


**SAN DIEGO STATE
UNIVERSITY**

Research Foundation

(a Component Unit of San Diego State University)

Financial Statements

June 30, 2015 and 2014

(With Independent Auditors' Report Thereon)

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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Report on the financial statements

We have audited the accompanying financial statements of the business-type activities, of San Diego State University Research Foundation (a California State University Auxiliary Organization and Component Unit of San Diego State University) (the “SDSU Research Foundation”) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the 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 audit. We conducted our audit 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 the 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 the 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of SDSU Research Foundation, as of June 30, 2015, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other matters

The financial statements of SDSU Research Foundation as of and for the year ended June 30, 2014 were audited by other auditors. Those auditors expressed an unmodified opinion on those 2014 financial statements in their report dated September 19, 2014.

Required supplementary information

Accounting principles generally accepted in the United States of America require that the Management Discussion and Analysis on pages 6 – 14 and the Schedule of Post-Employment Health Care Benefits Funding Progress as of December 31, 2014 on page 40 be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. This required supplementary information is the responsibility of management. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America. These limited procedures consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the SDSU Research Foundation's basic financial statements. The supplementary information on pages 42 – 47 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial

statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the basic financial statements or to the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Other reporting required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report, dated September 18, 2015, on our consideration of the SDSU Research Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 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 the SDSU Research Foundation's internal control over financial reporting and compliance.

Grant Thornton LLP

San Diego, CA
September 18, 2015



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

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We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the San Diego State University Research Foundation (a California State University Auxiliary Organization and Component Unit of San Diego State University) (the “SDSU Research Foundation”) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the SDSU Research Foundation’s basic financial statements, and have issued our report thereon dated September 18, 2015.

Internal control over financial reporting

In planning and performing our audit of the financial statements, we considered the SDSU Research Foundation’s internal control over financial reporting (“internal control”) to design audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 the 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 the 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Intended purpose

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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 the SDSU Research Foundation's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

Grant Thornton LLP

San Diego, CA
September 18, 2015

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Management's Discussion and Analysis

(unaudited)

June 30, 2015 and 2014

Management's Discussion and Analysis (unaudited)

This section of the San Diego State University Foundation (dba San Diego State University (SDSU) Research Foundation) annual financial report includes management's discussion and analysis of the financial performance of SDSU Research Foundation for fiscal years ended June 30, 2015 and 2014. This discussion should be read in conjunction with the financial statements and notes.

Introduction to the Financial Statements

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

Statements of Net Position: The Statements of Net Position include all assets, deferred outflows and inflows of resources, liabilities, and net position of the SDSU Research Foundation. All amounts are reported on an accrual basis as of the statement date. This statement also identifies 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 the revenues earned and expenses incurred during the years on an accrual basis.

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

Financial Overview

Summary

The following discussion highlights management's understanding of the key financial aspects of SDSU Research Foundation's financial activities as of and for the years ended June 30, 2015 and 2014. 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, 2015

In January 2015, SDSU Research Foundation transferred certain endowments and gift annuities to The Campanile Foundation. In May 2015, properties adjacent to SDSU (College Square and College Strip) were transferred to Aztec Shops, Ltd. in exchange for cash and unsecured notes to SDSU Research Foundation.

Significant Events – Year Ended June 30, 2014

In January 2014, a student housing project adjacent to SDSU (Sanctuary Suites) was transferred to Aztec Shops, Ltd. in exchange for an unsecured note to SDSU Research Foundation.

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Management's Discussion and Analysis

(unaudited)

June 30, 2015 and 2014

SDSU Research Foundation's condensed summary of net position as of June 30, 2015, 2014 and 2013 follows:

Condensed Summary of Net Position

	2015	June 30 2014	2013
Assets:			
Current assets	\$ 47,367,145	\$ 41,903,090	\$ 40,241,874
Capital assets, net	49,086,814	57,346,915	63,503,109
Other noncurrent assets	54,010,347	55,483,377	73,532,686
Total assets	150,464,306	154,733,382	177,277,669
Deferred Outflows of Resources:			
Deferred loss on bond refunding	606,220	634,450	663,056
Liabilities:			
Current liabilities	31,843,466	30,505,664	60,018,725
Noncurrent liabilities	33,449,278	37,080,971	37,772,294
Total liabilities	65,292,744	67,586,635	97,791,019
Net Position:			
Net investment in capital assets	18,386,404	22,976,432	28,211,667
Restricted – nonexpendable	3,453,377	5,309,953	4,761,303
Restricted – expendable	10,612,196	13,480,783	12,166,583
Unrestricted	53,325,805	46,014,029	35,010,153
Total net position	\$ 85,777,782	\$ 87,781,197	\$ 80,149,706

Assets

Total assets decreased \$4.3 million from fiscal year (FY) 2014 to FY 2015 primarily because of property sales to Aztec Shops, Ltd. and transfer of endowments to The Campanile Foundation. Total assets decreased \$22.5 million from FY 2013 to FY 2014 primarily because \$30.0 million of cash and investments held by SDSU Research Foundation for The Campanile Foundation was disbursed to The Campanile Foundation.

Current assets increased \$5.5 million from FY 2014 to FY 2015 primarily because of the timing of cash receipts related to sponsored programs. Current assets increased \$1.7 million from FY 2013 to FY 2014 primarily because of a temporary increase in accounts receivable.

Capital assets decreased \$8.3 million from FY 2014 to FY 2015 primarily because of property sales and a transfer of property to Aztec Shops, Ltd. Capital assets decreased \$6.2 million from FY 2013 to FY 2014 primarily because student housing apartments were transferred to Aztec Shops, Ltd.

Other noncurrent assets decreased \$1.5 million from FY 2014 to FY 2015 primarily because endowment assets were transferred to The Campanile Foundation. Other noncurrent assets decreased \$18.0 million from FY 2013 to FY 2014 primarily because investments were sold to disburse \$30.0 million to The Campanile Foundation.

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Management's Discussion and Analysis

(unaudited)

June 30, 2015 and 2014

Deferred Outflows of Resources

Deferred outflows of resources decreased \$28,230 and \$28,606 from FY 2014 to FY 2015 and from FY 2013 to FY 2014, respectively, due to the amortization of the deferred loss on bond refunding.

Liabilities

Current liabilities increased by \$1.3 million from FY 2014 to FY 2015 primarily because of the timing related to the payment of accounts payable. Current liabilities decreased by \$29.5 million from FY 2013 to FY 2014 primarily because \$30.0 million was disbursed to The Campanile Foundation.

Noncurrent liabilities decreased \$3.6 million from FY 2014 to FY 2015 primarily due to the paydown of long-term debt during the transfer of property to Aztec Shops, Ltd. Noncurrent liabilities decreased \$0.7 million from FY 2013 to FY 2014 primarily due to scheduled bond payments.

Net Position

SDSU Research Foundation's net position decreased \$2.0 million from FY 2014 to FY 2015 primarily because of the net effect from the transfer of endowments to The Campanile Foundation. The total net position increased \$7.6 million from FY 2013 to FY 2014 because net operating income totaled \$5.8 million and net nonoperating income totaled \$1.8 million.

Restricted Resources

The net position of SDSU Research Foundation includes funds that are restricted by donor or law. The following table summarizes which funds are restricted, the type of restriction and the amount:

Restricted Net Position

	June 30		
	2015	2014	2013
Nonexpendable	\$ 3,453,377	\$ 5,309,953	\$ 4,761,303
Expendable:			
Campus programs and projects	\$ 9,750,771	\$ 11,585,360	\$ 10,391,543
KPBS capital campaign	720,242	750,639	780,986
Student aid	141,183	151,610	124,970
Annuity trust agreements	—	993,174	869,084
Total restricted expendable net position	\$ 10,612,196	\$ 13,480,783	\$ 12,166,583

Nonexpendable restricted net position decreased \$1.9 million from FY 2014 to FY 2015 due to the transfer of endowments to The Campanile Foundation and increased \$0.5 million from FY 2013 to FY 2014 because of the receipt of new restricted gifts.

The decrease in expendable restricted net position of \$2.8 million from FY 2014 to FY 2015 was due to the transfer of gift annuities to The Campanile Foundation. The increase of \$1.3 million from FY 2013 to FY 2014 was due primarily to fluctuations in the market value of the underlying endowment assets. Annuity trust agreements fluctuate as a result of payments to annuitants, the receipt of new funds, and market value fluctuations.

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Management's Discussion and Analysis

(unaudited)

June 30, 2015 and 2014

SDSU Research Foundation's condensed summary of revenues, expenses and changes in net position for the years ended June 30, 2015, 2014 and 2013 follows:

Condensed Summary of Revenues, Expenses and Changes in Net Position

	Year Ended June 30		
	2015	2014	2013
Operating revenues:			
Sponsored programs support	\$ 106,339,953	\$ 106,609,049	\$ 108,364,049
Community and campus programs	33,640,262	33,518,244	36,950,590
Contributions	19,287,577	17,116,304	17,686,904
Other operating revenues	7,995,732	9,289,055	12,211,632
Total operating revenues	167,263,524	166,532,652	175,213,175
Operating expenses:			
Sponsored programs	94,708,295	94,962,056	96,555,853
Community and campus programs, including fundraising	46,829,397	42,615,518	49,256,012
Other operating expenses	22,620,736	23,133,040	24,418,406
Total operating expenses	164,158,428	160,710,614	170,230,271
Operating income	3,105,096	5,822,038	4,982,904
Nonoperating revenues (expenses):			
Interest expense	(1,379,790)	(1,416,592)	(1,791,331)
Investment income, net	1,337,521	740,267	1,744,173
Net (Decrease) increase in fair value of investments	(955,583)	2,605,767	475,859
Gain (Loss) on dispositions of property and equipment	1,144,437	(103,579)	(69,058)
Net effect from transfer of assets to Aztec Shops, Ltd.	185,922	29,910	414,072
Transfers to The Campanile Foundation	(5,460,614)	-	-
Net nonoperating (expenses) revenues	(5,128,107)	1,855,773	773,715
(Loss) Income before changes to permanent endowments	(2,023,011)	7,677,811	5,756,619
Increase (Decrease) in permanent endowments	19,596	(46,320)	(25,935)
Net (loss) income	(2,003,415)	7,631,491	5,730,684
Net position at beginning of year	87,781,197	80,149,706	74,419,022
Net position at end of year	\$ 85,777,782	\$ 87,781,197	\$ 80,149,706
Total revenues	\$ 169,951,000	\$ 167,152,930	\$ 177,276,427
Total expenses	171,954,415	159,521,439	171,545,743
Net (loss) income	\$ (2,003,415)	\$ 7,631,491	\$ 5,730,684

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Management's Discussion and Analysis

(unaudited)

June 30, 2015 and 2014

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

Sponsored programs support decreased slightly by \$0.3 million from FY 2014 to FY 2015 primarily due to timing of sponsored programs spending. Sponsored programs support decreased \$1.8 million from FY 2013 to FY 2014 primarily due to a reduction in American Recovery and Reinvestment Act (ARRA) revenue. Sponsored programs support included \$0.1 million, \$1.1 million and \$3.1 million in ARRA revenue in FY 2015, FY 2014 and FY 2013, respectively.

Community and campus programs include revenues generated by the College of Extended Studies, KPBS, and various academic college and department gift accounts. These revenues increased slightly by \$0.1 million from FY 2014 to FY 2015. Community and campus programs revenue decreased \$3.4 million from FY 2013 to FY 2014 primarily because course fees that were previously collected by the College of Extended Studies are now paid directly to San Diego State University (the University).

Contributions, primarily to KPBS, increased \$2.2 million from FY 2014 to FY 2015 because of two large individual gifts received. Contributions decreased \$0.6 million from FY 2013 to FY 2014 because major gifts to support construction costs for new broadcasting equipment and the broadcasting station offices were received in FY 2013.

Other operating revenues decreased \$1.3 million from FY 2014 to FY 2015 primarily due to the loss of rental income from properties transferred to Aztec Shops, Ltd. and a significant decrease in royalty revenue because of a large royalty distribution paid out in FY 2014. Other operating revenues decreased \$2.9 million from FY 2013 to FY 2014 primarily because student housing apartments were transferred to Aztec Shops, Ltd.

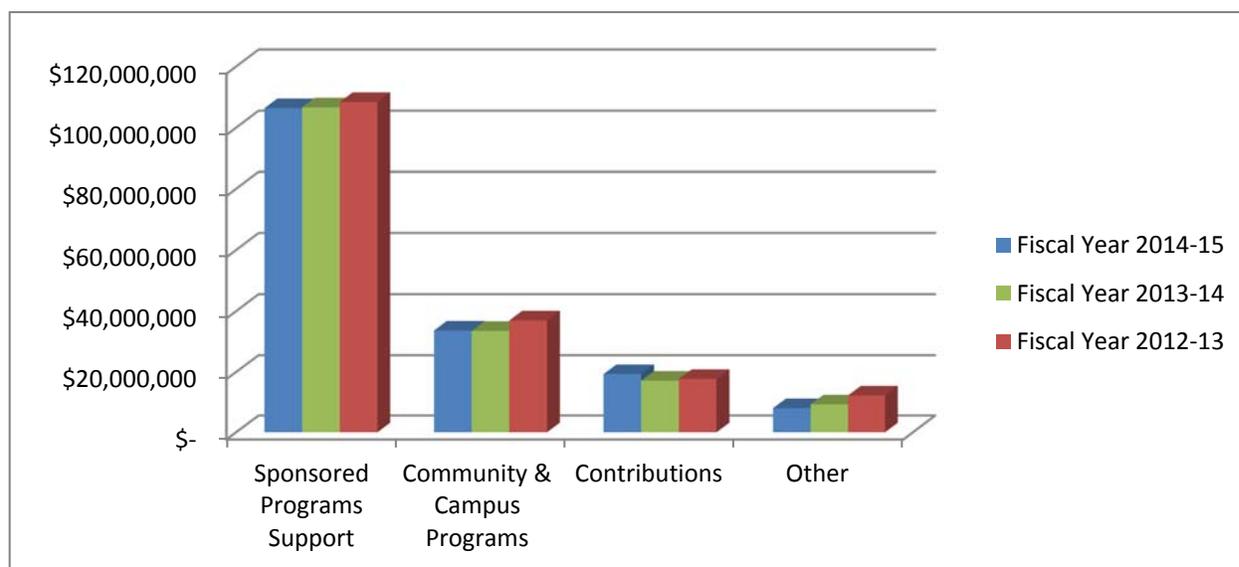
SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Management's Discussion and Analysis

(unaudited)

June 30, 2015 and 2014

The following chart presents the dollar amount that each category of operating revenue contributed to total revenues for the years ended June 30, 2015, 2014 and 2013:



The sources of sponsored programs support revenues for the years ended June 30, 2015, 2014 and 2013 are as follows:

	Year Ended June 30					
	2015		2014		2013	
	\$	%	\$	%	\$	%
Federal:						
Department of Health & Human Services	40,107,477	37.7	39,288,362	36.9	40,697,413	37.6
Department of Education	10,165,256	9.6	8,652,972	8.1	10,131,584	9.3
National Science Foundation	8,327,433	7.8	9,572,257	9.0	8,936,528	8.2
Department of Defense	7,731,747	7.3	9,413,200	8.8	10,070,899	9.3
Department of Agriculture	6,414,030	6.0	6,422,060	6.1	6,163,351	5.8
Other	5,651,874	5.3	6,662,526	6.2	7,856,327	7.2
	<u>78,397,817</u>	<u>73.7</u>	<u>80,011,377</u>	<u>75.1</u>	<u>83,856,102</u>	<u>77.4</u>
State and Local	10,682,922	10.1	11,664,047	10.9	9,848,016	9.1
Other	17,259,214	16.2	14,933,625	14.0	14,659,931	13.5
	<u>106,339,953</u>	<u>100.0</u>	<u>106,609,049</u>	<u>100.0</u>	<u>108,364,049</u>	<u>100.0</u>

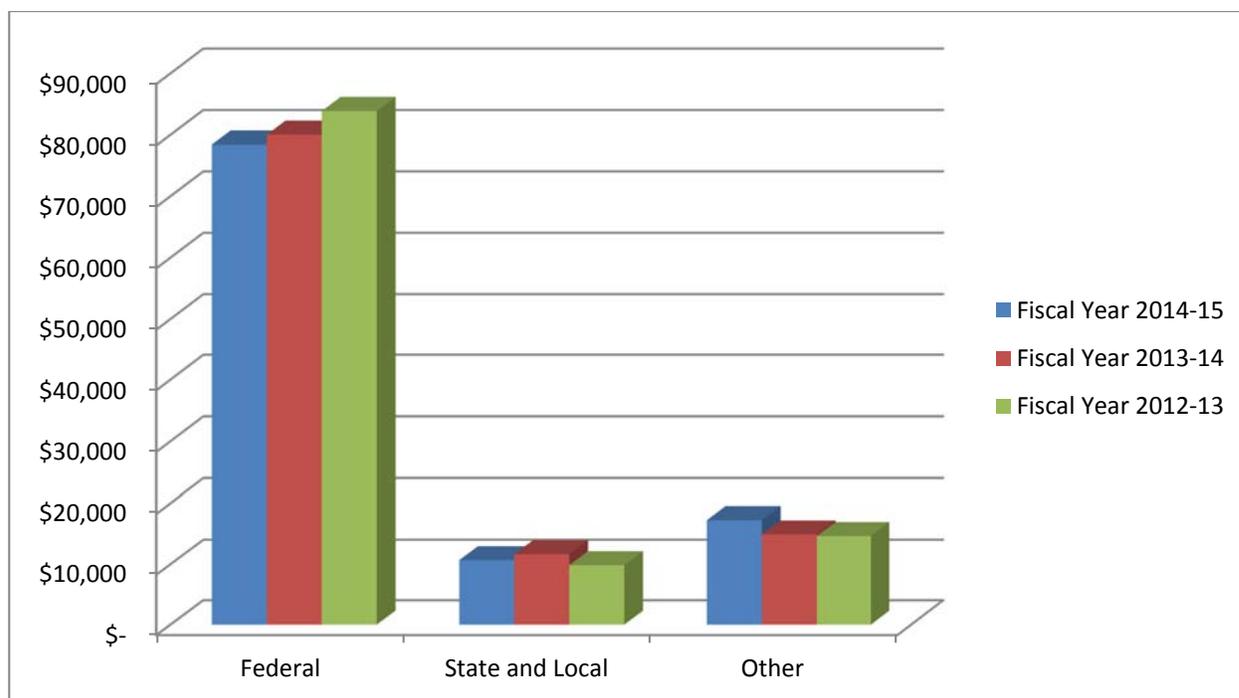
SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Management's Discussion and Analysis

(unaudited)

June 30, 2015 and 2014

The following chart presents the amount (in thousands) that each sponsor type contributed to total sponsored programs support revenues for the years ended June 30, 2015, 2014 and 2013:



Includes \$0.1 million, \$1.1 million and \$3.1 million in American Recovery and Reinvestment Act revenue in FY 2015, FY 2014 and FY 2013, respectively.

Operating Expenses

Sponsored programs expenses decreased slightly by \$0.3 million from FY 2014 to FY 2015 and decreased \$1.6 million from FY 2013 to FY 2014. These changes follow the related decreases in sponsored programs support revenues.

Community and campus programs expenses (including fundraising) increased \$4.2 million from FY 2014 to FY 2015 primarily due to increases in salaries and benefits and facilities rent. Community and campus programs expenses (including fundraising) decreased \$6.6 million from FY 2013 to FY 2014 primarily due to normal fluctuations in expenditures of the funds and because course fees that were previously collected by the College of Extended Studies and remitted to the University are now paid directly to the University.

Other operating expenses decreased \$0.5 million from FY 2014 to FY 2015 and decreased \$1.3 million from FY 2013 to FY 2014 due to the transfer of rental properties to Aztec Shops, Ltd.

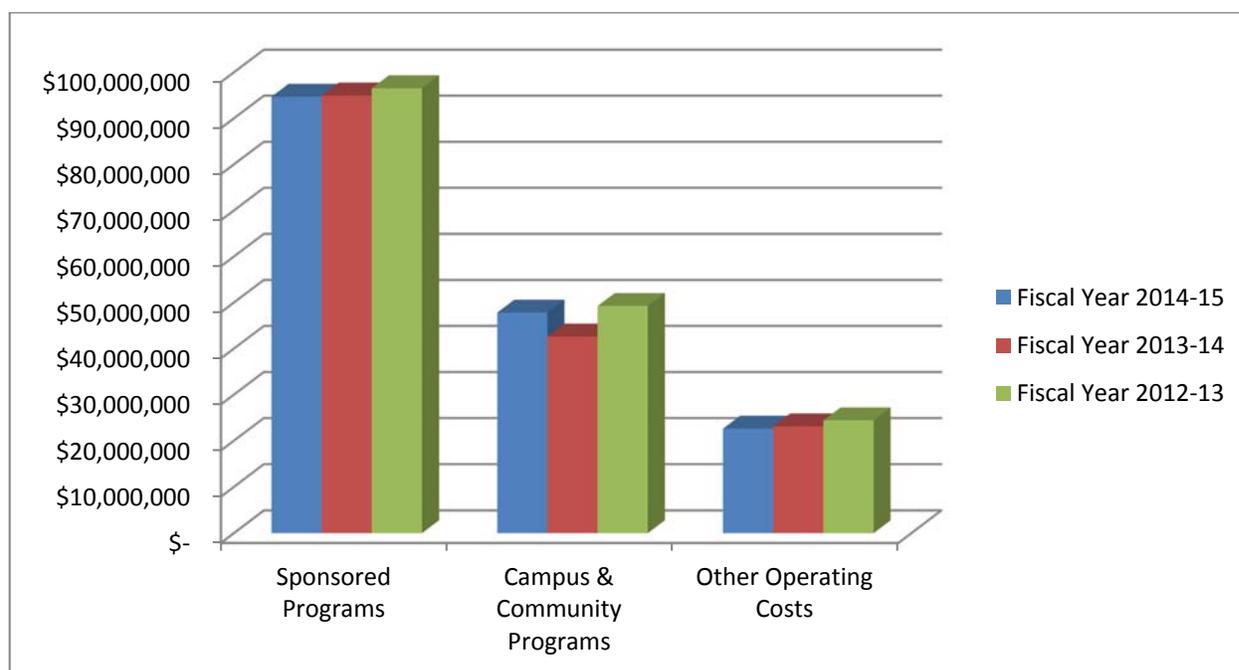
SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Management's Discussion and Analysis

(unaudited)

June 30, 2015 and 2014

The following chart presents the distribution of resources in support of SDSU Research Foundation's mission for the years ended June 30, 2015, 2014 and 2013:



Nonoperating Revenues (Expenses)

Nonoperating revenues (expenses) come from sources that are not part of SDSU Research Foundation's primary business functions. Included in this classification are interest expense, investment income, changes in the fair value of investments, and gains and losses from the sale of equipment.

Interest expense remained fairly constant from FY 2014 to FY 2015. Interest expense decreased \$0.4 million from 2013 to 2014 due to the full year's effect of the August 2012 bond refunding and the June 2013 transfer of the student housing apartments to Aztec Shops, Ltd.

Investment income increased \$0.6 million from FY 2014 to FY 2015 due to ongoing fluctuations in the market. Investment income decreased \$1.0 million from FY 2013 to FY 2014 primarily due to changes in the banking and service agreement with The Campanile Foundation. The agreement now allows The Campanile Foundation to receive more of the income generated from cash held by SDSU Research Foundation. This reduction was partially offset by an increase of \$507,500 in the administrative fee charged by SDSU Research Foundation to The Campanile Foundation.

Net (decrease) increase in fair value of investments decreased \$3.6 million from FY 2014 to FY 2015 and increased \$2.1 million from FY 2013 to FY 2014 due to ongoing fluctuations in the market.

Gain (loss) on dispositions of property and equipment increased \$1.2 million from FY 2014 to FY 2015 primarily due to the sale of certain properties and remained fairly constant from FY 2013 to FY 2014.

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Management's Discussion and Analysis

(unaudited)

June 30, 2015 and 2014

Capital Assets

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

	June 30		
	2015	2014	2013
Land, land improvements and construction-in-progress	\$ 15,594,057	\$ 17,769,327	\$ 18,948,404
Buildings and improvements	28,403,933	32,875,690	37,985,713
Furniture, fixtures and equipment	5,088,824	6,701,898	6,568,992
Capital assets, net of accumulated depreciation	\$ 49,086,814	\$ 57,346,915	\$ 63,503,109

Capital assets decreased \$8.3 million from FY 2014 to FY 2015 primarily because of property sales and the transfer of property to Aztec Shops, Ltd. Capital assets decreased \$6.2 million from FY 2013 to FY 2014 primarily because student housing apartments were transferred to Aztec Shops, Ltd. and because the annual depreciation of property and equipment exceeded capital additions.

Long-Term Debt Obligations

Debt outstanding at June 30, 2015, 2014 and 2013 is summarized below by the type of debt instrument:

	June 30		
	2015	2014	2013
Revenue bonds	\$ 29,785,000	\$ 30,620,000	\$ 31,430,000
Note payable	-	2,768,584	2,813,053
Total	29,785,000	33,388,584	34,243,053
Unamortized bond premium	1,521,627	1,616,537	1,711,445
Total long-term debt	31,306,627	35,005,121	35,954,498
Less current portion	(865,000)	(882,637)	(854,480)
Long-term debt, net of current portion	\$ 30,441,627	\$ 34,122,484	\$ 35,100,018

Long-term debt, net of current portion, decreased \$3.7 million from FY 2014 to FY 2015 due to scheduled bond payments and paying off the long-term debts related to assets transferred to Aztec Shops, Ltd. and decreased \$1.0 million from FY 2013 to FY 2014 due to scheduled bond payments.

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Statements of Net Position

June 30, 2015 and 2014

Assets	2015	2014
Current assets:		
Cash and cash equivalents (note 3)	\$ 7,567,882	\$ 4,219,844
Short-term investments (note 3)	15,734,076	13,652,979
Accounts receivable (note 4)	23,872,742	23,905,224
Prepaid expenses and other assets	<u>192,445</u>	<u>125,043</u>
Total current assets	<u>47,367,145</u>	<u>41,903,090</u>
Noncurrent assets:		
Accounts receivable (note 4)	910,557	600,171
Long-term investments (note 3)	28,716,852	27,509,276
Restricted assets – investments (note 3)	12,212,041	16,937,204
Restricted assets – land	1,853,532	1,853,532
Notes receivable – Aztec Shops, Ltd. (note 5)	8,371,991	6,901,991
Capital assets, net (notes 5, 6 and 8)	49,086,814	57,346,915
Other assets	<u>1,945,374</u>	<u>1,681,203</u>
Total noncurrent assets	<u>103,097,161</u>	<u>112,830,292</u>
Total assets	<u>\$ 150,464,306</u>	<u>\$ 154,733,382</u>
Deferred Outflows of Resources		
Deferred loss on bond refunding (note 8)	<u>\$ 606,220</u>	<u>\$ 634,450</u>
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses (note 7)	\$ 14,888,239	\$ 12,682,860
Sponsored programs receipts over expenditures	8,529,373	3,852,988
Long-term debt obligations – current portion (notes 5 and 8)	865,000	882,637
Due to The Campanile Foundation (note 7)	<u>7,560,854</u>	<u>13,087,179</u>
Total current liabilities	<u>31,843,466</u>	<u>30,505,664</u>
Noncurrent liabilities:		
Long-term debt obligations, net of current portion (notes 5 and 8)	30,441,627	34,122,484
Liabilities for amounts held for others	619,091	1,056,085
Other liabilities (note 10)	<u>2,388,560</u>	<u>1,902,402</u>
Total noncurrent liabilities	<u>33,449,278</u>	<u>37,080,971</u>
Total liabilities	<u>\$ 65,292,744</u>	<u>\$ 67,586,635</u>
Commitments and Contingencies (notes 9, 10, 11 and 12)		
Net Position		
Net investment in capital assets	\$ 18,386,404	\$ 22,976,432
Restricted for:		
Nonexpendable – endowments and property	3,453,377	5,309,953
Expendable:		
Campus programs and projects	9,750,771	11,585,360
KPBS capital campaign	720,242	750,639
Student aid	141,183	151,610
Annuity trust agreements	—	993,174
Unrestricted	<u>53,325,805</u>	<u>46,014,029</u>
Total net position	<u>\$ 85,777,782</u>	<u>\$ 87,781,197</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, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Operating revenues:		
Sponsored programs support	\$ 106,339,953	\$ 106,609,049
Community and campus programs	33,640,262	33,518,244
Contributions	19,287,577	17,116,304
Rental income	5,801,769	6,752,867
Other operating revenues (note 7)	<u>2,193,963</u>	<u>2,536,188</u>
Total operating revenues	<u>167,263,524</u>	<u>166,532,652</u>
Operating expenses (notes 9, 10 and 11):		
Sponsored programs (note 6)	94,708,295	94,962,056
Community and campus programs (note 6)	41,324,225	37,695,090
Fundraising – broadcasting	5,505,172	4,920,428
Property management (note 6)	8,394,205	8,849,615
General administration	<u>14,226,531</u>	<u>14,283,425</u>
Total operating expenses	<u>164,158,428</u>	<u>160,710,614</u>
Operating income	<u>3,105,096</u>	<u>5,822,038</u>
Nonoperating revenues (expenses):		
Interest expense (note 8)	(1,379,790)	(1,416,592)
Investment income, net	1,337,521	740,267
Net (Decrease) increase in fair value of investments (note 3)	(955,583)	2,605,767
Gain (Loss) on dispositions of property and equipment	1,144,437	(103,579)
Net effect from transfer of assets to Aztec Shops, Ltd. (note 5)	185,922	29,910
Transfers to The Campanile Foundation	<u>(5,460,614)</u>	<u>—</u>
Net nonoperating (expenses) revenues	<u>(5,128,107)</u>	<u>1,855,773</u>
(Loss) Income before changes to permanent endowments	(2,023,011)	7,677,811
Increase (Decrease) in permanent endowments	<u>19,596</u>	<u>(46,320)</u>
Net (loss) income	(2,003,415)	7,631,491
Net position:		
Net position at beginning of year	<u>87,781,197</u>	<u>80,149,706</u>
Net position at end of year	<u>\$ 85,777,782</u>	<u>\$ 87,781,197</u>

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

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Statements of Cash Flows

Years ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Sponsored programs receipts	\$ 112,567,871	\$ 102,708,566
Community and campus programs receipts	33,403,820	33,418,815
Contributions	18,569,398	17,536,292
Rents received	5,827,028	6,808,819
Payments to suppliers	(67,933,261)	(66,928,120)
Payments to employees	(90,711,932)	(90,822,003)
Monies (disbursed) received on behalf of The Campanile Foundation, net	(65,711)	2,388,612
Monies disbursed to The Campanile Foundation	(5,460,614)	(30,000,000)
Monies (disbursed) collected on behalf of others, net	(436,994)	658,262
Other receipts	2,438,530	2,353,486
Net cash provided by (used in) operating activities	<u>8,198,135</u>	<u>(21,877,271)</u>
Cash flows from capital and related financing activities:		
Principal payments on long-term debt	(3,603,573)	(854,480)
Interest paid	(1,466,927)	(1,580,985)
Purchase of property and equipment	(1,881,408)	(2,975,742)
Proceeds from sale of property and equipment	5,749,177	11,132
Net cash used in capital and related financing activities	<u>(1,202,731)</u>	<u>(5,400,075)</u>
Cash flows from investing activities:		
Investment income	1,312,745	736,751
Proceeds from sale of investments	10,323,149	40,442,499
Purchase of investments	(15,283,260)	(13,778,602)
Net cash (used in) provided by investing activities	<u>(3,647,366)</u>	<u>27,400,648</u>
Net increase in cash and cash equivalents	3,348,038	123,302
Cash and cash equivalents, beginning of year	<u>4,219,844</u>	<u>4,096,542</u>
Cash and cash equivalents, end of year	\$ <u>7,567,882</u>	\$ <u>4,219,844</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, 2015 and 2014

	2015	2014
Reconciliation of operating income to net cash provided by (used in) operating activities:		
Operating income	\$ 3,105,096	\$ 5,822,038
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	4,252,691	4,329,144
Increase in assets:		
Accounts receivable	(253,128)	(2,162,173)
Prepaid expenses and other assets	(331,573)	(709,187)
Increase (Decrease) in liabilities:		
Accounts payable	1,465,575	(703,444)
Accrued expenses	760,250	436,057
Sponsored programs receipts over expenses	4,676,385	(1,564,540)
Due to The Campanile Foundation	(5,526,325)	(27,611,388)
Liabilities for amounts held for others	(436,994)	658,262
Other liabilities	486,158	(372,040)
Net cash provided by (used in) operating activities	\$ 8,198,135	\$ (21,877,271)
Supplemental disclosure of noncash investing activity:		
(Decrease) Increase in fair value of investments	\$ (955,583)	\$ 2,605,767
Increase (Decrease) in permanent endowments	19,596	(46,320)
Real property transferred for notes receivable	1,470,000	4,717,991

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

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Notes to the Financial Statements

June 30, 2015 and 2014

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 (ICF). 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 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 12 months of the statement of net position date. Liabilities that can be reasonably expected, as part of normal operations, to be liquidated within 12 months of the statement of net position date are considered to be current. All other assets and liabilities are considered to be noncurrent.

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Notes to the Financial Statements

June 30, 2015 and 2014

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Cash Equivalents

SDSU Research Foundation considers all highly liquid investments with original maturity dates of three months or less to be cash equivalents.

Investments

Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Property is reported at the appraised value.

Accounts Receivable

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

Other Assets

Other assets consist primarily of deposits held by others.

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.

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

Asset Impairment

SDSU Research Foundation annually evaluates capital assets held for investment. The carrying values of such assets that are considered to be impaired are adjusted accordingly. Management has determined that there were no such impairments at June 30, 2015 and 2014.

Deferred Outflow of Resources

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

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Notes to the Financial Statements

June 30, 2015 and 2014

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Compensated Absences

SDSU Research Foundation accrues vacation benefits for eligible employees at various rates depending upon length of service and employee classification. Eligible full-time employees accrue sick leave at the rate of four hours per pay period; however, except in limited cases on retirement, employees are not paid for unused sick leave at the end of employment. Liabilities for compensated absences of approximately \$2,412,000 and \$2,312,000 as of June 30, 2015 and 2014, respectively, are included in accrued expenses.

Revenue Recognition

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

SDSU Research Foundation received 46.9% and 48.0% of its total operating revenue from federal sources during the years ended June 30, 2015 and 2014, respectively. The Department of Health and Human Services provided 24.0% and 23.6% of the total operating revenue for the years ended June 30, 2015 and 2014, respectively.

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

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

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.

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Notes to the Financial Statements

June 30, 2015 and 2014

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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

Functional Expense Allocations

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

Interfund Eliminations

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

Income Taxes

SDSU Research Foundation is an organization exempt from taxation under Section 501(c)(3) of the Internal Revenue Code and Section 23701d of the California Revenue and Taxation Code. Accordingly, SDSU Research Foundation has only nominal amounts that are subject to income taxes. Therefore, no provision for income taxes has been included in the accompanying financial statements.

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Notes to the Financial Statements

June 30, 2015 and 2014

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Liabilities for Amounts Held for Others

SDSU Research Foundation serves as trustee and administrator for various types of trust arrangements, including split-interest agreements whereby the beneficial interest is shared with one or more parties. The arrangements generally require payments of annual trust income to the income beneficiary or beneficiaries over the term of the trust with the remainder portion of the assets reverting to SDSU Research Foundation. The liability for amounts held for others on the statements of net position represents the present value of the estimated future payments to be distributed to these beneficiaries.

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, 2014 financial statements in order to conform to the presentation as of June 30, 2015. These reclassifications had no effect on results of operations.

Pronouncements Issued

For the year ended June 30, 2015, SDSU Research Foundation implemented the following GASB statements early:

- GASB Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68 (effective for the year ending June 30, 2016).
- GASB Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments (effective for the year ending June 30, 2016).
- GASB Statement No. 77, Tax Abatement (effective for the year ending June 30, 2016).

Implementation of GASB statements 73, 76 and 77 did not have a significant impact on the financial statements.

For the year ended June 30, 2014, SDSU Research Foundation implemented the following GASB statements early:

- GASB Statement No. 68, Accounting and Reporting for Pensions-an amendment of GASB Statement No. 27 (effective for the year ending June 30, 2015)
- GASB Statement No. 69, Government Combinations and Disposals of Government Operations (effective for the year ending June 30, 2015)

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Notes to the Financial Statements

June 30, 2015 and 2014

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

- GASB Statement No. 70, Accounting and Financial Reporting for Nonexchange Financial Guarantees (effective for the year ending June 30, 2015)
- GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date-an amendment of GASB Statement No. 68 (effective for the year ending June 30, 2015).

Implementation of GASB statements 68, 69, 70 and 71 did not have a significant impact on the financial statements.

The GASB has issued the following statements:

- GASB Statement No. 72, Fair Value Measurement and Application (effective for the year ending June 30, 2016)
- GASB Statement No. 74, Financial Reporting for Postemployment Government Combinations and Disposals of Government Operations (effective for the year ending June 30, 2017)
- GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (effective for the year ending June 30, 2018)

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

NOTE 3 – CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash, cash equivalents and investments as of June 30 consisted of the following:

	<u>2015</u>	<u>2014</u>
Cash and cash equivalents	\$ 7,567,882	\$ 4,219,844
Short-term investments	15,734,076	13,652,979
Long-term investments	28,716,852	27,509,276
Long-term restricted investments	12,212,041	16,937,204
	<u>\$ 64,230,851</u>	<u>\$ 62,319,303</u>

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Notes to the Financial Statements

June 30, 2015 and 2014

NOTE 3 – CASH, CASH EQUIVALENTS AND INVESTMENTS – Continued

The amounts above consist of the following as of June 30:

	<u>2015</u>		<u>2014</u>
Cash and cash equivalents	\$ 7,567,882	\$	4,219,844
Federally sponsored enterprises - interest bearing	1,713,754		3,311,306
Federally sponsored enterprises - zero coupon	-		1,044,310
Intermediate Term Fund (Commonfund)	455,001		451,177
Money market funds	1,793,065		2,070,770
Nonmarketable certificates of deposit	262,226		259,651
Marketable certificates of deposit	1,487,572		1,485,501
Corporate bonds	32,592,630		26,769,492
The Campanile Foundation Endowment Pool	14,360,743		17,530,791
Real property	1,031,821		1,031,821
Other investments	2,966,157		4,144,640
	<u>\$ 64,230,851</u>	\$	<u>62,319,303</u>

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.

The Campanile Foundation Endowment Pool

SDSU Research Foundation invests in the TCF Endowment Pool, a unitized pool managed by TCF, another SDSU auxiliary organization. The market value of SDSU Research Foundation's share of the TCF Endowment Pool as of June 30, 2015 and 2014 were \$14,360,743 and \$17,530,791, respectively.

The TCF Endowment Pool has significant investments in various mutual funds and third-party investment pools. The primary investment categories as of June 30, 2015 and 2014, respectively, were stocks (56% and 57%), fixed income (24% and 23%), and alternative investments, real estate and cash equivalents (20% and 20%); therefore, it is subject to concentrations of credit risk. Investment decisions are made by investment managers engaged by TCF, and the investments are monitored for TCF by an investment advisor.

SDSU Research Foundation recognized unrealized losses of \$359,426 and unrealized gains of \$2,390,122 for the years ended June 30, 2015 and 2014, respectively, from its investment in the TCF Endowment Pool.

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Notes to the Financial Statements

June 30, 2015 and 2014

NOTE 3 – CASH, CASH EQUIVALENTS AND INVESTMENTS – Continued

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, SDSU Research Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to SDSU Research Foundation's programs and operations supported by its endowment while also seeking to maintain the long-term purchasing power of the endowment assets.

Endowment distributions are performed in accordance with SDSU Research Foundation's investment policy statement. For the fiscal years ended June 30, 2015 and 2014, the distribution rate was 4% of the endowment principal market value using a three-year moving average.

Other Investments

Other investments consist primarily of mutual funds held in trust as annuity securities that name SDSU Research Foundation as beneficiary.

Other investments also include real property held as an investment purchased with a donor's funds to benefit specific research programs. The property may be sold should the needs of the programs change.

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. The longer maturities in the portfolios are investments for deferred gifts, where assets need to correlate with the life expectancies of beneficiaries.

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Notes to the Financial Statements

June 30, 2015 and 2014

NOTE 3 – CASH, CASH EQUIVALENTS AND INVESTMENTS - Continued

Maturities as of June 30, 2015 are as follows:

	Market Value	< 1 Year	< 2 Years	< 3 Years	< 4 Years	< 5 Years
Federally Sponsored Enterprises						
Pooled	\$ 1,713,754	\$ 1,082,239	\$ -	\$ 500,575	\$ -	\$ 130,940
Certificates of Deposit						
Pooled	1,749,798	1,502,902	246,896	-	-	-
Corporate Bonds						
Pooled	32,592,630	11,254,139	7,141,294	7,455,224	4,523,660	2,218,313
Intermediate Term Fund (Commonfund)						
Pooled	455,001	-	455,001	-	-	-
	<u>\$ 36,511,183</u>	<u>\$ 13,839,280</u>	<u>\$ 7,843,191</u>	<u>\$ 7,955,799</u>	<u>\$ 4,523,660</u>	<u>\$ 2,349,253</u>

Maturities as of June 30, 2014 are as follows:

	Market Value	< 1 Year	< 2 Years	< 3 Years	< 4 Years	< 5 Years
Federally Sponsored Enterprises						
Pooled	\$ 3,311,306	\$ 1,720,130	\$ 1,094,596	\$ -	\$ 496,580	\$ -
Federally Sponsored Enterprises - zero coupon						
Pooled	952,312	952,312	-	-	-	-
Deferred gifts	91,998	91,998	-	-	-	-
Certificates of Deposit						
Pooled	1,745,152	1,000,960	497,563	246,629	-	-
Corporate Bonds						
Pooled	26,769,492	7,785,933	6,990,118	3,863,778	6,820,100	1,309,563
Intermediate Term Fund (Commonfund)						
Pooled	451,177	-	451,177	-	-	-
	<u>\$ 33,321,437</u>	<u>\$ 11,551,333</u>	<u>\$ 9,033,454</u>	<u>\$ 4,110,407</u>	<u>\$ 7,316,680</u>	<u>\$ 1,309,563</u>

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Notes to the Financial Statements

June 30, 2015 and 2014

NOTE 3 – CASH, CASH EQUIVALENTS AND INVESTMENTS - Continued

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. The 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 Commonfund, repurchase agreements and money market funds do not have a rating provided by a nationally recognized statistical rating organization. The table below summarizes the range of ratings of fixed income investments of SDSU Research Foundation:

Federally sponsored enterprises – interest bearing	AA to AAA
Federally sponsored enterprises – zero coupon	AA to AAA
Corporate bonds	BBB to AAA

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the investment in a single issuer. Securities issued by federally sponsored enterprises are purchased to reduce the possibility of a loss due to a concentration of credit. SDSU Research Foundation's investment policy contains no limitations as to how much can be invested with any one issuer. SDSU Research Foundation had approximately \$3.3 million, or 9% of fixed income investments, invested in Citigroup bonds as of June 30, 2015 and no single issuer accounted for more than 5% of the total investments as of June 30, 2014.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that SDSU Research Foundation will not be able to recover its deposits in the event of a failure of a depository institution. In the ordinary course of SDSU Research Foundation's operations, deposit balances in checking accounts can exceed the Federal Deposit Insurance Corporation (FDIC) insured limits; however, the depository bank has agreed to maintain collateral of at least 110% of the balance on deposit. In accordance with SDSU Research Foundation's investment policy, all certificates of deposit are FDIC insured and limited to \$250,000 at any one institution.

Custodial credit risk for investments is the risk that if the counterparty to an investment transaction were to fail, SDSU Research Foundation would not be able to recover its investment. With respect to investments, custodial credit risk generally applied only to direct investments in marketable securities. Custodial credit risk does not apply to indirect investment in securities through the use of mutual funds, government investment pools and the Commonfund. U.S. Treasury issues and 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, 2015 and 2014

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2015 and 2014 consisted of the following:

		2015		
		<u>Current</u>	<u>Noncurrent</u>	<u>Total</u>
Accounts receivable - sponsored programs	\$	19,198,283	\$ —	\$ 19,198,283
Other receivables		4,674,459	910,557	5,585,016
	\$	<u>23,872,742</u>	\$ <u>910,557</u>	<u>\$ 24,783,299</u>
		2014		
		<u>Current</u>	<u>Noncurrent</u>	<u>Total</u>
Accounts receivable - sponsored programs	\$	19,626,830	\$ —	\$ 19,626,830
Other receivables		4,278,394	600,171	4,878,565
	\$	<u>23,905,224</u>	\$ <u>600,171</u>	<u>\$ 24,505,395</u>

NOTE 5 - NOTES RECEIVABLE – AZTEC SHOPS, LTD.

In May 2015, SDSU Research Foundation transferred properties adjacent to SDSU (College Square and College Strip) to Aztec Shops, Ltd. in exchange for cash of \$2,725,000 used to pay off a mortgage note and unsecured notes in the amount of \$1,470,000. Payments of interest only at 4.0% are payable semi-annually until October 15, 2020, at which time fixed principal payments of \$73,500 plus accrued interest are payable semi-annually. The sales price of the property was \$4,195,000 and the net book value of the property at the time of transfer was \$4,009,078, so the effect of the transfer on the June 30, 2015 statement of net position was \$185,922.

In January 2014, SDSU Research Foundation transferred a property adjacent to the University (Sanctuary building) to Aztec Shops, Ltd. in exchange for an unsecured note in the amount of \$4,717,991. Payments of interest only at 4% are payable semi-annually until April 15, 2019, at which time fixed principal payments of \$235,900 plus accrued interest are payable semi-annually. The net book value of the property at the time of the transfer was \$4,688,081, so the effect of the transfer on the June 30, 2014 statement of net position was \$29,910.

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Notes to the Financial Statements

June 30, 2015 and 2014

NOTE 6 – CAPITAL ASSETS

Capital assets activity for the years ended June 30, 2015 and 2014 consisted of the following:

	Balance June 30, 2014	Additions	Reductions	Balance June 30, 2015
Nondepreciable capital assets:				
Land and land improvements	\$ 17,444,481	\$ —	\$ (2,513,247)	\$ 14,931,234
Construction-in-progress	324,846	662,823	(324,846)	662,823
Total nondepreciable capital assets	<u>17,769,327</u>	<u>662,823</u>	<u>(2,838,093)</u>	<u>15,594,057</u>
Depreciable capital assets:				
Buildings and improvements	65,400,340	927,781	(4,838,864)	61,489,257
Furniture, fixtures and equipment	25,297,762	615,650	(2,252,994)	23,660,418
Total depreciable capital assets	<u>90,698,102</u>	<u>1,543,431</u>	<u>(7,091,858)</u>	<u>85,149,675</u>
Less accumulated depreciation:				
Buildings and improvements	32,524,650	2,281,386	(1,720,712)	33,085,324
Furniture, fixtures and equipment	18,595,864	1,971,305	(1,995,575)	18,571,594
Total accumulated depreciation	<u>51,120,514</u>	<u>4,252,691</u>	<u>(3,716,287)</u>	<u>51,656,918</u>
Depreciable capital assets, net	<u>39,577,588</u>	<u>(2,709,260)</u>	<u>(3,375,571)</u>	<u>33,492,757</u>
Total capital assets, net	<u>\$ 57,346,915</u>	<u>\$ (2,046,437)</u>	<u>\$ (6,213,664)</u>	<u>\$ 49,086,814</u>
	Balance June 30, 2013	Additions	Reductions	Balance June 30, 2014
Nondepreciable capital assets:				
Land and land improvements	\$ 18,948,404	\$ —	\$ (1,503,923)	\$ 17,444,481
Construction-in-progress	—	324,846	—	324,846
Total nondepreciable capital assets	<u>18,948,404</u>	<u>324,846</u>	<u>(1,503,923)</u>	<u>17,769,327</u>
Depreciable capital assets:				
Buildings and improvements	68,405,384	536,852	(3,541,896)	65,400,340
Furniture, fixtures and equipment	24,529,607	2,114,044	(1,345,889)	25,297,762
Total depreciable capital assets	<u>92,934,991</u>	<u>2,650,896</u>	<u>(4,887,785)</u>	<u>90,698,102</u>
Less accumulated depreciation:				
Buildings and improvements	30,419,671	2,441,081	(336,102)	32,524,650
Furniture, fixtures and equipment	17,960,615	1,888,063	(1,252,814)	18,595,864
Total accumulated depreciation	<u>48,380,286</u>	<u>4,329,144</u>	<u>(1,588,916)</u>	<u>51,120,514</u>
Depreciable capital assets, net	<u>44,554,705</u>	<u>(1,678,248)</u>	<u>(3,298,869)</u>	<u>39,577,588</u>
Total capital assets, net	<u>\$ 63,503,109</u>	<u>\$ (1,353,402)</u>	<u>\$ (4,802,792)</u>	<u>\$ 57,346,915</u>

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Notes to the Financial Statements

June 30, 2015 and 2014

NOTE 6 – CAPITAL ASSETS – Continued

Depreciation expense totaled \$4,252,691 and \$4,329,144 for the years ended June 30, 2015 and 2014, respectively, and was allocated among program operating expense in the accompanying statements of revenues, expenses and changes in net position as follows:

	2015	2014
Sponsored programs	\$ 1,536,990	\$ 1,379,248
Community and campus programs	316,660	358,951
Property management	2,399,041	2,590,945
Total depreciation	\$ 4,252,691	\$ 4,329,144

NOTE 7 – AFFILIATED ORGANIZATIONS

The Campanile Foundation

The Campanile Foundation is the philanthropic auxiliary organization for the University. The amounts shown in the statements of net position as *Due to The Campanile Foundation* represent The Campanile Foundation’s claim on the cash and investments of SDSU Research Foundation.

Pursuant to an agreement with The Campanile Foundation effective through June 30, 2017, 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 The Campanile Foundation expends the funds. Amounts received under this agreement for the years ended June 30, 2015 and 2014 totaled \$900,000 and \$963,215, respectively, and is included in other operating revenues in the accompanying statements of revenues, expenses and changes in net position.

Other

Included in accounts payable and accrued expenses were payables to the affiliated organizations in the approximate amounts of \$1,048,000 and \$603,000 at June 30, 2015 and 2014, respectively. Included in accounts receivable were receivables from the affiliated organizations in the approximate amounts of \$1,674,000 and \$495,000 at June 30, 2015 and 2014, 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, 2015 and 2014

NOTE 8 – LONG-TERM DEBT OBLIGATIONS

Long-term debt obligations consisted of the following as of June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
CSU Systemwide Revenue Bonds, Series 2010A		
Refunding previous 1999 revenue bonds (a)	\$ 3,615,000	\$ 3,980,000
CSU Systemwide Revenue Bonds, Series 2012 A & B		
Refunding insured 2002 revenue bonds (b)	26,170,000	26,640,000
Note payable (c)	<u>—</u>	<u>2,768,584</u>
	29,785,000	33,388,584
Unamortized bond premium (a and b)	<u>1,521,627</u>	<u>1,616,537</u>
	31,306,627	35,005,121
Less current portion	<u>(865,000)</u>	<u>(882,637)</u>
	<u>\$ 30,441,627</u>	<u>\$ 34,122,484</u>

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

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

The SRB 2010A bonds sold at amounts greater than par. The resulting bond premium of \$938,009 is being amortized over the life of the bonds using the straight-line method, which approximates the effective interest method. A portion of the unamortized bond premium amounting to \$363,828 was transferred to Aztec Shops, Ltd. with the related debt. The amount amortized was \$38,085 for each of the years ended June 30, 2015 and 2014.

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

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Notes to the Financial Statements

June 30, 2015 and 2014

NOTE 8 – LONG-TERM DEBT OBLIGATIONS – Continued

The SRB 2012 bonds sold at amounts greater than par. The resulting bond premium of \$1,377,948 is being amortized over the life of the bonds using the straight-line method, which approximates the effective interest method. The amount amortized was \$56,823 for each of the years ended June 30, 2015 and 2014.

A loss of \$686,737 was incurred on the refunding of the SRB 2012A bonds. The loss was deferred and is included on the statement of net position under the caption *Deferred Outflows of Resources*. The loss is being recognized over the life of the bonds using the straight-line method, which approximates the effective interest method. The loss recognized was \$28,418 for each of the years ended June 30, 2015 and 2014.

- (c) The note payable balance as of June 30, 2014 was a mortgage note, secured by a first deed of trust and assignment of rents on real property, fully amortized over 30 years at a variable interest rate that was originally fixed at 6.875% until November 1, 2015. This mortgage note was paid in full in May 2015 with the transfer of properties to Aztec Shops, Ltd.

SDSU Research Foundation has 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 \$12,000,000. The agreement calls for certain restrictive and financial covenants to be maintained. The agreement requires monthly interest-only payments at a variable interest rate of 1% above the current LIBOR rate. The loan agreement expires on June 30, 2016. There were no amounts outstanding on the loan as of June 30, 2015 and 2014.

Total interest incurred on all borrowings was approximately \$1,380,000 and \$1,417,000 for the years ended June 30, 2015 and 2014, respectively.

Future maturities on long-term debt are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2016	\$ 865,000	\$ 1,243,326	\$ 2,108,326
2017	885,000	1,211,071	2,096,071
2018	925,000	1,176,433	2,101,433
2019	960,000	1,140,252	2,100,252
2020	1,005,000	1,102,128	2,107,128
2021-2025	5,625,000	4,858,604	10,483,604
2026-2030	6,955,000	3,497,784	10,452,784
2031-2035	8,575,000	1,868,310	10,443,310
2036-2040	3,990,000	128,318	4,118,318
	<u>29,785,000</u>	<u>\$ 16,226,226</u>	<u>\$ 46,011,226</u>
Unamortized bond premium	<u>1,521,627</u>		
	<u>\$ 31,306,627</u>		

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Notes to the Financial Statements

June 30, 2015 and 2014

NOTE 8 – LONG-TERM DEBT OBLIGATIONS - CONTINUED

Long-term debt activity for the years ended June 30, 2015 and 2014 was as follows:

	<u>Balance</u>				<u>Balance</u>		<u>Current</u>
	<u>June 30, 2014</u>	<u>Additions</u>	<u>Reductions</u>		<u>June 30, 2015</u>		<u>Portion</u>
CSU SRB 2010A -							
1999 Refunding	\$ 3,980,000	\$ —	\$ (365,000)		\$ 3,615,000		\$ 385,000
CSU SRB 2012 -							
2002 Refunding	26,640,000	—	(470,000)		26,170,000		480,000
Note payable	2,768,584	—	(2,768,584)		—		—
Unamortized bond premium							
CSU SRB 2010A	342,764	—	(38,087)		304,677		—
CSU SRB 2012	1,273,773	—	(56,823)		1,216,950		—
	<u>\$ 35,005,121</u>	<u>\$ —</u>	<u>\$ (3,698,494)</u>		<u>\$ 31,306,627</u>		<u>\$ 865,000</u>
	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>		<u>Balance</u>		<u>Current</u>
	<u>June 30, 2013</u>				<u>June 30, 2014</u>		<u>Portion</u>
CSU SRB 2010A -							
1999 Refunding	\$ 4,330,000	\$ —	\$ (350,000)		\$ 3,980,000		\$ 365,000
CSU SRB 2012 -							
2002 Refunding	27,100,000	—	(460,000)		26,640,000		470,000
Note payable	2,813,053	—	(44,469)		2,768,584		47,637
Unamortized bond premium							
CSU SRB 2010A	380,849	—	(38,085)		342,764		—
CSU SRB 2012	1,330,596	—	(56,823)		1,273,773		—
	<u>\$ 35,954,498</u>	<u>\$ —</u>	<u>\$ (949,377)</u>		<u>\$ 35,005,121</u>		<u>\$ 882,637</u>

NOTE 9 – LEASING ARRANGEMENTS

Operating Lease Revenues

Land, buildings and improvements, with a current net book value of approximately \$30 million, are leased to University-related and commercial organizations. The following is a schedule of the minimum future rentals to be received on these operating leases, by year, as of June 30, 2015:

Year ending June 30:	
2016	\$ 2,935,000
2017	1,907,000
2018	1,355,000
2019	671,000
2020	306,000
Thereafter	139,000
	<u>\$ 7,313,000</u>

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Notes to the Financial Statements

June 30, 2015 and 2014

NOTE 9 – LEASING ARRANGEMENTS - CONTINUED

Operating Lease Obligations

SDSU Research Foundation executed a 30-year ground and facility lease with the Board of Trustees of the California State University for the SDSU BioScience Center in March 2004. Lease payments began in May 2006. SDSU Research Foundation incurred rental expense under this agreement of \$435,300 and \$463,300 for the years ended June 30, 2015 and 2014, respectively.

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. Monthly lease payments for these agreements currently total \$138,000 and the lease terms expire in fiscal years 2016-2019.

The minimum rental commitments at June 30, 2015 for operating leases are due as follows:

Year ending June 30:	BioScience Center	Other	Total
2016	\$ 473,000	\$ 2,650,000	\$ 3,123,000
2017	474,000	788,000	1,262,000
2018	475,000	432,000	907,000
2019	475,000	77,000	552,000
2020	475,000	—	475,000
2021-2025	2,393,000	—	2,393,000
2026-2030	2,340,000	—	2,340,000
2031-2035	2,318,000	—	2,318,000
2036-2037	465,000	—	465,000
	<u>\$ 9,888,000</u>	<u>\$ 3,947,000</u>	<u>\$ 13,835,000</u>

NOTE 10 – 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 for most of its insurance needs. However, for its unemployment and workers' compensation plans, it 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.

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Notes to the Financial Statements

June 30, 2015 and 2014

NOTE 10 – RISK MANAGEMENT - CONTINUED

Liabilities under these programs were included in other liabilities on the statements of net position for the years ended June 30, 2015 and 2014 as follows:

	<u>Balance</u> <u>June 30, 2014</u>	<u>Incurred Claims</u> <u>(Including IBNR)</u>	<u>Claims</u> <u>Paid</u>	<u>Balance</u> <u>June 30, 2015</u>
Unemployment insurance	\$ 764,531	\$ 697,375	\$ (391,666)	\$ 1,070,240
Workers' compensation	<u>1,137,871</u>	<u>862,376</u>	<u>(681,927)</u>	<u>1,318,320</u>
	<u>\$ 1,902,402</u>	<u>\$ 1,559,751</u>	<u>\$ (1,073,593)</u>	<u>\$ 2,388,560</u>
	<u>Balance</u> <u>June 30, 2013</u>	<u>Incurred Claims</u> <u>(Including IBNR)</u>	<u>Claims</u> <u>Paid</u>	<u>Balance</u> <u>June 30, 2014</u>
Unemployment insurance	\$ 638,272	\$ 716,346	\$ (590,087)	\$ 764,531
Workers' compensation	<u>1,636,181</u>	<u>414,804</u>	<u>(913,114)</u>	<u>1,137,871</u>
	<u>\$ 2,274,453</u>	<u>\$ 1,131,150</u>	<u>\$ (1,503,201)</u>	<u>\$ 1,902,402</u>

There has been no significant reduction in insurance coverage, and the amount of settlement have not exceeded coverage in the past three years.

NOTE 11 – POSTRETIREMENT BENEFIT PLAN

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

- (i) Group 1 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.
- (ii) Group 2 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 the "SDSURF Defined Contribution Retirement Plan" offered through Teachers Insurance and Annuity Association/College Retirement Equities Fund (TIAA-CREF) 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-CREF, under the "Group Total Disability Benefits Plan for Regular Salaried Employees of SDSURF."

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Notes to the Financial Statements

June 30, 2015 and 2014

NOTE 11 – POSTRETIREMENT BENEFIT PLAN - Continued

- (iii) Group 3 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 the “SDSURF Defined Contribution Retirement Plan” offered through TIAA-CREF after attaining age 60, or (b) due to permanent total disability, as approved by TIAA-CREF, under the “Group Total Disability Benefits Plan for Regular Salaries Employees of SDSURF.”

Group 1 retirees pay nothing toward the cost of health insurance. SDSU Research Foundation pays all of the cost for the least expensive health insurance coverage for Group 2 and Group 3 retirees. The retiree may elect to pay the cost differential for a higher premium health insurance plan and the cost for any dependents.

Only certain regular salaried employees of SDSU Research Foundation are eligible. Regular salaried employees are members of either (a) central staff under the programmatic direction of SDSU Research Foundation’s Executive Director, (b) KPBS, (c) Extended Studies, (d) University Advancement or (e) the University’s Department of Intercollegiate Athletics. A regular salaried employee is appointed to an approved class code, works a regular schedule of 20 hours or more per week, and is not a temporary or leased employee. The number of regular salaried employee participants at June 30, 2015 and 2014 were 358 and 331, respectively. No contributions to the plan are required from employees.

On August 1, 1982, SDSU Research Foundation created a self-administered, single-employer benefit plan named the Health, Welfare, Vision, Life Insurance/AD&D and Employee Assistance Program of San Diego State University Foundation (the plan). The assets are held in a separate VEBA trust with a registered investment company. The plan issues stand-alone, publicly available financial reports that include financial statements and required supplementary information. The report may be obtained by contacting the Human Resources Department at SDSU Research Foundation.

SDSU Research Foundation has voluntarily opted for a funding policy under which it contributes 100% of the actuarially determined annual required contribution (ARC); therefore, there was no net Other Postretirement Benefits Other than Pension (OPEB) obligation at June 30, 2015, nor 2014. The fair value of assets held by the VEBA trust were approximately \$9.6 million and \$9.5 million as of June 30, 2015 and 2014, respectively. The actuarially determined contribution amounts for the years ended June 30, 2015 and 2014 were \$299,921 and \$397,874, respectively. The actuarially determined annual required contribution for the year ending June 30, 2016 is \$137,689.

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Notes to the Financial Statements

June 30, 2015 and 2014

NOTE 11 – POSTRETIREMENT BENEFIT PLAN – Continued

The following table sets forth the plan’s funded status as of December 31, 2014, 2013 and 2012:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Accumulated postretirement benefit obligation:			
Retirees	\$ 3,326,912	\$ 3,954,490	\$ 3,942,584
Fully eligible active employees	1,866,874	2,106,577	2,101,810
Other active employees	<u>2,330,461</u>	<u>2,536,535</u>	<u>2,401,657</u>
Actuarial accrued liability (AAL)	7,524,247	8,597,602	8,446,051
Less plan assets at fair value	<u>9,424,660</u>	<u>8,587,125</u>	<u>7,052,651</u>
(Surplus)/Unfunded actuarial accrued liability (UAAL)	\$ <u>(1,900,413)</u>	\$ <u>10,477</u>	\$ <u>1,393,400</u>
Funded ratio	125.3%	99.9%	83.5%
Covered payroll	\$ 19,959,322	\$ 18,579,753	\$ 18,323,337
(Surplus)/Unfunded UAAL as a percentage of covered payroll	(9.5%)	0.1%	7.6%

The following table shows the components of SDSU Research Foundation’s annual OPEB costs for the years ended December 31, 2014, 2013 and 2012:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
OPEB costs for the year:			
Service cost	\$ 299,160	\$ 296,644	\$ 288,277
30-year amortization of Unfunded Accrued Liability (UAL)	<u>761</u>	<u>101,230</u>	<u>130,866</u>
Annual Required Contribution	299,921	397,874	419,143
Interest on net OPEB obligation	—	—	—
Amortization of net OPEB obligation	<u>—</u>	<u>—</u>	<u>—</u>
Annual OPEB cost	\$ <u>299,921</u>	\$ <u>397,874</u>	\$ <u>419,143</u>

The assumptions used to calculate the actuarial accrued liability at December 31, 2014 included a weighted-average discount rate of 6.0% and an 8.0% annual rate of increase in the per capital cost of covered health care for 2015, with such annual rate of increase gradually declining to 5.0% in 2017. The actuarial cost method used was Projected Unit Credit and the amortization method used was Level Dollar over a remaining amortization period of Rolling 30 Years.

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Notes to the Financial Statements

June 30, 2015 and 2014

NOTE 11 – POSTRETIREMENT BENEFIT PLAN – Continued

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

Actuarial Methods and Assumptions

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

Other Retirement Benefits

SDSU Research Foundation contracts with TIAA-CREF to provide retirement and disability benefits to its employees. Benefit liabilities are funded through individually owned non-participating annuity contracts. The obligation for payment of the benefits has been transferred to TIAA-CREF. Total contributions to fund benefits and pay administrative costs included in operating expenses for the years ended June 30, 2015 and 2014 were approximately \$4,859,000 and \$4,874,000, respectively.

NOTE 12 - CONTINGENCIES

As a result of inquiries from outside agencies, SDSU Research Foundation has included a liability of \$575,319 and \$700,000 in accrued expenses for the years ended June 30, 2015 and 2014, respectively.

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.

NOTE 13 – SUBSEQUENT EVENT

On August 5, 2015, the Board of Trustees of the California State University issued \$1,034,370,000 in California State University Systemwide Revenue Bonds (SRB) Series 2015A, of which \$30,265,000 was loaned to SDSU Research Foundation at an all-inclusive true interest cost of 4%, with principal fully amortized over thirty years. SDSU Research Foundation utilized the loan proceeds to partially fund costs associated with the construction of a new 81,900, three-to-five-story building consisting of teaching labs and flexible research space, commonly known as the San Diego State University Research Foundation Engineering and Interdisciplinary Sciences Complex Project.

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Required Supplementary Information

June 30, 2015 and 2014

San Diego State University Research Foundation
Schedule of Post-Employment Health Care Benefits Funding Progress
December 31, 2014

Actuarial Valuation Date	2014	2013
Total actuarial accrued liability (AAL)	\$ 7,524,247 *	\$ 8,597,602
Less plan assets at fair value	<u>9,424,660</u>	<u>8,587,125</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ (1,900,413)</u>	<u>\$ 10,477</u>
Funded ratio	125.3%	99.9%
Covered payroll	\$ 19,959,322	\$ 18,579,753
UAAL as a percentage of covered payroll	(9.5%)	0.1%

*preliminary estimate

The fair value of plan assets at December 31, 2014 was \$9,424,660.

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SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Combining Schedule of Net Position

June 30, 2015

	<u>General</u>	<u>Designated</u>	<u>Property Management</u>	<u>Plant</u>
Current assets:				
Cash and cash equivalents	\$ 7,560,760	\$ —	\$ 600	\$ —
Short-term investments	15,632,330	467,679	—	—
Receivables:				
Sponsored programs	—	—	—	—
Other receivables	389,426	306,925	222,070	—
Receivables from other activities	—	—	901,113	—
Prepaid expenses and other	126,154	—	—	—
Total current assets	<u>23,708,670</u>	<u>774,604</u>	<u>1,123,783</u>	<u>—</u>
Investments and other assets:				
Long-term investments	22,216,919	7,657,397	—	—
Restricted assets - land	—	—	—	1,853,532
Accounts receivable	45,625	—	—	—
Notes Receivable - Aztec Shops, Ltd.	—	7,113,454	—	—
Other assets	—	1,087,990	—	—
	<u>22,262,544</u>	<u>15,858,841</u>	<u>—</u>	<u>1,853,532</u>
Capital assets:				
Land and land improvements	—	—	—	14,931,234
Buildings and improvements	—	—	—	61,489,257
Construction-in-progress	—	—	—	—
Furniture, fixtures and equipment	—	—	—	23,660,418
	<u>—</u>	<u>—</u>	<u>—</u>	<u>100,080,909</u>
Less accumulated depreciation and amortization	<u>—</u>	<u>—</u>	<u>—</u>	<u>51,656,918</u>
	<u>—</u>	<u>—</u>	<u>—</u>	<u>48,423,991</u>
Total assets	45,971,214	16,633,445	1,123,783	50,277,523
Deferred outflows of resources:				
Deferred loss on bond refunding	—	—	—	606,220
Total assets and deferred outflows of resources	<u>\$ 45,971,214</u>	<u>\$ 16,633,445</u>	<u>\$ 1,123,783</u>	<u>\$ 50,883,743</u>

Schedule 1 (cont.)

<u>Sponsored Programs</u>	<u>Community and Campus Programs</u>	<u>Endowment</u>	<u>Eliminating Entries</u>	<u>Total</u>
\$ —	\$ 6,522	\$ —	\$ —	\$ 7,567,882
—	—	—	(365,933)	15,734,076
19,198,283	—	—	—	19,198,283
—	3,733,540	22,498	—	4,674,459
—	45,661,582	—	(46,562,695)	—
—	66,291	—	—	192,445
<u>19,198,283</u>	<u>49,467,935</u>	<u>22,498</u>	<u>(46,928,628)</u>	<u>47,367,145</u>
—	1,000	18,710,974	(7,657,397)	40,928,893
—	—	—	—	1,853,532
—	864,932	—	—	910,557
—	—	1,258,537	—	8,371,991
—	857,384	—	—	1,945,374
<u>—</u>	<u>1,723,316</u>	<u>19,969,511</u>	<u>(7,657,397)</u>	<u>54,010,347</u>
—	—	—	—	14,931,234
—	—	—	—	61,489,257
—	662,823	—	—	662,823
<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>23,660,418</u>
—	662,823	—	—	100,743,732
<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>51,656,918</u>
—	662,823	—	—	49,086,814
<u>19,198,283</u>	<u>51,854,074</u>	<u>19,992,009</u>	<u>(54,586,025)</u>	<u>150,464,306</u>
<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>606,220</u>
<u>\$ 19,198,283</u>	<u>\$ 51,854,074</u>	<u>\$ 19,992,009</u>	<u>\$ (54,586,025)</u>	<u>\$ 151,070,526</u>

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Combining Schedule of Net Position

June 30, 2015

	<u>General</u>	<u>Designated</u>	<u>Property Management</u>	<u>Plant</u>
Current liabilities:				
Accounts payable and accrued expenses	\$ 5,556,675	\$ 2,186,077	\$ 366,218	\$ —
Due to The Campanile Foundation	7,560,854	—	—	—
Payable to other activities	29,865,092	5,625,048	—	1,736,975
Long-term debt obligations, current portion	—	—	—	1,230,933
Sponsored programs receipts over expenditures	—	—	—	—
Total current liabilities	<u>42,982,621</u>	<u>7,811,125</u>	<u>366,218</u>	<u>2,967,908</u>
Noncurrent liabilities:				
Long-term debt obligations, net of current portion	—	—	—	36,577,397
Bond premium	—	—	—	1,521,627
Other liabilities	—	2,388,560	—	—
Liabilities for amounts held for others	—	—	—	—
Total liabilities	<u>42,982,621</u>	<u>10,199,685</u>	<u>366,218</u>	<u>41,066,932</u>
Net position:				
Net investment in capital assets	—	—	—	17,723,581
Restricted/nonexpendable	—	—	—	1,853,532
Restricted/expendable	—	720,242	—	—
Unrestricted	2,988,593	5,713,518	757,565	(9,760,302)
Total net position	<u>2,988,593</u>	<u>6,433,760</u>	<u>757,565</u>	<u>9,816,811</u>
Total liabilities and net position	<u>\$ 45,971,214</u>	<u>\$ 16,633,445</u>	<u>\$ 1,123,783</u>	<u>\$ 50,883,743</u>

Schedule 1 (cont.)

<u>Sponsored Programs</u>	<u>Community and Campus Programs</u>	<u>Endowment</u>	<u>Eliminating Entries</u>	<u>Total</u>
\$ 2,921,179	\$ 3,858,090	\$ —	\$ —	\$ 14,888,239
—	—	—	—	7,560,854
7,747,731	—	1,587,849	(46,562,695)	—
—	—	—	(365,933)	865,000
<u>8,529,373</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>8,529,373</u>
<u>19,198,283</u>	<u>3,858,090</u>	<u>1,587,849</u>	<u>(46,928,628)</u>	<u>31,843,466</u>
—	—	—	(7,657,397)	28,920,000
—	—	—	—	1,521,627
—	—	—	—	2,388,560
<u>—</u>	<u>—</u>	<u>619,091</u>	<u>—</u>	<u>619,091</u>
<u>—</u>	<u>—</u>	<u>619,091</u>	<u>(7,657,397)</u>	<u>33,449,278</u>
<u>19,198,283</u>	<u>3,858,090</u>	<u>2,206,940</u>	<u>(54,586,025)</u>	<u>65,292,744</u>
—	662,823	—	—	18,386,404
—	—	1,599,845	—	3,453,377
—	273,732	9,618,222	—	10,612,196
<u>—</u>	<u>47,059,429</u>	<u>6,567,002</u>	<u>—</u>	<u>53,325,805</u>
<u>—</u>	<u>47,995,984</u>	<u>17,785,069</u>	<u>—</u>	<u>85,777,782</u>
<u>\$ 19,198,283</u>	<u>\$ 51,854,074</u>	<u>\$ 19,992,009</u>	<u>\$ (54,586,025)</u>	<u>\$ 151,070,526</u>

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Combining Schedule of Revenues, Expenses and Changes in Net Position

Year ended June 30, 2015

	<u>General</u>	<u>Designated</u>	<u>Property Management</u>	<u>Plant</u>
Revenues:				
Program income	\$ —	\$ —	\$ —	\$ —
Facilities and administrative cost recovery	20,532,565	—	—	—
Contributions	—	—	—	—
Investment income	1,626,264	3,383	(1,823)	—
Net decrease in fair value of investments	(569,414)	(30,677)	—	—
Rental income	—	—	5,801,769	—
Other income	162,855	892,764	238,344	1,144,437
Total revenues	<u>21,752,270</u>	<u>865,470</u>	<u>6,038,290</u>	<u>1,144,437</u>
Expenses:				
Program expenses	14,226,531	5,126,382	5,995,163	—
Depreciation	—	—	—	4,252,691
Interest	—	—	1,866,259	—
Total expenses	<u>14,226,531</u>	<u>5,126,382</u>	<u>7,861,422</u>	<u>4,252,691</u>
Other activity:				
Equipment acquisitions, sponsored programs	—	—	—	(221,715)
	<u>14,226,531</u>	<u>5,126,382</u>	<u>7,861,422</u>	<u>4,030,976</u>
Excess (Deficiency) of revenues over expenses	<u>7,525,739</u>	<u>(4,260,912)</u>	<u>(1,823,132)</u>	<u>(2,886,539)</u>
Transfers and allocations:				
General fund allocations	(3,536,336)	3,536,336	—	—
Interfund transfers (out) in	(4,740,863)	418,251	1,822,331	1,723,501
Capitalized asset transfers	(9,797)	(74,504)	—	169,022
	<u>(8,286,996)</u>	<u>3,880,083</u>	<u>1,822,331</u>	<u>1,892,523</u>
Income (Loss) before transfer of assets	<u>(761,257)</u>	<u>(380,829)</u>	<u>(801)</u>	<u>(994,016)</u>
Net effect from transfer of assets to Aztec Shops, Ltd.	—	—	—	185,922
The Campanile Foundation	—	—	—	—
Net position at beginning of year	<u>3,749,850</u>	<u>6,814,589</u>	<u>758,366</u>	<u>10,624,905</u>
Net position at end of year	<u>\$ 2,988,593</u>	<u>\$ 6,433,760</u>	<u>\$ 757,565</u>	<u>\$ 9,816,811</u>

Schedule 2 (cont.)

<u>Sponsored Programs</u>	<u>Community and Campus Programs</u>	<u>Endowment</u>	<u>Eliminating Entries</u>	<u>Total</u>
\$ 106,339,953	\$ 33,640,262	\$ —	\$ —	\$ 139,980,215
—	—	—	(19,632,565)	900,000
—	19,193,165	114,008	—	19,307,173
—	212,390	(16,225)	(486,469)	1,337,520
—	1,490	(356,982)	—	(955,583)
—	—	—	—	5,801,769
—	—	—	—	2,438,400
<u>106,339,953</u>	<u>53,047,307</u>	<u>(259,199)</u>	<u>(20,119,034)</u>	<u>168,809,494</u>
106,339,953	48,071,987	—	(19,632,565)	160,127,451
—	—	—	—	4,252,691
—	—	—	(486,469)	1,379,790
<u>106,339,953</u>	<u>48,071,987</u>	<u>—</u>	<u>(20,119,034)</u>	<u>165,759,932</u>
—	—	—	—	(221,715)
<u>106,339,953</u>	<u>48,071,987</u>	<u>—</u>	<u>(20,119,034)</u>	<u>165,538,217</u>
—	4,975,320	(259,199)	—	3,271,277
—	—	—	—	—
—	197,977	578,803	—	—
—	(84,721)	—	—	—
—	113,256	578,803	—	—
—	5,088,576	319,604	—	3,271,277
—	—	—	—	185,922
—	(1,000,000)	(4,460,614)	—	(5,460,614)
—	43,907,408	21,926,079	—	87,781,197
<u>\$ —</u>	<u>\$ 47,995,984</u>	<u>\$ 17,785,069</u>	<u>\$ —</u>	<u>\$ 85,777,782</u>