



(a Component Unit of San Diego State University)

Financial Statements and Supplementary Information

June 30, 2021 and 2020

(With Independent Auditors' Report Thereon)

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
San Diego State University Research Foundation

We have audited the accompanying financial statements of the business-type activities and the aggregate remaining fund information 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, 2021 and 2020, 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate remaining fund information of SDSU Research Foundation as of June 30, 2021 and 2020, and the results of its operations and its cash flows, where applicable, 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 5-17 and the Schedule of Changes in SDSU Research Foundation's Net OPEB Liability and Related Ratios Last Four Fiscal Years on page 45, and the Schedule of SDSU Research Foundation Contributions Last Four Fiscal Years on page 46 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.

Other reporting required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report, dated September 24, 2021, 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 as of and for the year ended June 30, 2021. 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.



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**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

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 and the aggregate remaining fund information 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 year ended June 30, 2021, 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 24, 2021.

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 opinion 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 the 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 financial statements. 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

San Diego, California
September 24, 2021

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Management's Discussion and Analysis (unaudited)

June 30, 2021 and 2020

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 (FY) ended June 30, 2021 and 2020. 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; the Statements of Cash Flows; and the Statements of Fiduciary Net Position and Changes in Fiduciary Net Position. 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, 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.

Statements of Fiduciary Net Position and Changes in Fiduciary Net Position

The fiduciary funds are divided into two separate fund types: Other Post Employment Benefit Trust Funds and the Custodial Funds. These funds use the accrual basis of accounting.

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, 2021 and 2020 (FY 2021 and FY 2020, 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.

Significant Events – Year Ended June 30, 2021

Fiscal year 2021 was defined by the second, and full-year of the COVID-19 pandemic. The March 2020 move to telework continued through June 30, 2021. SDSU Research Foundation continued to follow California, San Diego County and SDSU guidance during this time. Management created additional policies to address the needs of the pandemic including a Temperature Check Policy, Emergency Pay Policy for essential workers, Hiring Slowdown Exception Form, COVID-19 High Risk Employee Policy and a COVID-19 Paid Administration Leave Policy.

During this time, management efficiently and effectively managed the SDSU Research Foundation budget. After originally assuming the potential use of \$3 million or more in reserves in the general fund budget (operating budget) due to the unknown impacts of the pandemic, management was able to minimize the potential use of reserves at the mid-year budget update to \$212,000 with the final actual minimal use of reserves of \$47,000.

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Management's Discussion and Analysis (unaudited)

June 30, 2021 and 2020

Despite the ongoing pandemic, 320 SDSU faculty and staff received \$140.6 million in 723 awards to support their research and education programs – an impressive achievement given pandemic challenges, an election year, and other economic challenges. Support came from 289 different federal, state, private and other sponsors. Most researchers were able to repopulate and resume their work in laboratories by the spring of 2021.

Prestigious National Science Foundation CAREER awards were made to three professors and National Institutes of Health K awards were made to five professors. Twenty grants of \$1 million or more were received including ten at \$2 million or higher. The largest grant of \$7 million was made by the California Department of Health Services for the Women, Infants and Children program. Total funding from NIH increased slightly, demonstrating the continued strength of SDSU's health research portfolio. The fifth and final installment, \$2.0 million, of a five-year \$10 million expendable endowment from NIH was received in FY 2021.

Many SDSU faculty pivoted and focused their research on COVID-19 related projects. They received \$7.6 million for 20 projects, including a \$3.9 million award from the National Cancer Institute for the Communities Fighting COVID! Program.

Other new research projects address integrating second-life batteries with solar PV systems for commercial buildings (\$2.8 million), the impact of climate change on the arctic carbon balance (\$1 million), early childhood irritability (\$1.1 million), a collaboration with the NSF Center for Synthetic Organic Electrochemistry (\$955,000) and the competitive renewal of the Hispanic Community Health Study (\$1.2 million).

SDSU Research Foundation entered into a ground lease of three properties to a developer on Montezuma Boulevard (Viva 5750) at the front door of the SDSU campus in FY 2020. Construction of Viva 5750 with 183 beds of student housing and 63 parking spots, continued through FY 2021 with a planned opening in August 2021. SDSU Research Foundation will earn ground rent over the term of the 50-year ground lease, which will be a combination of fixed and variable rent.

During FY 2021, SDSU Research Foundation modified its existing ground lease with a developer for a property known as the "M @ College" on College Avenue. The developer sold the project to an unaffiliated non-profit and issued bonds to finance the project. As part of the modification, the terms were changed to reduce the length of the ground lease from 50 years to a maximum of 43 years, created a project advisory committee to review operating and budget recommendations to the new non-profit owner, and increased overall financial remuneration to SDSU Research Foundation over time.

Due to the COVID-19 pandemic, the Paycheck Protection Program (PPP) under the Consolidated Appropriations Act 2021 (the Act) signed on December 27, 2020, section 317, expanded PPP forgivable loan eligibility, specifically for public radio and television stations licensed to universities and other institutions. SDSU Research Foundation applied and received funding under the PPP program totaling \$2.1 million on behalf of KPBS. The funds will be used entirely for payroll increasing KPBS SDSU Research Foundation employee hours to 40 per week for those individuals previously cut from full-time to 20 hours per week due to the pandemic. In addition, KPBS also planned to use such funds to move forward on position recruitments that were deferred due to the budget impact of COVID-19. SDSU Research Foundation will apply for and anticipates receiving loan forgiveness in fall 2021.

SDSU Research Foundation agreed, for another year, to defer principal payments on loans to fellow university auxiliary, Aztec Shops, due to the impact of the pandemic on their overall operations.

The federal government approved another one-year extension for the Facilities & Administrative (F&A) rate proposal, which moved the base year from which the F&A rate proposal is derived, from FY 2022 to FY 2023.

KPBS continued its capital campaign during FY 2021 with an increased goal of \$85 million. The present value of new pledge receivables recorded with SDSU Research Foundation were \$8.0 million and \$2.1 million for FY 2021 and FY 2020, respectively. Cash receipts related to the KPBS capital campaign pledges were \$4.7 million and \$5.6 million for FY 2021 and FY 2020, respectively. To date KPBS has raised \$37.6 million in realized cash gifts and pledges and \$31.4 million in contingent (unrealized) pledges to the SDSU Research Foundation.

Significant Events – Year Ended June 30, 2020

In December 2019, a novel strain of coronavirus, known as COVID-19, was first detected. The virus spread worldwide in March 2020 and was declared a pandemic by the World Health Organization. The Centers for Disease Control and Prevention confirmed the first case in the United States in February 2020, and with the rapid spread across all 50 states, the United States government passed new laws designed to help respond to the pandemic.

As part of the response to the pandemic, SDSU Research Foundation as directed by the Chancellor of the California State University (CSU) and the Governor of the State of California, quickly moved to telework mid-March 2020 along with the

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Management's Discussion and Analysis (unaudited)

June 30, 2021 and 2020

majority of faculty and staff at SDSU. A fast move to a remote work environment presented some challenges, but SDSU Research Foundation quickly and successfully transitioned to teleworking. Systems were automated and staff adjusted to a new temporary normal. While some researchers were deemed essential workers and able to continue working in their labs and campus spaces, most were forced to move their projects to the telework environment, if possible. Others had to put their research on hold. The federal government implemented flexible authorities that helped to mitigate impacts to research programs by offering, for example, automatic no-cost extensions and the ability to continue to compensate personnel on federal funds even if work was halted due to the pandemic. SDSU Research Foundation implemented an administrative leave policy, mirroring the policy of the CSU, to ensure paid time off to individuals who contracted COVID-19, had to isolate due to care of a loved one, or who had child-care or other impacts from the pandemic that prevented them from working.

SDSU Research Foundation leadership worked closely with SDSU leaders as part of the Emergency Operations Committee to develop a comprehensive research repopulation strategy in compliance with federal, state and county health orders. In June 2020, the research repopulation plan was approved and implemented and 200 eligible researchers and approximately 800 project employees returned to their labs under specific safety guidelines.

Other impacts of the pandemic:

- The federal government approved a one-year extension for the Facilities & Administrative (F&A) rate proposal, which moved the base year from which the F&A rate proposal is derived, from FY 2021 to FY 2022.
- SDSU Research Foundation agreed to defer a principal payment on a loan to a fellow university auxiliary Aztec Shops.
- The SDSU Research Foundation's Board of Directors approved the amendment of the SDSU Research Foundation Defined Contribution 403(b) Retirement Plan to adopt certain provisions of the Coronavirus Aid, Relief, and Economic Security (CARES) Act to allow COVID-19 related distributions, loan availability, deferment of loan repayments and a temporary waiver of required minimum distributions.
- Processed payroll and accounts payable payments entirely remotely with 97% of payroll payments and 68% of vendor payments utilizing secure direct deposit.
- The mail shuttle became an integral part of business continuity across SDSU Research Foundation. To meet the specific needs of staff and projects, routes were developed for mail pick up, sorting, and delivery to employee homes as needed.
- Purchased additional equipment, including laptops and monitors, to allow staff to work from home efficiently and continue to provide service to faculty and staff.

Even with the pandemic, the achievements of the SDSU faculty and staff were remarkable given the challenges of COVID-19, remote working, and the absence of any stimulus funding. SDSU faculty and staff secured \$144.4 million for their research and educational programs during the year just shy of the \$148.5 million they received in FY 2019. A record 1,251 proposals were submitted. These are remarkable achievements given the challenges of a pandemic, remote working, and the absence of any stimulus funding. The National Science Foundation (NSF) awarded a record \$15.7 million, an increase of \$6.4 million, and included two prestigious CAREER grants. Awards from the National Institutes of Health (NIH) also increased by \$3.1 million to \$31.9 million. Twenty-three grants of \$1 million or more were received, including thirteen at \$2 million or higher. The largest grant received was a \$7.0 million award from the State of California for the Women, Infants and Children program. The largest research grants came from the National Center on Minority Health and Health Disparities for the SDSU HealthLINK Center for Transdisciplinary Health Disparities (\$3.5 million), and from NSF for the SDSU Noyce Mathematics and Science Master Teaching Fellowship Program (\$3 million). Several SDSU faculty pivoted to focus on COVID-19 related projects, including a \$3.0 million contact tracing program in San Diego County. More than three hundred different sponsors supported SDSU researchers, including those from the federal government, state and local agencies, industry, private foundations and associations.

SDSU Research Foundation sold two buildings and an adjacent parking lot on El Cajon Boulevard (City Heights properties) simultaneously entering into a master lease agreement for the building for five years with an option for an additional five-year extension, which has been executed. The sale provided additional cash to the SDSU Research Foundation in this challenging time of COVID-19 while ensuring that we can provide space to our university and commercial tenants for the next ten years.

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Management's Discussion and Analysis (unaudited)

June 30, 2021 and 2020

SDSU Research Foundation entered into a ground lease with a developer for three SDSU Research Foundation owned properties on Montezuma Boulevard at the front door of the SDSU campus. With the execution of this new ground lease (Montezuma ground lease), three older houses on the doorstep of the SDSU campus were demolished; new student housing will be constructed providing approximately 183 beds of student housing and 63 parking spots; SDSU Research Foundation will earn ground rent over the term of the 50-year ground lease, which will be a combination of fixed and variable rent.

KPBS continued its capital campaign during FY 2020 with an increased goal of \$80 million. The present value of new pledge receivables recorded with SDSU Research Foundation were \$2.1 million and \$8.6 million for FY 2020 and FY 2019, respectively. Cash receipts related to the KPBS capital campaign pledges were \$5.6 million and \$5.2 million for FY 2020 and FY 2019, respectively.

SDSU Research Foundation's condensed summary of net position as of June 30, 2021, 2020, and 2019 follows:

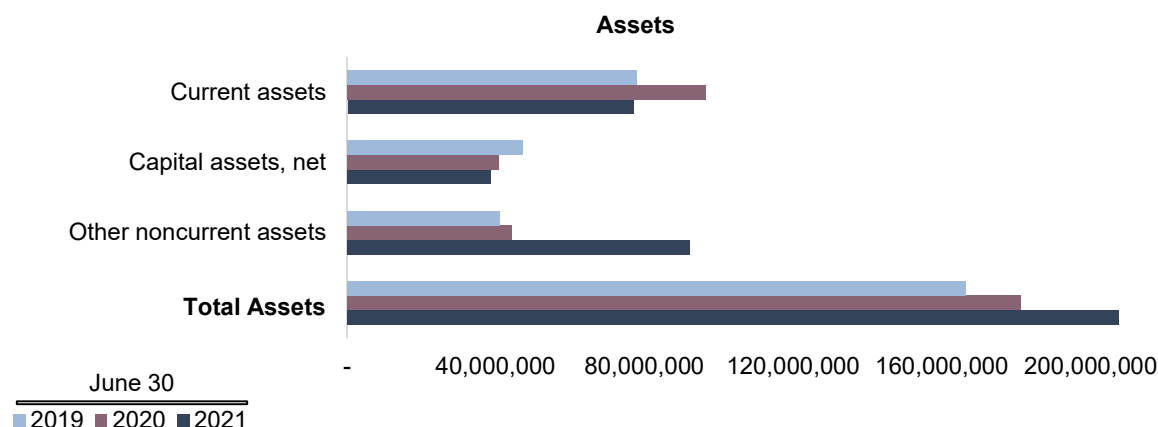
Condensed Summary of Net Position

	June 30		
	2021	2020	2019
Assets:			
Current assets	\$ 76,967,269	\$ 96,335,132	\$ 77,866,419
Capital assets, net	38,429,647	40,623,772	47,230,325
Other noncurrent assets	92,046,952	44,137,443	41,158,484
Total Assets	<u>207,443,868</u>	<u>181,096,347</u>	<u>166,255,228</u>
Deferred outflows of resources	<u>1,178,977</u>	<u>570,992</u>	<u>1,024,466</u>
Liabilities			
Current liabilities	36,191,759	34,575,985	39,773,431
Noncurrent liabilities	37,210,215	31,339,650	33,521,698
Total liabilities	<u>73,401,974</u>	<u>65,915,635</u>	<u>73,295,129</u>
Deferred inflows of resources	<u>6,747,011</u>	<u>3,692,975</u>	<u>242,863</u>
Net Position:			
Net investment in capital assets	11,431,980	14,734,527	20,174,890
Restricted – nonexpendable	5,966,305	3,862,006	3,853,189
Restricted – expendable	40,861,443	31,851,834	28,193,810
Unrestricted	70,214,132	61,610,292	41,519,813
Total net position	<u>\$ 128,473,860</u>	<u>\$ 112,058,659</u>	<u>\$ 93,741,702</u>

Assets

Total assets increased by \$26.3 million from FY 2020 to FY 2021 due to an increase in Other noncurrent assets of \$47.9 million, offset by a decrease of \$2.2 million in Capital assets, net and \$19.4 million in Current assets.

Total assets increased by \$14.8 million from FY 2019 to FY 2020 due to an increase in Current assets of \$18.5 million and \$3.0 million in Other current assets, offset by a decrease of \$6.6 million in Capital assets, net.



SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Management's Discussion and Analysis (unaudited)

June 30, 2021 and 2020

Current assets decreased by \$19.4 million from FY 2020 to FY 2021 due to decreases in Cash and cash equivalents of \$6.5 million and Short-term investments of \$19.7 million, offset by increases in Restricted assets – short term investments of \$1.0 million, Accounts and pledges receivable, net of \$5.2 million, and Prepaid expenses of \$600,000. The decrease in overall Current assets is mostly due to a shift in cash and investments into longer term investments from short term investments.

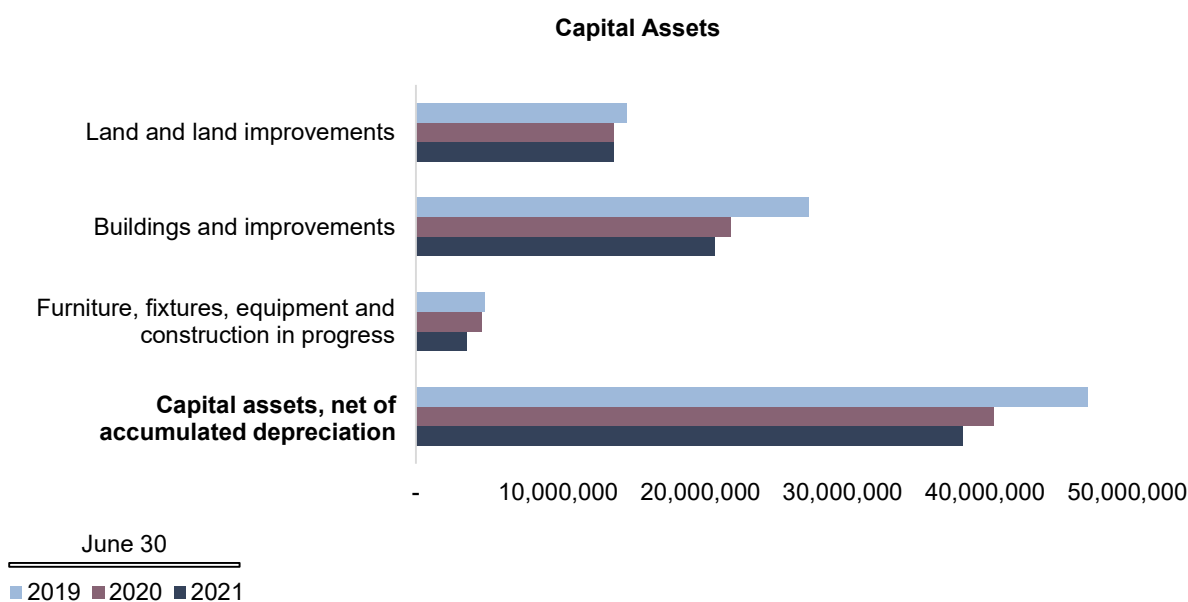
Current assets increased by \$18.5 million from FY 2019 to FY 2020 due to increases in Cash and cash equivalents of \$2.9 million, Short-term investments of \$17.9 million, Restricted assets – short term investments of \$5.1 million, offset by decreases in Accounts and pledges receivable, net, Notes receivable and Prepaid expenses totaling \$7.4 million. The additional Current Assets overall increase is primarily due to the continued success of the KPBS capital campaign, and proceeds from the sale of SDSU Research Foundation's City Heights properties.

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

	June 30		
	2021	2020	2019
Land and land improvements	\$ 13,914,536	\$ 13,914,536	\$ 14,820,234
Buildings and improvements	20,972,871	22,125,111	27,596,259
Furniture, fixtures, equipment and construction in progress	3,542,240	4,584,125	4,813,832
Capital assets, net of accumulated depreciation	\$ 38,429,647	\$ 40,623,772	\$ 47,230,325

Capital assets decreased by \$2.2 million from FY 2020 to FY 2021 from additions of building improvements, additions and dispositions of equipment, and increased Accumulated depreciation from depreciation expense of \$4.5 million.

Capital assets decreased by \$6.6 million from FY 2019 to FY 2020 from the sale of City Heights properties, removal of the Montezuma properties, additions and dispositions of equipment, and increased Accumulated depreciation from depreciation expense of \$4.6 million.



SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Management's Discussion and Analysis (unaudited)

June 30, 2021 and 2020

Other noncurrent assets increased by \$47.9 million from FY 2020 to FY 2021 primarily from an increase in Pledges receivable from the KPBS capital campaign as well as increase in Long-term investments and Other assets.

Other noncurrent assets increased by \$3.0 million from FY 2019 to FY 2020 primarily from recording a net Other Post-Employment Benefit (OPEB) asset of \$3.3 million. The net OPEB asset represents assets held in trust for the OPEB benefits less the actuarial calculated total OPEB liability. Other significant changes to Other noncurrent assets include an increase to Restricted assets – investments of \$900,000 offset by a decrease of Pledges receivable of \$1.3 million.

Deferred Outflows of Resources

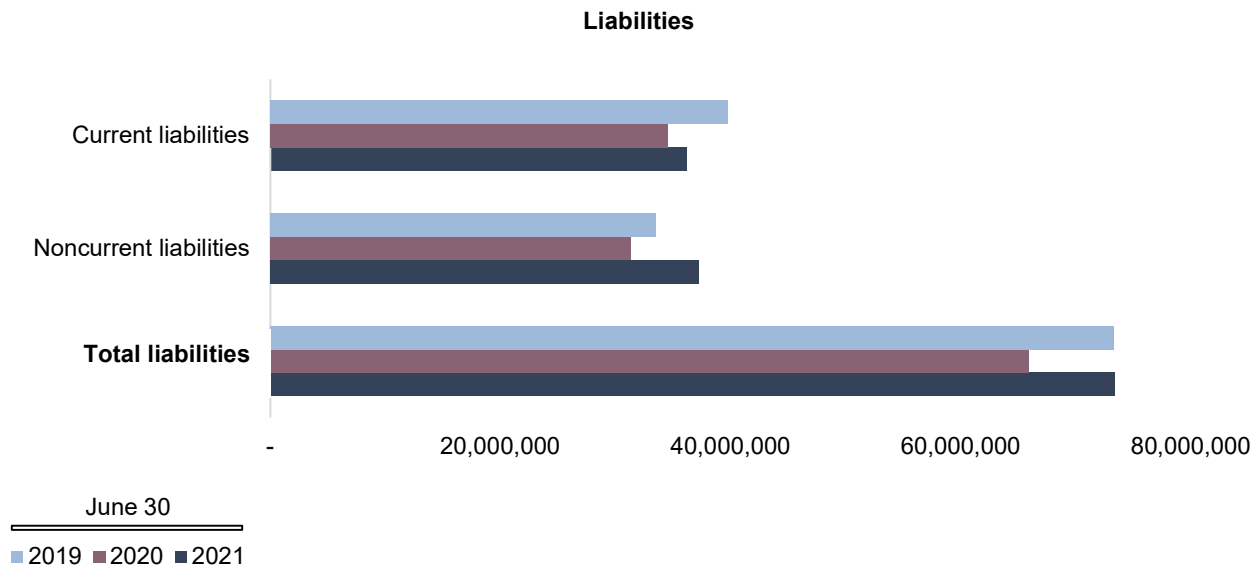
Deferred outflows of resources increased by \$608,000 from FY 2020 to FY 2021 primarily due to a slight decrease in Deferred loss on bond refunding and an increase in OPEB related outflows of resources due to changes in assumptions related to the actuarial valuation.

Deferred outflows of resources decreased by \$453,000 from FY 2019 to FY 2020 primarily due to recording the actuarial OPEB valuation as of December 31, 2019.

Liabilities

Total liabilities increased by \$7.5 million from FY 2020 to FY 2021 due to an increase in Current liabilities of \$1.6 million and Noncurrent liabilities of \$5.9 million. Total Current liabilities increased mostly due to an increase of \$2.5 million in Sponsored programs receipts over expenditures, offset by a decrease in Accounts payable and accrued expenses and Long-term debt obligations.

Total liabilities decreased by \$7.4 million from FY 2019 to FY 2020 due to a decrease in Current liabilities of \$5.2 million and Noncurrent liabilities of \$2.2 million. Total Current liabilities decreased mostly due to a reduction of \$4.8 million in Sponsored programs receipts over expenditures as well as a \$373,000 reduction in other liability categories.



SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Management's Discussion and Analysis (unaudited)

June 30, 2021 and 2020

Long-Term Debt Obligations

Debt outstanding at June 30, 2021, 2020, and 2019 is summarized below by the type of debt instrument:

	June 30		
	2021	2020	2019
Revenue bonds	\$ 25,115,000	\$ 25,090,000	\$ 26,150,000
Paycheck Protection Program Loan	2,101,321	-	-
Unamortized bond premium	85,969	1,014,467	1,141,999
Total long-term debt	<u>27,302,290</u>	<u>26,104,467</u>	<u>27,291,999</u>
Less current portion	<u>(1,060,000)</u>	<u>(1,121,807)</u>	<u>(1,099,908)</u>
Long-term debt, net of current portion	<u>\$ 26,242,290</u>	<u>\$ 24,982,660</u>	<u>\$ 26,192,091</u>

Long-term debt, net of current portion, increased by \$1.3 million from FY 2020 to FY 2021. This was due to scheduled bond payments and amortization of bond premium of \$1.1 million and an increase of \$175,000 due to the net effect of refunding a system-wide revenue bond in September 2020, as well as issuance of a new loan under the Paycheck Protection Program (PPP) on behalf of KPBS for \$2.1 million.

Long-term debt, net of current portion, decreased by \$1.2 million from FY 2019 to FY 2020. This was due to scheduled bond payments and amortization of bond premium of \$1.1 million and a reduction of \$70,000 due to the net effect of refunding a system-wide revenue bond in February 2020.

Deferred Inflows of Resources

Deferred inflows of resources increased by \$3.1 million from FY 2020 to 2021 due primarily to an increase of \$3 million in Deferred contributions for KPBS offset by a decrease of \$200,000 in OPEB related net inflow of resources.

Deferred inflows of resources increased by \$3.5 million from FY 2019 to 2020 primarily due to an increase of \$3.1 million in OPEB related net inflow of resources from recording the actuarial calculated OPEB net asset, an increase of Deferred contributions of \$249,000, and recording the Deferred gain on refunding the system-wide revenue bond of approximately \$110,000.

Net Position

Total net position increased by \$16.4 million from FY 2020 to FY 2021 due to the increased Operating income of approximately \$8.1 million offset by a decrease in Net nonoperating loss of \$12.1 million and the Increase to permanent endowments of \$2.1 million.

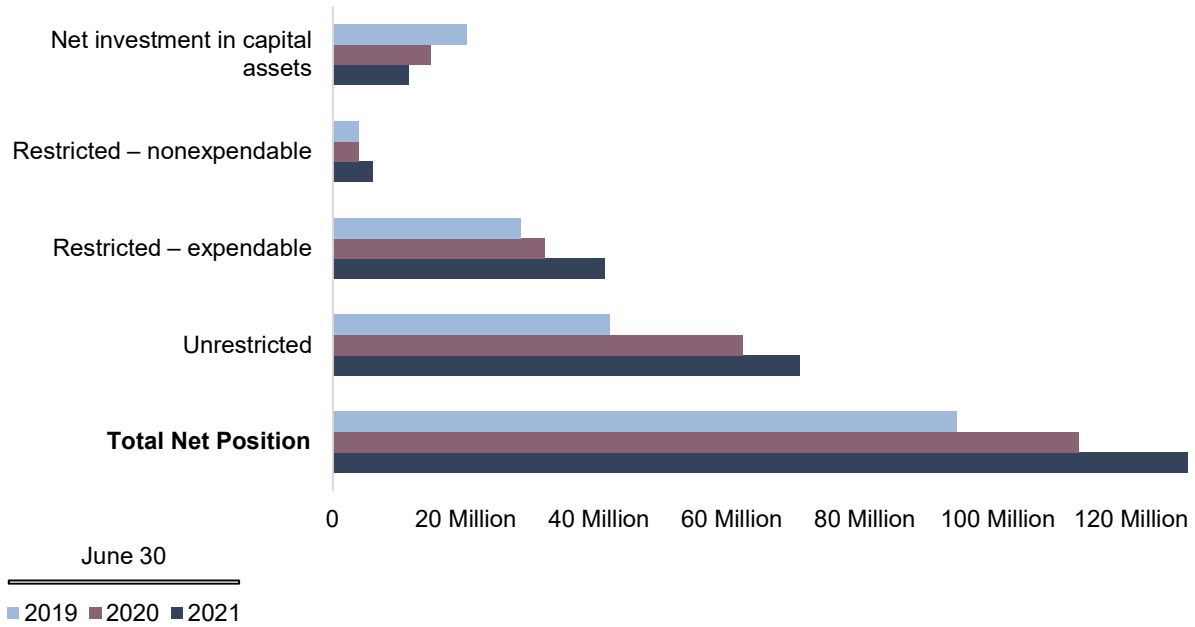
Total net position increased by \$18.3 million from FY 2019 to FY 2020 primarily due to the gain on sale of the City Heights properties, the continued success of the KBPS capital campaign, Investment income, net, and the Net increase in the fair value of investments.

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Management's Discussion and Analysis (unaudited)

June 30, 2021 and 2020

Net Position (millions)



Restricted Resources

The net position of SDSU Research Foundation includes funds that are restricted by donor or law. Nonexpendable net position increased by \$2.1 million from FY 2020 to FY 2021 due to a new KPBS nonexpendable endowment of \$2 million and earnings on existing endowments.

Nonexpendable net position increased by \$9,000 from FY 2019 to FY 2020.

Expendable restricted net position increased by \$9.0 million from FY 2020 to FY 2021 primarily due to the KPBS capital campaign, additional funding and earnings on the National Institutes of Health term endowment, and additions to other miscellaneous Campus programs and projects.

The increase in expendable restricted net position of \$3.6 million from FY 2019 to FY 2020 is primarily due to the KPBS capital campaign as well as earnings on the National Institutes of Health term endowment, offset by a reduction in resources to Campus programs and projects.

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

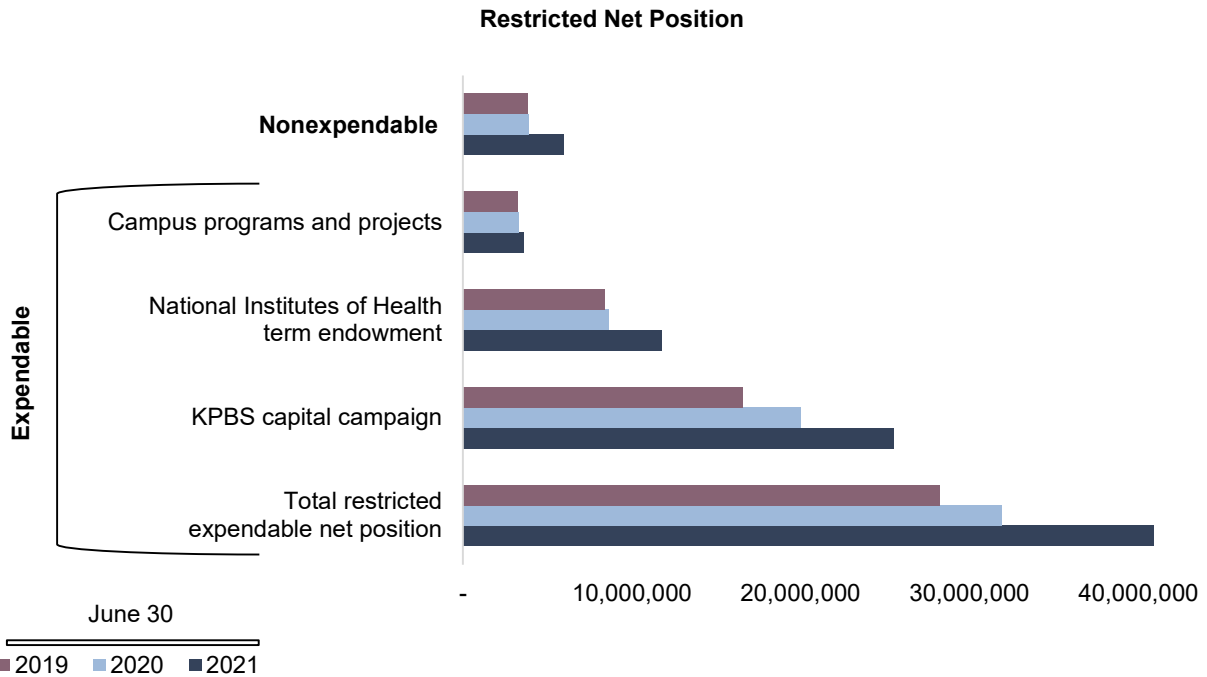
Management's Discussion and Analysis (unaudited)

June 30, 2021 and 2020

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

Restricted Net Position

	June 30		
	2021	2020	2019
Nonexpendable	\$ 5,966,305	\$ 3,862,006	\$ 3,853,189
Expendable:			
Campus programs and projects	3,599,252	3,288,481	3,257,146
National Institutes of Health term endowment	11,755,279	8,589,689	8,405,742
KPBS capital campaign	25,506,912	19,973,664	16,530,825
Total restricted expendable net position	\$ 40,861,443	\$ 31,851,834	\$ 28,193,713



SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Management's Discussion and Analysis (unaudited)

June 30, 2021 and 2020

SDSU Research Foundation's condensed summary of revenues, expenses and changes in net position for the years ended June 30, 2021, 2020, and 2019 follows:

Condensed Summary of Revenues, Expenses and Changes in Net Position

	Years Ended June 30		
	2021	2020	2019
Operating revenues:			
Sponsored programs support	\$ 124,118,132	\$ 118,812,647	\$ 121,460,755
Community and campus programs	16,131,730	22,132,286	24,057,161
Contributions	28,932,946	25,268,807	34,411,933
Other operating revenues	10,870,407	8,651,033	8,719,961
Total operating revenues	180,053,215	174,864,773	188,649,810
Operating expenses:			
Sponsored programs	104,214,936	102,258,520	103,949,154
Community and campus programs, including fundraising	35,098,715	40,510,356	41,784,478
Other operating expenses	25,765,515	25,238,760	23,685,665
Total operating expenses	165,079,166	168,007,636	169,419,297
Operating income	14,974,049	6,857,137	19,230,513
Net nonoperating (expenses) revenues	(663,147)	11,446,207	116,258
Income before changes to permanent endowments	14,310,902	18,303,344	19,346,771
Increase in permanent endowments	2,104,299	13,613	29,155
Net income	16,415,201	18,316,957	19,375,926
Net position at beginning of year	112,058,659	93,741,702	74,365,776
Net position at end of year	\$ 128,473,860	\$ 112,058,659	\$ 93,741,702

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 \$5.2 million from FY 2020 to FY 2021 primarily due to increases in Sponsored programs support of \$5.3 million, Contributions of \$3.7 million, and Rental income of \$1.4 million, offset by a decrease in Community and campus programs of \$6.0 million.

Operating revenues decreased by \$13.8 million from FY 2019 to FY 2020 primarily due to revenue reductions of \$2.6 million in Sponsored programs support, \$1.9 million in Community and campus programs and Other operating revenue and Contributions of \$9.1 million.

Sponsored programs support revenue increased from FY 2020 to FY 2021 by \$5.3 million due to timing of when awards are spent since revenue is not recognized until awards are spent as opposed to when the funds are awarded. Sponsored program support revenue decreased by \$2.6 million from FY 2019 to FY 2020 also due to timing of award spending. As noted in the significant events of the year, total awards for FY 2021, FY 2020, and FY 2019 were \$140.6 million, \$144.4 million, and \$148.5 million, respectively.

Community and campus programs includes revenues generated mostly by SDSU Global Campus (formerly known as the College of Extended Studies) and KPBS as well as other campus programs. The revenues decreased by \$6.0 million from FY 2020 to FY 2021 and by \$1.9 million from FY 2019 to FY 2020 due to decreased activity of SDSU Global Campus noncredit courses as well as the reduction in revenue from the SDSU-Georgia fixed price contract.

Contributions increased by \$3.7 million from FY 2020 to FY 2021 and decreased by \$9.1 million from FY 2019 to FY 2020 primarily due to the KPBS capital campaign and fluctuations related to the timing of contribution receipts.

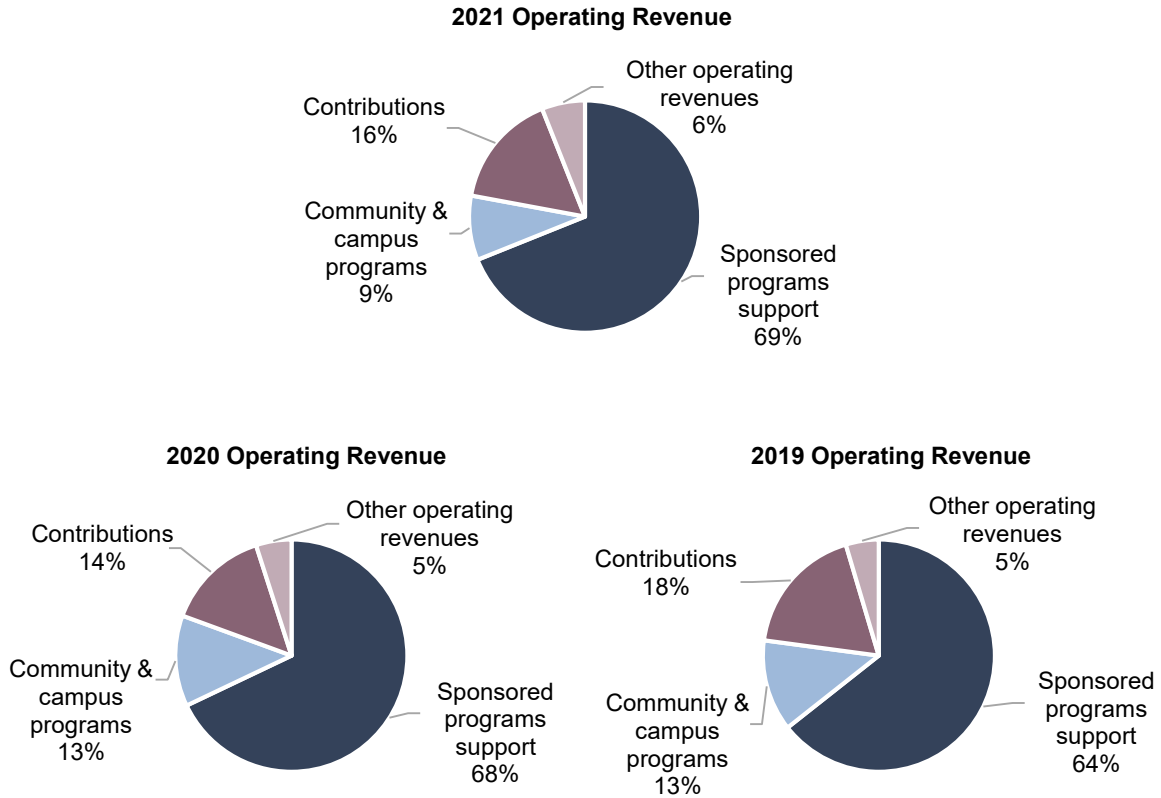
SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Management's Discussion and Analysis (unaudited)

June 30, 2021 and 2020

Other operating revenues increased by \$2.2 million from FY 2020 to FY 2021 mostly due to an increase in transfers from related entities to cover the faculty housing program and the research endowment distribution from The Campanile Foundation.

The following charts present the percentages that each category of operating revenue contributed to total revenues for the years ended June 30, 2021, 2020, and 2019:



The sources of Sponsored program support revenues for the years ended June 30, 2021, 2020, and 2019 are as follows:

	Years Ended June 30					
	2021		2020		2019	
	\$	%	\$	%	\$	%
Federal:						
Department of Health & Human Services	47,623,564	38.4	44,915,976	37.8	42,395,271	34.9
Department of Education	11,594,904	9.5	11,893,097	10.0	12,424,300	10.2
Department of Defense	8,160,918	6.7	7,443,570	6.3	8,910,129	7.3
National Science Foundation	8,815,563	7.2	8,393,510	7.1	9,265,080	7.6
Department of Agriculture	6,887,443	5.6	7,045,171	5.9	7,042,976	5.8
Other	9,673,270	7.9	7,284,869	6.1	6,080,520	5.0
Total Federal	92,755,662	74.7	86,976,193	73.2	86,118,276	70.9
State and Local	11,543,467	9.3	9,972,382	8.4	10,194,204	8.4
International	3,638,998	2.9	5,629,828	4.7	10,551,825	8.7
Other	16,180,005	13.0	16,234,244	13.7	14,596,450	12.0
Total	124,118,132	100.0	118,812,647	100.0	121,460,755	100.0

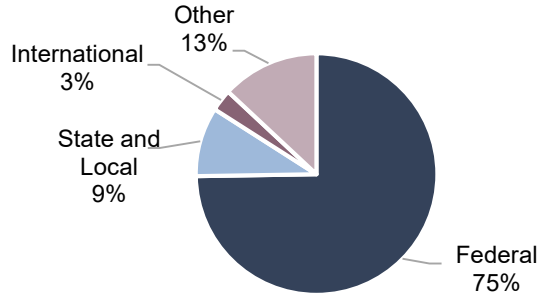
SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Management's Discussion and Analysis (unaudited)

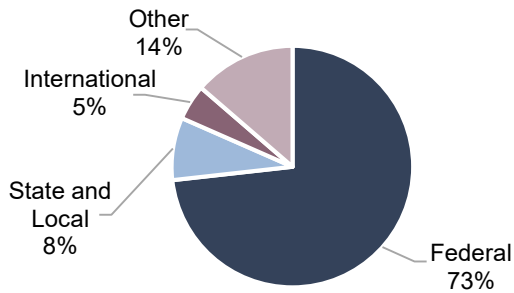
June 30, 2021 and 2020

The following charts present the percentages that each sponsor type contributed to Sponsored program support revenues for the years ended June 30, 2021, 2020, and 2019:

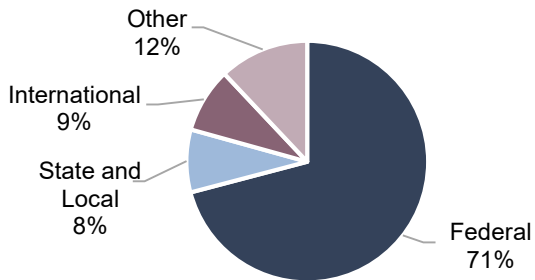
2021 Sponsored Program Support



2020 Sponsored Program Support



2019 Sponsored Program Support



Operating Expenses

Operating expenses decreased by \$2.9 million from FY 2020 to FY 2021 due primarily to a decrease in Community and campus programs of \$5.4 million, offset by an increase in Sponsored programs expense of \$2.0 million and Other operating property management and general administration expenses of \$527,000.

Operating expenses decreased by \$1.4 million from FY 2019 to FY 2020 due primarily to a decrease in Sponsored programs expense of \$1.7 million and Community and campus programs, including fundraising, of \$1.3 million, offset by an increase in Other operating expenses of \$1.6 million.

Sponsored programs expenses increased by \$2.0 million from FY 2020 to FY 2021 and decreased by \$1.7 million from FY 2019 to FY 2020 due to regular fluctuations in expenditures of award based upon timing of when awards are received and spent.

Community and campus programs expenses decreased by \$5.4 million from FY 2020 to FY 2021 and \$1.3 million from FY 2019 to FY 2020 due to a decrease in activity in SDSU Global Campus noncredit courses.

Other operating expenses increased by \$527,000 from FY 2020 to FY 2021 due mostly to an increase in Property management related expenses.

Other operating expenses increased by \$1.6 million from FY 2019 to FY 2020 due mostly to an increase in Property management expenses including additional property tax for non-exempt properties, regular salary increases and service contract increases from the increase in minimum wage.

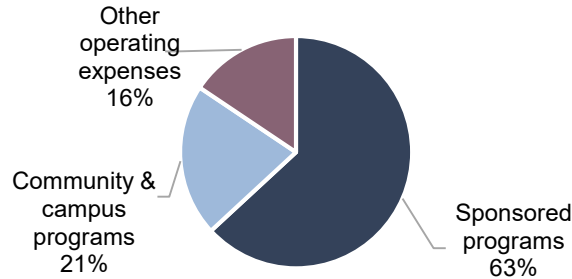
SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Management's Discussion and Analysis (unaudited)

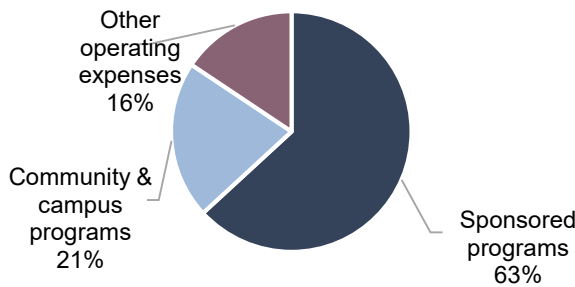
June 30, 2021 and 2020

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, 2021, 2020, and 2019:

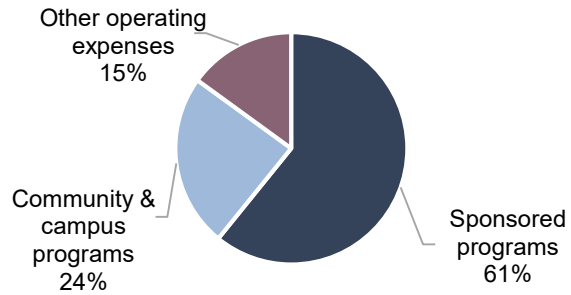
2021 Operating Expenses



2020 Operating Expenses



2019 Operating Expenses



Nonoperating (Expenses) Revenues

Nonoperating (expenses) revenues 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, net gains and losses from the disposition of property and equipment, and transfers (to) from SDSU and The Campanile Foundation.

Net nonoperating (expenses) revenues decreased by \$12.1 million from FY 2020 to FY 2021 due to the sale of a property in FY 2020 which did not reoccur in FY 2021 for a gain of \$9.6 million, a reduction of interest expense of \$186,000, reduction of interest income of \$483,000 due to historically low interest rates on short-term investments, net increase in fair value of investments of \$2.8 million, and net increase in transfers to related parties of \$5.0 million.

Net nonoperating (expenses) revenues increased by \$11.3 million from FY 2019 to FY 2020 due to an increase of \$9.6 million in Net gain on sale of property and equipment primarily from the sale of the City Heights properties and a net reduction in transfers to related parties of \$2.1 million.

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Statements of Net Position

June 30, 2021 and 2020

Assets	2021	2020
Current assets:		
Cash and cash equivalents (note 2)	\$ 9,176,810	\$ 15,643,359
Short-term investments (note 3)	20,788,976	40,518,195
Restricted assets - short-term investments (note 3)	15,292,840	14,310,337
Accounts and pledges receivable, net (notes 4 and 7)	30,202,674	24,972,919
Notes receivable - current portion (note 5)	418,600	418,600
Prepaid expenses (note 10)	1,087,369	471,722
Total current assets	<u>76,967,269</u>	<u>96,335,132</u>
Noncurrent assets:		
Pledges receivable, net (note 4)	8,749,708	3,697,207
Long-term investments (note 3)	46,948,140	14,617,521
Restricted assets – investments (note 3)	18,346,142	12,803,916
Restricted assets – land	2,308,532	2,308,532
Notes receivable - net of current portion (note 5)	7,153,992	7,153,992
Capital assets, net (notes 2, 6, and 8)	38,429,647	40,623,772
Other assets (notes 2, 10, and 11)	8,540,438	3,556,275
Total noncurrent assets	<u>130,476,599</u>	<u>84,761,215</u>
Total assets	<u>207,443,868</u>	<u>181,096,347</u>
Deferred Outflows of Resources		
Deferred loss on bond refunding (notes 2 and 8)	422,064	464,130
OPEB related outflows of resources (notes 2 and 11)	756,913	106,792
Total Deferred Outflows of Resources	<u>1,178,977</u>	<u>570,922</u>
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses (notes 2 and 7)	12,656,456	13,444,001
Sponsored programs receipts over expenditures (note 2)	22,475,303	20,010,177
Long-term debt obligations – current portion (note 8)	1,060,000	1,121,807
Total current liabilities	<u>36,191,759</u>	<u>34,575,985</u>
Noncurrent liabilities:		
Long-term debt obligations, net of current portion (note 8)	26,242,290	24,982,660
Other liabilities (note 9)	10,967,925	6,356,990
Total noncurrent liabilities	<u>37,210,215</u>	<u>31,339,650</u>
Total liabilities	<u>73,401,974</u>	<u>65,915,635</u>
Deferred Inflows of Resources		
Deferred Contributions KPBS	3,795,888	491,693
Deferred gain on bond refunding (notes 2 and 8)	63,090	110,408
OPEB related inflows of resources (notes 2 and 11)	2,888,033	3,090,874
Total Deferred Inflows of Resources	<u>6,747,011</u>	<u>3,692,975</u>
Commitments and Contingencies (notes 9, 10, 11, and 12)		
Net Position		
Net investment in capital assets	11,431,980	14,734,527
Restricted for:		
Nonexpendable – endowments and property	5,966,305	3,862,006
Expendable:		
Campus programs and projects	3,599,252	3,288,481
National Institutes of Health term endowment	11,755,279	8,589,689
KPBS capital campaign	25,506,912	19,973,664
Unrestricted	70,214,132	61,610,292
Total net position	<u>\$ 128,473,860</u>	<u>\$ 112,058,659</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, 2021 and 2020

	2021	2020
Operating revenues:		
Sponsored programs support (note 2)	\$ 124,118,132	\$ 118,812,647
Community and campus programs (note 2)	16,131,730	22,132,286
Contributions (note 2)	28,932,946	25,268,807
Rental income (note 10)	8,035,164	6,619,884
Other operating revenues (note 7)	2,835,243	2,031,149
Total operating revenues	180,053,215	174,864,773
Operating expenses (notes 9, 10 and 11):		
Sponsored programs	104,214,936	102,258,520
Community and campus programs	29,586,041	33,776,657
Fundraising – broadcasting	5,512,674	6,733,699
Property management	9,259,069	9,384,375
General administration	16,506,446	15,854,385
Total operating expenses	165,079,166	168,007,636
Operating income	14,974,049	6,857,137
Nonoperating (expenses) revenues:		
Interest expense (note 8)	(880,244)	(1,065,856)
Investment income, net	870,174	1,353,102
Net increase in fair value of investments (note 3)	4,047,460	1,258,895
Net (loss) gain on dispositions of property and equipment (notes 2 and 6)	(97,803)	9,543,467
Net transfers (to) from SDSU (note 2)	(4,537,734)	356,599
Transfers to The Campanile Foundation (note 2)	(65,000)	-
Net nonoperating (expenses) revenues	(663,147)	11,446,207
Income before changes to permanent endowments	14,310,902	18,303,344
Increase in permanent endowments	2,104,299	13,613
Net income	16,415,201	18,316,957
Net position:		
Net position at beginning of year	112,058,659	93,741,702
Net position at end of year	\$ 128,473,860	\$ 112,058,659

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, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Sponsored programs receipts	\$ 124,724,061	\$ 119,070,461
Community and campus programs receipts	16,093,054	21,488,917
Contributions	21,922,252	21,806,427
Rents received	6,300,175	6,586,022
Payments to suppliers	(59,539,597)	(67,602,604)
Payments to employees	(100,908,245)	(98,530,364)
Transfers (to) from SDSU	(2,037,734)	356,599
Transfers to The Campanile Foundation	(65,000)	-
Other receipts	1,381,540	6,281,183
Net cash provided by operating activities	<u>7,870,506</u>	<u>9,456,641</u>
Cash flows from capital and related financing activities:		
Principal payments on long-term debt	(1,030,000)	(1,005,000)
Interest paid	(801,868)	(1,116,381)
Purchase of property and equipment	(2,450,169)	(2,649,476)
Proceeds from sale of property and equipment	2,500	14,159,697
Proceeds from KPBS Payroll Protection Plan loan	2,095,580	-
Proceeds from KPBS capital campaign	4,689,903	5,582,658
KPBS capital campaign purchases	(905,566)	(429,728)
KPBS capital campaign transfers to SDSU	(2,500,000)	-
Net cash (used in) provided by capital and related financing activities	<u>(899,620)</u>	<u>14,541,770</u>
Cash flows from investing activities:		
Investment income	835,698	1,273,974
Purchases of investments	(71,709,561)	(66,199,439)
Proceeds from sales and maturities of investments	57,436,428	51,344,609
Collection of notes receivable	-	345,099
Net cash used in investing activities	<u>(13,437,435)</u>	<u>(13,235,757)</u>
Net (decrease) increase in cash and cash equivalents	(6,466,549)	10,762,654
Cash and cash equivalents, beginning of year	<u>15,643,359</u>	<u>4,880,705</u>
Cash and cash equivalents, end of year	<u>\$ 9,176,810</u>	<u>\$ 15,643,359</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, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Reconciliation of operating income to net cash provided		
by operating activities:		
Operating income	\$ 14,974,049	\$ 6,857,136
Adjustments to reconcile operating income to net cash provided		
by operating activities:		
Depreciation	4,543,990	4,639,800
Change in assets, liabilities, deferred outflows and inflows of resources:		
Accounts receivable	(1,567,882)	6,720,872
Pledges receivable - KPBS operating contributions	(12,464,235)	(3,908,777)
Prepaid expenses and other assets	(5,599,809)	(5,909,440)
Deferred outflows of resources related to OPEB	(650,121)	425,126
Accounts payable	(2,192,934)	(62,932)
Accrued expenses	1,454,005	(76,488)
Sponsored programs receipts over expenses	2,465,126	(4,824,276)
Other liabilities	3,805,399	2,148,147
Deferred contributions KPBS	3,304,195	-
Deferred inflows of resources related to OPEB	(202,841)	3,090,874
Net transfers (to) from SDSU	(2,037,734)	356,599
Net transfers from The Campanile Foundation	(65,000)	-
Increase in permanent endowments	2,104,298	-
	<u>\$ 7,870,506</u>	<u>\$ 9,456,641</u>
Net cash provided by operating activities		
Supplemental disclosure of noncash investing and financing activity:		
Increase (decrease) in principal on long-term debt from refunding	\$ 485,000	\$ (55,000)
Increase in fair value of investments	\$ 4,047,460	\$ 1,258,895
Increase in permanent endowments	\$ 195,618	\$ 13,613

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

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Statements of Fiduciary Net Position

Years ended June 30, 2021 and 2020

Assets	Other Postemployment Benefit Trust Funds December 31, 2020	Custodial Funds (TCF) June 30, 2021
Cash and cash equivalents (note 2)	\$ -	\$ 5,162,942
Investments (note 3)	14,127,097	14,171,189
Total assets	<u>14,127,097</u>	<u>19,334,131</u>
Liabilities		
Payable to employer	165,610	-
Accounts payable and accrued liabilities	4,141	-
Total liabilities	<u>169,751</u>	<u>-</u>
Total net position (note 11)	<u>\$ 13,957,346</u>	<u>\$ 19,334,131</u>

Assets	Other Postemployment Benefit Trust Funds December 31, 2019	Custodial Funds (TCF) June 30, 2020
Cash and cash equivalents (note 2)	\$ -	\$ 2,753,291
Investments (note 3)	12,870,146	14,111,913
Total assets	<u>12,870,146</u>	<u>16,865,204</u>
Liabilities		
Payable to employer	175,534	-
Accounts payable and accrued liabilities	4,125	-
Total liabilities	<u>179,659</u>	<u>-</u>
Total net position	<u>\$ 12,690,487</u>	<u>\$ 16,865,204</u>

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

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Statements of Changes in Fiduciary Net Position

Years ended June 30, 2021 and 2020

Additions	Other Postemployment Benefit Trust Funds December 31, 2020	Custodial Funds (TCF) June 30, 2021
Contributions	\$ 91,451	\$ -
Net investment income	1,617,349	-
Fund Additions - Campus and community programs	-	53,051,837
Fund Additions - Student financial aid	-	673,711
Fund Additions - Endowment	-	171,883,200
Total additions	<u>1,708,800</u>	<u>225,608,748</u>
Deductions		
Insurance payments	369,167	-
Professional fees	72,774	-
Fund Deductions - Campus and community programs	-	53,497,186
Fund Deductions - Student financial aid	-	236,117
Fund Deductions - Endowment	-	169,406,518
Total deductions	<u>441,941</u>	<u>223,139,821</u>
Net Increase in fiduciary net position	<u>1,266,859</u>	<u>2,468,927</u>
Net position - beginning	12,690,487	16,865,204
Net position - ending	<u>\$ 13,957,346</u>	<u>\$ 19,334,131</u>

Additions	Other Postemployment Benefit Trust Funds December 31, 2019	Custodial Funds (TCF) June 30, 2020
Contributions	\$ 289,145	\$ -
Net investment income	1,765,031	-
Fund Additions - Campus and community programs	-	37,027,479
Fund Additions - Student financial aid	-	347,859
Fund Additions - Endowment	-	47,603,622
Total additions	<u>2,054,176</u>	<u>84,978,960</u>
Deductions		
Insurance payments	372,123	-
Professional fees	70,963	-
Fund Deductions - Campus and community programs	-	30,209,230
Fund Deductions - Student financial aid	-	1,053,213
Fund Deductions - Endowment	-	45,323,324
Total deductions	<u>443,086</u>	<u>76,585,767</u>
Net Increase in fiduciary net position	<u>\$ 1,611,090</u>	<u>\$ 8,393,193</u>
Net position - beginning	11,079,397	8,472,011
Net position - ending	<u>12,690,487</u>	<u>16,865,204</u>

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

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Notes to the Financial Statements

June 30, 2021 and 2020

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.

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 the measurement date.

Accounts and Pledges Receivable

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

Pledges receivable are due from donors of KPBS and are recorded at net present value.

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Notes to the Financial Statements

June 30, 2021 and 2020

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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 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.

For the year ended June 30, 2020, management removed the carrying value of three buildings demolished in preparation for the executed ground lease and construction of a student housing facility (Montezuma ground lease). This was reported as a loss on disposition of property. There were no such impairments for the year ended June 30, 2021.

Deferred Outflows and Inflows of Resources

Contributions received that are applicable to a future reporting period are presented as Deferred contributions and classified as a deferred inflow of resources.

Losses and gains on bond refundings are deferred and reported as deferred outflows of resources or deferred inflows of resources, respectively. They are amortized on the straight-line method over the life of the refunded bonds.

OPEB related inflows of resources include OPEB plan experience, OPEB assumption changes, and OPEB trust investment experience. These are actuarial calculated amounts that represent differences between the most recent actuarial report and the previous actuarial report. Deferred inflows due to plan experience and assumption changes are recognized over the plan's expected average remaining service life, which is 4.56 years for the years ended June 30, 2021 and 2020. OPEB related outflows of resources include the OPEB subsequent contribution, which will be recognized in the next fiscal year, and OPEB trust investment experience. The OPEB trust investment experience is an actuarial calculated amount representing the difference between projected and actual earnings on OPEB plan investments. Changes due to investment performance different from assumed earnings rate, whether a deferred inflow or deferred outflow, are amortized over five years.

Other Assets

Other assets consist primarily of the net OPEB asset and deposits held by others.

Compensated Absences

SDSU Research Foundation accrues vacation benefits for eligible employees at various rates depending upon length of service and employee classification. Eligible employees accrue sick leave based upon their employment status as either full time, part time, student, temporary or seasonal; 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 \$3,530,000 and \$3,508,000 as of June 30, 2021 and 2020, 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

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Notes to the Financial Statements

June 30, 2021 and 2020

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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 51.5% and 49.7% of its total operating revenue from federal sources during the years ended June 30, 2021 and 2020, respectively. The Department of Health and Human Services provided 26.5% and 25.7% of the total operating revenue for the years ended June 30, 2021 and 2020, respectively.

Revenue from community and campus programs is recognized as earned, which includes the revenue related to KPBS and SDSU Global Campus.

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 or from 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.

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 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, net of investment-related fees, changes in the fair value of investments, and Net gain (loss) on dispositions of property and equipment.

Included in Sponsored program receipts for the year ended June 30, 2021 was \$2 million received from The National Institutes of Health. This amount was 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,

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Notes to the Financial Statements

June 30, 2021 and 2020

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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 follows the guidance that clarifies the accounting for uncertainty in tax positions taken or expected to be taken in a tax return, including issues relating to financial statement recognition and measurement. This guidance provides that the tax effects from an uncertain tax position can only be recognized in the financial statements if the position is “more-likely-than-not” to be sustained if the position were to be challenged by a taxing authority. The assessment of the tax position is based solely on the technical merits of the position, without regard to the likelihood that the tax position may be challenged.

SDSU Research Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code, though it is subject to tax on income unrelated to its exempt purpose unless that income is otherwise excluded by the Code. SDSU Research Foundation has also been recognized by the California Franchise Tax Board as an organization that is exempt from California franchise and income taxes under Section 23701(d) of the California Revenue and Taxation Code. SDSU Research Foundation has processes presently in place to ensure the maintenance of its tax-exempt status; to identify and report unrelated income; to determine its filing and tax obligations in jurisdictions for which it has nexus; to identify and evaluate other matters that may be considered tax positions. SDSU Research Foundation has determined that there are no material uncertain tax positions that require recognition or disclosure in the 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

Certain reclassifications have been made to the June 30, 2020 financial statements to conform to the presentation as of June 30, 2021. The June 30, 2020 Statement of Net Position reflects a \$7.8 million reclassification from Expendable campus programs and projects with an offsetting increase of \$7.8 million to Unrestricted net position. Additionally, there was a \$7.8 million reduction to Noncurrent restricted assets – investments and a \$7.8 million increase to Long-term investments. These reclassifications had no effect on operations. All other reclassifications were not material and had no effect on operations.

Pronouncements Issued

For the year ended June 30, 2021, SDSU Research Foundation implemented GASB Statement 84 (GASBS 84), Fiduciary Activities, which establishes specific criteria for identifying fiduciary activities and the requirements for financial statement reporting. The focus of the criteria is on whether a government is controlling the assets of the fiduciary activity and the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. Statement No. 84 describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. In addition, recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred which compels the government to disburse fiduciary resources, should also be reported.

The Statements of Fiduciary Net Position and Statements of Change in Fiduciary Net Position include funds of the SDSU Research Foundation's postretirement benefit plan (Note 11) and the custodial funds that SDSU Research Foundation holds for The Campanile Foundation. GASBS 84 was adopted retroactively to July 1, 2019. The Statements of Net Position and Cash Flows as of and for the year ended June 30, 2020, respectively, were restated with a reduction to Cash and cash equivalents of \$2.8 million, a reduction to Short-term investments of \$14.1 million

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Notes to the Financial Statements

June 30, 2021 and 2020

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

and elimination of the \$16.9 million liability, Due to The Campanile Foundation. There was no impact to the Statement of Revenues, Expenses, and Changes in Net Position.

For the year ended June 30, 2020, SDSU Research Foundation implemented GASB Statement No. 95 (GASBS 95), Postponement of the Effective Dates of Certain Authoritative Guidance, which addresses the impact of the COVID-19 pandemic and provides relief to governments by postponing implementation and application of certain GASB Statements by a year, and by up to 18 months for other statements. In accordance with this Standard, SDSU Research Foundation postponed the implementation of any previously applicable standards until their new required implementation dates.

The GASB has issued the following statements:

- GASB Statement No. 87, Leases (effective for the year ending June 30, 2022)
- GASB Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period (effective for the year ending June 30, 2022)
- GASB Statement No. 90, Majority Equity Interests (effective for the year ending June 30, 2022)
- GASB Statement No. 91, Conduit Debt Obligations (effective for the year ending June 30, 2023)
- GASB Statement No. 92, Omnibus 2020 (effective for the year ending June 30, 2022)
- GASB Statement No. 93, Replacement of Interbank Offered (effective for the year ending June 30, 2022)
- GASB Statement No. 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements (effective for the year ending June 30, 2023)
- GASB Statement No. 96, Subscription-Based Information Technology Arrangements (effective for the year ending June 30, 2023)
- GASB Statement No. 97, Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32 (effective for the year ending June 30, 2022).

The effective dates of statements reflect implementation of GASBS 95. 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.

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Notes to the Financial Statements

June 30, 2021 and 2020

NOTE 3 – INVESTMENTS – Continued

Investments as of June 30, 2021 and June 30, 2020, respectively, are as follows:

	2021		2021
	Investments		Investments
	Held	Fiduciary Funds	Held by SDSURF
Short-term	\$ 34,960,165	\$ (14,171,189)	\$ 20,788,976
Short-term restricted	15,292,840	-	15,292,840
Long-term	46,948,140	-	46,948,140
Long-term restricted	18,346,142	-	18,346,142
	<u>\$ 115,547,287</u>	<u>\$ (14,171,189)</u>	<u>\$ 101,376,098</u>
	2020		2020
	Investments		Investments
	Held	Fiduciary Funds	Held by SDSURF
Short-term	\$ 54,630,109	\$ (14,111,914)	\$ 40,518,195
Short-term restricted	14,310,337	-	14,310,337
Long-term	14,617,521	-	14,617,521
Long-term restricted	12,803,916	-	12,803,916
	<u>\$ 96,361,883</u>	<u>\$ (14,111,914)</u>	<u>\$ 82,249,969</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 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

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Notes to the Financial Statements

June 30, 2021 and 2020

NOTE 3 – INVESTMENTS – Continued

The following tables summarize SDSU Research Foundation's investments within the fair value hierarchy at June 30, 2021 and June 30, 2020, respectively:

2021 Investments	Total	Level 1	Level 2	Level 3
Corporate Bonds	\$ 37,231,063	\$ 37,231,063	\$ -	\$ -
Deferred Gift (Various)	958,983	958,983	-	-
Bond Mutual Fund	8,588,538	8,588,538	-	-
Certificate of Deposit	27,402,014	-	27,402,014	-
Money market funds	368,434	-	368,434	-
Real property	1,797,000	-	-	1,797,000
TCF Endowment Pool	39,060,761	-	-	39,060,761
Amounts Held by Others	140,495	-	-	140,495
	<u>\$ 115,547,287</u>	<u>\$ 46,778,584</u>	<u>\$ 27,770,448</u>	<u>\$ 40,998,256</u>
2020 Investments	Total	Level 1	Level 2	Level 3
Treasury Issues	\$ 11,215,248	\$ 11,215,248	\$ -	\$ -
Corporate Bonds	34,662,700	34,662,700	-	-
Deferred Gift	837,515	837,515	-	-
Certificate of Deposit	20,566,392	-	20,566,392	-
Money Market Funds	2,692,369	-	2,692,369	-
Real Property	1,797,000	-	-	1,797,000
TCF Endowment Pool	24,478,043	-	-	24,478,043
Amounts Held by Others	112,616	-	-	112,616
	<u>\$ 96,361,883</u>	<u>\$ 46,715,463</u>	<u>\$ 23,258,761</u>	<u>\$ 26,387,659</u>

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

- Level 1 Measurements

Treasury Issues, Corporate Bonds and Bond 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 – based on published fair value per share for each fund.

Certificates of Deposit – valued at cost, which approximates fair value.

- Level 3 Measurements

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

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Notes to the Financial Statements

June 30, 2021 and 2020

NOTE 3 – INVESTMENTS – Continued

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. These investments are managed by an Outside Chief Investment Officer (OCIO) 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, performance, and compliance with the IPS. The investment category allocations and IPS targets as of June 30 are as follows:

	<u>2021</u>	<u>2020</u>	<u>IPS Target</u>
Growth Assets	46.1%	43.8%	50.0%
Credit	7.5%	4.6%	8.0%
Inflation Hedges	12.6%	10.0%	14.0%
Risk Mitigation	33.8%	41.6%	28.0%
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

SDSU Research Foundation recognized net unrealized gains of \$4.0 million and \$1.2 million for the years ended June 30, 2021 and 2020, respectively, from its investment in the TCF Endowment Pool.

The TCF Endowment Pool is subject to concentrations of credit risk and 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 provided in accordance with SDSU Research Foundation and The Campanile Foundation's investment policy statement. For the fiscal years ended June 30, 2021 and 2020, 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.

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Notes to the Financial Statements

June 30, 2021 and 2020

NOTE 3 – INVESTMENTS – Continued

Maturities of fixed income investments as of June 30, 2021 are as follows:

	<u>Market Value Total</u>	<u>Less than One Year</u>	<u>Two - Five Years</u>
Corporate Bonds	\$ 37,231,063	\$ 13,894,019	\$ 23,337,043
Bond Mutual Fund	8,588,538	8,588,538	-
Certificates of Deposit	27,402,014	27,402,014	-
	<u>\$ 73,221,615</u>	<u>\$ 49,884,571</u>	<u>\$ 23,337,043</u>

Maturities of fixed income investments as of June 30, 2020 are as follows:

	<u>Market Value Total</u>	<u>Less than One Year</u>	<u>Two - Five Years</u>
Treasury Issues	\$ 11,215,248	\$ 11,215,248	\$ -
Corporate Bonds	34,662,701	34,466,438	196,263
Certificate of Deposit	20,566,392	20,566,392	-
Money Market Funds	2,692,369	2,692,369	-
	<u>\$ 69,136,710</u>	<u>\$ 68,940,447</u>	<u>\$ 196,263</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. The bond mutual fund and money market funds do not have a rating provided by a nationally recognized statistical rating organization. The range of rating of corporate bonds was BBB to AAA as of June 30, 2021 and BBB to AA as of June 30, 2020.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the investment in a single issuer. SDSU Research Foundation's investment policy contains no limitations as to how much can be invested with any one issuer. As of June 30, 2021, and June 30, 2020, SDSU Research Foundation did not have any investments with a single non-federal issuer that exceeded 5% of total investments.

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. SDSU Research Foundation deposits are maintained at financial institutions that are Federal Deposit Insurance Corporation (FDIC) secured. As a result, custodial credit risk for deposits is remote. In the ordinary course of SDSU Research Foundation's operations, deposit balances can exceed the FDIC insured limits.

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 and government investment pools. 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, 2021 and 2020

NOTE 4 – ACCOUNTS AND PLEDGES RECEIVABLE

Accounts and pledges receivable as of June 30, 2021 and June 30, 2020 consisted of the following:

	2021		
	Current	Noncurrent	Total
Accounts receivable - sponsored programs	\$ 20,764,012	\$ -	\$ 20,764,012
Pledges receivable	5,409,805	8,749,708	14,159,513
Other receivables	4,598,122	-	4,598,122
Less allowance for doubtful accounts	(569,265)	-	(569,265)
	<u>\$ 30,202,674</u>	<u>\$ 8,749,708</u>	<u>\$ 38,952,382</u>
	2020		
	Current	Noncurrent	Total
Accounts receivable - sponsored programs	\$ 18,904,816	\$ -	\$ 18,904,816
Pledges receivable	2,687,974	3,697,207	6,385,181
Other receivables	4,184,310	-	4,184,310
Less allowance for doubtful accounts	(804,181)	-	(804,181)
	<u>\$ 24,972,919</u>	<u>\$ 3,697,207</u>	<u>\$ 28,670,126</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.

Notes receivable from Aztec Shops as of June 30, 2021 and 2020 consisted of the following:

	2021		
	Current	Noncurrent	Total
Sanctuary Suites (a)	\$ 235,900	\$ 4,010,292	\$ 4,246,192
Piedra del Sol and Fraternity Row (b)	109,200	1,747,200	1,856,400
College Square (c)	43,500	826,500	870,000
College Strip (c)	30,000	570,000	600,000
	<u>\$ 418,600</u>	<u>\$ 7,153,992</u>	<u>\$ 7,572,592</u>
	2020		
	Current	Noncurrent	Total
Sanctuary Suites (a)	\$ 235,900	\$ 4,010,292	\$ 4,246,192
Piedra del Sol and Fraternity Row (b)	109,200	1,747,200	1,856,400
College Square (c)	43,500	826,500	870,000
College Strip (c)	30,000	570,000	600,000
	<u>\$ 418,600</u>	<u>\$ 7,153,992</u>	<u>\$ 7,572,592</u>

(a) 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% were payable semi-annually until April 15, 2019 at which time fixed principal payments of \$235,900 began plus accrued interest payable semi-annually through October 15, 2028.

(b) 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% were 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, 2021 and 2020

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

(c) 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% were 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 March 2021 and April 2020, SDSU Research Foundation and Aztec Shops, Ltd. executed amendments to the four promissory notes referenced above. These amendments deferred the principal payments due April 15, 2020, October 15, 2020, April 15, 2021 and October 15, 2021. The payment terms were extended two additional years and the deferred principal payments are due at the end of each term.

NOTE 6 – CAPITAL ASSETS

Capital assets activity for the years ended June 30, 2021 and 2020 consisted of the following:

	Balance			Balance
	June 30, 2020	Additions	Reductions	June 30, 2021
Nondepreciable capital assets:				
Land, land improvements	\$ 13,914,536	\$ -	\$ -	\$ 13,914,536
Construction in progress	722,293	2,339	(690,259)	34,373
Total nondepreciable capital assets	<u>14,636,829</u>	<u>2,339</u>	<u>(690,259)</u>	<u>13,948,909</u>
Depreciable capital assets:				
Buildings and improvements	61,719,736	1,922,665	-	63,642,401
Furniture, fixtures and equipment	26,820,580	1,215,424	(1,263,181)	26,772,823
Total depreciable capital assets	<u>88,540,316</u>	<u>3,138,089</u>	<u>(1,263,181)</u>	<u>90,415,224</u>
Less accumulated depreciation:				
Buildings and improvements	(39,594,625)	(3,074,905)	-	(42,669,530)
Furniture, fixtures and equipment	(22,958,748)	(1,469,085)	1,162,877	(23,264,956)
Total accumulated depreciation	<u>(62,553,373)</u>	<u>(4,543,990)</u>	<u>1,162,877</u>	<u>(65,934,486)</u>
Total capital assets, net	<u>\$ 40,623,772</u>	<u>\$ (1,403,562)</u>	<u>\$ (790,563)</u>	<u>\$ 38,429,647</u>
	Balance			Balance
	June 30, 2019	Additions	Reductions	June 30, 2020
Nondepreciable capital assets:				
Land, land improvements	\$ 14,820,234	\$ -	\$ (905,698)	\$ 13,914,536
Construction in progress	663,459	308,596	(249,762)	722,293
Total nondepreciable capital assets	<u>15,483,693</u>	<u>308,596</u>	<u>(1,155,460)</u>	<u>14,636,829</u>
Depreciable capital assets:				
Buildings and improvements	70,838,996	1,268,345	(10,387,605)	61,719,736
Furniture, fixtures and equipment	25,737,229	1,322,297	(238,946)	26,820,580
Total depreciable capital assets	<u>96,576,225</u>	<u>2,590,642</u>	<u>(10,626,551)</u>	<u>88,540,316</u>
Less accumulated depreciation:				
Buildings and improvements	(43,242,736)	(3,069,685)	6,717,796	(39,594,625)
Furniture, fixtures and equipment	(21,586,857)	(1,570,115)	198,224	(22,958,748)
Total accumulated depreciation	<u>(64,829,593)</u>	<u>(4,639,800)</u>	<u>6,916,020</u>	<u>(62,553,373)</u>
Total capital assets, net	<u>\$ 47,230,325</u>	<u>\$ (1,740,562)</u>	<u>\$ (4,865,991)</u>	<u>\$ 40,623,772</u>

Depreciation expense totaled \$4,543,990 and \$4,639,800 for the years ended June 30, 2021 and 2020, respectively.

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Notes to the Financial Statements

June 30, 2021 and 2020

NOTE 6 – CAPITAL ASSETS – Continued

In April 2020, SDSU Research Foundation sold two buildings and an adjoining parking garage, resulting in a gain of \$9.8 million. Subsequent to the sale of this property, SDSU Research Foundation entered into a five-year lease agreement for the property, with an option to extend an additional five years. This option was exercised at the commencement of the lease. The lease and associated subleases are included in the operating lease revenues and operating lease obligations tables, respectively, within Leasing arrangements (note 10).

In July 2019, SDSU Research Foundation executed a 50-year ground lease with a developer to construct student housing. Demolition of the existing buildings took place in May 2020. The net book value of \$186,000 related to these properties were reported as a loss on disposal of property.

NOTE 7 – AFFILIATED ORGANIZATIONS

The Campanile Foundation (TCF)

TCF is the philanthropic auxiliary organization for the University. The cash and investments shown in the Statements of Fiduciary Net Position represent TCF's claim on 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, 2021 and 2020 the administrative fee received from TCF totaled \$993,000 and \$969,000, respectively, and is included in other operating revenues in the accompanying Statements of Revenues, Expenses and Changes in Net Position.

Other

Included in Other liabilities at June 30, 2021 was \$6.2 million payable to the University presented in Note 9 as Amounts held for others. Included in Accounts payable and accrued expenses were payables to the affiliated organizations in the approximate amounts of \$208,000 and \$924,000 at June 30, 2021 and 2020, respectively. Included in Accounts and pledges receivable were receivables from the affiliated organizations in the approximate amounts of \$1,388,000 and \$547,000 at June 30, 2021 and 2020, respectively. These amounts occurred in the normal course of business among the affiliated organizations.

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Notes to the Financial Statements

June 30, 2021 and 2020

NOTE 8 – LONG-TERM DEBT OBLIGATIONS

Long-term debt activity for the years ended June 30, 2021 and 2020 was as follows:

	<u>Balance June 30, 2020</u>	<u>Additions</u>	<u>Reductions</u>	<u>Refunding</u>	<u>Balance June 30, 2021</u>	<u>Current Portion</u>
CSU SRB 2012A (a)	\$ 23,625,000	\$ -	\$ (135,000)	\$ (9,145,000)	\$ 14,345,000	\$ 145,000
CSU SRB 2020A (b)	1,465,000	-	(465,000)	-	1,000,000	490,000
CSU SRB 2020D (a)	-	10,200,000	(430,000)	-	9,770,000	425,000
Unamortized bond premium						
CSU SRB 2020A (b)	81,630	-	(34,983)	-	46,647	-
CSU SRB 2012A (a)	932,837	-	(13,868)	(879,647)	39,322	-
Paycheck Protection Program Loan (c)	-	2,101,321	-	-	2,101,321	-
Long-term Debt Obligations	<u>\$ 26,104,467</u>	<u>\$ 12,301,321</u>	<u>\$ (1,078,851)</u>	<u>\$ (10,024,647)</u>	<u>\$ 27,302,290</u>	<u>\$ 1,060,000</u>
CSU SRB 2012A Loss on Refunding (a)	\$ 464,130	\$ -	\$ (19,667)	\$ (178,228)	\$ 266,235	
CSU SRB 2020D Loss on Refunding (a)	-	163,875	(8,046)	-	155,829	
Total Deferred Losses on Refunding	<u>\$ 464,130</u>	<u>\$ 163,875</u>	<u>\$ (27,713)</u>	<u>\$ (178,228)</u>	<u>\$ 422,064</u>	
CSU SRB 2020A Deferred Gain on Refunding (b)	<u>\$ 110,408</u>	<u>\$ -</u>	<u>\$ (47,318)</u>	<u>\$ -</u>	<u>\$ 63,090</u>	
	<u>Balance June 30, 2019</u>	<u>Additions</u>	<u>Reductions</u>	<u>Refunding</u>	<u>Balance June 30, 2020</u>	<u>Current Portion</u>
CSU SRB 2010A (b)	\$ 1,975,000	\$ -	\$ (455,000)	\$ (1,520,000)	\$ -	\$ -
CSU SRB 2012A (a)	24,175,000	-	(550,000)	-	23,625,000	565,000
CSU SRB 2020A (b)	-	1,465,000	-	-	1,465,000	465,000
Unamortized bond premium						
CSU SRB 2010A (b)	152,339	-	(22,216)	(130,123)	-	-
CSU SRB 2012A (a)	989,660	-	(56,823)	-	932,837	56,823
CSU SRB 2020A (b)	-	96,207	(14,577)	-	81,630	34,984
Long-term Debt Obligations	<u>\$ 27,291,999</u>	<u>\$ 1,561,207</u>	<u>\$ (1,098,616)</u>	<u>\$ (1,650,123)</u>	<u>\$ 26,104,467</u>	<u>\$ 1,121,807</u>
CSU SRB 2012A Deferred Loss on Refunding (a)	<u>\$ 492,548</u>	<u>\$ -</u>	<u>\$ (28,418)</u>	<u>\$ -</u>	<u>\$ 464,130</u>	
CSU SRB 2020A Deferred Gain on Refunding (b)	<u>\$ -</u>	<u>\$ 130,123</u>	<u>\$ (19,715)</u>	<u>\$ -</u>	<u>\$ 110,408</u>	

(a) In September 2020, the CSU System refunded a portion of the 2012 system wide revenue bonds. The amount refunded was \$9,145,000 and \$880,000 of the unamortized bond premium. A new issuance of \$10,200,000 was allocated to SDSU Research Foundation with CSU 2020D system wide revenue bonds. The SRB 2020D bonds mature in November 2036 and bear a variable interest rate ranging from 3.0% to 5.0% due in semi-annual principal and interest payments consistent with the terms of the original bonds. The bonds are secured by pledged revenues, including F&A cost recovery payments. The Research Foundation's share of premium on the refunding was \$41,352 and is attributed to the 2012A bonds. The premium is being amortized over 193.5 months (Sept 2020 - Oct 2036) using the straight-line method, which approximates the effective interest method.

The SRB 2020D bonds sold at amounts less than par. The resulting bond loss of \$163,875 is being amortized over the life of the bonds using the straight-line method, which approximates the effective interest method. The losses are deferred and included on the Statement of Net Position as deferred outflow of resources.

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Notes to the Financial Statements

June 30, 2021 and 2020

NOTE 8 – LONG-TERM DEBT OBLIGATIONS – Continued

- (b) In February 2020, the California State University (CSU) System issued system wide revenue bonds (SRB 2020A). Part of this reissuance (\$1,465,000) was allocated to SDSU Research Foundation to replace the SRB 2010A bonds, previously known as the 1998 certificates of participation and the 1999 insured revenue refunding bonds. The SRB 2020A bonds bear an interest rate of 5.0% and are due in semi-annual principal and interest payments consistent with the terms of the original bonds. The bonds mature in 2022 and payments are secured by pledged revenues, including F&A cost recovery payments.

The SRB 2020A bonds sold at amounts greater than par. The resulting bond premium of \$96,207 is being amortized over the life of the bonds using the straight-line method, which approximates the effective interest method.

The balance of the unamortized premium of the SRB 2010A bonds of \$130,123 was reclassified to deferred gain on bond refunding. The deferred gain is included on the Statement of Net Position as a deferred inflow of resources. The gain is being amortized as a reduction of interest expense over the life of the bonds using the straight-line method, which approximates the effective interest method.

- (c) As a response to the coronavirus disease (COVID-19) outbreak, the U.S. government has responded with relief legislation. Certain legislation called the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), authorized emergency loans to businesses by establishing, and providing funding for, forgivable bridge loans under the Paycheck Protection Program (PPP). In March 2021, SDSU Research Foundation on behalf of KPBS, received \$2,095,580 under the PPP. The entire balance plus accrued interest of \$5,741 is outstanding as of June 30, 2021. Under the PPP, the Small Business Administration (SBA) will forgive the proceeds received if eligibility and other criteria are met related to use of the funds, at which time SDSU Research Foundation will recognize the forgiven amount as income. Once the SBA reviews and approves the forgiveness amount, the SBA will have the right to audit the SDSU Research Foundation's compliance with the PPP for a period of up to six years. The portion of the proceeds received that is not forgiven, if any, is converted to an unsecured term note payable in full, including accrued interest at 1%, March 2026.

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, and 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, 2021 and 2020.

Total interest incurred on all borrowings was approximately \$728,000 and \$1,018,000 for the years ended June 30, 2021 and 2020, respectively.

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

Year(s) ending June 30	Principal	Interest	Total
2022	\$ 1,060,000	\$ 767,936	\$ 1,827,936
2023	1,110,000	724,101	1,834,101
2024	1,350,000	685,491	2,035,491
2025	1,380,000	652,566	2,032,566
2026	3,510,580	721,924	4,232,504
2027-2031	7,745,000	2,449,208	10,194,208
2032-2036	9,055,000	1,130,087	10,185,087
2037	2,000,000	34,742	2,034,742
	<u>\$ 27,210,580</u>	<u>\$ 7,166,055</u>	<u>\$ 34,376,635</u>

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Notes to the Financial Statements

June 30, 2021 and 2020

NOTE 9 – OTHER LIABILITIES

Activities in other liabilities for the years ended June 30, 2021 and 2020 consisted of the following:

	Balance			Balance
	June 30, 2020	Additions	Reductions	June 30, 2021
Amounts held for others	\$ -	\$ 6,205,536	\$ -	\$ 6,205,536
Workers' compensation	2,020,331	771,754	(748,080)	2,044,005
Deferred revenue - ground lease	1,780,021	-	(1,780,021)	-
Unemployment insurance	2,028,633	575,495	(424,293)	2,179,835
Other obligations	528,005	64,915	(54,371)	538,549
	<u>\$ 6,356,990</u>	<u>\$ 7,617,700</u>	<u>\$ (3,006,765)</u>	<u>\$ 10,967,925</u>

	Balance			Balance
	June 30, 2019	Additions	Reductions	June 30, 2020
Workers' compensation	\$ 2,215,056	\$ 542,825	\$ (737,550)	\$ 2,020,331
Deferred revenue - ground lease	1,819,761	-	(39,740)	1,780,021
Unemployment insurance	1,834,962	575,496	(381,825)	2,028,633
Net OPEB liability	774,160	-	(774,160)	-
Other obligations	685,668	5,116	(162,779)	528,005
	<u>\$ 7,329,607</u>	<u>\$ 1,123,437</u>	<u>\$ (2,096,054)</u>	<u>\$ 6,356,990</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, 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.

Amounts Held for Others

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. In July 2020, SDSU Research Foundation prepaid the remaining balance of the ground lease by funding a \$5.4 million quasi-endowment held at SDSU Research Foundation for the benefit of SDSU, to be used at the direction of SDSU's President. The endowment balance and investment earnings of \$806,000 are included in Other liabilities as of June 30, 2021.

Deferred Revenue – Ground lease

SDSU Research Foundation received payments of \$2 million related to a ground lease with a developer in the fiscal year ended June 30, 2017. The lease term was from April 2016 to April 2066 and was being recognized ratably over the 50-year term. In December 2020, an amendment to the ground lease agreement was executed due to the sale of the project to another legal entity. All rights and interest in the initial ground lease were assigned to the new entity and

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Notes to the Financial Statements

June 30, 2021 and 2020

NOTE 9 – OTHER LIABILITIES – Continued

a new ground lease agreement was executed. The previous agreement was superseded in its entirety and the unearned revenue of \$1.8 million was recognized in full.

NOTE 10 – LEASING ARRANGEMENTS

Operating Lease Revenues

Land, buildings and improvements, with a current net book value of approximately \$34.3 million, are leased to University-related and commercial organizations. Included in rental income is sublease revenue of \$1,659,000 and \$1,790,000 for the years ended June 30, 2021 and 2020, respectively.

The following is a schedule of the minimum future rental payments to be received on operating leases, by year, as of June 30, 2021:

Year(s) ending June 30	Affiliated Organizations	Unrelated Parties	Total
2022	\$ 1,205,000	\$ 2,858,000	\$ 4,063,000
2023	1,199,000	2,894,000	4,093,000
2024	702,000	2,451,000	3,153,000
2025	459,000	2,300,000	2,759,000
2026	464,000	1,754,000	2,218,000
Thereafter	11,329,000	27,459,000	38,788,000
	<u>\$ 15,358,000</u>	<u>\$ 39,716,000</u>	<u>\$ 55,074,000</u>

In December 2020 an amended and restated ground lease agreement for a student housing project was executed. The lease term is from December 2020 through July 31, 2063. This lease is treated as an operating lease and has an annual payments owed of \$134,000 for the period December 17, 2020 to July 31, 2021, \$218,000 for the year ended June 30, 2022, and payments increasing by 1.0% annually thereafter. Rent is paid from the surplus cash flow. If on any year, to the extent surplus cash flow is not sufficient to pay all or any portion of the rent owed, the unpaid rent shall accrue interest at 8.0% per annum.

Operating Lease Obligations

SDSU Research Foundation leases certain land, buildings, and equipment under operating leases. The total rental expense incurred was \$4.8 and \$4.7 million for the years ended June 30, 2021 and 2020, respectively.

The minimum rental commitments at June 30, 2021 are as follows:

Year(s) ending June 30	Affiliated Organizations	Unrelated Parties	Total
2022	\$ 394,000	\$ 2,182,000	\$ 2,576,000
2023	399,000	2,016,000	2,415,000
2024	404,000	1,455,000	1,859,000
2025	409,000	1,364,000	1,773,000
2026	207,000	1,307,000	1,514,000
2027-2031	-	5,475,000	5,475,000
2032-2036	-	5,000	5,000
2037-2041	-	5,000	5,000
2042	-	1,000	1,000
	<u>\$ 1,813,000</u>	<u>\$ 13,811,000</u>	<u>\$ 15,624,000</u>

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Notes to the Financial Statements

June 30, 2021 and 2020

NOTE 10 – LEASING ARRANGEMENTS – Continued

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. In July 2020, the agreement was amended and SDSU Research Foundation prepaid the ground lease for \$5.4 million by funding a quasi-endowment held at SDSU Research Foundation for the benefit SDSU, to be used at the direction of SDSU's President. The prepaid rent is being amortized to expense over the remaining term of the lease through May 2034. The current and noncurrent balances as of June 30, 2021 are \$352,000 and \$4.7 million, respectively. The balances are included in Prepaid expenses and Other noncurrent assets, respectively in the Statement of Net Position.

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.

NOTE 11 – POSTRETIREMENT BENEFIT PLAN

General Information about the OPEB Plan

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 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-employment benefit obligation provided under the plan. The fair value of assets held by the VEBA trust for the years ended June 30, 2021 and 2020 was \$14,754,000 and \$12,686,000, 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, vision 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

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Notes to the Financial Statements

June 30, 2021 and 2020

NOTE 11 – POSTRETIREMENT BENEFIT PLAN – Continued

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 Associate Vice President and CEO, (b) KPBS, (c) SDSU Global Campus, (d) University Relations and Development or (e) SDSU 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, 2020, there were 297 active postretirement Plan participants and 82 eligible retired participants or their surviving spouses receiving benefits from the Plan. At December 31, 2019, there were 304 active postretirement Plan participants and 82 eligible retired participants or their surviving spouses 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). Per the December 31, 2019 actuarial valuation, SDSURF did not need to make a contribution to the VEBA Trust for the fiscal year ending June 30, 2021. Instead, SDSURF was eligible to and did request a \$26,448 refund. The actuarially determined contribution (ADC) for the year ended June 30, 2021 was \$64,021, comprised of a \$26,448 refund from the trust and an implicit subsidy credit of \$90,469. The actuarially determined contribution (ADC) for the year ended June 30, 2020 was \$52,696. No contributions to fund the future liability of the plan are required from employees.

Net OPEB Asset

Included in Other assets on the Statements of Net Position as of June 30, 2021 and June 30, 2020, respectively, is the net OPEB asset of SDSU Research Foundation. The components of the asset balances are as follows:

	<u>June 30, 2021</u>	<u>June 30, 2020</u>
Plan fiduciary net position	\$ 13,957,346	\$ 12,690,487
Total OPEB liability	(10,747,393)	(9,396,417)
Net OPEB asset	<u>\$ 3,209,953</u>	<u>\$ 3,294,070</u>

Actuarial Assumptions

The total OPEB liability for the years ended June 30, 2021 and June 30, 2020 was determined by an actuarial valuation as of December 31, 2019. The following assumptions were used to determine the total OPEB liability as of December 31, 2019:

	<u>December 31, 2019</u>
General Inflation Rate	2.5%
Salary Increase	3.0% per year, used only to allocate the cost of benefits between service years
Investment Rate of Return	6.0%
Mortality Rates	Public Retirement Plans Headcount Weighted 2010 Mortality Table with separate rates for males and females. Mortality improvement rates were projected using MacLeod Watts Scale 2020 on a fully generational basis from 2010 forward.

Discount Rate

The discount rate used to measure the total OPEB liability as of December 31, 2020 and December 31, 2019 was 5.35% and 6.0%, respectively, which is equal to the expected long-term yield on investments net of plan investment expenses. This long-term rate of investment returns is used because the earnings are expected to fund the benefit costs. As of December 31, 2020, the VEBA Trust’s investment advisor projected a long-term expected return on assets

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Notes to the Financial Statements

June 30, 2021 and 2020

NOTE 11 – POSTRETIREMENT BENEFIT PLAN – Continued

of 5.91% per year, prior to offset for investment management and advisory fees. The fees were estimated to be 0.34% and 0.19%, respectively, each year. The long-term yield was reduced from 6.0% to a more conservative estimate of 5.35% to provide some margin against lower market rate returns.

Sensitivity of the Net OPEB Asset to Changes in Discount Rate and Healthcare Cost

The discount rate used to calculate the net OPEB asset as of December 31, 2020 was 5.35%. Healthcare Cost Trend Rate was assumed to start at 5.4% and grade down to 4.0% for years 2076 and later. The impact of a 1.0% increase or decrease in these assumptions is shown in the chart below as of December 31, 2020:

	Sensitivity of Asset to Change in					
	Discount Rate			Healthcare Cost Trend Rate		
	1% Decrease (4.35%)	Current Discount Rate (5.35%)	1% Increase (6.35%)	1% Decrease	Current Healthcare Cost Trend	1% Increase
Net OPEB Asset	\$ 1,577,591	\$ 3,209,953	\$ 4,528,155	\$ 4,665,798	\$ 3,209,953	\$ 1,408,492
(Decrease) Increase	(1,632,362)		1,318,202	1,455,845		(1,801,461)
% (Decrease) Increase	(50.9%)		41.1%	45.4%		(56.10%)

The impact of a 1% increase or decrease in these assumptions is shown in the chart below as of December 31, 2019:

	Sensitivity of Asset to Change in					
	Discount Rate			Healthcare Cost Trend Rate		
	1% Decrease (5%)	Current Discount Rate (6%)	1% Increase (7%)	1% Decrease	Current Healthcare Cost Trend	1% Increase
Net OPEB Asset	\$ 1,923,589	\$ 3,294,070	\$ 4,406,966	\$ 4,452,120	\$ 3,294,070	\$ 1,874,909
(Decrease) Increase	(1,370,481)		1,112,896	1,158,050		(1,419,161)
% (Decrease) Increase	(41.6%)		33.8%	35.2%		(43.1%)

OPEB Expense and Deferred Outflows and Inflows of Resources

For the years ended June 30, 2021 and June 30, 2020, SDSU Research Foundation recognized a reduction to OPEB expense of \$704,824 and \$445,438, respectively.

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Notes to the Financial Statements

June 30, 2021 and 2020

NOTE 11 – POSTRETIREMENT BENEFIT PLAN – Continued

The chart below shows the OPEB related deferred outflows and inflows of resources reported in the Statements of Net Position as of June 30, 2021 and 2020.

	<u>June 30, 2021</u>	<u>June 30, 2020</u>
Deferred Outflows of Resources		
OPEB subsequent contribution	\$ 64,021	\$ 106,792
Changes of assumptions	692,892	-
Total OPEB related outflows of resources	<u>\$ 756,913</u>	<u>\$ 106,792</u>
Deferred Inflows of Resources		
OPEB plan experiences	\$ 1,700,057	\$ 2,364,141
OPEB investment experiences	1,137,431	656,443
Changes of assumptions	50,545	70,290
Total OPEB related inflows of resources	<u>\$ 2,888,033</u>	<u>\$ 3,090,874</u>

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

For the Fiscal Year Ending June 30	Recognized net deferred inflows of resources
2022	(874,643)
2023	(673,629)
2024	(582,576)
2025	(64,293)
Total	<u>\$ (2,195,141)</u>

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.

Changes to Plan Subsequent to Reporting Period

Prior to 2021, retirees of SDSU Research Foundation were provided benefits under the single-employer health and welfare plan. SDSU Research Foundation determined that it is in the best interest of the participants and the VEBA trust to separate the retiree benefits. The VEBA Plan document was amended and restated effective January 1, 2021 as a separate retiree plan.

Other Retirement Benefits

SDSU Research Foundation sponsors the San Diego State University Foundation Defined Contribution Retirement Plan. It is a 403(b) participant-directed defined contribution plan (the Retirement Plan) available to employees of SDSU Research Foundation if they meet certain eligibility requirements. All participants have the ability to direct the investments of their accounts under the Retirement Plan, in accordance with the investment choices as are made available and with those policies or procedures as are determined by the Retirement Plan administration. SDSU Research Foundation has no control over investment decisions made by the participants.

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Notes to the Financial Statements

June 30, 2021 and 2020

NOTE 11 – POSTRETIREMENT BENEFIT PLAN – Continued

Participants are vested immediately in their contributions and SDSU Research Foundation contributions plus actual earnings thereon. For the period July 1, 2019 to December 31, 2019, SDSU Research Foundation contributed ten percent of eligible employees' adjusted gross salary. As of January 1, 2020 the Plan was amended and the 10% contribution was replaced with a 200% fixed match of each participant's contributions up to 10% of the participant's eligible adjusted gross salary. Total contributions to the Retirement Plan for the years ended June 30, 2021 and 2020 were approximately \$5,565,000 and \$5,388,000, respectively, and included in Operating expenses in the Statements of Revenues, Expenses, and Changes in Net Position.

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

Schedules of Required Supplementary Information (UNAUDITED)

Schedule of Changes in SDSU Research Foundation's Net OPEB Liability and Related Ratios

Last Four Fiscal Years

Fiscal Year End	06/30/21	06/30/20	06/30/19	06/30/18
Measurement Date	12/31/20	12/31/19	12/31/18	12/31/17
Discount Rate on Measurement Date	5.35%	6.00%	6.00%	6.00%
Total OPEB liability				
Service Cost	\$ 281,845	\$ 318,983	\$ 308,942	\$ 299,217
Interest	569,072	719,045	680,729	640,618
Differences between expected and actual experience	-	(3,028,225)	-	-
Changes of assumptions	887,525	(90,035)	-	-
Benefit payments	(387,466)	(376,908)	(345,313)	(216,762)
Net change in total OPEB liability	1,350,976	(2,457,140)	644,358	723,073
Total OPEB liability, beginning of year	9,396,417	11,853,557	11,209,199	10,486,126
Total OPEB liability, end of year (a)	\$ 10,747,393	\$ 9,396,417	\$ 11,853,557	\$ 11,209,199
Plan fiduciary net position				
Contributions – employer	\$ 106,792	\$ 295,634	\$ 285,305	\$ 249,062
Net investment income (loss)	1,617,349	1,765,032	(356,123)	1,609,240
Benefit payments	(387,466)	(376,908)	(345,313)	(205,392)
Expenses paid	(79,724)	(88,140)	(27,830)	(27,500)
Change in employer contribution receivable	-	-	(92,222)	(31,757)
Change in accrued expenses	6,951	17,177	(32,432)	-
Change in accrued benefit payments	2,957	(1,705)	(17,402)	(11,370)
Net change in plan fiduciary net position	1,266,859	1,611,090	(586,017)	1,582,283
Plan fiduciary net position, beginning of year	12,690,487	11,079,397	11,665,414	10,083,131
Plan fiduciary net position, end of year (b)	\$ 13,957,346	\$ 12,690,487	\$ 11,079,397	\$ 11,665,414
Net OPEB asset (liability) (b) – (a)	\$ 3,209,953	\$ 3,294,070	\$ (774,160)	\$ 456,215
Plan fiduciary net position as a percentage of the total OPEB liability				
	129.87%	135.06%	93.47%	104.07%
Covered payroll	\$ 20,065,194	\$ 19,882,327	\$ 20,277,985	\$ 20,501,853
Net OPEB asset (liability) as a percentage of covered payroll	16.00%	16.57%	(3.82%)	2.23%

Note: This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION
Schedules of Required Supplementary Information (UNAUDITED)
Schedule of SDSU Research Foundation Contributions
Last Four Fiscal Years

Plan Year End	Fiscal Year Ended	ADC	Contributions in Relation to the ADC	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
12/31/20	6/30/21	\$ 64,021	\$ 64,021	-	\$ 20,201,683	0.32%
12/31/19	6/30/20	\$ 52,696	\$ 106,792	\$ (54,096)	\$ 20,408,482	0.52%
12/31/18	6/30/19	\$ 295,634	\$ 295,634	-	\$ 20,937,020	1.41%
12/31/17	6/30/18	\$ 285,305	\$ 285,305	-	\$ 20,501,853	1.39%

Note: This schedule is being built prospectively. Ultimately, 10 years of data will be present.

Notes to Schedule of Contributions

Valuation Date	12/31/19	12/31/19	12/31/17	12/31/17
Fiscal Year End	06/30/21	06/30/20	06/30/19	06/30/18
Methods and assumptions used to determine contribution rates:				
Actuarial cost method	Entry Age Normal		Entry Age Normal	
Amortization method	Level Dollar		Level Dollar	
Amortization period	30 year open		29 year closed	30 year closed
Asset valuation method	Market Value		Market Value	
Inflation	2.50%		2.75%	
Healthcare cost trend rates	5.4% in 2021, fluctuates until ultimate rate of 4% in 2076		7.5% in 2019, step down 0.5% per year to 5% in 2024	
Salary increases	3.00%		3.25%	
Investment rate of return	6.0%		6.0%	
Retirement age	From 55 to 70		From 55 to 70	
Mortality	Public Retirement Plans Headcount Weighted 2010 Mortality (sex distinct rates). Mortality improvement with MacLeod Watts Scale 2020		RP-2014 Healthy Mortality (sex distinct rates). Mortality improvement with Macleod Watts Scale 2018	

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