



**SAN DIEGO STATE  
UNIVERSITY**

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**Research Foundation**

(a Component Unit of San Diego State University)

**Financial Statements and Supplementary Information**

June 30, 2020 and 2019

(With Independent Auditors' Report Thereon)

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**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

Board of Directors  
San Diego State University Research Foundation

**Report on the financial statements**

We have audited the accompanying financial statements of the business-type activities of San Diego State University Research Foundation (a California State University Auxiliary Organization and Component Unit of San Diego State University), (“SDSU Research Foundation”) as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise SDSU Research Foundation’s basic financial statements as listed in the table of contents.

**Management’s responsibility for the financial statements**

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

**Auditor’s responsibility**

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of SDSU Research Foundation, as of June 30, 2020 and 2019, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other matters**

#### *Required supplementary information*

Accounting principles generally accepted in the United States of America require that the Management Discussion and Analysis on pages 5-18 and the Schedule of Changes in SDSU Research Foundation's Net OPEB Liability and Related Ratios Last Three Fiscal Years on page 47, and the Schedule of SDSU Research Foundation Contributions Last Three Fiscal Years on page 48 be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. This required supplementary information is the responsibility of management. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America. These limited procedures consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other reporting required by Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report, dated September 9, 2020, on our consideration of SDSU Research Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters as of and for the year ended June 30, 2020. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of SDSU Research Foundation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering SDSU Research Foundation's internal control over financial reporting and compliance.



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

Board of Directors  
San Diego State University Research Foundation

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of San Diego State University Research Foundation (a California State University Auxiliary Organization and Component Unit of San Diego State University) (“SDSU Research Foundation”), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise SDSU Research Foundation’s basic financial statements, and have issued our report thereon dated September 9, 2020.

### **Internal control over financial reporting**

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

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

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

**Compliance and other matters**

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

**Intended purpose**

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



San Diego, California  
September 9, 2020

# SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

## Management's Discussion and Analysis

(unaudited)

June 30, 2020 and 2019

### **Management's Discussion and Analysis (unaudited)**

This section of the San Diego State University Foundation (dba San Diego State University (SDSU) Research Foundation) annual financial report includes management's discussion and analysis of the financial performance of SDSU Research Foundation for fiscal years (FY) ended June 30, 2020 and 2019. This discussion should be read in conjunction with the financial statements and notes.

### **Introduction to the Financial Statements**

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

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

### **Statements of Net Position**

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

### **Statements of Revenues, Expenses and Changes in Net Position**

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

### **Statements of Cash Flows**

The Statements of Cash Flows present the inflows and outflows of cash for the years and are summarized by operating, capital and related financing, 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, 2020 and 2019 (FY 2020 and FY 2019, respectively). Included are comparative analyses of current year and prior year activities and balances; a discussion of restrictions of SDSU Research Foundation net position; and a discussion of capital assets and long-term debt.

#### ***Significant Events – Year Ended June 30, 2020***

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

# SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

## Management's Discussion and Analysis

(unaudited)

June 30, 2020 and 2019

As part of the response to the pandemic, SDSU Research Foundation as directed by the Chancellor of the California State University (CSU) and the Governor of the State of California, quickly moved to telework mid-March 2020 along with the majority of faculty and staff at SDSU. A fast move to a remote work environment presented some challenges, but SDSU Research Foundation quickly and successfully transitioned to teleworking. Systems were automated and staff adjusted to a new temporary normal. While some researchers were deemed essential workers and able to continue working in their labs and campus spaces, most were forced to move their projects to the telework environment, if possible. Others had to put their research on hold. The federal government implemented flexible authorities that helped to mitigate impacts to research programs by offering, for example, automatic no-cost extensions and the ability to continue to compensate personnel on federal funds even if work was halted due to the pandemic. SDSU Research Foundation implemented an administrative leave policy, mirroring the policy of the CSU, to ensure paid time off to individuals who contracted COVID-19, had to isolate due to care of a loved one, or who had child-care or other impacts from the pandemic that prevented them from working.

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

Other impacts of the pandemic:

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

Even with the pandemic, the achievements of the SDSU faculty and staff were remarkable given the challenges of COVID-19, remote working, and the absence of any stimulus funding. SDSU faculty and staff secured \$144.4 million for their research and educational programs during the year just shy of the \$148.5 million they received in FY 2019. A record 1,251 proposals were submitted. These are remarkable achievements given the challenges of a pandemic, remote working, and the absence of any stimulus funding. The National Science Foundation (NSF) awarded a record \$15.7 million, an increase of \$6.4 million, and included two prestigious CAREER grants. Awards

# SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

## Management's Discussion and Analysis

(unaudited)

June 30, 2020 and 2019

from the National Institutes of Health (NIH) also increased by \$3.1 million to \$31.9 million. Twenty-three grants of \$1 million or more were received, including thirteen at \$2 million or higher. The largest grant received was a \$7.0 million award from the State of California for the Women, Infants and Children program. The largest research grants came from the National Center on Minority Health and Health Disparities for the SDSU HealthLINK Center for Transdisciplinary Health Disparities (\$3.5 million), and from NSF for the SDSU Noyce Mathematics and Science Master Teaching Fellowship Program (\$3 million). Several SDSU faculty pivoted to focus on COVID-19 related projects, including a \$3.0 million contact tracing program in San Diego County. More than three hundred different sponsors supported SDSU researchers, including those from the federal government, state and local agencies, industry, private foundations and associations.

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

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

KPBS continued its capital campaign during FY 2020 with an increased goal of \$80 million. The present value of new pledge receivables recorded with SDSU Research Foundation were \$2.1 million and \$8.6 million for FY 2020 and FY 2019, respectively. Cash receipts related to the KPBS capital campaign pledges were \$5.6 million and \$5.2 million for FY 2020 and FY 2019, respectively. To date KPBS has raised \$37.6 million in realized cash gifts and pledges and \$31.4 million in contingent (unrealized) pledges to SDSU and SDSU Research Foundation.

### ***Significant Events – Year Ended June 30, 2019***

The number of awards received by SDSU faculty and staff increased from 756 to 786 and the dollar amount of awards increased 10% to \$148.5 million – during a year of unpredictable federal budgets and a federal shutdown. Sponsored programs revenue increased from \$118.9 million in FY 2018 to \$121.5 million in FY 2019, an increase of \$2.6 million or 2.2%.

Twenty-four grants of \$1 million or more were received, including eleven at \$2 million or higher. The largest grant received was from the Government of Georgia for \$10.5 million to support SDSU Georgia. Other large awards supported community service programs, workforce training, education programs, and health studies.

Awards from two of the major federal agencies increased in dollar amounts. National Institute of Health (NIH) awards rose \$3 million to \$28.8 million. National Science Foundation (NSF) awards rose by \$1.3 million as well as in number (from 39 to 53). SDSU received its largest-ever NIH grant – a \$20 million, five-year award to support health disparities research and infrastructure. Three hundred different sponsors supported SDSU researchers, including those from the federal government, state and local agencies, industry, private foundations and associations.

**SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION**

Management's Discussion and Analysis

(unaudited)

June 30, 2020 and 2019

KPBS launched a \$60 million capital campaign which has produced to date: \$22.6 million in cash gifts and \$8.3 million in pledges to SDSU and SDSU Research Foundation. The increase in campaign contributions to KPBS has contributed to our positive revenue figures.

SDSU Research Foundation's condensed summary of net position as of June 30, 2020, 2019, and 2018 follows:

**Condensed Summary of Net Position**

	<b>June 30</b>		
	<b>2020</b>	<b>2019</b>	<b>2018</b>
Assets:			
Current assets	\$ 113,200,336	\$ 86,338,430	\$ 46,372,168
Capital assets, net	40,623,772	47,230,325	48,598,900
Other noncurrent assets	44,137,443	41,158,484	45,890,159
Total assets	<u>197,961,551</u>	<u>174,727,239</u>	<u>140,861,227</u>
Deferred outflows of resources	<u>570,992</u>	<u>1,024,466</u>	<u>806,272</u>
Liabilities:			
Current liabilities	51,932,882	48,488,305	32,670,805
Noncurrent liabilities	31,339,650	33,521,698	33,826,869
Total liabilities	<u>83,272,532</u>	<u>82,010,003</u>	<u>66,497,674</u>
Deferred inflows of resources	<u>3,201,282</u>	<u>-</u>	<u>804,049</u>
Net Position:			
Net investment in capital assets	14,734,527	20,174,890	20,519,041
Restricted – nonexpendable	3,862,006	3,853,189	3,834,673
Restricted – expendable	39,698,124	35,421,025	19,309,021
Unrestricted	53,764,002	34,292,598	30,703,041
Total net position	<u>\$ 112,058,659</u>	<u>\$ 93,741,702</u>	<u>\$ 74,365,776</u>

**Assets**

Total assets increased by \$23.2 million from FY 2019 to FY 2020 due to an increase in Current assets of \$26.9 million and \$3.0 million in Other current assets and a decrease of \$6.6 million in Capital assets, net.

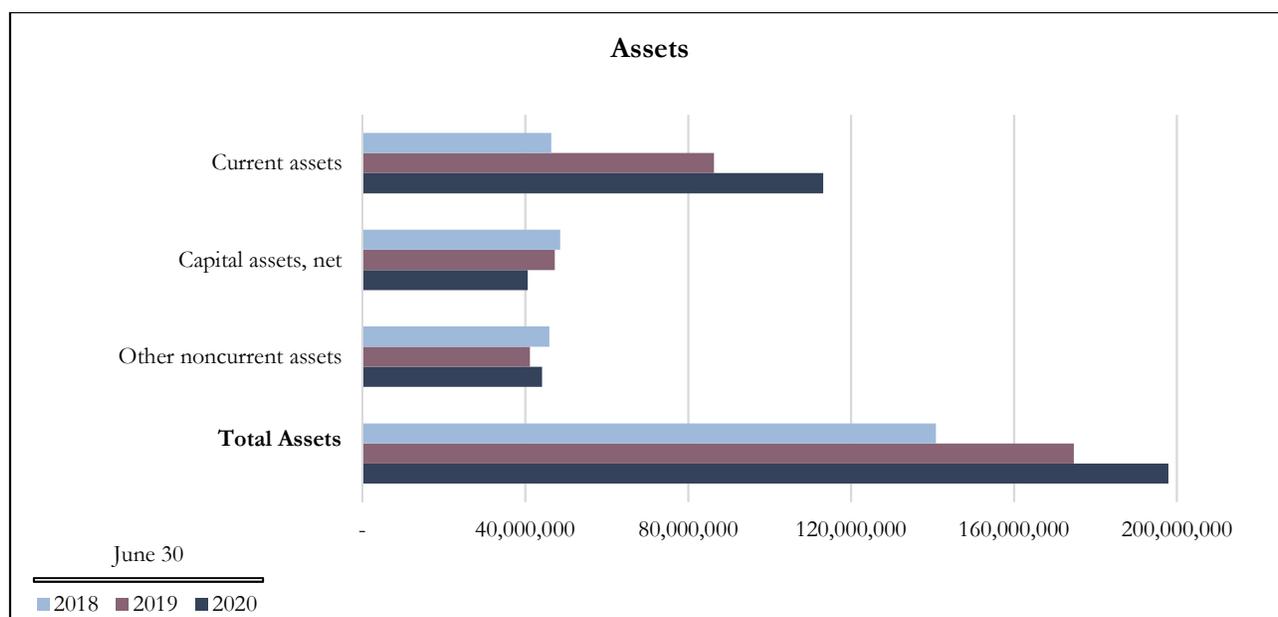
Total assets increased by \$33.9 million from FY 2018 to FY 2019 due to an increase in Current assets of \$40.0 million and a decrease of \$1.4 million in Capital assets, net and \$4.7 million in Other current assets.

# SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

## Management's Discussion and Analysis

(unaudited)

June 30, 2020 and 2019



Current assets increased by \$26.9 million from FY 2019 to FY 2020 due to increases in Cash and cash equivalents of \$5.0 million, Short-term investments of \$24.2 million, Restricted assets – short term investments of \$5.1 million, offset by decreases in Accounts and pledges receivable, net, Notes receivable and Prepaid expenses totaling \$7.4 million. The additional Current Assets overall increase is primarily due to the continued success of the KPBS capital campaign, cash that is due to The Campanile Foundation from their continued fundraising success, and proceeds from the sale of SDSU Research Foundation’s City Heights properties.

Current assets increased by \$40.0 million from FY 2018 to FY 2019 due to increases of \$32.8 million in Cash and Short-term investments and \$6.6 million in Accounts and pledges receivable primarily due to the success of the KPBS capital campaign for the enhancement of the KPBS facilities and equipment. Additionally, Prepaid expenses increased by \$326,000 and Notes receivable by \$236,000. Funds generated from the KPBS capital campaign are temporarily restricted and will be expended over the next couple of years to build out additional KPBS facilities and modernize its equipment.

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

	<b>June 30</b>		
	<b>2020</b>	<b>2019</b>	<b>2018</b>
Land and land improvements	\$ 13,914,536	\$ 14,820,234	\$ 14,820,234
Buildings and improvements	22,125,111	27,596,260	28,395,839
Furniture, fixtures, equipment and construction in progress	4,584,125	4,813,831	5,382,827
Capital assets, net of accumulated depreciation	<u>\$ 40,623,772</u>	<u>\$ 47,230,325</u>	<u>\$ 48,598,900</u>

**SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION**

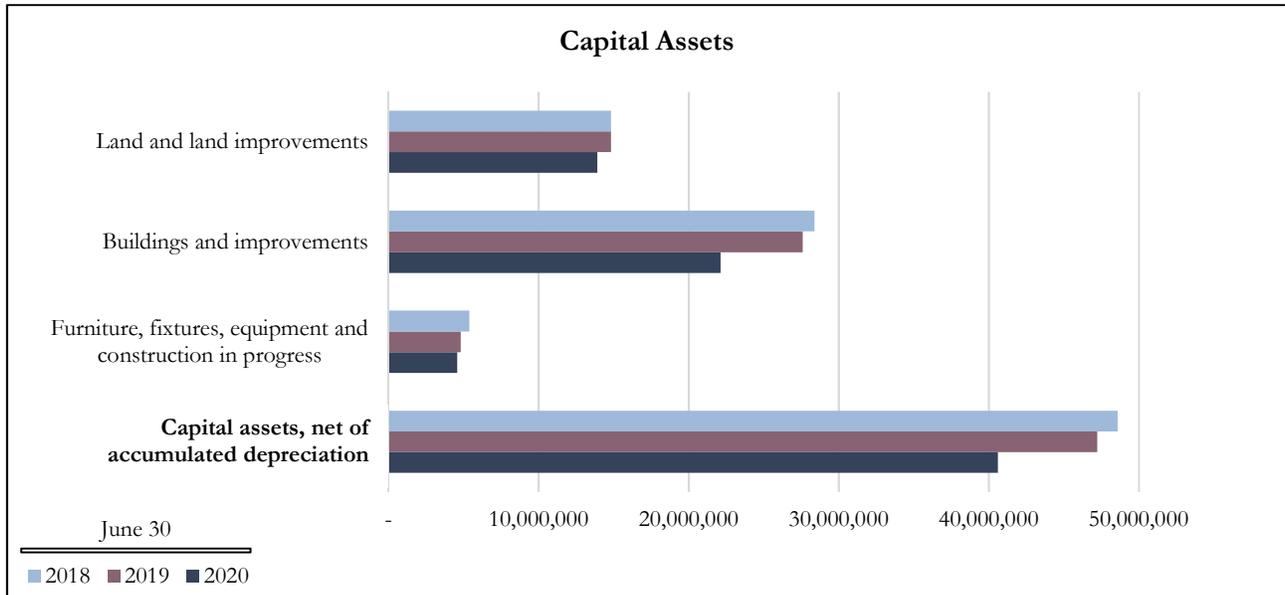
Management’s Discussion and Analysis

(unaudited)

June 30, 2020 and 2019

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

Capital assets decreased by \$1.4 million from FY 2018 to FY 2019 mostly due to increased Accumulated depreciation from depreciation expense of \$4.3 million in FY 2019 and FY 2018, offset by new additions.



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

Other noncurrent assets decreased by \$4.7 million from FY 2018 to FY 2019 due to a decrease in Long-term investments (\$6.7 million), a decrease in Notes receivable (\$690,000) from principal pay downs, offset by an increase of Pledges receivable (\$4.6 million) from the KPBS capital campaign.

**Deferred Outflows of Resources**

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

Deferred outflows of resources increased by \$218,000 from FY 2018 to FY 2019 primarily due to the rollforward of the actuarial valuation of the net OPEB liability. Deferred outflows of resources increased \$257,000 from FY 2018 to FY 2019 due to the recording of OPEB subsequent contribution with the implementation of GASB Statement No. 75.

**Liabilities**

Total liabilities increased by \$1.3 million from FY 2019 to FY 2020 due to an increase in Current liabilities of \$3.4 million offset by a decrease in Noncurrent liabilities of \$2.2 million. Total current liabilities increased mostly due

**SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION**

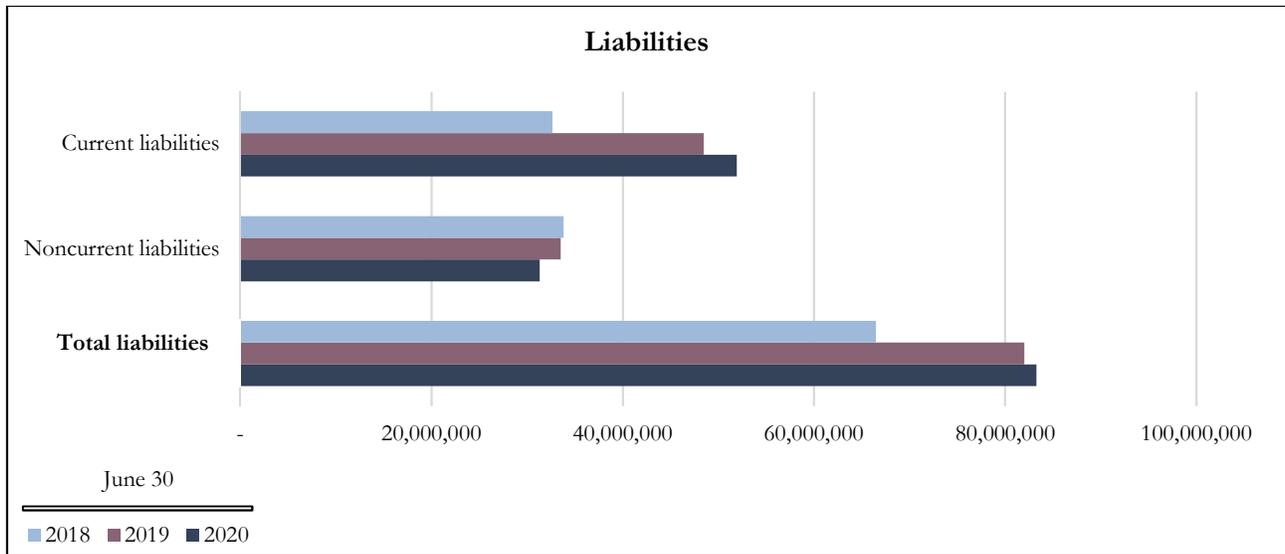
Management’s Discussion and Analysis

(unaudited)

June 30, 2020 and 2019

to a reduction of \$4.8 million in Sponsored programs receipts over expenditures offset by an increase of \$8.5 million in Due to The Campanile Foundation and \$200,000 reduction in other liability categories.

Total liabilities increased by \$15.5 million from FY 2018 to FY 2019 due mostly to the increase in Total current liabilities of \$15.8 million offset by a decrease in Total noncurrent liabilities of \$305,000. Total current liabilities increased mostly in Sponsored programs receipts over expenditures category from a large up-front payment on a grant and an increase in the amount of Due to The Campanile Foundation.



***Long-Term Debt Obligations***

Debt outstanding at June 30, 2020, 2019, and 2018 is summarized below by the type of debt instrument:

	June 30		
	2020	2019	2018
Revenue bonds	\$ 25,090,000	\$ 26,150,000	\$ 27,110,000
Unamortized bond premium	1,014,467	1,141,999	1,236,907
Total long-term debt	26,104,467	27,291,999	28,346,907
Less current portion	(1,121,807)	(1,099,908)	(1,054,908)
Long-term debt, net of current portion	<u>\$ 24,982,660</u>	<u>\$ 26,192,091</u>	<u>\$ 27,291,999</u>

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

Long-term debt, net of current portion decreased by \$1.1 million from FY 2018 to FY 2019 due to scheduled bond payments and amortization of bond premium.

**SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION**

Management’s Discussion and Analysis

(unaudited)

June 30, 2020 and 2019

**Deferred Inflows of Resources**

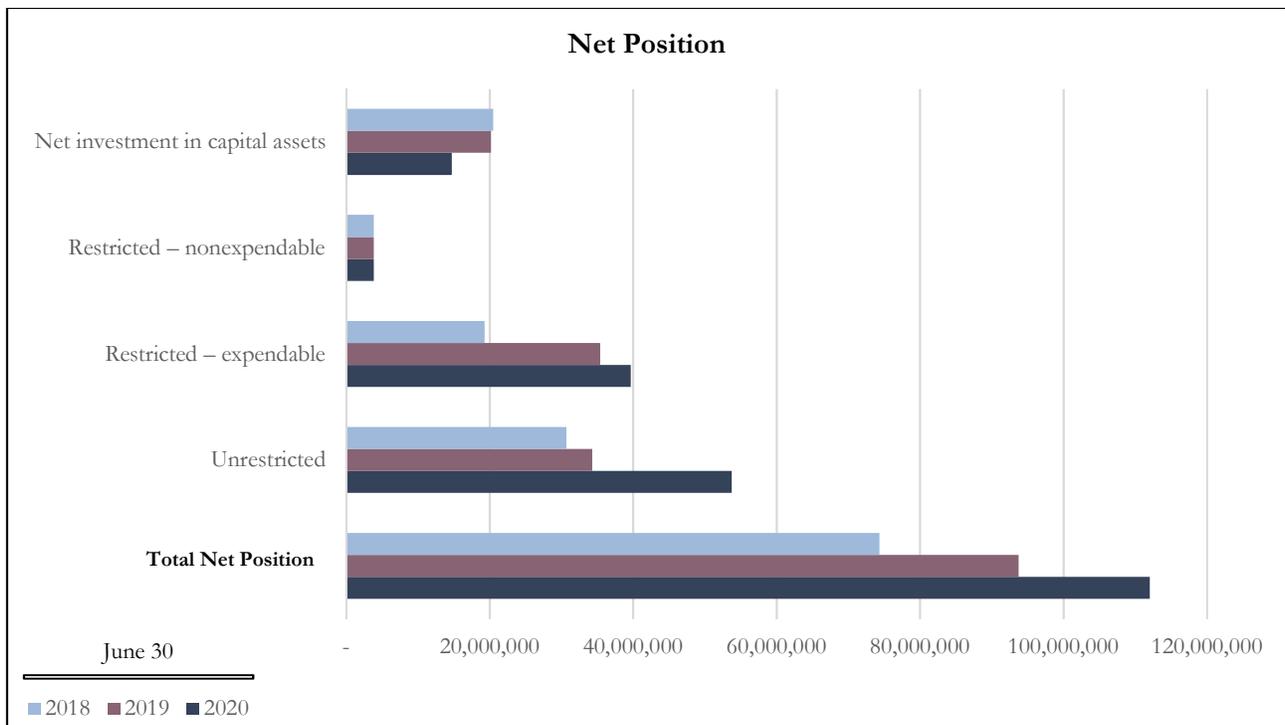
Deferred inflows of resources increased by \$3.2 million from FY 2019 to 2020 due to an increase of \$3.1 million in OPEB related net inflow of resources from recording the actuarial calculated OPEB net asset and recording the net deferred gain on refunding the system-wide revenue bond of approximately \$110,000.

Deferred inflows of resources decreased by \$804,000 from FY 2018 to FY 2019 due to the roll forward of the actuarial valuation of the net OPEB liability.

**Net Position**

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

Total net position increased by \$19.4 million from FY 2018 to FY 2019 primarily due to the success of the KPBS capital campaign resulting in increased contributions of \$11.5 million as well as an increase in Sponsored Programs and various other revenue and expense categories.



**Restricted Resources**

The net position of SDSU Research Foundation includes funds that are restricted by donor or law. Nonexpendable net position increased by \$9,000 from FY 2019 to FY 2020.

Nonexpendable net position increased by \$18,000 from FY 2018 to FY 2019 due to a donation of land with restricted use which will be held in SDSU Research Foundation field station program.

**SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION**

Management's Discussion and Analysis

(unaudited)

June 30, 2020 and 2019

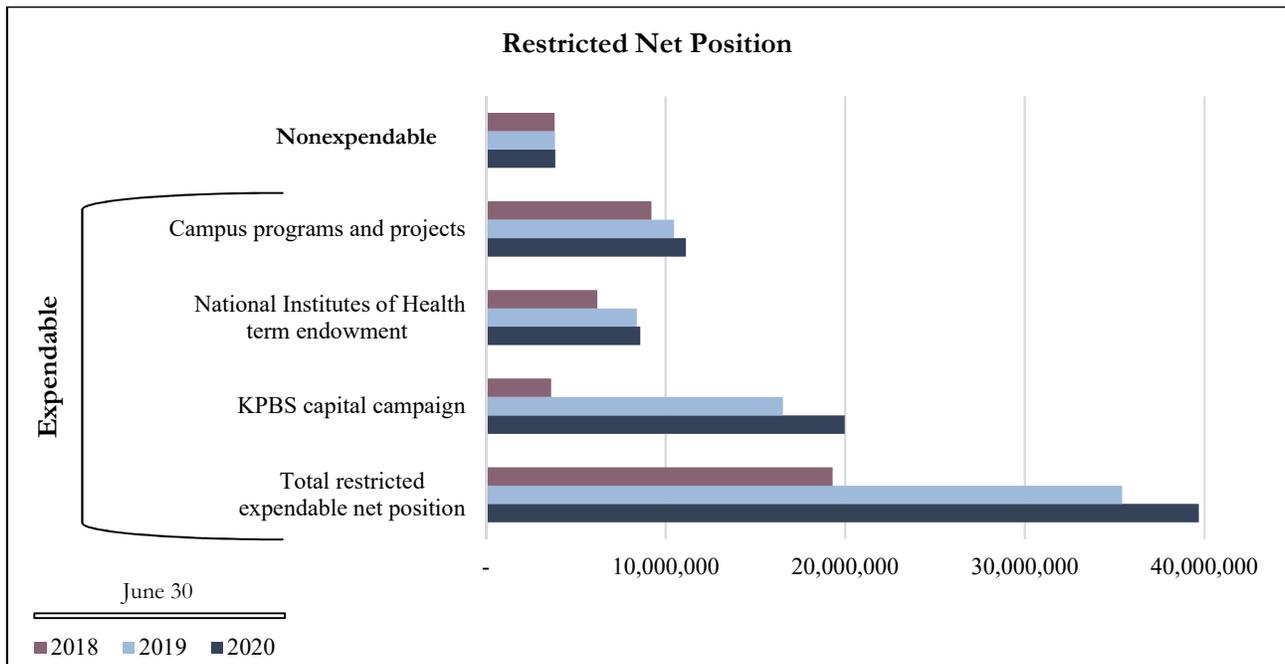
Expendable restricted net position increased by \$4.3 million from FY 2019 to FY 2020 primarily due to KPBS capital campaign, additional resources to Campus programs and projects as well as earnings on the National Institutes of Health term endowment.

The increase in expendable restricted net position of \$16.1 million from FY 2018 to FY 2019 primarily due to the KPBS capital campaign as well as the fourth installment, \$2.0 million, of a five-year \$10 million expendable endowment from NIH.

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

**Restricted Net Position**

	<b>June 30</b>		
	<b>2020</b>	<b>2019</b>	<b>2018</b>
Nonexpendable	\$ 3,862,006	\$ 3,853,189	\$ 3,834,673
Expendable:			
Campus programs and projects	\$ 11,134,771	\$ 10,484,458	\$ 9,469,323
National Institutes of Health term endowment	8,589,689	8,405,742	6,213,363
KPBS capital campaign	19,973,664	16,530,825	3,626,335
Total restricted expendable net position	\$ 39,698,124	\$ 35,421,025	\$ 19,309,021



**SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION**

Management's Discussion and Analysis

(unaudited)

June 30, 2020 and 2019

SDSU Research Foundation's condensed summary of revenues, expenses and changes in net position for the years ended June 30, 2020, 2019, and 2018 follows:

**Condensed Summary of Revenues, Expenses and Changes in Net Position**

	<b>Years Ended June 30</b>		
	<b>2020</b>	<b>2019</b>	<b>2018</b>
<b>Operating revenues:</b>			
Sponsored programs support	\$ 118,812,647	\$ 121,460,755	\$ 118,936,321
Community and campus programs	22,132,286	24,057,161	25,922,553
Contributions	25,268,807	34,411,933	23,286,095
Other operating revenues	8,651,033	8,719,961	8,110,134
<b>Total operating revenues</b>	<b>174,864,773</b>	<b>188,649,810</b>	<b>176,255,103</b>
<b>Operating expenses:</b>			
Sponsored programs	102,258,520	103,949,154	101,220,506
Community and campus programs, including fundraising	40,510,356	41,784,478	43,709,891
Other operating expenses	25,238,760	23,685,665	23,894,088
<b>Total operating expenses</b>	<b>168,007,636</b>	<b>169,419,297</b>	<b>168,824,485</b>
<b>Operating income</b>	<b>6,857,137</b>	<b>19,230,513</b>	<b>7,430,618</b>
Net nonoperating revenues (expenses)	11,446,207	116,258	(20,235,168)
Increase in permanent endowments	13,613	29,155	49,469
<b>Net income (loss)</b>	<b>18,316,957</b>	<b>19,375,926</b>	<b>(12,755,081)</b>
<b>Net position at beginning of year</b>	<b>93,741,702</b>	<b>74,365,776</b>	<b>87,120,857</b>
<b>Net position at end of year</b>	<b>\$ 112,058,659</b>	<b>\$ 93,741,702</b>	<b>\$ 74,365,776</b>

***Operating Revenues and Expenses***

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

***Operating Revenues***

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

Operating revenues increased by \$12.4 million from FY 2018 to FY 2019 due to increased revenue in Sponsored programs support, Contributions, and Other operating revenues offset by a decrease in Community and Campus Programs.

**SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION**

Management’s Discussion and Analysis

(unaudited)

June 30, 2020 and 2019

Sponsored programs support revenue decreased from FY 2019 to FY 2020 by \$2.6 million due to timing of when awards are spent. As noted in the highlights of the year, total awards for FY 2020 and FY 2019 were \$144.4 million and \$148.5 million, respectively. Sponsored program support revenue increased by \$2.5 million from FY 2018 to FY 2019 due to the continued success of SDSU’s faculty in applying for and being awarded new grants and contracts.

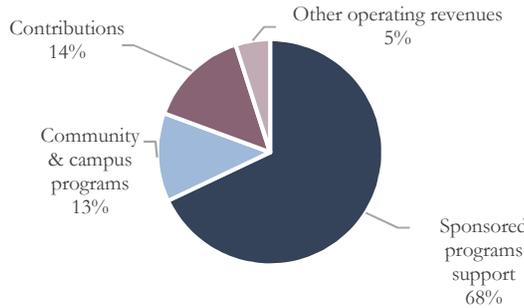
Community and campus programs includes revenues generated mostly by SDSU Global Campus (formerly known as the College of Extended Studies) and KPBS as well as other campus programs. The revenues decreased by \$1.9 million from FY 2019 to FY 2020 and by \$1.9 million from FY 2018 to FY 2019 due to decreased activity of SDSU Global Campus noncredit courses as well as the reduction in revenue from the SDSU-Georgia fixed price contract.

Contributions decreased by \$9.1 million from FY 2019 to FY 2020 and increased by \$11.1 million from FY 2018 to FY 2019 primarily due to the KPBS capital campaign and fluctuations related to the timing of contribution receipts.

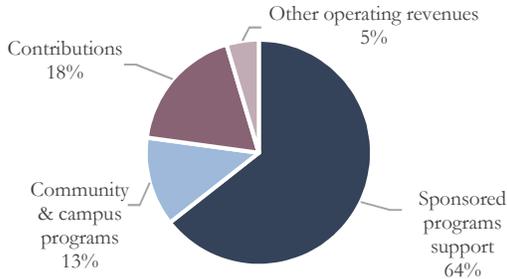
Other operating revenues decreased by \$69,000 from FY 2019 to FY 2020 due to regular fluctuations and increased by \$610,000 from FY 2018 to FY 2019 due to an increase in rental income for leases from SDSU Research Foundation owned properties.

The following charts present the percentages that each category of operating revenue contributed to total revenues for the years ended June 30, 2020, 2019, and 2018:

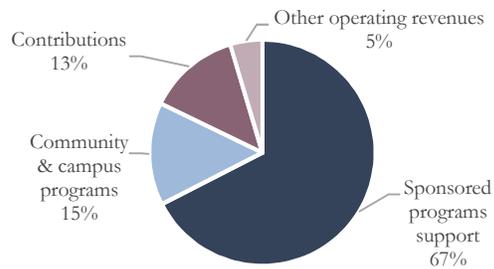
**2020 Operating Revenue**



**2019 Operating Revenue**



**2018 Operating Revenue**



**SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION**

Management's Discussion and Analysis

(unaudited)

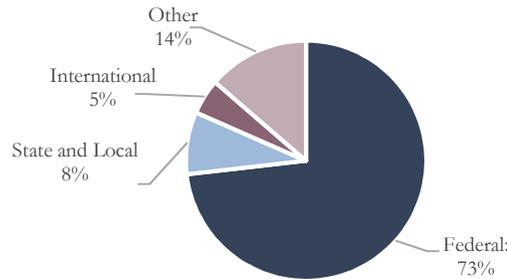
June 30, 2020 and 2019

The sources of Sponsored program support revenues for the years ended June 30, 2020, 2019, and 2018 are as follows:

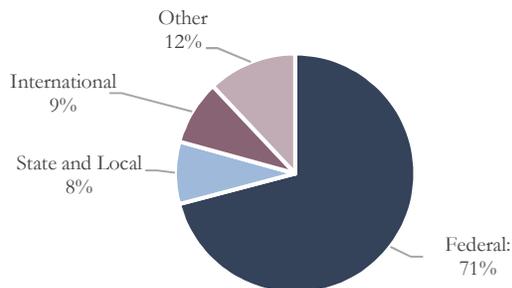
	Years Ended June 30					
	2020		2019		2018	
	\$	%	\$	%	\$	%
<b>Federal:</b>						
Department of Health & Human Services	44,915,976	37.8	42,395,271	34.9	42,591,398	35.8
Department of Education	11,893,097	10.0	12,424,300	10.2	12,365,258	10.4
Department of Defense	7,443,570	6.3	8,910,129	7.3	9,902,885	8.3
National Science Foundation	8,393,510	7.1	9,265,080	7.6	9,484,743	8.0
Department of Agriculture	7,045,171	5.9	7,042,976	5.8	7,094,809	6.0
Other	7,284,869	6.1	6,080,520	5.0	7,070,714	5.9
Total Federal	86,976,193	73.2	86,118,276	70.9	88,509,807	74.4
<b>State and Local</b>	9,972,382	8.4	10,194,204	8.4	8,825,282	7.4
<b>International</b>	5,629,828	4.7	10,551,825	8.7	6,494,362	5.5
<b>Other</b>	16,234,244	13.7	14,596,450	12.0	15,106,870	12.7
<b>Total</b>	118,812,647	100.0	121,460,755	100.0	118,936,321	100.0

The following charts present the percentages that each sponsor type contributed to Sponsored program support revenues for the years ended June 30, 2020, 2019, and 2018:

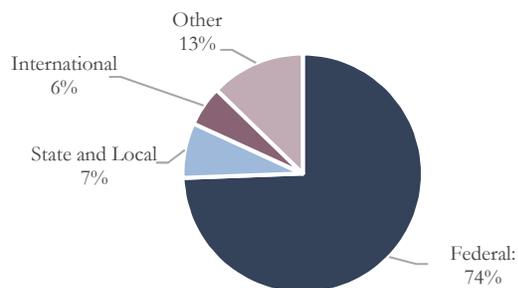
**2020 Sponsored Program Support**



**2019 Sponsored Program Support**



**2018 Sponsored Program Support**



**SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION**

Management’s Discussion and Analysis

(unaudited)

June 30, 2020 and 2019

***Operating Expenses***

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

Operating expenses increased by \$595,000 from FY 2018 to FY 2019 primarily due to an increase in Sponsored Program expense offset by a reduction in Community and campus programs and Other operating expense.

Sponsored programs expenses decreased by \$1.7 million from FY 2019 to FY 2020 due to regular fluctuations in expenditures of awards. Sponsored programs expenses increased by \$2.7 million FY 2018 to FY 2019 due to increased award activity.

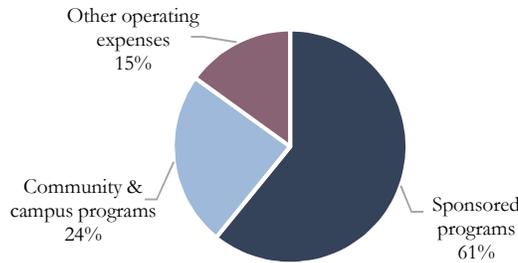
Community and campus programs expenses decreased by \$1.3 million from FY 2019 to FY 2020 and \$1.9 million from FY 2018 to FY 2019 due to a decrease in activity in SDSU Global Campus noncredit courses.

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

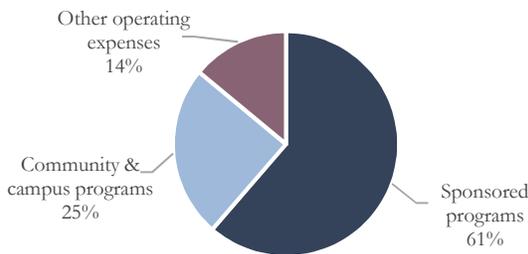
Other operating expenses decreased by \$208,000 from FY 2018 to FY 2019 due to savings in various expense categories.

The following charts present the distribution of resources by percentage of operating expense category in support of SDSU Research Foundation’s mission for the years ended June 30, 2020, 2019, and 2018:

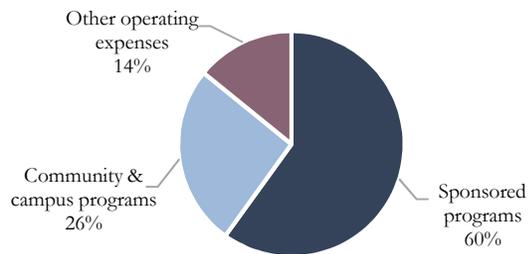
**2020 Operating Expenses**



**2019 Operating Expenses**



**2018 Operating Expenses**



**SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION**

Management's Discussion and Analysis

(unaudited)

June 30, 2020 and 2019

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

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

Net nonoperating revenues (expenses) increased by \$20.4 million from FY 2018 to FY 2019 primarily due to the transfer to SDSU for the finance and construction of a campus building per an agreement with SDSU Global Campus and SDSU Research Foundation in FY 2018. Additionally, the net increase in fair value of investments was \$1.3 million from FY 2018 to FY 2019.

**SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION**

Statements of Net Position

June 30, 2020 and 2019

<b>Assets</b>	<b>2020</b>	<b>2019</b>
Current assets:		
Cash and cash equivalents (note 2)	\$ 18,396,649	\$ 13,352,716
Short-term investments (note 3)	54,630,109	30,477,773
Restricted assets - short-term investments (note 3)	14,310,337	9,248,043
Accounts and pledges receivable, net (notes 4 and 7)	24,972,919	31,565,827
Notes receivable - current portion (note 5)	418,600	690,199
Prepaid expenses	471,722	1,003,872
Total current assets	113,200,336	86,338,430
Noncurrent assets:		
Pledges receivable, net (note 4)	3,697,207	4,990,197
Long-term investments (note 3)	6,771,231	6,550,585
Restricted assets – investments (note 3)	20,650,206	19,846,230
Restricted assets – land	2,308,532	2,308,532
Notes receivable - net of current portion (note 5)	7,153,992	7,227,492
Capital assets, net (notes 2, 6, and 8)	40,623,772	47,230,325
Other assets (notes 2 and 11)	3,556,275	235,448
Total noncurrent assets	84,761,215	88,388,809
Total assets	197,961,551	174,727,239
<b>Deferred Outflows of Resources</b>		
Deferred loss on bond refunding (notes 2 and 8)	464,130	492,548
OPEB related outflows of resources (note 2 and 11)	106,792	531,918
Total Deferred Outflows of Resources	570,922	1,024,466
<b>Liabilities</b>		
Current liabilities:		
Accounts payable and accrued expenses (notes 2 and 7)	13,935,694	14,081,933
Sponsored programs receipts over expenditures (note 2)	20,010,177	24,834,453
Long-term debt obligations – current portion (note 8)	1,121,807	1,099,908
Due to The Campanile Foundation (note 7)	16,865,204	8,472,011
Total current liabilities	51,932,882	48,488,305
Noncurrent liabilities:		
Long-term debt obligations, net of current portion (note 8)	24,982,660	26,192,091
Other liabilities (notes 9 and 11)	6,356,990	7,329,607
Total noncurrent liabilities	31,339,650	33,521,698
Total liabilities	83,272,532	82,010,003
<b>Deferred Inflows of Resources</b>		
Deferred gain on bond refunding (notes 2 and 8)	110,408	-
OPEB related inflows of resources (notes 2 and 11)	3,090,874	-
Total Deferred Inflows of Resources	3,201,282	-
Commitments and Contingencies (notes 9, 10, 11, and 12)		
<b>Net Position</b>		
Net investment in capital assets	14,734,527	20,174,890
Restricted for:		
Nonexpendable – endowments and property	3,862,006	3,853,189
Expendable:		
Campus programs and projects	11,134,771	10,484,458
National Institutes of Health term endowment	8,589,689	8,405,742
KPBS capital campaign	19,973,664	16,530,825
Unrestricted	53,764,002	34,292,598
Total net position	\$ 112,058,659	\$ 93,741,702

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, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Operating revenues:		
Sponsored programs support	\$ 118,812,647	\$ 121,460,755
Community and campus programs	22,132,286	24,057,161
Contributions	25,268,807	34,411,933
Rental income (note 10)	6,619,884	6,630,402
Other operating revenues (note 7)	2,031,149	2,089,559
Total operating revenues	<u>174,864,773</u>	<u>188,649,810</u>
Operating expenses (notes 9, 10 and 11):		
Sponsored programs	102,258,520	103,949,154
Community and campus programs	33,776,657	35,016,557
Fundraising – broadcasting	6,733,699	6,767,921
Property management	9,384,375	8,216,807
General administration	15,854,385	15,468,858
Total operating expenses	<u>168,007,636</u>	<u>169,419,297</u>
Operating income	<u>6,857,137</u>	<u>19,230,513</u>
Nonoperating revenues (expenses):		
Interest expense (note 8)	(1,065,856)	(1,113,257)
Investment income, net	1,353,102	1,243,824
Net increase in fair value of investments (note 3)	1,258,895	1,794,705
Net gain (loss) on dispositions of property and equipment (notes 2 and 6)	9,543,467	(21,178)
Transfers from (to) SDSU (note 2)	356,599	(777,836)
Transfers to The Campanile Foundation (note 2)	-	(1,010,000)
Net nonoperating revenues	<u>11,446,207</u>	<u>116,258</u>
Income before changes to permanent endowments	18,303,344	19,346,771
Increase in permanent endowments	<u>13,613</u>	<u>29,155</u>
Net income	18,316,957	19,375,926
Net position:		
Net position at beginning of year	93,741,702	74,365,776
Net position at end of year	<u>\$ 112,058,659</u>	<u>\$ 93,741,702</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, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Sponsored programs receipts	\$ 119,070,461	\$ 130,313,992
Community and campus programs receipts	21,488,917	21,874,133
Contributions	21,314,734	22,378,463
Rents received	6,586,022	6,538,086
Payments to suppliers	(67,540,639)	(66,755,114)
Payments to employees	(98,530,364)	(95,909,573)
Transfers from (to) SDSU	356,599	(777,836)
Net transfers to The Campanile Foundation	8,393,193	2,861,434
Other receipts	<u>6,281,183</u>	<u>2,122,114</u>
Net cash provided by operating activities	<u>17,420,106</u>	<u>22,645,699</u>
Cash flows from capital and related financing activities:		
Principal payments on long-term debt	(1,005,000)	(960,000)
Interest paid	(1,116,381)	(1,185,954)
Purchase of property and equipment	(2,649,476)	(3,024,755)
Proceeds from sale of property and equipment	14,159,697	9,201
KPBS capital campaign	<u>5,582,658</u>	<u>5,221,139</u>
Net cash provided by capital and related financing activities	<u>14,971,498</u>	<u>59,631</u>
Cash flows from investing activities:		
Investment income	1,273,974	1,133,522
Proceeds from sales and maturities of investments	51,344,609	31,737,492
Collection of notes receivable	345,099	454,300
Purchases of investments	<u>(80,311,353)</u>	<u>(54,502,656)</u>
Net cash used in investing activities	<u>(27,347,671)</u>	<u>(21,177,342)</u>
Net increase in cash and cash equivalents	5,043,933	1,527,988
Cash and cash equivalents, beginning of year	<u>13,352,716</u>	<u>11,824,728</u>
Cash and cash equivalents, end of year	<u>\$ 18,396,649</u>	<u>\$ 13,352,716</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, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Reconciliation of operating income to net cash provided		
by operating activities:		
Operating income	\$ 6,857,137	\$ 19,230,513
Adjustments to reconcile operating income to net cash provided		
by operating activities:		
Depreciation	4,639,800	4,362,951
Change in assets and liabilities:		
Accounts receivable	6,291,145	(11,116,388)
Pledges receivable	(3,908,777)	(5,221,139)
Prepaid expenses and other assets	(2,573,153)	188,598
OPEB (asset) liability	(3,336,287)	1,230,375
Deferred outflows of resources related to OPEB	425,126	(246,613)
Accounts payable	(62,933)	665,668
Accrued expenses	(76,488)	(816,229)
Sponsored programs receipts over expenses	(4,824,276)	13,067,837
Net transfers from The Campanile Foundation	8,393,193	2,861,434
Other liabilities	2,148,146	20,577
Deferred inflows of resources related to OPEB	3,090,874	(804,049)
Transfers to (from) SDSU	356,599	(777,836)
Net cash provided by operating activities	<u>\$ 17,420,106</u>	<u>\$ 22,645,699</u>
 Supplemental disclosure of noncash investing and financing activity:		
Decrease in principal on long-term debt from bond refunding	\$ (55,000)	\$ -
Increase in fair value of investments	\$ 1,258,895	\$ 1,794,705
Increase in permanent endowments	\$ 13,613	\$ 29,155

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

# SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

## Notes to the Financial Statements

June 30, 2020 and 2019

### NOTE 1 – DESCRIPTION OF ORGANIZATION

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

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

#### **Affiliated Organizations**

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

### NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

#### **Basis of Accounting**

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

#### **Classification of Current and Noncurrent Assets and Liabilities**

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

#### **Cash and Cash Equivalents**

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

# SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

## Notes to the Financial Statements

June 30, 2020 and 2019

### NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

#### **Investments**

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

#### **Accounts and Pledges Receivable**

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

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

#### **Other Assets**

Other assets consist primarily of the net OPEB asset and 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.

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

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

#### **Asset Impairment**

SDSU Research Foundation annually evaluates capital assets held for investment. The carrying values of such assets that are considered to be impaired are adjusted accordingly.

For the year ended June 30, 2020, management removed the carrying value of three buildings demolished in preparation for the executed ground lease and construction of a student housing facility (Montezuma ground lease). This was reported as a loss on disposition of property. There were no such impairments for the year ended June 30, 2019.

#### **Deferred Outflows and Inflows of Resources**

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

OPEB related inflows of resources include OPEB plan experience, OPEB assumption changes, and OPEB trust investment experience. These are actuarial calculated amounts that represent differences between the most recent actuarial report and the previous actuarial report. Deferred inflows due to plan experience and assumption changes are recognized over the plan's expected average remaining service life, which is currently

# SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

## Notes to the Financial Statements

June 30, 2020 and 2019

### NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

4.56 years. OPEB related outflows of resources include the OPEB subsequent contribution, which will be recognized in the next fiscal year, and OPEB trust investment experience. The OPEB trust investment experience is an actuarial calculated amount representing the difference between projected and actual earnings on OPEB plan investments. Changes due to investment performance different from assumed earnings rate, whether a deferred inflow or deferred outflow, are amortized over five years.

#### **Compensated Absences**

SDSU Research Foundation accrues vacation benefits for eligible employees at various rates depending upon length of service and employee classification. Eligible employees accrue sick leave based upon their employment status as either full time, part time, student, temporary or seasonal; however, except in limited cases upon retirement, employees are not paid for unused sick leave at the end of employment. Liabilities for compensated absences of approximately \$3,508,000 and \$3,299,000 as of June 30, 2020 and 2019, 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 49.7% and 45.6% of its total operating revenue from federal sources during the years ended June 30, 2020 and 2019, respectively. The Department of Health and Human Services provided 25.7% and 22.5% of the total operating revenue for the years ended June 30, 2020 and 2019, respectively.

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

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

#### **Transfers**

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

#### **Net Position**

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

##### *Net investment in capital assets*

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

# SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Notes to the Financial Statements

June 30, 2020 and 2019

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

### *Restricted – nonexpendable*

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

### *Restricted – expendable*

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

### *Unrestricted*

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

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

### **Classification of Revenues and Expenses**

SDSU Research Foundation considers operating revenues and expenses to be those revenues and expenses that result from exchange transactions or from activities that are connected directly to SDSU Research Foundation's primary functions. Certain other transactions are reported as nonoperating revenues and expenses, including Interest expense, Investment income, changes in the fair value of investments, and Net gain (loss) on dispositions of property and equipment.

Included in Sponsored program receipts for the year ended June 30, 2019 was \$2 million received from The National Institutes of Health. This amount was transferred to a term endowment.

### **Functional Expense Allocations**

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

### **Interfund Eliminations**

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

### **Income Taxes**

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

# SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

## Notes to the Financial Statements

June 30, 2020 and 2019

### NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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

#### **Use of Estimates**

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

#### **Reclassifications**

Certain reclassifications have been made to the June 30, 2019 financial statements to conform to the presentation as of June 30, 2020. The June 30, 2019 Statement of Net Position reflects an \$8.4 million reduction to Restricted assets – short-term investments and an \$8.4 million increase to Short-term investments. The Statement of Cash Flows for the year ended June 30, 2019 reflects a \$5.2 million increase to cash provided by capital and financing activities for the KPBS capital campaign and a \$5.2 million decrease to Contributions in operating activities. These reclasses had no effect on operations. All other reclassifications were not material and had no effect on operations.

#### **Pronouncements Issued**

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

For the year ended June 30, 2019, SDSU Research Foundation implemented the following GASB statements, the implementation of which did not have a significant impact on the financial statements:

- GASB Statement No. 83, Certain Asset Retirement Obligations (effective for the year ended June 30, 2019)
- GASB Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements (effective for the year ending June 30, 2019).

The GASB has issued the following statements:

- GASB Statement No. 84, Fiduciary Activities (effective for the year ending June 30, 2021)
- GASB Statement No. 87, Leases (effective for the year ending June 30, 2022)
- GASB Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period (effective for the year ending June 30, 2022)
- GASB Statement No. 90, Majority Equity Interests (effective for the year ending June 30, 2022)

**SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION**

Notes to the Financial Statements

June 30, 2020 and 2019

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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

The effective dates of statements reflect implementation of GASBS 95. Management has not determined what, if any, impact implementation may have on the financial statements of SDSU Research Foundation.

NOTE 3 – INVESTMENTS

**Investment Policy**

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

Investments as of June 30 are as follows:

	<u>2020</u>	<u>2019</u>
Short-term	\$ 54,630,109	\$ 30,477,773
Short-term restricted	14,310,337	9,248,043
Long-term	6,771,231	6,550,585
Long-term restricted	20,650,206	19,846,230
	<u>\$ 96,361,883</u>	<u>\$ 66,122,631</u>

SDSU Research Foundation categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The following levels indicate the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

- Level 1 - Investments whose values are based on quoted prices (unadjusted) for identical assets in active markets that a government can access at the measurement date.
- Level 2 - Investments with inputs – other than quoted prices included within Level 1 – that are observable for an asset, either directly or indirectly.

**SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION**

Notes to the Financial Statements

June 30, 2020 and 2019

NOTE 3 – INVESTMENTS – Continued

- Level 3 - Investments classified as Level 3 have unobservable inputs for an asset and may require a degree of professional judgment

The following tables summarize SDSU Research Foundation’s investments within the fair value hierarchy at June 30, 2020 and June 30, 2019, respectively:

<u>2020 Investments</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Treasury Issues	\$ 11,215,248	\$ 11,215,248	\$ -	\$ -
Corporate Bonds	34,662,700	34,662,700	-	-
Deferred Gift	837,515	837,515	-	-
Certificates of Deposit	20,566,392	-	20,566,392	-
Money Market Funds	2,692,369	-	2,692,369	-
Real Property	1,797,000	-	-	1,797,000
TCF Endowment Pool	24,478,043	-	-	24,478,043
Amounts Held by Others	112,616	-	-	112,616
	<u>\$ 96,361,883</u>	<u>\$ 46,715,463</u>	<u>\$ 23,258,761</u>	<u>\$ 26,387,659</u>

<u>2019 Investments</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Treasury Issues	\$ 3,385,788	\$ 3,385,788	\$ -	\$ -
Federal Agency Issues	131,922	131,922	-	-
Bond Index Mutual Fund	1,803,373	1,803,373	-	-
Corporate Bonds	30,565,074	30,565,074	-	-
Deferred Gift	871,928	871,928	-	-
Certificate of Deposit	2,505,037	-	2,505,037	-
Intermediate Term Fund	485,458	-	485,458	-
Money Market Funds	849,163	-	849,163	-
Real Property	1,797,000	-	-	1,797,000
TCF Endowment Pool	23,613,206	-	-	23,613,206
Amounts Held by Others	114,682	-	-	114,682
	<u>\$ 66,122,631</u>	<u>\$ 36,758,085</u>	<u>\$ 3,839,658</u>	<u>\$ 25,524,888</u>

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

- Level 1 Measurements

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

# SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

## Notes to the Financial Statements

June 30, 2020 and 2019

### NOTE 3 – INVESTMENTS – Continued

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

- Level 2 Measurements

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

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

- Level 3 Measurements

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

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

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

#### The Campanile Foundation Endowment Pool

The TCF Endowment Pool has significant investments in various mutual funds and third-party investment pools. These investments are managed by an Outside Chief Investment Officer (OCIO) based upon the Investment Policy Statement (IPS) as approved by the TCF Board of Directors. The TCF Finance and Investment Committee meets regularly with the OCIO to review the investments, performance, and compliance with the IPS. The investment category allocations and IPS targets as of June 30 are as follows:

	<u>2020</u>	<u>2019</u>	<u>IPS Target</u>
Growth Assets	43.8%	41.2%	50.0%
Credit	4.6%	1.8%	8.0%
Inflation Hedges	10.0%	13.6%	14.0%
Risk Mitigation	41.6%	43.4%	28.0%
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

SDSU Research Foundation recognized a net unrealized gain of \$1,209,484 and \$895,319 for the years ended June 30, 2020 and 2019, respectively, from its investment in the TCF Endowment Pool.

**SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION**

Notes to the Financial Statements

June 30, 2020 and 2019

NOTE 3 – INVESTMENTS – Continued

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

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

Endowment distributions are provided in accordance with SDSU Research Foundation and The Campanile Foundation’s investment policy statement. For the fiscal years ended June 30, 2020 and 2019, the distribution rate was 4% of the endowment principal market value using a three-year moving average.

**Interest Rate Risk**

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

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

	<b>Market Value Total</b>	<b>Less than One Year</b>	<b>Two - Five Years</b>
Treasury Issues	\$ 11,215,248	\$ 11,215,248	\$ -
Corporate Bonds	34,662,701	34,466,438	196,263
Certificates of Deposit	20,566,392	20,566,392	-
Money Market Funds	2,692,369	2,692,369	-
	<u>\$ 69,136,710</u>	<u>\$ 68,940,447</u>	<u>\$ 196,263</u>

Maturities of fixed income investments as of June 30, 2019 are as follows:

	<b>Market Value Total</b>	<b>Less than One Year</b>	<b>Two - Five Years</b>
Treasury Issues	\$ 3,385,788	\$ 3,385,788	\$ -
Federal Agency Issues	131,922	131,922	-
Bond Index Mutual Fund	1,803,373	-	1,803,373
Corporate Bonds	30,565,074	30,565,074	-
Certificate of Deposit	2,505,037	2,505,037	-
Intermediate Term Fund	485,458	-	485,458
Money Market Funds	849,163	849,163	-
	<u>\$ 39,725,815</u>	<u>\$ 37,436,984</u>	<u>\$ 2,288,831</u>

# SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

## Notes to the Financial Statements

June 30, 2020 and 2019

### NOTE 3 – 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. SDSU Research Foundation's investment policy requires that fixed income investments must be rated as "Investment Grade," which is BBB or higher. Credit ratings by nationally recognized institutions are used to assess the creditworthiness of specific investments. Federal agency issues, bond index fund, intermediate term fund, and money market funds do not have a rating provided by a nationally recognized statistical rating organization. The range of rating of corporate bonds was BBB to AA as of June 30, 2020 and BBB to A+ as of June 30, 2019.

#### **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 U.S. government agencies are purchased to reduce the possibility of a loss due to a concentration of credit. SDSU Research Foundation's investment policy contains no limitations as to how much can be invested with any one issuer. As of June 30, 2020, and June 30, 2019, SDSU Research Foundation did not have any investments with a single non-federal issuer that exceeded 5% of total investments.

#### **Custodial Credit Risk**

Custodial credit risk for deposits is the risk that SDSU Research Foundation will not be able to recover its deposits in the event of a failure of a depository institution. SDSU Research Foundation deposits are maintained at financial institutions that are Federal Deposit Insurance Corporation (FDIC) secured. As a result, custodial credit risk for deposits is remote. In the ordinary course of SDSU Research Foundation's operations, deposit balances can exceed the FDIC insured limits.

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

**SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION**

Notes to the Financial Statements

June 30, 2020 and 2019

NOTE 4 – ACCOUNTS AND PLEDGES RECEIVABLE

Accounts and pledges receivable as of June 30, 2020 and June 30, 2019 consisted of the following:

	<b>2020</b>		
	<b>Current</b>	<b>Noncurrent</b>	<b>Total</b>
Accounts receivable - sponsored programs	\$ 18,904,816	\$ -	\$ 18,904,816
Pledges receivable	2,687,974	3,697,207	6,385,181
Other receivables	4,184,310	-	4,184,310
Less allowance for doubtful accounts	(804,181)	-	(804,181)
	<u>\$ 24,972,919</u>	<u>\$ 3,697,207</u>	<u>\$ 28,670,126</u>
	<b>2019</b>		
	<b>Current</b>	<b>Noncurrent</b>	<b>Total</b>
Accounts receivable - sponsored programs	\$ 23,986,907	\$ -	\$ 23,986,907
Pledges receivable	2,881,212	4,990,197	7,871,409
Other receivables	5,044,540	-	5,044,540
Less allowance for doubtful accounts	(346,832)	-	(346,832)
	<u>\$ 31,565,827</u>	<u>\$ 4,990,197</u>	<u>\$ 36,556,024</u>

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

NOTE 5 – NOTES RECEIVABLE – AZTEC SHOPS, LTD.

Notes receivable from Aztec Shops as of June 30, 2020 and 2019 consisted of the following:

	<b>2020</b>		
	<b>Current</b>	<b>Noncurrent</b>	<b>Total</b>
Sanctuary Suites (a)	\$ 235,900	\$ 4,010,292	\$ 4,246,192
Piedra del Sol and Fraternity Row (b)	109,200	1,747,200	1,856,400
College Square (c)	43,500	826,500	870,000
College Strip (c)	30,000	570,000	600,000
	<u>\$ 418,600</u>	<u>\$ 7,153,992</u>	<u>\$ 7,572,592</u>
	<b>2019</b>		
	<b>Current</b>	<b>Noncurrent</b>	<b>Total</b>
Sanctuary Suites (a)	\$ 471,799	\$ 4,010,292	\$ 4,482,091
Piedra del Sol and Fraternity Row (b)	218,400	1,747,200	1,965,600
College Square (c)	-	870,000	870,000
College Strip (c)	-	600,000	600,000
	<u>\$ 690,199</u>	<u>\$ 7,227,492</u>	<u>\$ 7,917,691</u>

## SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

### Notes to the Financial Statements

June 30, 2020 and 2019

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

- (a) In January 2014, SDSU Research Foundation transferred a property adjacent to the University (Sanctuary Suites) to Aztec Shops, Ltd. in exchange for an unsecured note in the amount of \$4,717,991. Payments of interest only at 4% were payable semi-annually until April 15, 2019 at which time fixed principal payments of \$235,900 began plus accrued interest payable semi-annually through October 15, 2028.
- (b) In June 2013, SDSU Research Foundation transferred two student housing projects adjacent to the University (Piedra del Sol and Fraternity Row apartments) to Aztec Shops, Ltd. As part of the consideration for the transfer, Aztec Shops, Ltd. provided an unsecured note to SDSU Research Foundation in the amount of \$2,184,000. Payments of interest only at 4% were payable semi-annually until October 15, 2018 at which time fixed principal payments of \$109,200 plus accrued interest are payable semi-annually through April 15, 2028.
- (c) In May 2015, SDSU Research Foundation transferred properties adjacent to the University (College Square and College Strip) to Aztec Shops, Ltd. in exchange for cash of \$2,725,000, which was used to pay off a mortgage note and unsecured notes in the amount of \$1,470,000. Payments of interest only at 4% were payable semi-annually until October 15, 2020 from Aztec Shops, Ltd., at which time fixed principal payments of \$73,500 plus accrued interest are payable semi-annually through April 15, 2030.

In April 2020, SDSU Research Foundation and Aztec Shops, Ltd. executed an amendment to the four promissory notes referenced above. This amendment deferred the principal payments due April 15, 2020 and October 15, 2020. The payment terms were extended an additional year and the deferred principal payments are due at the end of each term.



# SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

## Notes to the Financial Statements

June 30, 2020 and 2019

### NOTE 6 – CAPITAL ASSETS – Continued

with an option to extend an additional five years. This option was exercised at the commencement of the lease. The lease and associated subleases are included in the operating lease revenues and operating lease obligations schedules, respectively, within Note 10 - Leasing arrangements.

In July 2019, SDSU Research Foundation executed a 50-year ground lease with a developer to construct student housing. Demolition of the existing buildings took place in May 2020. The net book value of \$186,000 related to these properties was reported as a loss and included in Net gain (loss) on dispositions of property and equipment in the Statement of Revenue, Expenses, and Changes in Net Position.

### NOTE 7 – AFFILIATED ORGANIZATIONS

#### **The Campanile Foundation (TCF)**

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

Pursuant to an agreement with TCF effective through June 30, 2023, SDSU Research Foundation shall provide administrative services that include cash management processes, gift account administration, and accounting and financial reporting assistance. SDSU Research Foundation charges an administrative fee for all non-student aid funds at the time that TCF expends the funds. Amounts received under this agreement are a combination of fees charged on TCF non-student aid funds and additional amounts paid by TCF. For the years ended June 30, 2020 and 2019 the administrative fee received from TCF totaled \$969,000 and \$945,000, 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 \$924,000 and \$458,000 at June 30, 2020 and 2019, respectively. Included in Accounts and pledges receivable were receivables from the affiliated organizations in the approximate amounts of \$547,000 and \$155,000 at June 30, 2020 and 2019, 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, 2020 and 2019

**NOTE 8 – LONG-TERM DEBT OBLIGATIONS**

Long-term debt activity for the years ended June 30, 2020 and 2019 was as follows:

	<u>Balance June 30, 2019</u>	<u>Additions</u>	<u>Reductions</u>	<u>Refunding</u>	<u>Balance June 30, 2020</u>	<u>Current Portion</u>
CSU SRB 2010A -						
1999 Refunding (a)	\$ 1,975,000	\$ -	\$ (455,000)	\$ (1,520,000)	\$ -	\$ -
CSU SRB 2012 -						
2002 Refunding (b)	24,175,000	-	(550,000)	-	23,625,000	565,000
CSU SRB 2020A -						
2010 Refunding (a)	-	1,465,000	-	-	1,465,000	465,000
Unamortized bond premium						
CSU SRB 2010A (a)	152,339	-	(22,216)	(130,123)	-	-
CSU SRB 2012 (b)	989,660	-	(56,823)	-	932,837	56,823
CSU SRB 2020 (a)	-	96,207	(14,577)	-	81,630	34,984
	<u>\$ 27,291,999</u>	<u>\$ 1,561,207</u>	<u>\$ (1,098,616)</u>	<u>\$ (1,650,123)</u>	<u>\$ 26,104,467</u>	<u>\$ 1,121,807</u>
	<u>Balance June 30, 2018</u>	<u>Additions</u>	<u>Reductions</u>	<u>Refunding</u>	<u>Balance June 30, 2019</u>	<u>Current Portion</u>
CSU SRB 2010A -						
1999 Refunding (a)	\$ 2,415,000	\$ -	\$ (440,000)	\$ -	\$ 1,975,000	\$ 455,000
CSU SRB 2012 -						
2002 Refunding (b)	24,695,000	-	(520,000)	-	24,175,000	550,000
Unamortized bond premium						
CSU SRB 2010A (a)	190,424	-	(38,085)	-	152,339	38,085
CSU SRB 2012 (b)	1,046,483	-	(56,823)	-	989,660	56,823
	<u>\$ 28,346,907</u>	<u>\$ -</u>	<u>\$ (1,054,908)</u>	<u>\$ -</u>	<u>\$ 27,291,999</u>	<u>\$ 1,099,908</u>

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

The SRB 2020A bonds sold at amounts greater than par. The resulting bond premium of \$96,207 is being amortized over the life of the bonds using the straight-line method, which approximates the effective interest method. The prorated amount amortized for the period February 1 - June 30, 2020 was \$14,577 for the year ended June 30, 2020.

The amortization of premium of the SRB 2010A bonds was prorated for the period of July 1 to January 31 for the year ended June 30, 2020. The amortization was \$22,216 and \$38,085 for the years ended June 30, 2020 and 2019, respectively. The balance of the unamortized premium of \$130,123 was reclassified to deferred gain on bond refunding. The deferred gain is included on the Statement of Net Position as a deferred inflow of resources. The gain is being amortized as a reduction of interest expense over the life of the bonds using the straight-line method, which approximates the effective interest method. The gain recognized was \$19,716 for the year ended June 30, 2020.

(b) In August 2012, the CSU System issued system wide revenue bonds (SRB 2012A and SRB 2012B). Part of this reissuance (\$27,100,000) was allocated to SDSU Research Foundation to replace the 2002 SDSU Research Foundation insured revenue bonds. The SRB 2012A and 2012B bonds bear interest at rates

**SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION**

Notes to the Financial Statements

June 30, 2020 and 2019

NOTE 8 – LONG-TERM DEBT OBLIGATIONS – Continued

ranging from 0.4% to 5.0% and are due in semi-annual principal and interest payments consistent with the terms of the original bonds. The bonds mature in 2037.

The SRB 2012 bonds sold at amounts greater than par. The resulting bond premium of \$1,377,948 is being amortized over the life of the bonds using the straight-line method, which approximates the effective interest method. The amount amortized was \$56,823 for each of the years ended June 30, 2020 and 2019.

A loss of \$686,737 was incurred on the refunding of the SRB 2012A bonds. The loss was deferred and is included on the Statements of Net Position as a deferred outflow 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, 2020 and 2019.

In July 2016, SDSU Research Foundation entered into a revolving loan agreement with a bank. The loan is secured by two parcels of real property. The loan agreement is available for short-term cash needs, with a maximum amount available of \$12.0 million, and a maturity date of September 26, 2021. The agreement calls for certain restrictive and financial covenants to be maintained. The current agreement requires monthly interest-only payments at a variable interest rate of the prime lending rate minus 1%, but in no event less than 2.5%. There were no amounts outstanding under the agreement as of June 30, 2020 and 2019.

Total interest incurred on all borrowings was approximately \$1,018,000 and \$1,068,000 for the years ended June 30, 2020 and 2019, respectively.

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

<b>Year(s) ending June 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2021	\$ 1,030,000	\$ 1,060,386	\$ 2,090,386
2022	1,060,000	1,019,005	2,079,005
2023	1,110,000	975,171	2,085,171
2024	1,160,000	926,265	2,086,265
2025	1,210,000	873,814	2,083,814
2026-2030	6,955,000	3,497,784	10,452,784
2031-2035	8,575,000	1,868,310	10,443,310
2036-2037	3,990,000	182,318	4,172,318
	<u>\$ 25,090,000</u>	<u>\$ 10,403,053</u>	<u>\$ 35,493,053</u>

**SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION**

Notes to the Financial Statements

June 30, 2020 and 2019

NOTE 9 – OTHER LIABILITIES

Activities in other liabilities for the years ended June 30, 2020 and 2019 consisted of the following:

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

	<b>Balance</b>			<b>Balance</b>
	<b>June 30, 2018</b>	<b>Additions</b>	<b>Reductions</b>	<b>June 30, 2019</b>
Workers' compensation	\$ 2,508,805	\$ 541,725	\$ (835,474)	\$ 2,215,056
Deferred revenue - ground lease	1,859,501	-	(39,740)	1,819,761
Unemployment insurance	1,450,879	625,748	(241,665)	1,834,962
Net OPEB liability	-	774,160	-	774,160
Other obligations	715,685	112,434	(142,451)	685,668
	<u>\$ 6,534,870</u>	<u>\$ 2,054,067</u>	<u>\$ (1,259,330)</u>	<u>\$ 7,329,607</u>

**Risk Management**

SDSU Research Foundation is subject to risks of loss such as general liabilities, torts and employee health expenses. SDSU Research Foundation participates in the California State University risk management pool, California State University Risk Management Authority (CSURMA), for most of its insurance needs. CSURMA provides insurance and risk management services for California State University campuses and auxiliary organizations, including insurance and self-insurance. Auxiliary Organizations Risk Management Alliance (AORMA) operates within CSURMA to offer tailored coverage for California State University auxiliary organizations. CSURMA AORMA assumes charge of the control, negotiation, investigation, settlement, defense, or appeal of any claims made, or suits brought, or proceedings instituted against SDSU Research Foundation for areas covered by the pool. For their services, SDSU Research Foundation remits annual contribution payments computed in accordance with CSURMA AORMA's rules and rates.

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

# SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

## Notes to the Financial Statements

June 30, 2020 and 2019

### NOTE 9 – OTHER LIABILITIES – Continued

#### Deferred Revenue

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

### NOTE 10 – LEASING ARRANGEMENTS

#### Operating Lease Revenues

Land, buildings and improvements, with a current net book value of approximately \$23.4 million, are leased to University-related and commercial organizations. Included in rental income is sublease revenue of \$728,000 and \$434,000 for the years ended June 30, 2020 and 2019, respectively.

The following is a schedule of the minimum future rental payments to be received on operating leases, by year, as of June 30, 2020:

Year(s) ending June 30	Affiliated	Unrelated	Total
	Organizations	Parties	
2021	\$ 1,188,000	\$ 2,539,000	\$ 3,727,000
2022	909,000	2,188,000	3,097,000
2023	895,000	1,898,000	2,793,000
2024	486,000	1,325,000	1,811,000
2025	493,000	1,138,000	1,631,000
Thereafter	12,986,000	9,728,000	22,714,000
	<u>\$ 16,957,000</u>	<u>\$ 18,816,000</u>	<u>\$ 35,773,000</u>

In July 2019, SDSU Research Foundation entered into a 50-year ground lease agreement of real property with a developer to construct and operate a student housing facility. Construction of the property began in May 2020 and the facility is expected to be completed and open in August 2021. Annual rent payments during the construction period through Year 4 of the lease term range from \$125,000 to \$207,114. Thereafter, two options will be available to SDSU Research Foundation for rental income. These options provide a combination of revenue sharing and fixed lease payments. The lower fixed rental amount of the two options is included in the schedule above.

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

#### Operating Lease Obligations

SDSU Research Foundation leases certain land, buildings, and equipment under operating leases. The total rental expense incurred was \$4.7 and \$4.8 million for the years ended June 30, 2020 and 2019, respectively.

SDSU Research Foundation executed a 30-year ground and facility lease with the Board of Trustees of the California State University for the SDSU BioScience Center in March 2004. Lease payments began in May

**SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION**

Notes to the Financial Statements

June 30, 2020 and 2019

NOTE 10 – LEASING ARRANGEMENTS – Continued

2006. SDSU Research Foundation incurred rental expense under this agreement of \$474,000 and \$475,000 for the years ended June 30, 2020 and 2019, 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.

The minimum rental commitments at June 30, 2020 are as follows:

Year(s) ending June 30	Affiliated Organizations	Unrelated Parties	Total
2021	\$ 911,000	\$ 1,999,000	\$ 2,910,000
2022	916,000	2,005,000	2,921,000
2023	925,000	1,733,000	2,658,000
2024	928,000	1,245,000	2,173,000
2025	937,000	1,240,000	2,177,000
2026-2030	2,572,000	6,753,000	9,325,000
2031-2035	2,318,000	-	2,318,000
2036	466,000	-	466,000
	<u>\$ 9,973,000</u>	<u>\$ 14,975,000</u>	<u>\$ 24,948,000</u>

NOTE 11 – POSTRETIREMENT BENEFIT PLAN

**General Information about the OPEB Plan**

The Health, Vision, Life Insurance/AD&D and Employee Assistance Program of San Diego State University Foundation (the Plan) was created by SDSU Research Foundation as a fully insured, single-employer benefit plan. The Plan was effective as of August 1, 1982 and is administered by SDSU Research Foundation. It also provides for post-retirement medical benefits to certain former regular employees and qualified dependents of the SDSU Research Foundation.

SDSU Research Foundation established a voluntary employees’ beneficiary association trust (the VEBA) with a registered investment company on June 24, 1996. The VEBA holds the assets and funds the post-employment benefit obligation provided under the plan. The fair value of assets held by the VEBA trust for the years ended June 30, 2020 and 2019 was \$12,686,000 and \$12,372,000, respectively. The plan issues stand-alone, publicly available financial reports that include financial statements and required supplementary information prepared on the accrual basis of accounting in accordance with the standards of the GASB and GAAP. The financial statements may be obtained by contacting the human resources department at SDSU Research Foundation.

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

- Group 1 Retirees – Individuals who were employed as eligible employees on June 30, 1991 and at the time of retirement, had 10 years of service as eligible employees, and retired either (a) under “SDSURF

# SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

## Notes to the Financial Statements

June 30, 2020 and 2019

### NOTE 11 – POSTRETIREMENT BENEFIT PLAN – Continued

Defined Contribution Retirement Plan” offered through Teachers Insurance and Annuity Association (TIAA) after attaining age 55 (or after attaining age 50 if the individual was employed by SDSU Research Foundation and covered by California Public Employees’ Retirement System (CalPERS) on June 30, 1982), or (b) due to permanent and total disability, as approved by TIAA, under the “Group Total Disability Benefits Plan for Regular Salaried Employees of SDSURF.”

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

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

Only certain regular employees of SDSU Research Foundation are eligible. Regular employees are members of either (a) central staff under the programmatic direction of SDSU Research Foundation’s Executive Director, (b) KPBS, (c) SDSU Global Campus, (d) University Relations and Development or (e) SDSU Athletics. A regular employee is appointed to an approved class code, works a regular schedule of 30 hours or more per week, and is not a temporary or leased employee. At December 31, 2019, there were 304 active postretirement Plan participants and 82 eligible retired participants or their surviving spouses receiving benefits from the Plan. At December 31, 2018, there were 328 active postretirement Plan participants and 76 eligible retired participants or their surviving spouses receiving benefits from the Plan.

SDSU Research Foundation has voluntarily opted for a funding policy under which it contributes 100% of the actuarially determined contribution (ADC). The actuarially determined contribution (ADC) for the year ended June 30, 2020 was \$52,696, comprised of a cash contribution to the trust of \$44 and an implicit subsidy credit of \$106,748, offset by a contribution excess amount of \$54,096. The actuarially determined contribution (ADC) for the year ended June 30, 2019 was \$295,634. No contributions to fund the future liability of the plan are required from employees.

**SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION**

Notes to the Financial Statements

June 30, 2020 and 2019

NOTE 11 – POSTRETIREMENT BENEFIT PLAN – Continued

***Net OPEB Asset (Liability)***

Included in Other assets and Other liabilities on the Statements of Net Position as of June 30, 2020 and June 30, 2019, respectively, is the net OPEB asset (liability) of SDSU Research Foundation. The components of the asset (liability) are as follows:

	<b>June 30, 2020</b>	<b>June 30, 2019</b>
Plan fiduciary net position	\$ 12,690,487	\$ 11,079,397
Total OPEB liability	<u>(9,396,417)</u>	<u>(11,853,557)</u>
Net OPEB asset (liability)	<u>\$ 3,294,070</u>	<u>\$ (774,160)</u>

***Actuarial Assumptions***

The total OPEB liability for the year ended June 30, 2020 was determined by an actuarial valuation as of December 31, 2019. The total OPEB liability for the year ended June 30, 2019 was determined by a rollforward to December 31, 2018 of the actuarial valuation as of December 31, 2017. The following assumptions were used to determine the total OPEB liability as of December 31, 2019 and December 31, 2018:

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
General Inflation Rate	2.5%	2.75%
Salary Increase	3.0% per year, used only to allocate the cost of benefits between service years	3.25% per year, used only to allocate the cost of benefits between service years
Investment Rate of Return	6.0%	6.0%
Mortality Rates	Public Retirement Plans Headcount Weighted 2010 Mortality Table with separate rates for males and females. Mortality improvement rates were projected using MacLeod Watts Scale 2020 on a fully generational basis from 2010 forward.	Mortality rates were based on the RP-2014 Healthy Mortality Table, with separate rates for males and females. Mortality improvement imbedded in this table using MP 2014 is backed out to mortality rates as of the base year. The base year rates are then projected using Bickmore Scale 2018 on a fully generational basis.

***Discount Rate***

The discount rate used to measure the total OPEB liability as of December 31, 2019 and December 31, 2018 was 6.0%, which is equal to the expected long-term yield on investments. This long-term rate is used because the investments are expected to fund the benefit costs. The long-term yield of 6.0% is a conservative estimate and, as such, is expected to provide some margin against lower than market rate returns.

**SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION**

Notes to the Financial Statements

June 30, 2020 and 2019

NOTE 11 – POSTRETIREMENT BENEFIT PLAN – Continued

***Sensitivity of the Net OPEB Asset (Liability) to Changes in Discount Rate and Healthcare Cost***

The discount rate used to calculate the net OPEB asset (liability) as of December 31, 2019 is 6.0%. Healthcare Cost Trend Rate was assumed to start at 5.4% and grade down to 4.0% for years 2076 and later. The impact of a 1.0% increase or decrease in these assumptions is shown in the chart below as of December 31, 2019:

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

The impact of a 1% increase or decrease in these assumptions is shown in the chart below as of December 31, 2018:

	Sensitivity of Asset (Liability) to Change in					
	Discount Rate			Healthcare Cost Trend Rate		
		Current	+ 1%		Current	
	1% Decrease (5%)	Discount Rate (6%)	Increase (7%)	1% Decrease	Healthcare Cost Trend	1% Increase
<b>Net OPEB (Liability)</b>						
<b>Asset</b>	\$ (2,615,268)	\$ (774,160)	\$ 706,547	\$ 875,061	\$ (774,160)	\$ (2,828,081)
(Decrease) Increase	(1,841,108)		1,480,707	1,649,221		(2,053,921)
% (Decrease) Increase	(237.8%)		191.3%	213.0%		(265.3%)

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

For the years ended June 30, 2020 and June 30, 2019, SDSU Research Foundation recognized a reduction to OPEB expense of \$445,438 and OPEB expense of \$475,347, respectively.

**SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION**

Notes to the Financial Statements

June 30, 2020 and 2019

NOTE 11 – POSTRETIREMENT BENEFIT PLAN – Continued

The exhibit below shows the OPEB related deferred outflows and inflows of resources reported in the Statements of Net Position as of June 30, 2020 and 2019.

	<u>June 30, 2020</u>	<u>June 30, 2019</u>
<b>Deferred Outflows of Resources</b>		
OPEB subsequent contribution	\$ 106,792	\$ 295,634
OPEB investment experience	-	236,284
Total OPEB related outflows of resources	<u>\$ 106,792</u>	<u>\$ 531,918</u>
 <b>Deferred Inflows of Resources</b>		
OPEB plan experiences	\$ 2,364,141	\$ -
OPEB investment experiences	656,443	-
Changes of assumptions	70,290	-
Total OPEB related inflows of resources	<u>\$ 3,090,874</u>	<u>\$ -</u>

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

<b>For the Fiscal Year Ending June 30</b>	<b>Recognized net deferred inflows of resources</b>
2021	\$ (895,988)
2022	(895,989)
2023	(694,975)
2024	(603,922)
Total	<u>\$ (3,090,874)</u>

***Actuarial Methods and Assumptions***

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

**Other Retirement Benefits**

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

# SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

## Notes to the Financial Statements

June 30, 2020 and 2019

### NOTE 11 – POSTRETIREMENT BENEFIT PLAN – Continued

Participants are vested immediately in their contributions and SDSU Research Foundation contributions plus actual earnings thereon. For the year ended June 30, 2019, SDSU Research Foundation contributed ten percent of eligible employees' adjusted gross salary. Effective January 1, 2020, the Retirement Plan was amended, for non-faculty employees only, to replace the ten percent contribution with a fixed matching contribution. The fixed matching contribution is tiered based on the percentage the participant defers. SDSU Research Foundation contributes up to 200% if a participant contributes up to five percent of their eligible adjusted gross salary. Total contributions to the Retirement Plan for the years ended June 30, 2020 and 2019 were approximately \$5,388,000 and \$5,244,000, respectively, and included in Operating expenses in the Statements of Revenues, Expenses, and Changes in Net Position.

### NOTE 12 – CONTINGENCIES

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

**SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION**

Schedules of Required Supplementary Information (UNAUDITED)

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

Last Three Fiscal Years

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

**Notes to Schedule:**

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

Certain reclassifications have been made to the June 30, 2019 schedule in order to conform to the presentation as of June 30, 2020. These reclassifications had no effect on the change in Plan fiduciary net position.

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

**SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION**

Schedules of Required Supplementary Information (UNAUDITED)

Schedule of SDSU Research Foundation Contributions

Last Three Fiscal Years

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

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

**Notes to Schedule of Contributions**

Valuation Date <sup>(1)</sup>	12/31/19	12/31/17	12/31/17
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Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization method	Level Dollar	Level Dollar	Level Dollar
Amortization period	30 year open	29 year closed	30 year closed
Asset valuation method	Market Value	Market Value	Market Value
Inflation	2.50%	2.75%	2.75%
Healthcare cost trend rates	5.4% in 2021, fluctuates until ultimate rate of 4% in 2076	7.5% in 2019, step down 0.5% per year to 5% in 2024	7.5% in 2019, step down 0.5% per year to 5% in 2024
Salary increases	3.00%	3.25%	3.25%
Investment rate of return	6.0%	6.0%	6.0%
Retirement age	From 55 to 70	From 55 to 70	From 55 to 70
Mortality	Public Retirement Plans Headcount Weighted 2010 Mortality (sex distinct rates). Mortality improvement with MacLeod Watts Scale 2020	RP-2014 Healthy Mortality (sex distinct rates). Mortality improvement with Macleod Watts Scale 2018	RP-2014 Healthy Mortality (sex distinct rates). Mortality improvement with Macleod Watts Scale 2018

<sup>(1)</sup> The 2017 valuation developed the Actuarially Determined Contributions for SDSU Research Foundation's fiscal years ending June 30, 2018 and June 30, 2019

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