eliminations

According to SDSU Research Foundation policy, all interfund transactions have been eliminated in the accompanying financial statements.

Income Taxes

SDSU Research Foundation is an organization exempt from taxation under Section 501(c)(3) of the Internal Revenue Code and Section 23701d of the California Revenue and Taxation Code. Accordingly, SDSU

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Notes to the Financial Statements

June 30, 2018 and 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Research Foundation has only nominal amounts that are subject to income taxes. Therefore, no provision for income taxes has been included in the accompanying financial statements.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue, gains, expenses and losses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Consistent with the presentation of transfers to SDSU for the year ended June 30, 2018, Transfers to SDSU for the year ended June 30, 2017 of \$8.4 million were reclassified from Community and campus programs operating expenses to non-operating expenses. Additionally, certain other reclassifications have been made to the June 30, 2017 financial statements in order to conform to the presentation as of June 30, 2018. These reclassifications were not material and had no effect on operations.

Pronouncements Issued

For the year ended June 30, 2018, SDSU Research Foundation implemented GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (GASB 75). GASB 75 replaces the requirements of GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions. The statement requires the reporting of a net OPEB liability or asset, OPEB expense, deferred outflow of resources and deferred inflow of resources related to OPEB, and additional disclosures. See note 11 for the financial statement impact of the implementation of the Statement.

Additionally, SDSU Research Foundation implemented the following GASB statements, implementation of which did not have a significant impact on the financial statements:

- GASB Statement No. 85, Omnibus 2017 (effective for the year ended June 30, 2018)
- GASB Statement No. 86, Certain Debt Extinguishment Issues (effective for the year ended June 30, 2018)

For the year ended June 30, 2017, SDSU Research Foundation implemented the following GASB statements the implementation of which did not have a significant impact on the financial statements:

- GASB Statement No. 74, Financial Reporting for Postemployment Government Combinations and Disposals of Government Operations (effective for the year ended June 30, 2017)
- GASB Statement No. 78, Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans (effective for the year ended June 30, 2017)
- GASB Statement No. 80, Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14 (effective for the year ended June 30, 2017)

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Notes to the Financial Statements

June 30, 2018 and 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

- GASB Statement No. 81, Irrevocable Split-Interest Agreements (effective for the year ended June 30, 2017)
- GASB Statement No. 82, Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73 (effective for the ended June 30, 2017)

The GASB has issued the following statements:

- GASB Statement No. 83, Certain Asset Retirement Obligations (effective for the year ending June 30, 2019)
- GASB Statement No. 84, Fiduciary Activities (effective for the year ending June 30, 2020)
- GASB Statement No. 87, Leases (effective for the year ending June 30, 2021)
- GASB Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements (effective for the year ending June 30, 2020)
- GASB Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period (effective for the year ending June 30, 2021)

Management has not determined what, if any, impact implementation may have on the financial statements of SDSU Research Foundation.

NOTE 3 – INVESTMENTS

Investment Policy

The primary objective of the investment policy of SDSU Research Foundation is to protect the underlying assets so that the funds are available when needed by various projects and programs. A secondary objective is to maximize investment income on available investments. Various policies have been adopted to meet these objectives at the same time. Specific references are included below under various risk categories. In general, operating funds are limited in maturity ranges and type of debt instrument.

Investments as of June 30 were as follows:

	<u>2018</u>	<u>2017</u>
Short-term investments	\$ 8,478,892	\$ 27,070,726
Long-term investments	13,229,554	14,401,888
Long-term restricted investments	20,835,163	17,520,296
	<u>\$ 42,543,609</u>	<u>\$ 58,992,910</u>

SDSU Research Foundation categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The following levels indicate the hierarchy of inputs used to

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Notes to the Financial Statements

June 30, 2018 and 2017

NOTE 3 – INVESTMENTS – Continued

measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

- Level 1 - Investments whose values are based on quoted prices (unadjusted) for identical assets in active markets that a government can access at the measurement date.
- Level 2 - Investments with inputs – other than quoted prices included within Level 1 – that are observable for an asset, either directly or indirectly.
- Level 3 - Investments classified as Level 3 have unobservable inputs for an asset and may require a degree of professional judgment

The following tables summarize SDSU Research Foundation’s investments within the fair value hierarchy at June 30, 2018 and June 30, 2017, respectively:

<u>2018 Investments</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Federal Agency Issues	\$ 131,205	\$ 131,205	\$ -	\$ -
Intermediate Term Fund	465,352	-	465,352	-
Money Market Funds	57,743	-	57,743	-
Corporate Bonds	16,844,140	16,844,140	-	-
Bond Index Mutual Fund	1,672,078	1,672,078	-	-
Fixed Annuity Contracts	28,403	-	-	28,403
Deferred Gift	875,008	875,008	-	-
TCF Endowment Pool	21,317,210	-	-	21,317,210
Real Property	1,031,821	-	-	1,031,821
Amounts Held by Others	120,649	-	-	120,649
	<u>\$ 42,543,609</u>	<u>\$ 19,522,431</u>	<u>\$ 523,095</u>	<u>\$ 22,498,083</u>

<u>2017 Investments</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Federal Agency Issues	\$ 132,955	\$ 132,955	\$ -	\$ -
Intermediate Term Fund	463,744	-	463,744	-
Money Market Funds	3,340,662	-	3,340,662	-
Corporate Bonds	31,737,001	31,737,001	-	-
Bond Index Mutual Fund	1,680,982	1,680,982	-	-
Fixed Annuity Contracts	54,795	-	-	54,795
Deferred Gift	857,368	857,368	-	-
TCF Endowment Pool	19,577,168	-	-	19,577,168
Real Property	1,031,821	-	-	1,031,821
Amounts Held by Others	116,414	-	-	116,414
	<u>\$ 58,992,910</u>	<u>\$ 34,408,306</u>	<u>\$ 3,804,406</u>	<u>\$ 20,780,198</u>

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Notes to the Financial Statements

June 30, 2018 and 2017

NOTE 3 – INVESTMENTS – Continued

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

- Level 1 Measurements

Federal Agency Issues, Corporate Bonds and Bond Index Mutual Funds – based on quoted prices available in an active market.

Deferred Gift – based on quoted prices available in an active market. The deferred gift is invested in a portfolio of cash, equity securities, fixed income securities, and real estate funds designed to provide a moderate amount of current income with moderate growth of capital.

- Level 2 Measurements

Money Market Funds and the Intermediate Term Fund – based on published fair value per share for each fund. The Intermediate Term Fund is a commingled investment fund that is limited to nonprofit institutions and other qualified investors.

- Level 3 Measurements

Fixed Annuity Contracts – is reported at contract value which approximates fair value. The contract value equals the accumulated cash contributions, interest credited to the plan's contracts, and transfers, if any, less any withdrawals and transfers, if any. These contracts are not available for sale or transfer on any securities exchange.

TCF Endowment Pool – SDSU Research Foundation invests in the TCF Endowment Pool, a unitized pool managed by TCF, another university auxiliary organization. The fair value is calculated as SDSU Research Foundation's share of the pool as of the measurement date, which is based on the fair value of the underlying assets owned by the fund divided by the number of units outstanding.

Real Property – fair value reflects most recent appraised value. Because there are no observable measures, the appraiser must rely solely on experience and knowledge of the market when using inputs for real estate assets. This investment was purchased with a donor's funds to benefit specific research programs. The property may be sold should the needs of the programs change.

Amounts Held By Others – SDSU Research Foundation is the beneficiary of certain trusts held in an endowment portfolio managed by a community foundation. The fair value is calculated based on the fair value of the underlying assets owned by the fund.

The Campanile Foundation Endowment Pool

The TCF Endowment Pool has significant investments in various mutual funds and third-party investment pools. Prior to June 2017, investment decisions were made by the Finance and Investment Committee of the TCF Board of Directors in consultation with an external investment consultant/advisor. As of June 2017, the TCF Board of Directors hired an Outside Chief Investment Officer (OCIO) who manages the endowment based upon the Investment Policy Statement (IPS) as approved by the TCF Board of Directors. The TCF Finance and Investment Committee meets regularly with the OCIO to review the investments and their performance and the compliance with the IPS. The primary investment categories were updated with the hiring of the OCIO. As of June 30, 2018, the categories were growth assets (46%), credit (6.5%), inflation hedges

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Notes to the Financial Statements

June 30, 2018 and 2017

NOTE 3 – INVESTMENTS – Continued

(14.5%); and risk mitigation (33%). The primary investment categories as of June 30, 2017 were stocks (58%), fixed income (24%), and alternative investments, real estate commodities and cash equivalents (18%). The TCF Endowment Pool is subject to concentrations of credit risk.

SDSU Research Foundation recognized a net unrealized gain of \$513,678 and a net unrealized loss of \$1,809,189 for the years ended June 30, 2018 and 2017, respectively, from its investment in the TCF Endowment Pool.

The investments of the TCF Endowment Pool are exposed to both interest rate and market risk. Economic conditions can impact these risks, and resulting market values can be either positively or adversely affected. If the level of risk increases in the near term, it is possible that the investment balances, and thus SDSU Research Foundation's portion of those investments, could be materially affected. Although the market value of the investment in the TCF Endowment Pool is subject to fluctuations on a year-to-year basis, management believes the investment policies of TCF are prudent for the long-term welfare of SDSU Research Foundation.

In accordance with the Uniform Prudent Management of Institutional Funds Act (UPMIFA), SDSU Research Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to SDSU Research Foundation's programs and operations supported by its endowment while also seeking to maintain the long-term purchasing power of the endowment assets.

Endowment distributions are performed in accordance with SDSU Research Foundation's investment policy statement. For the fiscal years ended June 30, 2018 and 2017, the distribution rate was 4% of the endowment principal market value using a three-year moving average.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of a fixed income investment. In order to reduce interest rate risk exposure, SDSU Research Foundation's investment policy states that individually held working capital and debt reserve fixed income investments are limited to a five-year maturity and should be staggered over various maturity dates.

Maturities of investments as of June 30, 2018 are as follows:

	Market Value Total	Less than One Year	Two - Five Years
Corporate Bonds	\$ 16,844,140	\$ 8,392,746	\$ 8,451,394
Federal Agency Issues	131,205	-	131,205
Bond Index Fund	1,672,078	-	1,672,078
Money Market Funds	57,743	57,743	-
Intermediate Term Fund	465,352	-	465,352
	\$ 19,170,518	\$ 8,450,489	\$ 10,720,029

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Notes to the Financial Statements

June 30, 2018 and 2017

NOTE 3 – INVESTMENTS – Continued

Maturities of investments as of June 30, 2017 are as follows:

	Market Value Total	Less than One Year	Two - Five Years
Corporate Bonds	\$ 31,737,001	\$ 23,675,269	\$ 8,061,732
Federal Agency Issues	132,955	-	132,955
Bond Index Fund	1,680,982	-	1,680,982
Money Market Funds	3,340,662	3,340,662	-
Intermediate Term Fund	463,744	-	463,744
	<u>\$ 37,355,344</u>	<u>\$ 27,015,931</u>	<u>\$ 10,339,413</u>

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to repay the debt security when due. SDSU Research Foundation's investment policy requires that fixed income investments must be rated as "Investment Grade," which is BBB or higher. Credit ratings by nationally recognized institutions are used to assess the creditworthiness of specific investments. Federal agency issues, bond index fund, intermediate term fund, and money market funds do not have a rating provided by a nationally recognized statistical rating organization. The range of ratings of corporate bonds was BBB to A+ as of June 30, 2018 and BBB to AA+ as of June 30, 2017.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the investment in a single issuer. Securities issued by federally sponsored enterprises are purchased to reduce the possibility of a loss due to a concentration of credit. SDSU Research Foundation's investment policy contains no limitations as to how much can be invested with any one issuer. As of June 30, 2018, SDSU Research Foundation did not have any investments with a single issuer that exceeded 5% of total investments. As of June 30, 2017, SDSU Research Foundation had approximately \$3.2 million, or 10% of fixed income investments, invested in Wells Fargo & Co. bonds and \$3 million, or 9% of fixed income investments, invested in Credit Suisse bonds.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that SDSU Research Foundation will not be able to recover its deposits in the event of a failure of a depository institution. In the ordinary course of SDSU Research Foundation's operations, deposit balances in checking accounts can exceed the Federal Deposit Insurance Corporation (FDIC) insured limits. In accordance with SDSU Research Foundation's investment policy, all certificates of deposit are FDIC insured and limited to \$250,000 at any one institution.

Custodial credit risk for investments is the risk that if the counterparty to an investment transaction were to fail, SDSU Research Foundation would not be able to recover its investment. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to indirect investment in securities through the use of mutual funds, government investment pools and the Intermediate Term Fund. Federally Sponsored Enterprise Issues are held by Securities Investor Protection Corporation (SIPC) insured brokers and are not registered with the issuer in SDSU Research Foundation's name.

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Notes to the Financial Statements

June 30, 2018 and 2017

NOTE 4 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2018 and 2017 consisted of the following:

	2018		
	Current	Noncurrent	Total
Accounts receivable - sponsored programs	\$ 19,772,307	\$ -	\$ 19,772,307
Other receivables	5,763,033	393,305	6,156,338
Allowance for doubtful accounts	(599,311)	-	(599,311)
	<u>\$ 24,936,029</u>	<u>\$ 393,305</u>	<u>\$ 25,329,334</u>
	2017		
	Current	Noncurrent	Total
Accounts receivable - sponsored programs	\$ 21,118,135	\$ -	\$ 21,118,135
Other receivables	4,064,483	378,428	4,442,911
Allowance for doubtful accounts	(167,110)	-	(167,110)
	<u>\$ 25,015,508</u>	<u>\$ 378,428</u>	<u>\$ 25,393,936</u>

It is the policy of management to review outstanding receivables at year-end for collectability and establish an allowance for doubtful accounts.

NOTE 5 – NOTES RECEIVABLE – AZTEC SHOPS, LTD.

In May 2015, SDSU Research Foundation transferred properties adjacent to the University (College Square and College Strip) to Aztec Shops, Ltd. in exchange for cash of \$2,725,000, which was used to pay off a mortgage note and unsecured notes in the amount of \$1,470,000. Payments of interest only at 4% are payable semi-annually until October 15, 2020 from Aztec Shops, Ltd., at which time fixed principal payments of \$73,500 plus accrued interest are payable semi-annually through April 15, 2030.

In January 2014, SDSU Research Foundation transferred a property adjacent to the University (Sanctuary Suites) to Aztec Shops, Ltd. in exchange for an unsecured note in the amount of \$4,717,991. Payments of interest only at 4% are payable semi-annually until April 15, 2019 at which time fixed principal payments of \$235,900 plus accrued interest are payable semi-annually through October 15, 2028.

In June 2013, SDSU Research Foundation transferred two student housing projects adjacent to the University (Piedra del Sol and Fraternity Row apartments) to Aztec Shops, Ltd. As part of the consideration for the transfer, Aztec Shops, Ltd. provided an unsecured note to SDSU Research Foundation in the amount of \$2,184,000. Payments of interest only at 4% are payable semi-annually until October 15, 2018 at which time fixed principal payments of \$109,200 plus accrued interest are payable semi-annually through April 15, 2028.

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Notes to the Financial Statements

June 30, 2018 and 2017

NOTE 5 – NOTES RECEIVABLE – AZTEC SHOPS, LTD. – Continued

Notes receivable as of June 30, 2018 and 2017 consisted of the following:

	2018		
	Current	Noncurrent	Total
Piedra del Sol and Fraternity Row	\$ 218,400	\$ 1,965,600	\$ 2,184,000
Sanctuary Suites	235,900	4,482,091	4,717,991
College Square	-	870,000	870,000
College Strip	-	600,000	600,000
	<u>\$ 454,300</u>	<u>\$ 7,917,691</u>	<u>\$ 8,371,991</u>
	2017		
	Current	Noncurrent	Total
Piedra del Sol and Fraternity Row	\$ -	\$ 2,184,000	\$ 2,184,000
Sanctuary Suites	-	4,717,991	4,717,991
College Square	-	870,000	870,000
College Strip	-	600,000	600,000
	<u>\$ -</u>	<u>\$ 8,371,991</u>	<u>\$ 8,371,991</u>

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Notes to the Financial Statements

June 30, 2018 and 2017

NOTE 6 – CAPITAL ASSETS

Capital assets activity for the years ended June 30, 2018 and 2017 consisted of the following:

	Balance			Balance
	June 30, 2017	Additions	Reductions	June 30, 2018
Nondepreciable capital assets:				
Land, land improvements	\$ 14,931,234	\$ -	\$ (111,000)	\$ 14,820,234
Construction in progress	574,810	335,489	(104,779)	805,520
Total nondepreciable capital assets	<u>15,506,044</u>	<u>335,489</u>	<u>(215,779)</u>	<u>15,625,754</u>
Depreciable capital assets:				
Buildings and improvements	67,557,304	1,509,843	(136,818)	68,930,329
Furniture, fixtures and equipment	25,474,938	1,696,808	(1,205,354)	25,966,392
Total depreciable capital assets	<u>93,032,242</u>	<u>3,206,651</u>	<u>(1,342,172)</u>	<u>94,896,721</u>
Less accumulated depreciation:				
Buildings and improvements	(37,890,937)	(2,718,252)	74,700	(40,534,489)
Furniture, fixtures and equipment	(20,906,665)	(1,674,474)	1,192,053	(21,389,086)
Total accumulated depreciation	<u>(58,797,602)</u>	<u>(4,392,726)</u>	<u>1,266,753</u>	<u>(61,923,575)</u>
Total capital assets, net	<u>\$ 49,740,684</u>	<u>\$ (850,586)</u>	<u>\$ (291,198)</u>	<u>\$ 48,598,900</u>
	Balance			Balance
	June 30, 2016	Additions	Reductions	June 30, 2017
Nondepreciable capital assets:				
Land, land improvements	\$ 14,931,234	\$ -	\$ -	\$ 14,931,234
Construction in progress	72,142	502,668	-	574,810
Total nondepreciable capital assets	<u>15,003,376</u>	<u>502,668</u>	<u>-</u>	<u>15,506,044</u>
Depreciable capital assets:				
Buildings and improvements	66,796,623	760,681	-	67,557,304
Furniture, fixtures and equipment	25,674,951	879,550	(1,079,563)	25,474,938
Total depreciable capital assets	<u>92,471,574</u>	<u>1,640,231</u>	<u>(1,079,563)</u>	<u>93,032,242</u>
Less accumulated depreciation:				
Buildings and improvements	(35,336,996)	(2,553,941)	-	(37,890,937)
Furniture, fixtures and equipment	(20,212,105)	(1,696,543)	1,001,983	(20,906,665)
Total accumulated depreciation	<u>(55,549,101)</u>	<u>(4,250,484)</u>	<u>1,001,983</u>	<u>(58,797,602)</u>
Total capital assets, net	<u>\$ 51,925,849</u>	<u>\$ (2,107,585)</u>	<u>\$ (77,580)</u>	<u>\$ 49,740,684</u>

Depreciation expense totaled \$4,392,726 and \$4,250,484 for the years ended June 30, 2018 and 2017, respectively.

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Notes to the Financial Statements

June 30, 2018 and 2017

NOTE 7 – AFFILIATED ORGANIZATIONS

The Campanile Foundation (TCF)

TCF is the philanthropic auxiliary organization for the University. The amounts shown in the Statements of Net Position as Due to The Campanile Foundation represent TCF's claim on the cash and investments of SDSU Research Foundation.

Pursuant to an agreement with TCF effective through June 30, 2023, SDSU Research Foundation shall provide administrative services that include cash management processes, gift account administration, and accounting and financial reporting assistance. SDSU Research Foundation charges an administrative fee for all non-student aid funds at the time that TCF expends the funds. Amounts received under this agreement are a combination of fees charged on TCF non-student aid funds and additional amounts paid by TCF. For the years ended June 30, 2018 and 2017 the administrative fee received from TCF totaled \$900,000 per year and is included in Other operating revenues in the accompanying Statements of Revenues, Expenses and Changes in Net Position.

Other

Included in Accounts payable and accrued expenses were payables to the affiliated organizations in the approximate amounts of \$714,000 and \$1,294,000 at June 30, 2018 and 2017, respectively. Included in Accounts receivable were receivables from the affiliated organizations in the approximate amounts of \$293,000 and \$259,000 at June 30, 2018 and 2017, respectively. These amounts occurred in the normal course of business among the affiliated organizations.

NOTE 8 – LONG-TERM DEBT OBLIGATIONS

Long-term debt activity for the years ended June 30, 2018 and 2017 was as follows:

	<u>Balance</u> <u>June 30, 2017</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2018</u>	<u>Current</u> <u>Portion</u>
CSU SRB 2010A -				
1999 Refunding (a)	\$ 2,835,000	\$ (420,000)	\$ 2,415,000	\$ 440,000
CSU SRB 2012 -				
2002 Refunding (b)	25,200,000	(505,000)	24,695,000	520,000
Unamortized bond premium				
CSU SRB 2010A (a)	228,509	(38,085)	190,424	38,085
CSU SRB 2012 (b)	1,103,306	(56,823)	1,046,483	56,823
	<u>\$ 29,366,815</u>	<u>\$ (1,019,908)</u>	<u>\$ 28,346,907</u>	<u>\$ 1,054,908</u>
	<u>Balance</u> <u>June 30, 2016</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2017</u>	<u>Current</u> <u>Portion</u>
CSU SRB 2010A -				
1999 Refunding (a)	\$ 3,230,000	\$ (395,000)	\$ 2,835,000	\$ 420,000
CSU SRB 2012 -				
2002 Refunding (b)	25,690,000	(490,000)	25,200,000	505,000
Unamortized bond premium				
CSU SRB 2010A (a)	266,593	(38,084)	228,509	38,085
CSU SRB 2012 (b)	1,160,128	(56,822)	1,103,306	56,823
	<u>\$ 30,346,721</u>	<u>\$ (979,906)</u>	<u>\$ 29,366,815</u>	<u>\$ 1,019,908</u>

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Notes to the Financial Statements

June 30, 2018 and 2017

NOTE 8 – LONG-TERM DEBT OBLIGATIONS – Continued

- (a) In April 2010, the California State University (CSU) System issued system wide revenue bonds (SRB 2010A). Part of this reissuance (\$11,020,000) was allocated to SDSU Research Foundation to replace the 1998 certificates of participation and the 1999 insured revenue refunding bonds. The SRB 2010A bonds bear interest at rates ranging from 1.0% to 5.0%, and are due in semi-annual principal and interest payments consistent with the terms of the original bonds. The portion related to the 1998 issue (\$6,030,000) matures in 2030. The portion related to the 1999 issue (\$4,990,000) matures in 2023 and the payments are secured by pledged revenues, including indirect cost recovery payments.

In June 2013, two student housing projects with a net book value of \$15.8 million were transferred to Aztec Shops, Ltd. Aztec Shops, Ltd. assumed \$5.2 million of bond debt related to the Series 2010A bonds.

The SRB 2010A bonds sold at amounts greater than par. The resulting bond premium of \$938,009 is being amortized over the life of the bonds using the straight-line method, which approximates the effective interest method. A portion of the unamortized bond premium amounting to \$363,828 was transferred to Aztec Shops, Ltd. with the related debt. The amount amortized was \$38,085 for each of the years ended June 30, 2018 and 2017.

- (b) In August 2012, the CSU System issued system wide revenue bonds (SRB 2012A and SRB 2012B). Part of this reissuance (\$27,100,000) was allocated to SDSU Research Foundation to replace the 2002 SDSU Research Foundation insured revenue bonds. The SRB 2012A and 2012B bonds bear interest at rates ranging from 0.4% to 5.0%, and are due in semi-annual principal and interest payments consistent with the terms of the original bonds. The bonds mature in 2037.

The SRB 2012 bonds sold at amounts greater than par. The resulting bond premium of \$1,377,948 is being amortized over the life of the bonds using the straight-line method, which approximates the effective interest method. The amount amortized was \$56,823 for each of the years ended June 30, 2018 and 2017.

A loss of \$686,737 was incurred on the refunding of the SRB 2012A bonds. The loss was deferred and is included on the Statements of Net Position under the caption Deferred Outflows of Resources. The loss is being recognized over the life of the bonds using the straight-line method, which approximates the effective interest method. The loss recognized was \$28,418 for each of the years ended June 30, 2018 and 2017.

In July 2016, SDSU Research Foundation entered into a revolving loan agreement with a bank. The loan is secured by two parcels of real property. The loan agreement is available for short-term cash needs, with a maximum amount available of \$12.0 million, with a maturity date of September 26, 2021. The agreement calls for certain restrictive and financial covenants to be maintained. The current agreement requires monthly interest-only payments at a variable interest rate of the prime lending rate minus 1%, but in no event less than 2.5%. There were no amounts outstanding under the agreement as of June 30, 2018 and 2017.

Total interest incurred on all borrowings was approximately \$1,102,000 and \$1,139,000 for the years ended June 30, 2018 and 2017, respectively.

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Notes to the Financial Statements

June 30, 2018 and 2017

NOTE 8 – LONG-TERM DEBT OBLIGATIONS – Continued

Future principal and interest payments on long-term debt are as follows:

Year ending June 30:	Principal	Interest	Total
2019	\$ 960,000	\$ 1,140,252	\$ 2,100,252
2020	1,005,000	1,102,128	2,107,128
2021	1,045,000	1,062,349	2,107,349
2022	1,080,000	1,020,505	2,100,505
2023	1,130,000	975,671	2,105,671
2024-2028	6,360,000	4,079,762	10,439,762
2029-2033	7,885,000	2,559,021	10,444,021
2034-2038	7,645,000	709,707	8,354,707
	<u>\$ 27,110,000</u>	<u>\$ 12,649,395</u>	<u>\$ 39,759,395</u>

NOTE 9 – OTHER LIABILITIES

Activities in other liabilities for the years ended June 30, 2018 and 2017 consisted of the following:

	Balance			Balance
	June 30, 2017	Additions	Reductions	June 30, 2018
Workers' compensation	\$ 2,441,609	\$ 654,083	\$ (586,887)	\$ 2,508,805
Deferred revenue - ground lease	1,899,241	-	(39,740)	1,859,501
Unemployment insurance	1,294,438	563,020	(406,579)	1,450,879
Other obligations	604,561	180,354	(69,230)	715,685
	<u>\$ 6,239,849</u>	<u>\$ 1,397,457</u>	<u>\$ (1,102,436)</u>	<u>\$ 6,534,870</u>

	Balance			Balance
	June 30, 2016	Additions	Reductions	June 30, 2017
Workers' compensation	\$ 1,936,981	\$ 1,069,687	\$ (565,059)	\$ 2,441,609
Deferred revenue - ground lease	-	1,987,000	(87,759)	1,899,241
Unemployment insurance	1,241,120	562,911	(509,593)	1,294,438
Other obligations	558,829	61,183	(15,451)	604,561
	<u>\$ 3,736,930</u>	<u>\$ 3,680,781</u>	<u>\$ (1,177,862)</u>	<u>\$ 6,239,849</u>

Risk Management

SDSU Research Foundation is subject to risks of loss such as general liabilities, torts and employee health expenses. SDSU Research Foundation participates in the California State University risk management pool, California State University Risk Management Authority (CSURMA), for most of its insurance needs. CSURMA provides insurance and risk management services for California State University campuses and auxiliary organizations, including insurance and self-insurance. Auxiliary Organizations Risk Management Alliance (AORMA) operates within CSURMA to offer tailored coverage for California State University auxiliary organizations. CSURMA AORMA assumes charge of the control, negotiation, investigation, settlement,

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Notes to the Financial Statements

June 30, 2018 and 2017

NOTE 9 – OTHER LIABILITIES – Continued

defense, or appeal of any claims made, or suits brought, or proceedings instituted against SDSU Research Foundation for areas covered by the pool. For their services, SDSU Research Foundation remits annual contribution payments computed in accordance with CSURMA AORMA’s rules and rates.

For its unemployment and workers’ compensation plans, SDSU Research Foundation is partially self-insured. Using insurance policies with commercial carriers to cover these risks of loss, SDSU Research Foundation maintains excess unemployment insurance coverage of \$1,500,000, in the aggregate, and excess workers’ compensation coverage for claims in excess of \$250,000 per occurrence. The unemployment and workers’ compensation liabilities are determined annually as part of management’s risk analysis based on the claims history and insurance premiums. SDSU Research Foundation engages an actuary to analyze workers’ compensation claims filed and estimate those incurred but not reported to determine the discounted ultimate cost for self-insured claims. Management’s goal is to accrue the liability to an 80-90% confidence level based on the actuary’s estimated liability with an additional accrual for deductibles.

Deferred Revenue

SDSU Research Foundation received payments of \$2 million related to a ground lease with a developer in the fiscal year ending June 30, 2017. The lease is from April 2016 to April 2066 and is being recognized ratably over the 50-year term.

NOTE 10 – LEASING ARRANGEMENTS

Operating Lease Revenues

Land, buildings and improvements, with a current net book value of approximately \$38 million, are leased to University-related and commercial organizations.

The following is a schedule of the minimum future rental payments to be received on these operating leases, by year, as of June 30, 2018:

Year ending June 30:	Affiliated Organizations	Unrelated Parties	Total
2019	\$ 1,327,000	\$ 2,166,000	\$ 3,493,000
2020	653,000	1,727,000	2,380,000
2021	539,000	1,612,000	2,151,000
2022	429,000	1,191,000	1,620,000
2023	434,000	944,000	1,378,000
Thereafter	12,346,000	3,362,000	15,708,000
	<u>\$ 15,728,000</u>	<u>\$ 11,002,000</u>	<u>\$ 26,730,000</u>

In April 2016, SDSU Research Foundation entered into a 50-year ground lease agreement of real property with a developer to construct and operate a student housing facility. The agreement provides additional lease payments to SDSU Research Foundation, not included in the schedule above, based on a percentage of the net operating surplus of the developer. The deferred revenue liability related to the ground lease is included in Other liabilities (note 9).

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Notes to the Financial Statements

June 30, 2018 and 2017

NOTE 10 – LEASING ARRANGEMENTS – Continued

Operating Lease Obligations

SDSU Research Foundation leases certain land, buildings, and equipment under operating leases. The total rental expense incurred was \$5.4 million and \$5.8 million for the years ended June 30, 2018 and 2017, respectively.

SDSU Research Foundation executed a 30-year ground and facility lease with the Board of Trustees of the California State University for the SDSU BioScience Center in March 2004. Lease payments began in May 2006. SDSU Research Foundation incurred rental expense under this agreement of \$470,000 and \$474,000 for the years ended June 30, 2018 and 2017, respectively.

On behalf of the College of Extended Studies, SDSU Research Foundation executed a 10-year lease with Aztec Shops, Ltd. for a portion of the College Square building in October 2015. Lease payments began in March 2016. SDSU Research Foundation incurred rental expense under this agreement of \$215,000 and \$144,000 for the years ended June 30, 2018 and 2017, respectively. During the fiscal year ended June 30, 2017, SDSU Research Foundation entered into an agreement with the University and Aztec Shops, Ltd. to lease College Square to the University.

SDSU Research Foundation has also executed commercial leases for projects located away from the campus. Terms of some leases have the option to renew and include periodic fixed escalations.

The minimum rental commitments at June 30, 2018 are as follows:

Year ending June 30:	Affiliated Organizations	Unrelated Parties	Total
2019	\$ 1,303,000	\$ 603,000	\$ 1,906,000
2020	1,023,000	516,000	1,539,000
2021	1,004,000	394,000	1,398,000
2022	1,009,000	366,000	1,375,000
2023	1,018,000	384,000	1,402,000
2024-2028	3,662,000	-	3,662,000
2029-2033	2,318,000	-	2,318,000
2034-2038	1,394,000	-	1,394,000
	\$ 12,731,000	\$ 2,263,000	\$ 14,994,000

NOTE 11 – POSTRETIREMENT BENEFIT PLAN

General Information about the OPEB Plan for Years Ended June 30, 2018 and 2017

The Health, Vision, Life Insurance/AD&D and Employee Assistance Program of San Diego State University Foundation (the Plan) was created by SDSU Research Foundation as a fully insured, single-employer benefit plan. The Plan was effective as of August 1, 1982 and is administered by SDSU Research Foundation. It also

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Notes to the Financial Statements

June 30, 2018 and 2017

NOTE 11 – POSTRETIREMENT BENEFIT PLAN – Continued

provides for post-retirement medical benefits to certain former regular employees and qualified dependents of the SDSU Research Foundation.

SDSU Research Foundation established a voluntary employees' beneficiary association trust (the VEBA) with a registered investment company on June 24, 1996. The VEBA holds the assets and funds the post-retirement benefit obligation provided under the plan. The fair value of assets held by the VEBA trust for the years ended June 30, 2018 and 2017 were \$11,802,000 and \$10,862,000, respectively. The plan issues stand-alone, publicly available financial reports that include financial statements and required supplementary information prepared on the accrual basis of accounting in accordance with the standards of the GASB and GAAP. The financial statements may be obtained by contacting the Human Resources Department at SDSU Research Foundation.

SDSU Research Foundation provides medical, hospital, surgical, major medical and dental insurance benefits for retirees who meet certain eligibility requirements as established by Board policy. There are three groups of eligible retirees, as follows:

- Group 1 Retirees – Individuals who were employed as eligible employees on June 30, 1991 and at the time of retirement, had 10 years of service as eligible employees, and retired either (a) under “SDSURF Defined Contribution Retirement Plan” offered through Teachers Insurance and Annuity Association (TIAA) after attaining age 55 (or after attaining age 50 if the individual was employed by SDSU Research Foundation and covered by California Public Employees' Retirement System (CalPERS) on June 30, 1982), or (b) due to permanent and total disability, as approved by TIAA, under the “Group Total Disability Benefits Plan for Regular Salaried Employees of SDSURF.”
- Group 2 Retirees – Individuals who were employed as eligible employees on or after July 1, 1991 and, at the time of retirement, had 15 years of service as eligible employees, and retired either (a) under “SDSURF Defined Contribution Retirement Plan” offered through TIAA after attaining age 60, or (b) due to permanent total disability, as approved by TIAA, under the “Group Total Disability Benefits Plan for Regular Salaries Employees of SDSURF.”
- Group 3 Retirees – Individuals who retired prior to July 1, 1991 and, as of July 1, 1991, were receiving benefits under SDSU Research Foundation's “Health Insurance at Retirement” policy, which was approved by SDSU Research Foundation's Board of Directors on May 14, 1984.

For Group 3 retirees, SDSU Research Foundation pays the same percentage of the premium it pays for active employees. Retirees are required to make the same contribution for spousal or domestic partner coverage, if any, that is paid by active employees to cover one dependent. For Group 1 and 2 retirees, SDSU Research Foundation's premium contribution is based upon the cost of the least expensive plan for which the retiree is eligible. The amount of contribution is determined by the years of service the employee has earned on the date of retirement in accordance with the vesting schedule within the policy. The minimum retiree contribution for individual coverage is the amount an active employee pays for individual coverage. The minimum retiree contribution for spousal or domestic partner coverage is the amount paid by active employees to cover one dependent.

Only certain regular employees of SDSU Research Foundation are eligible. Regular employees are members of either (a) central staff under the programmatic direction of SDSU Research Foundation's Executive Director, (b) KPBS, (c) the College of Extended Studies, (d) University Advancement or (e) the University's Department of Intercollegiate Athletics. A regular employee is appointed to an approved class code, works a regular schedule of 30 hours or more per week, and is not a temporary or leased employee. At December 31,

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Notes to the Financial Statements

June 30, 2018 and 2017

NOTE 11 – POSTRETIREMENT BENEFIT PLAN – Continued

2017, there were 331 active employees and 70 retired employees or their surviving spouses participating in and receiving benefits from the Plan. At December 31, 2016, there were 328 active employees and 66 retired employees or their surviving spouses participating in and receiving benefits from the Plan.

SDSU Research Foundation has voluntarily opted for a funding policy under which it contributes 100% of the actuarially determined contribution (ADC). The actuarially determined contribution (ADC) for the year ended June 30, 2018 was \$285,305, comprised of a cash contribution to the trust of \$184,443 and an implicit subsidy credit of \$100,862. The actuarially determined annual required contribution (ARC) for the year ended June 30, 2017 was \$247,957. No contributions to fund the future liability of the plan are required from employees.

Disclosures Required Under GASB 75 for the year ended June 30, 2018

GASB Statement No. 75 was implemented for the year ended June 30, 2018. This Statement establishes standards for the measurement, recognition and disclosure of OPEB expense and related liabilities (assets), note disclosures, and required supplementary information. Changes adopted to conform to the provision of this Statement should be applied retroactively by restating financial statements, if practical, for all prior periods presented. SDSU Research Foundation has determined that it was not practical to restate the June 30, 2017 financial statements due to the immateriality of the balances and the reporting necessary for consolidation purposes.

Net OPEB Asset

Included in Other Assets on the Statement of Net Position as of June 30, 2018 is the net OPEB asset of SDSU Research Foundation from an actuarial valuation as of December 31, 2017. The components of the asset are as follows:

Plan Fiduciary net position	\$ 11,665,414
Less: Total OPEB liability	<u>(11,209,199)</u>
Foundation's net OPEB asset	<u>\$ 456,215</u>

Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of December 31, 2017, using the following assumptions, applied to all periods included in the measurement:

General Inflation Rate	2.75%
Salary Increase	3.25% per year, used only to allocate the cost of benefits between service years
Assumed Wage Inflation	3.0% per year; used to determine amortization payments if developed on a level percent of pay basis
Investment rate of return	6.0%

Mortality rates were based on the RP-2014 Healthy Mortality Table, with separate rates for males and females. Mortality improvement imbedded in this table using MP 2014 is backed out to mortality rates as of the base year. The base year rates are then projected using Bickmore Scale 2018 on a fully generational basis.

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Notes to the Financial Statements

June 30, 2018 and 2017

NOTE 11 – POSTRETIREMENT BENEFIT PLAN – Continued

Discount Rate

The discount rate used to measure the total OPEB liability was 6.0%. There was no change since the previous actuary valuation as of December 31, 2015. The discount rate is the expected long-term yield on investments based on historical investment performance. This rate is used because the investments are expected to be deployed to pay the benefits. The long-term yield of 6% is a conservative estimate and, as such, is expected to provide some margin against lower than market rate returns.

The impact of a 1% increase or decrease in the discount rate are shown in the chart below.

	Discount Rate		
	1% Decrease (5%)	Current Discount Rate (6%)	+ 1% Increase (7%)
Net OPEB Liability (Asset)	\$ 1,321,651	\$ (456,215)	\$ (1,882,535)
Increase (Decrease)	1,777,866	-	(1,426,320)
% Increase (Decrease)	389.7%	-	(312.6%)

Medical Cost Inflation

Medical plan premiums and claim costs by age are assumed to increase once each year. The increases over the prior year's levels are assumed to be effective on the dates shown below:

Effective January 1	Premium Increase	Effective January 1	Premium Increase
2018	Actual	2022	6.0%
2019	7.5%	2023	5.5%
2020	7.0%	2024	5.0%
2021	6.5%	2025 & later	5.0%

The impact of a 1% increase or decrease in medical cost inflation is shown in the chart below:

	Medical Cost Inflation		
	1% Decrease	Current Medical Trend	1% Increase
Net OPEB Liability (Asset)	\$ (1,959,245)	\$ (456,215)	\$ 1,412,798
Increase (Decrease)	(1,503,030)	-	1,869,013
% Increase (Decrease)	(329.5%)	-	409.7%

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Notes to the Financial Statements

June 30, 2018 and 2017

NOTE 11 – POSTRETIREMENT BENEFIT PLAN – Continued

Changes in the Net OPEB Liability (Asset)

The exhibit below shows the development by the actuary of net position and expense as of the measurement date of December 31, 2017.

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (Asset) (a) – (b)
Balances at 12/31/16	\$ 10,486,126	\$ 10,083,131	\$ 402,995
Changes for the year:			
Service cost	299,217	-	299,217
Interest	640,618	-	640,618
Benefit payments	(216,762)	(216,762)	-
Contributions – employer	-	249,062	(249,062)
Net investment income	-	1,609,240	(1,609,240)
Professional fees	-	(27,500)	27,500
Change in receivable	-	(31,757)	31,757
Net changes	<u>723,073</u>	<u>1,582,283</u>	<u>(859,210)</u>
Balances at 12/31/17	<u>\$ 11,209,199</u>	<u>\$ 11,665,414</u>	<u>\$ (456,215)</u>

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources

For the year ended June 30, 2018, SDSU Research Foundation recognized OPEB expense of \$347,834 comprised of prior year expense of \$153,933 recorded in FY 2018 and current year expense of \$193,901. The exhibit below shows deferred outflows and inflows of resources as of June 30, 2018.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on investments	\$ -	\$ 804,049
Contributions made subsequent to the measurement date	285,305	-

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Notes to the Financial Statements

June 30, 2018 and 2017

NOTE 11 – POSTRETIREMENT BENEFIT PLAN – Continued

SDSU Research Foundation will recognize the contributions made subsequent to the measurement date in the next fiscal year. In addition, future recognition of deferred inflows of resources is shown below:

<u>For the Fiscal Year Ending June 30</u>	<u>Recognized Net Deferred Inflows of Resources</u>
2019	\$ (201,012)
2020	(201,012)
2021	(201,012)
2022	(201,013)

Disclosures Required Under GASB 45 for the year ended June 30, 2017

As of June 30, 2017, the plan’s most recent actuarial valuation under GASB 45 was as of December 31, 2015; the following table sets forth the plan’s funded status:

	<u>2015</u>
Accumulated post-retirement benefit obligation:	
Retirees	\$ 3,303,451
Fully eligible active employees	2,315,223
Other active employees	2,621,887
Actuarial accrued liability (AAL)	8,240,561
Less plan assets at fair value	9,418,321
(Surplus)/Unfunded actuarial accrued liability (UAAL)	<u>\$ (1,177,760)</u>
Funded ratio	114.3%
Covered payroll	\$ 20,579,029
(Surplus)/Unfunded UAAL as a percentage of covered payroll	<u>(5.7%)</u>

The following table shows the components of SDSU Research Foundation’s annual OPEB costs for the years ended December 31, 2016, 2015 and 2014:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
OPEB costs for the year:			
Service cost	\$ 333,519	\$ 275,751	\$ 299,160
30-year amortization of Unfunded Accrued Liability (UAL)	(85,562)	(138,062)	761
Annual Required Contribution	247,957	137,689	299,921
Interest on net OPEB obligation	-	-	-
Amortization of net OPEB obligation	-	-	-
Annual OPEB cost	<u>\$ 247,957</u>	<u>\$ 137,689</u>	<u>\$ 299,921</u>

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Notes to the Financial Statements

June 30, 2018 and 2017

NOTE 11 – POSTRETIREMENT BENEFIT PLAN – Continued

The assumptions used to calculate the actuarial accrued liability at December 31, 2015 included a weighted-average discount rate of 6.0% and a 7.0% annual rate of increase in the per capital cost of covered health care for 2015, with such annual rate of increase gradually declining to 5.0% in 2017. The actuarial cost method used was Projected Unit Credit and the amortization method used was Level Dollar over a remaining amortization period of Rolling 30 Years.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health-care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information in the preceding table, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarially accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Other Retirement Benefits

SDSU Research Foundation contracts with TIAA to provide retirement benefits to its employees. Benefit liabilities are funded through individually owned non-participating annuity contracts. The obligation for payment of the benefits has been transferred to TIAA. Total contributions to fund benefits and pay administrative costs included in operating expenses for the years ended June 30, 2018 and 2017 were approximately \$5,164,000 and \$5,032,000, respectively.

NOTE 12 – CONTINGENCIES

SDSU Research Foundation is involved in various legal proceedings arising in the normal course of business. Management believes that the final outcomes of these proceedings will not have a material adverse effect on SDSU Research Foundation's results of operations or financial position.

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Required Supplementary Information Under GASB Statement No. 75 (UNAUDITED)

June 30, 2018

Schedule of Changes in SDSU Research Foundation's Net OPEB Liability and Related Ratios Last Fiscal Year (ultimately building to ten years)

	December 31, 2017
Total OPEB Liability	
Service Cost	\$ 299,217
Interest	640,618
Benefit payments	<u>(216,762)</u>
Net change in total OPEB liability	<u>723,073</u>
Total OPEB liability, beginning of year	<u>10,486,126</u>
Total OPEB liability, end of year (a)	<u><u>11,209,199</u></u>
Plan fiduciary net position *	
Contributions – employer	249,062
OPEB plan net investment income	1,609,240
Benefit payments	(216,762)
Professional fees	(27,500)
Change in receivable	<u>(31,757)</u>
Net change in plan fiduciary net position	1,582,283
Plan fiduciary net position, beginning of year	<u>10,083,131</u>
Plan fiduciary net position, end of year (b)	<u>11,665,414</u>
Net OPEB liability (asset) (a) – (b)	<u><u>\$ (456,215)</u></u>
Plan fiduciary net position as a percentage of total OPEB liability	104.07%
Covered payroll	\$ 20,501,853
Net OPEB liability (asset) as a percentage of covered payroll	(2.23%)

* The Plan fiduciary net position reflects the net position of the Health, Dental, Vision, Life Insurance / AD&D and Employee Assistance Program of SDSU Research Foundation as reflected in its stand-alone financial statements.

Note: GASB 75 was implemented in the year ended June 30, 2018. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Required Supplementary Information Under GASB Statement No. 75 (UNAUDITED)

June 30, 2018

Schedule of SDSU Research Foundation Contributions (ultimately building to ten years)

Fiscal Year Ended	ADC	Contributions in Relation to the ADC	Contribution Deficiency	Covered Payroll	Contributions as a Percentage of Covered Payroll
12/31/2017	\$ 285,305	\$ 285,305	-	\$ 20,501,853	1.39%

Note: GASB 75 was implemented in fiscal year 2018. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

Notes to Schedule of Contributions

Valuation date	December 31, 2017
Funding Method	Entry Age Normal Cost, level percent of pay
Asset Valuation Method	Market value of assets
Long-term Return on Assets	6.0%
Discount Rates	6.0%
Participants Valued	Only current active employees and retired participants and covered dependents are valued. No future entrants are considered in this valuation.
Salary Increases	3.25% per year, used only to allocate the cost of benefits between service years
Assumed Wage Inflation	3.0% per year, used to determine amortization payments if developed on a level percent of pay basis
General Inflation Rate	2.75% per year
Mortality (Before and After Retirement)	RP-2014 Healthy Mortality, with separated rates for males and females. Mortality improvement imbedded in this table using MP 2014 is backed out to mortality rates as of the base year in this table. The base year rates are then projected using Bickmore Scale 2018 on a fully generational basis
Termination before retirement	Group 2 Employees: None are assumed to separate from employment for reasons other than retirement or death. Group 3 Employees: Separation of employment from the Foundation for reasons other than retirement or death are determined based on Crocker-Sarason 175% of Table T-9 Less Mortality.

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Required Supplementary Information Under GASB Statement No. 45 (UNAUDITED)

Schedule of Post-Employment Health Care Benefits Funding Progress

<u>Actuarial Valuation Date</u>	<u>12/31/2015</u>	<u>12/31/2014</u>	<u>12/31/2013</u>
Total actuarial accrued liability (AAL)	\$ 8,240,561	\$ 7,524,247	\$ 8,597,602
Less plan assets at fair value	<u>9,418,321</u>	<u>9,424,660</u>	<u>8,587,125</u>
(Surplus) unfunded actuarial accrued liability (UAAL)	<u>\$ (1,177,760)</u>	<u>\$ (1,900,413)</u>	<u>\$ 10,477</u>
Funded ratio	114.3%	125.3%	99.9%
Covered payroll	\$ 20,579,029	\$ 19,959,322	\$ 18,579,753
UAAL as a percentage of covered payroll	(5.7%)	(9.5%)	0.1%

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Combining Schedule of Net Position

June 30, 2018

	<u>General</u>	<u>Designated</u>	<u>Property Management</u>	<u>Plant</u>
Current assets:				
Cash and cash equivalents	\$ 11,819,724	\$ -	\$ 600	\$ -
Short-term investments	8,450,490	28,402	-	-
Receivables:				
Sponsored programs	-	-	-	-
Other receivables	69,569	97,000	430,240	-
Notes receivable – current portion		749,046	-	-
Receivables from other funds	-	4,536,496	1,033,693	-
Prepaid expenses	331,793	9,011	-	-
Total current assets	<u>20,671,576</u>	<u>5,419,955</u>	<u>1,464,533</u>	<u>-</u>
Investments and other assets:				
Long-term investments	8,582,599	-	-	-
Restricted assets – land	-	-	-	2,308,532
Accounts receivable	-	298,260	-	-
Notes receivable – net of current portion	-	6,785,008	-	-
Notes receivable – other	-	6,320,643	-	-
Other assets	-	1,188,582	17,332	-
Total investments and other assets	<u>8,582,599</u>	<u>14,592,493</u>	<u>17,332</u>	<u>2,308,532</u>
Capital assets	-	-	-	110,522,475
Less accumulated depreciation and amortization	<u>-</u>	<u>-</u>	<u>-</u>	<u>(61,923,575)</u>
Total capital assets, net	<u>-</u>	<u>-</u>	<u>-</u>	<u>48,598,900</u>
Total assets	29,254,175	20,012,448	1,481,865	50,907,432
Deferred outflows of resources:				
Deferred loss on bond refunding	-	-	-	520,967
OPEB subsequent contribution	-	285,305	-	-
Total deferred outflows of resources	<u>-</u>	<u>285,305</u>	<u>-</u>	<u>520,967</u>
Total assets and deferred outflows of resources	<u>\$ 29,254,175</u>	<u>\$ 20,297,753</u>	<u>\$ 1,481,865</u>	<u>\$ 51,428,399</u>

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Combining Schedule of Net Position - Continued

June 30, 2018

Schedule 1

<u>Sponsored Programs</u>	<u>Community and Campus Programs</u>	<u>Endowment</u>	<u>Eliminating Entries</u>	<u>Total</u>
\$ -	\$ 4,404	\$ -	\$ -	\$ 11,824,728
-	-	-	-	8,478,892
19,772,306	-	-	-	19,772,306
-	4,556,284	10,630	-	5,163,723
-	-	125,854	(420,600)	454,300
-	20,439,282	-	(26,009,471)	-
-	337,415	-	-	678,219
<u>19,772,306</u>	<u>25,337,385</u>	<u>136,484</u>	<u>(26,430,071)</u>	<u>46,372,168</u>
-	-	25,482,118	-	34,064,717
-	-	-	-	2,308,532
-	95,045	-	-	393,305
-	-	1,132,683	-	7,917,691
-	-	-	(6,320,643)	-
-	-	-	-	1,205,914
-	<u>95,045</u>	<u>26,614,801</u>	<u>(6,320,643)</u>	<u>45,890,159</u>
-	-	-	-	110,522,475
-	-	-	-	(61,923,575)
-	-	-	-	48,598,900
19,772,306	25,432,430	26,751,285	(32,750,714)	140,861,227
-	-	-	-	520,967
-	-	-	-	285,305
-	-	-	-	806,272
<u>\$ 19,772,306</u>	<u>\$ 25,432,430</u>	<u>\$ 26,751,285</u>	<u>\$ (32,750,714)</u>	<u>\$ 141,667,499</u>

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Combining Schedule of Net Position - Continued

June 30, 2018

	<u>General</u>	<u>Designated</u>	<u>Property Management</u>	<u>Plant</u>
Current liabilities:				
Accounts payable and accrued expenses	\$ 5,455,810	\$ 3,510,414	\$ 702,193	\$ 84,125
Due to The Campanile Foundation	5,610,577	-	-	-
Payable to other funds	13,366,646	-	-	2,990,131
Long-term debt obligations, current portion	-	-	-	1,475,508
Sponsored programs receipts over expenditures	-	-	-	-
Total current liabilities	<u>24,433,033</u>	<u>3,510,414</u>	<u>702,193</u>	<u>4,549,764</u>
Noncurrent liabilities:				
Long-term debt obligations, net of current portion	-	-	-	32,470,643
Bond premium	-	-	-	1,141,999
Other liabilities	-	5,819,185	-	169,793
Total noncurrent liabilities	<u>-</u>	<u>5,819,185</u>	<u>-</u>	<u>33,782,435</u>
Total liabilities	24,433,033	9,329,599	702,193	38,332,199
Deferred inflows of resources:				
OPEB trust investment experience	<u>-</u>	<u>804,049</u>	<u>-</u>	<u>-</u>
Net position:				
Net investment in capital assets	-	-	-	20,519,041
Restricted/nonexpendable	-	-	-	2,308,532
Restricted/expendable	-	3,626,335	-	-
Unrestricted	4,821,142	6,537,770	779,672	(9,731,373)
Total net position	<u>4,821,142</u>	<u>10,164,105</u>	<u>779,672</u>	<u>13,096,200</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 29,254,175</u>	<u>\$ 20,297,753</u>	<u>\$ 1,481,865</u>	<u>\$ 51,428,399</u>

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Combining Schedule Of Net Position - Continued

June 30, 2018

Schedule 1, continued

<u>Sponsored Programs</u>	<u>Community and Campus Programs</u>	<u>Endowment</u>	<u>Eliminating Entries</u>	<u>Total</u>
\$ 1,048,286	\$ 3,437,876	\$ -	\$ -	\$ 14,238,704
-	-	-	-	5,610,577
6,957,404	-	2,695,290	(26,009,471)	-
-	-	-	(420,600)	1,054,908
11,766,616	-	-	-	11,766,616
<u>19,772,306</u>	<u>3,437,876</u>	<u>2,695,290</u>	<u>(26,430,071)</u>	<u>32,670,805</u>
-	-	-	(6,320,643)	26,150,000
-	-	-	-	1,141,999
-	-	545,892	-	6,534,870
-	-	545,892	(6,320,643)	33,826,869
19,772,306	3,437,876	3,241,182	(32,750,714)	66,497,674
-	-	-	-	804,049
-	-	-	-	20,519,041
-	-	1,526,141	-	3,834,673
6,213,363	464,050	9,005,273	-	19,309,021
<u>(6,213,363)</u>	<u>21,530,504</u>	<u>12,978,689</u>	<u>-</u>	<u>30,703,041</u>
-	21,994,554	23,510,103	-	74,365,776
<u>\$ 19,772,306</u>	<u>\$ 25,432,430</u>	<u>\$ 26,751,285</u>	<u>\$ (32,750,714)</u>	<u>\$ 141,667,499</u>

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION
Combining Schedule of Revenues, Expenses and Changes in Net Position
June 30, 2018

	<u>General</u>	<u>Designated</u>	<u>Property Management</u>	<u>Plant</u>
Revenues:				
Program income	\$ -	\$ -	\$ -	\$ -
Facilities and administrative cost recovery	22,742,979	-	-	-
Contributions	-	2,275,271	-	-
Investment income	1,369,477	(12,236)	-	-
Net increase (decrease) in fair value of investments	(85,685)	(15,994)	-	-
Rental income	-	39,740	5,728,163	-
Other income	222,356	1,219,875	-	(78,426)
Total revenues	<u>24,249,127</u>	<u>3,506,656</u>	<u>5,728,163</u>	<u>(78,426)</u>
Expenses:				
Program expenses	15,258,278	5,847,737	5,843,547	-
Depreciation	-	-	-	4,392,726
Interest	-	-	1,476,065	-
Total Expenses	<u>15,258,278</u>	<u>5,847,737</u>	<u>7,319,612</u>	<u>4,392,726</u>
Other activity:				
Equipment acquisitions, sponsored programs	-	-	-	(1,266,304)
	<u>15,258,278</u>	<u>5,847,737</u>	<u>7,319,612</u>	<u>3,126,422</u>
Excess (deficiency) of expenses	<u>8,990,849</u>	<u>(2,341,081)</u>	<u>(1,591,449)</u>	<u>(3,204,848)</u>
Transfers and allocations:				
General fund allocations	(4,092,355)	4,092,355	-	-
Interfund transfers (out) in	(5,193,928)	629,539	1,582,798	2,961,615
Capitalized asset transfers	(55,415)	(88,399)	-	233,908
	<u>(9,341,698)</u>	<u>4,633,495</u>	<u>1,582,798</u>	<u>3,195,523</u>
Income (Loss) before transfer of assets	(350,849)	2,292,414	(8,651)	(9,325)
Net effect from transfer of assets to				
San Diego State University	-	-	-	-
The Campanile Foundation	-	(5,000)	-	-
Net position at beginning of year	5,171,991	7,876,691	788,323	13,105,525
Net position at end of year	<u>\$ 4,821,142</u>	<u>\$ 10,164,105</u>	<u>\$ 779,672</u>	<u>\$ 13,096,200</u>

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Combining Schedule of Revenues, Expenses and Changes in Net Position - Continued

June 30, 2018

Schedule 2

Sponsored Programs	Community and Campus Programs	Endowment	Eliminating Entries	Total
\$ 118,936,321	\$ 25,922,553	\$ -	\$ -	\$ 144,858,874
-	-	-	(21,842,979)	900,000
-	21,043,980	16,313	-	23,335,564
-	275,633	(137,197)	(373,598)	1,122,079
-	(3,647)	552,923	-	447,597
-	-	-	-	5,767,903
-	-	-	-	1,363,805
<u>118,936,321</u>	<u>47,238,519</u>	<u>432,039</u>	<u>(22,216,577)</u>	<u>177,795,822</u>
116,736,321	43,855,159	-	(21,842,979)	165,698,063
-	-	-	-	4,392,726
-	-	-	(373,598)	1,102,467
<u>116,736,321</u>	<u>43,855,159</u>	<u>-</u>	<u>(22,216,577)</u>	<u>171,193,256</u>
-	-	-	-	(1,266,304)
<u>116,736,321</u>	<u>43,855,159</u>	<u>-</u>	<u>(22,216,577)</u>	<u>169,926,952</u>
<u>2,200,000</u>	<u>3,383,360</u>	<u>432,039</u>	<u>-</u>	<u>7,858,870</u>
-	-	-	-	-
(2,200,000)	821,383	1,398,593	-	-
-	(90,094)	-	-	-
<u>(2,200,000)</u>	<u>731,289</u>	<u>1,398,593</u>	<u>-</u>	<u>-</u>
-	4,114,649	1,830,632	-	7,868,870
-	(19,268,701)	-	-	(19,268,701)
-	(1,310,250)	(40,000)	-	(1,355,250)
-	38,458,856	21,719,471	-	87,120,857
<u>\$ -</u>	<u>\$ 21,994,554</u>	<u>\$ 23,510,103</u>	<u>\$ -</u>	<u>\$ 74,365,776</u>