



(a Component Unit of San Diego State University)

Financial Statements

June 30, 2016 and 2015

(With Independent Auditors' Report Thereon)

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
San Diego State University Research Foundation

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Report on the financial statements

We have audited the accompanying financial statements of the business-type activities, of San Diego State University Research Foundation (a California State University Auxiliary Organization and Component Unit of San Diego State University) (“SDSU Research Foundation”) as of and for the years ended June 30, 2016 and 2015, 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 controls 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of SDSU Research Foundation, as of June 30, 2016 and 2015, 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.



Required supplementary information

Accounting principles generally accepted in the United States of America require that the Management Discussion and Analysis on pages 5 – 14 and the Schedule of Post-Employment Health Care Benefits Funding Progress as of December 31, 2015 on page 41 be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. This required supplementary information is the responsibility of management. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America. These limited procedures consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on pages 42-47 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the basic financial statements or to the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Other reporting required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report, dated September 15, 2016, on our consideration of SDSU Research Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering SDSU Research Foundation's internal control over financial reporting and compliance.

Grant Thornton LLP

San Diego, CA
September 15, 2016



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

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Board of Director
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 the San Diego State University Research Foundation (a California State University Auxiliary Organization and Component Unit of San Diego State University) (“SDSU Research Foundation”) as of and for the year ended June 30, 2016, 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 15, 2016.

Internal control over financial reporting

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

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

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



Compliance and other matters

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

Intended purpose

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

Grant Thornton LLP

San Diego, CA
September 15, 2016

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Management's Discussion and Analysis

(unaudited)

June 30, 2016 and 2015

Management's Discussion and Analysis (unaudited)

This section of the San Diego State University Foundation (dba San Diego State University (SDSU) Research Foundation) annual financial report includes management's discussion and analysis of the financial performance of SDSU Research Foundation for fiscal years ended June 30, 2016 and 2015. This discussion should be read in conjunction with the financial statements and notes.

Introduction to the Financial Statements

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

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

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

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

Financial Overview

Summary

The following discussion highlights management's understanding of the key financial aspects of SDSU Research Foundation's financial activities as of and for the years ended June 30, 2016 and 2015. 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, 2016

In March 2016, the National Institute on Minority Health and Health Disparities (NIMHD), part of the National Institutes of Health (NIH), awarded SDSU Research Foundation a \$10 million endowment on behalf of SDSU to improve the infrastructure that supports population health and health disparities research. The endowment will contribute \$2 million per year over the next 5 years.

SDSU-Georgia project is a multi-year capacity-building effort to improve science, technology, engineering and mathematics (STEM) education in the country of Georgia. In October 2015, the "pre-enrollment" contract (15 months duration) ended. This phase included administrative start-up, degree accreditation and institutional support. SDSU subcontracted with SDSU Research Foundation to provide services for this project. Upon successful completion of the first phase of this contract, in October 2015, MCA-Georgia granted a follow-on contract to SDSU and funded activities for a 45 month duration.

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Management's Discussion and Analysis

(unaudited)

June 30, 2016 and 2015

Significant Events – Year Ended June 30, 2015

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

SDSU Research Foundation's condensed summary of net position as of June 30, 2016, 2015 and 2014 follows:

Condensed Summary of Net Position

	June 30		
	2016	2015	2014
Assets:			
Current assets	\$ 49,744,846	\$ 47,367,145	\$ 41,903,090
Capital assets, net	51,925,849	49,086,814	57,346,915
Other noncurrent assets	44,291,384	54,010,347	55,483,377
Total assets	145,962,079	150,464,306	154,733,382
Deferred Outflows of Resources:			
Deferred loss on bond refunding	577,802	606,220	634,450
Liabilities:			
Current liabilities	25,875,920	31,938,374	30,600,572
Noncurrent liabilities	33,103,743	33,354,370	36,986,063
Total liabilities	58,979,663	65,292,744	67,586,635
Net Position:			
Net investment in capital assets	22,156,928	18,386,404	22,976,432
Restricted – nonexpendable	3,295,205	3,453,377	5,309,953
Restricted – expendable	11,975,356	10,612,196	13,480,783
Unrestricted	50,132,729	53,325,805	46,014,029
Total net position	\$ 87,560,218	\$ 85,777,782	\$ 87,781,197

Assets

Total assets decreased \$4.5 million from fiscal year (FY) 2015 to FY 2016 primarily due to the redemption of investments and lower cash on hand, offset by additional net capital assets. Total assets decreased \$4.3 million from FY 2014 to FY 2015 primarily due to property sales to Aztec Shops, Ltd. and transfer of endowments to TCF.

Current assets increased \$2.4 million from FY 2015 to FY 2016 primarily due to greater short-term investments which was partially offset by less cash on hand. Current assets increased \$5.5 million from FY 2014 to FY 2015 primarily due to the timing of cash receipts related to sponsored programs.

Capital assets increased \$2.8 million from FY 2015 to FY 2016 primarily due to \$4.5 million in tenant improvements for the College of Extended Studies, which was partially offset by depreciation expense. Capital assets decreased \$8.3 million from FY 2014 to FY 2015 primarily due to property sales and a transfer of property to Aztec Shops, Ltd.

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Management's Discussion and Analysis

(unaudited)

June 30, 2016 and 2015

Other noncurrent assets decreased \$9.7 million from FY 2015 to FY 2016 primarily due to the redemption of long-term investments to provide funding for the College of Extended Studies tenant improvements and to reduce current liabilities. Other noncurrent assets decreased \$1.5 million from FY 2014 to FY 2015 primarily due to endowment assets transferred to TCF.

Deferred Outflows of Resources

Deferred outflows of resources decreased \$28,418 and \$28,230 from FY 2015 to FY 2016 and from FY 2014 to FY 2015, respectively, due to the amortization of the deferred loss on bond refunding.

Liabilities

Current liabilities decreased by \$6.0 million from FY 2015 to FY 2016 and increased by \$1.3 million from FY 2014 to FY 2015 primarily due to a significant advanced payment received from the sponsor of the Georgia project.

Noncurrent liabilities decreased \$300,000 from FY 2015 to FY 2016 primarily due to the reduction of long-term debt offset by an increase in workers compensation liability. Noncurrent liabilities decreased \$3.6 million from FY 2014 to FY 2015 primarily due to pay off of the long-term debt with the transfer of property to Aztec Shops, Ltd.

Net Position

SDSU Research Foundation's net position increased \$1.8 million from FY 2015 to FY 2016 primarily due to the increase in capital assets offset by the decrease in unrestricted net position. The total net position decreased \$2.0 million from FY 2014 to FY 2015 primarily due to the net effect from the transfer of endowments to The Campanile Foundation.

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Management's Discussion and Analysis

(unaudited)

June 30, 2016 and 2015

Restricted Resources

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

Restricted Net Position

	June 30		
	<u>2016</u>	<u>2015</u>	<u>2014</u>
Nonexpendable	\$ 3,295,205	\$ 3,453,377	\$ 5,309,953
Expendable:			
Campus programs and projects	\$ 9,055,592	\$ 9,750,771	\$ 11,585,360
National Institutes of Health term endowment	2,016,953	—	—
KPBS capital campaign	779,196	720,242	750,639
Student aid	123,615	141,183	151,610
Annuity trust agreements	—	—	993,174
Total restricted expendable net position	\$ 11,975,356	\$ 10,612,196	\$ 13,480,783

Nonexpendable restricted net position decreased \$200,000 from FY 2015 to FY 2016 due to market value fluctuations and decreased \$1.9 million from FY 2014 to FY 2015 due to the transfer of endowments to The Campanile Foundation.

The increase in expendable restricted net position of \$1.4 million from FY 2015 to FY 2016 was primarily due to the receipt of the first annual \$2 million installment of a five year \$10 million expendable endowment from NIH offset by market value fluctuations. The decrease in expendable restricted net position of \$2.8 million from FY 2014 to FY 2015 was due to the transfer of gift annuities to TCF.

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Management's Discussion and Analysis

(unaudited)

June 30, 2016 and 2015

SDSU Research Foundation's condensed summary of revenues, expenses and changes in net position for the years ended June 30, 2016, 2015 and 2014 follows:

Condensed Summary of Revenues, Expenses and Changes in Net Position

	Years Ended June 30		
	2016	2015	2014
Operating revenues:			
Sponsored programs support	\$ 115,912,239	\$ 106,339,953	\$ 106,609,049
Community and campus programs	36,285,928	33,640,262	33,518,244
Contributions	19,735,879	19,287,577	17,116,304
Other operating revenues	7,856,682	7,995,732	9,289,055
Total operating revenues	179,790,728	167,263,524	166,532,652
Operating expenses:			
Sponsored programs	98,981,445	94,708,295	94,962,056
Community and campus programs, including fundraising	53,851,233	46,829,397	42,615,518
Other operating expenses	23,176,989	22,620,736	23,133,040
Total operating expenses	176,009,667	164,158,428	160,710,614
Operating income	3,781,061	3,105,096	5,822,038
Nonoperating revenues (expenses):			
Interest expense	(1,171,777)	(1,379,790)	(1,416,592)
Investment income, net	1,559,342	1,337,521	740,267
Net (decrease) increase in fair value of investments	(1,087,770)	(955,583)	2,605,767
(Loss) gain on dispositions of property and equipment	(17,861)	1,144,437	(103,579)
Net effect from transfer of assets to Aztec Shops, Ltd.	-	185,922	29,910
Transfers to The Campanile Foundation	(1,292,119)	(5,460,614)	-
Net nonoperating (expenses) revenues	(2,010,185)	(5,128,107)	1,855,773
Income (loss) before changes to permanent endowments	1,770,876	(2,023,011)	7,677,811
Increase (decrease) in permanent endowments	11,560	19,596	(46,320)
Net income (loss)	1,782,436	(2,003,415)	7,631,491
Net position at beginning of year	85,777,782	87,781,197	80,149,706
Net position at end of year	\$ 87,560,218	\$ 85,777,782	\$ 87,781,197
Total revenues	\$ 181,343,769	\$ 169,951,000	\$ 167,152,930
Total expenses	179,561,333	171,954,415	159,521,439
Net income (loss)	\$ 1,782,436	\$ (2,003,415)	\$ 7,631,491

Operating Revenues and Expenses

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

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Management's Discussion and Analysis

(unaudited)

June 30, 2016 and 2015

Operating Revenues

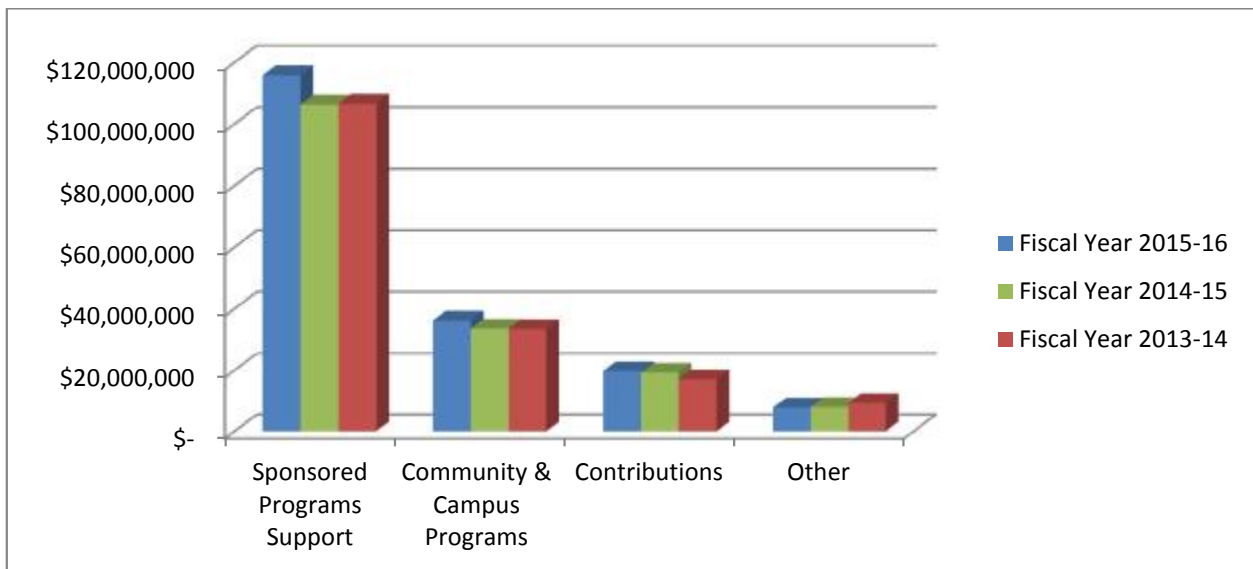
Sponsored programs support increased by \$9.6 million from FY 2015 to FY 2016 primarily due to SDSU-Georgia project in the country of Georgia (see Note 13) and the first installment of the expendable endowment from NIH. Sponsored programs support decreased slightly by \$300,000 from FY 2014 to FY 2015 primarily due to timing of sponsored programs spending.

Community and campus programs include revenues generated by the College of Extended Studies, KPBS, and various academic college and department gift accounts. These revenues increased by \$2.6 million from FY 2015 to FY 2016 primarily due to the recognition of revenue from the initial 15-month Georgia fixed price, pre-enrollment contract offset by lower tuition revenue. These revenues increased slightly by \$100,000 from FY 2014 to FY 2015.

Contributions, primarily to KPBS, increased \$400,000 from FY 2015 to FY 2016. Contributions increased \$2.2 million from FY 2014 to FY 2015 due to the receipt of two large individual gifts.

Other operating revenues decreased slightly by \$200,000 from FY 2015 to FY 2016 and decreased \$1.3 million from FY 2014 to FY 2015 primarily due to the loss of rental income from properties transferred to Aztec Shops, Ltd. and a significant decrease in royalty revenue due to a large royalty distribution paid out in FY 2014.

The following chart presents the dollar amount that each category of operating revenue contributed to total revenues for the years ended June 30, 2016, 2015 and 2014:



SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Management's Discussion and Analysis

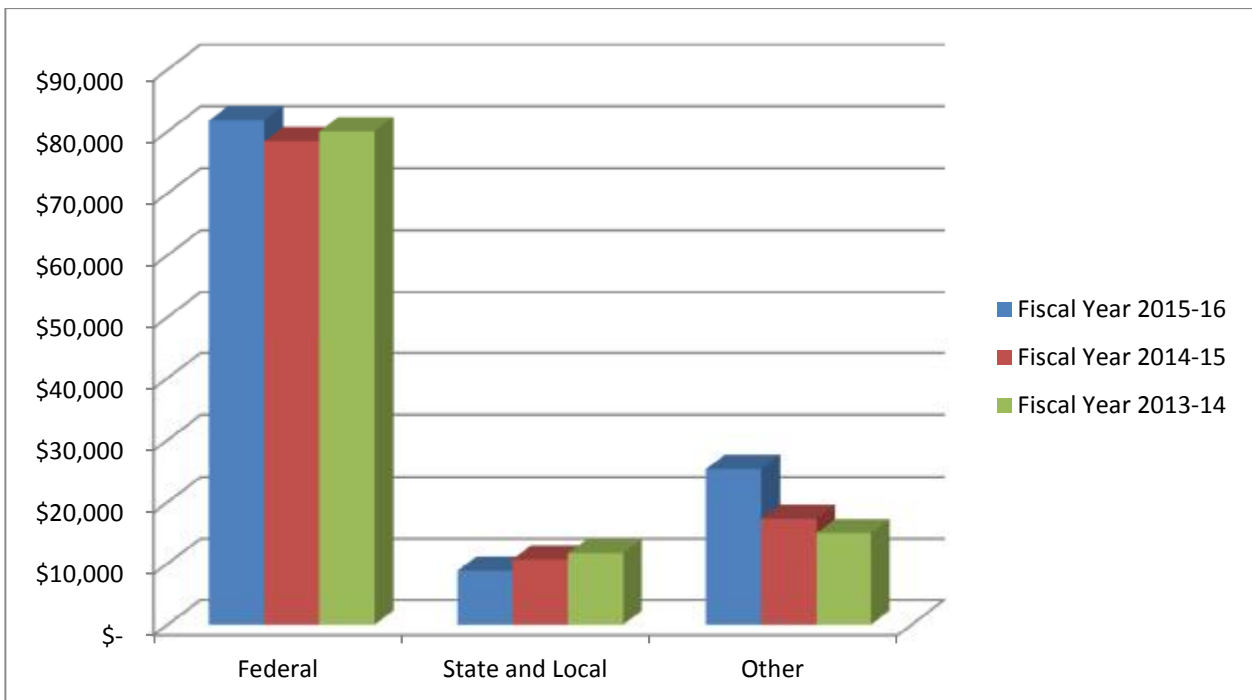
(unaudited)

June 30, 2016 and 2015

The sources of sponsored programs support revenues for the years ended June 30, 2016, 2015 and 2014 are as follows:

	Years Ended June 30					
	2016		2015		2014	
	\$	%	\$	%	\$	%
Federal:						
Department of Health & Human Services	39,603,114	34.2	40,107,477	37.7	39,288,362	36.9
Department of Education	10,400,980	9.0	10,165,256	9.6	8,652,972	8.1
National Science Foundation	9,086,857	7.8	8,327,433	7.8	9,572,257	9.0
Department of Defense	8,007,532	6.9	7,731,747	7.3	9,413,200	8.8
Department of Agriculture	6,410,895	5.5	6,414,030	6.0	6,422,060	6.1
Other	8,252,700	7.1	5,651,874	5.3	6,662,526	6.2
	<u>81,762,078</u>	<u>70.5</u>	<u>78,397,817</u>	<u>73.7</u>	<u>80,011,377</u>	<u>75.1</u>
State and Local	8,823,989	7.7	10,682,922	10.1	11,664,047	10.9
Other	25,326,172	21.8	17,259,214	16.2	14,933,625	14.0
	<u>115,912,239</u>	<u>100.0</u>	<u>106,339,953</u>	<u>100.0</u>	<u>106,609,049</u>	<u>100.0</u>

The following chart presents the amount (in thousands) that each sponsor type contributed to total sponsored programs support revenues for the years ended June 30, 2016, 2015 and 2014:



SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Management's Discussion and Analysis

(unaudited)

June 30, 2016 and 2015

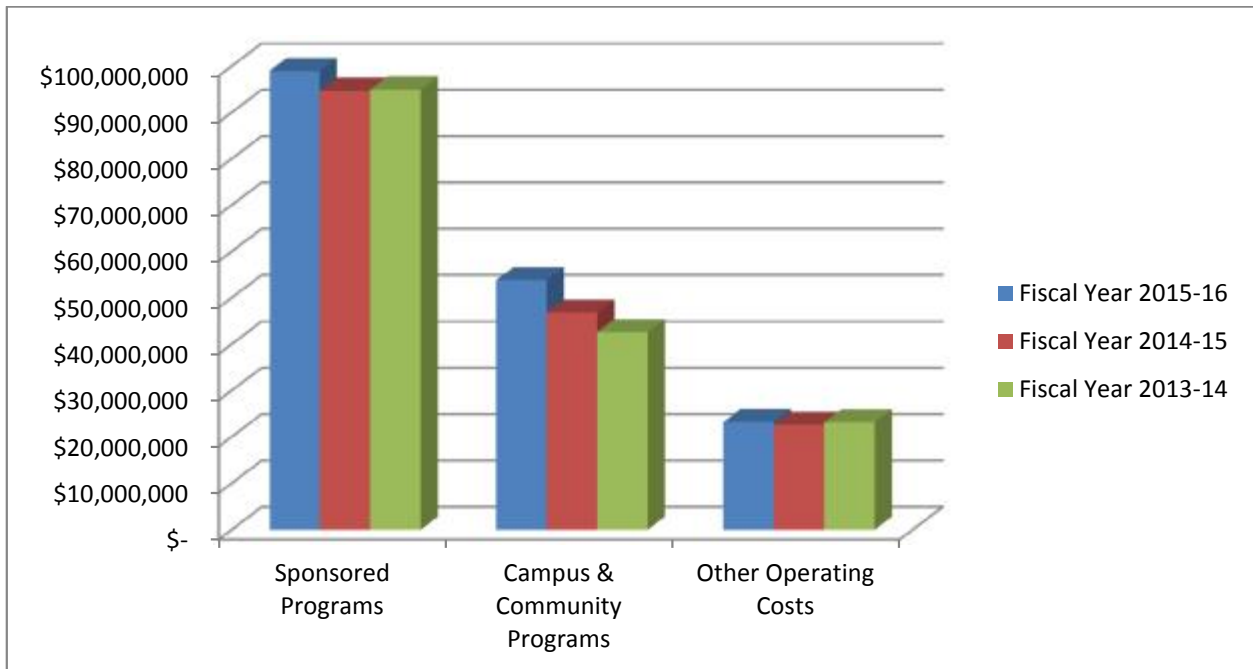
Operating Expenses

Sponsored programs expenses increased by \$4.3 million from FY 2015 to FY 2016 primarily due to the Georgia project. The expenses decreased slightly by \$300,000 from FY 2014 to FY 2015 corresponding to the related decreases in sponsored programs support revenues.

Community and campus programs expenses (including fundraising) increased \$7.0 million from FY 2015 to FY 2016 and \$4.2 million from FY 2014 to FY 2015 primarily due to a transfer of the College of Extended Studies cash reserves to a TCF endowment, facilities rent, and instructional salaries and benefits.

Other operating expenses increased \$600,000 from FY 2015 to FY 2016 primarily due to increase in salaries and benefits. Other operating expenses decreased \$500,000 from FY 2014 to FY 2015 due to the transfer of rental properties to Aztec Shops, Ltd.

The following chart presents the distribution of resources in support of SDSU Research Foundation's mission for the years ended June 30, 2016, 2015 and 2014:



Nonoperating Revenues (Expenses)

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

Interest expense decreased by \$200,000 from FY 2015 to FY 2016 due to the pay off of debts related to assets transferred to Aztec Shops, Ltd in FY 2015. Interest expense remained constant from FY 2014 to FY 2015.

Investment income increased \$200,000 from FY 2015 to FY 2016 and \$600,000 from FY 2014 to FY 2015 due to ongoing fluctuations in the market.

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Management's Discussion and Analysis

(unaudited)

June 30, 2016 and 2015

Net (decrease) increase in fair value of investments decreased \$100,000 from FY 2015 to FY 2016 and \$3.6 million from FY 2014 to FY 2015 due to fluctuations in the market.

Gain (loss) on dispositions of property and equipment decreased \$1.2 million from FY 2015 to FY 2016 and increased \$1.2 million from FY 2014 to FY 2015 primarily due to the sale of certain properties.

Capital Assets

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

	June 30		
	<u>2016</u>	<u>2015</u>	<u>2014</u>
Land, land improvements and construction-in-progress	\$ 14,931,234	\$ 15,594,057	\$ 17,769,327
Buildings and improvements	31,459,627	28,403,933	32,875,690
Furniture, fixtures and equipment	5,534,988	5,088,824	6,701,898
Capital assets, net of accumulated depreciation	<u>\$ 51,925,849</u>	<u>\$ 49,086,814</u>	<u>\$ 57,346,915</u>

Capital assets increased \$2.8 million from FY 2015 to FY 2016 primarily due to tenant improvements for the College of Extended Studies. Capital assets decreased \$8.3 million from FY 2014 to FY 2015 primarily due to property sales and the transfer of property to Aztec Shops, Ltd.

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Management's Discussion and Analysis

(unaudited)

June 30, 2016 and 2015

Long-Term Debt Obligations

Debt outstanding at June 30, 2016, 2015 and 2014 is summarized below by the type of debt instrument:

	June 30		
	2016	2015	2014
Revenue bonds	\$ 28,920,000	\$ 29,785,000	\$ 30,620,000
Note payable	-	-	2,768,584
Total	28,920,000	29,785,000	33,388,584
Unamortized bond premium	1,426,721	1,521,627	1,616,537
Total long-term debt	30,346,721	31,306,627	35,005,121
Less current portion	(979,908)	(959,908)	(977,545)
Long-term debt, net of current portion	\$ 29,366,813	\$ 30,346,719	\$ 34,027,576

Long-term debt, net of current portion, decreased \$1.0 million from FY 2015 to FY 2016 due to scheduled bond payments and decreased \$3.7 million from FY 2014 to FY 2015 due to scheduled bond payments and paying off the long-term debt related to assets transferred to Aztec Shops, Ltd.

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Statements of Net Position

June 30, 2016 and 2015

Assets	2016	2015
Current assets:		
Cash and cash equivalents (note 3)	\$ 4,628,638	\$ 7,567,882
Short-term investments (note 3)	18,939,845	15,734,076
Accounts receivable (note 4)	25,637,171	23,872,742
Prepaid expenses and other assets	539,192	192,445
Total current assets	<u>49,744,846</u>	<u>47,367,145</u>
Noncurrent assets:		
Accounts receivable (note 4)	624,767	910,557
Long-term investments (note 3)	19,138,385	28,716,852
Restricted assets – investments (note 3)	13,417,028	12,212,041
Restricted assets – land	1,853,532	1,853,532
Notes receivable – Aztec Shops, Ltd. (note 5)	8,371,991	8,371,991
Capital assets, net (notes 5, 6 and 8)	51,925,849	49,086,814
Other assets	885,681	1,945,374
Total noncurrent assets	<u>96,217,233</u>	<u>103,097,161</u>
Total assets	\$ <u>145,962,079</u>	\$ <u>150,464,306</u>
Deferred Outflows of Resources		
Deferred loss on bond refunding (note 8)	\$ <u>577,802</u>	\$ <u>606,220</u>
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses (note 7)	\$ 13,849,425	\$ 14,888,239
Sponsored programs receipts over expenditures	4,355,512	8,529,373
Long-term debt obligations – current portion (note 8)	979,908	959,908
Due to The Campanile Foundation (note 7)	6,691,075	7,560,854
Total current liabilities	<u>25,875,920</u>	<u>31,938,374</u>
Noncurrent liabilities:		
Long-term debt obligations, net of current portion (note 8)	29,366,813	30,346,719
Other liabilities (note 10)	3,736,930	3,007,651
Total noncurrent liabilities	<u>33,103,743</u>	<u>33,354,370</u>
Total liabilities	\$ <u>58,979,663</u>	\$ <u>65,292,744</u>
Commitments and Contingencies (notes 9, 10, 11 and 12)		
Net Position		
Net investment in capital assets	\$ 22,156,928	\$ 18,386,404
Restricted for:		
Nonexpendable – endowments and property	3,295,205	3,453,377
Expendable:		
Campus programs and projects	9,055,592	9,750,771
National Institutes of Health term endowment	2,016,953	—
KPBS capital campaign	779,196	720,242
Student aid	123,615	141,183
Unrestricted	50,132,729	53,325,805
Total net position	\$ <u>87,560,218</u>	\$ <u>85,777,782</u>

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

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Statements of Revenues, Expenses and Changes in Net Position

Years ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating revenues:		
Sponsored programs support	\$ 115,912,239	\$ 106,339,953
Community and campus programs	36,285,928	33,640,262
Contributions	19,735,879	19,287,577
Rental income	5,850,454	5,801,769
Other operating revenues (note 7)	<u>2,006,228</u>	<u>2,193,963</u>
Total operating revenues	<u>179,790,728</u>	<u>167,263,524</u>
Operating expenses (notes 9, 10 and 11):		
Sponsored programs	98,981,445	94,708,295
Community and campus programs	47,228,818	41,324,225
Fundraising – broadcasting	6,622,415	5,505,172
Property management	8,485,900	8,394,205
General administration	<u>14,691,089</u>	<u>14,226,531</u>
Total operating expenses	<u>176,009,667</u>	<u>164,158,428</u>
Operating income	<u>3,781,061</u>	<u>3,105,096</u>
Nonoperating revenues (expenses):		
Interest expense (note 8)	(1,171,777)	(1,379,790)
Investment income, net	1,559,342	1,337,521
Net decrease in fair value of investments (note 3)	(1,087,770)	(955,583)
(Loss) Gain on dispositions of property and equipment	(17,861)	1,144,437
Net effect from transfer of assets to Aztec Shops, Ltd. (note 5)	—	185,922
Transfers to The Campanile Foundation	<u>(1,292,119)</u>	<u>(5,460,614)</u>
Net nonoperating expenses	<u>(2,010,185)</u>	<u>(5,128,107)</u>
Income (loss) before changes to permanent endowments	1,770,876	(2,023,011)
Increase in permanent endowments	<u>11,560</u>	<u>19,596</u>
Net income (loss)	1,782,436	(2,003,415)
Net position:		
Net position at beginning of year	<u>85,777,782</u>	<u>87,781,197</u>
Net position at end of year	<u>\$ 87,560,218</u>	<u>\$ 85,777,782</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, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Sponsored programs receipts	\$ 109,040,100	\$ 112,567,871
Community and campus programs receipts	35,979,351	33,403,820
Contributions	19,641,803	18,569,398
Rents received	5,883,559	5,827,028
Payments to suppliers	(78,079,259)	(67,933,261)
Payments to employees	(92,160,416)	(91,148,926)
Monies received (disbursed) on behalf of The Campanile Foundation, net	422,340	(65,711)
Monies disbursed to The Campanile Foundation	(1,292,119)	(5,460,614)
Other receipts	2,438,404	2,438,530
Net cash provided by operating activities	1,873,763	8,198,135
Cash flows from capital and related financing activities:		
Principal payments on long-term debt	(865,000)	(3,603,573)
Interest paid	(1,243,322)	(1,466,927)
Purchase of property and equipment	(7,096,023)	(1,881,408)
Proceeds from sale of property and equipment	—	5,749,177
Net cash used in capital and related financing activities	(9,204,345)	(1,202,731)
Cash flows from investing activities:		
Investment income	1,591,956	1,312,745
Proceeds from sale of investments	20,244,840	10,323,149
Purchase of investments	(17,445,458)	(15,283,260)
Net cash provided (used in) by investing activities	4,391,338	(3,647,366)
Net (decrease) increase in cash and cash equivalents	(2,939,244)	3,348,038
Cash and cash equivalents, beginning of year	7,567,882	4,219,844
Cash and cash equivalents, end of year	\$ 4,628,638	\$ 7,567,882

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, 2016 and 2015

	2016		2015
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	\$ 3,781,061	\$	3,105,096
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	4,239,122		4,252,691
Change in assets:			
Accounts receivable	(1,511,253)		(253,128)
Prepaid expenses and other assets	712,946		(331,573)
Change in liabilities:			
Accounts payable	(796,068)		1,465,575
Accrued expenses	(237,687)		760,250
Sponsored programs receipts over expenses	(4,173,861)		4,676,385
Due to The Campanile Foundation	(869,779)		(5,526,325)
Other liabilities	729,282		49,164
Net cash provided by operating activities	\$ 1,873,763	\$	8,198,135
Supplemental disclosure of noncash investing activity:			
Decrease in fair value of investments	\$ (1,087,770)	\$	(955,583)
Increase in permanent endowments	11,560		19,596
Real property transferred for notes receivable	—		1,470,000

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

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Notes to the Financial Statements

June 30, 2016 and 2015

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 GASB. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Classification of Current and Noncurrent Assets and Liabilities

SDSU Research Foundation considers assets to be current that can be reasonably expected, as a part of its normal business operations, to be converted to cash and be available for liquidation of current liabilities within 12 months of the statement of net position date. Liabilities that can be reasonably expected, as part of normal operations, to be liquidated within 12 months of the statement of net position date are considered to be current. All other assets and liabilities are considered to be noncurrent.

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Notes to the Financial Statements

June 30, 2016 and 2015

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Cash and Cash Equivalents

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

Investments

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

Accounts Receivable

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

Other Assets

Other assets consist primarily of deposits held by others.

Capital Assets

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

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

Asset Impairment

SDSU Research Foundation annually evaluates capital assets held for investment. The carrying values of such assets that are considered to be impaired are adjusted accordingly. Management has determined that there were no such impairments at June 30, 2016 and 2015.

Deferred Outflow of Resources

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

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Notes to the Financial Statements

June 30, 2016 and 2015

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Compensated Absences

SDSU Research Foundation accrues vacation benefits for eligible employees at various rates depending upon length of service and employee classification. Eligible full-time employees accrue sick leave at the rate of four hours per pay period; however, except in limited cases upon retirement, employees are not paid for unused sick leave at the end of employment. Liabilities for compensated absences of approximately \$2,634,000 and \$2,412,000 as of June 30, 2016 and 2015, 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 44.4% and 46.9% of its total operating revenue from federal sources during the years ended June 30, 2016 and 2015, respectively. The Department of Health and Human Services provided 22.0% and 24.0% of the total operating revenue for the years ended June 30, 2016 and 2015, respectively.

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

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

Net Position

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

Net investment in capital assets

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

Restricted – nonexpendable

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

Restricted – expendable

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

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Notes to the Financial Statements

June 30, 2016 and 2015

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Unrestricted

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

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

Classification of Revenues and Expenses

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

Included in sponsored program receipts for the year ended June 30, 2016, is \$2 million received from NIH. 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 is an organization exempt from taxation under Section 501(c)(3) of the Internal Revenue Code and Section 23701d of the California Revenue and Taxation Code. Accordingly, SDSU Research Foundation has only nominal amounts that are subject to income taxes. Therefore, no provision for income taxes has been included in the accompanying financial statements.

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.

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Notes to the Financial Statements

June 30, 2016 and 2015

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Reclassifications

Certain reclassifications have been made to the June 30, 2015 financial statements in order to conform to the presentation as of June 30, 2016. These reclassifications had no effect on results of operations.

Pronouncements Issued

For the year ended June 30, 2016, SDSU Research Foundation implemented the following GASB statements:

- GASB Statement No. 72, Fair Value Measurement and Application (effective for the year ended June 30, 2016)
- GASB Statement No. 79, Certain External Investment Pools and Pool Participants (effective for the year ended June 30, 2016).

Implementation of GASB Statements 72 and 79 did not have a significant impact on the financial statements. GASB Statement No. 72 contains note disclosure requirements regarding the hierarchy of valuation inputs and valuation techniques used for fair value measurements. All required disclosures were added to Note 3.

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

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

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

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Notes to the Financial Statements

June 30, 2016 and 2015

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

The GASB has issued the following statements:

- GASB Statement No. 74, Financial Reporting for Postemployment Government Combinations and Disposals of Government Operations (effective for the year ending June 30, 2017)
- GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (effective for the year ending June 30, 2018).
- GASB Statement No. 78, Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans (effective for the year ending June 30, 2017).
- GASB Statement No. 80, Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14 (effective for the year ending June 30, 2017).
- GASB Statement No. 81, Irrevocable Split-Interest Agreements (effective for the year ending June 30, 2017).
- GASB Statement No. 82, Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73 (effective for the year ending June 30, 2017).

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

NOTE 3 – INVESTMENTS

Investments as of June 30 were as follows:

	<u>2016</u>	<u>2015</u>
Short-term investments	\$ 18,939,845	\$ 15,734,076
Long-term investments	19,138,385	28,716,852
Long-term restricted investments	13,417,028	12,212,041
	<u>\$ 51,495,258</u>	<u>\$ 56,662,969</u>

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Notes to the Financial Statements

June 30, 2016 and 2015

NOTE 3 – INVESTMENTS – Continued

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

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

The following tables summarize SDSU Research Foundation’s investments within the fair value hierarchy at June 30, 2016 and June 30, 2015, respectively:

<u>2016 Investments</u>	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Federally Agency Issues				
Zero Coupon	\$ 249,923	\$ 249,923	\$ -	\$ -
Interest Bearing	133,850	133,850	-	-
Intermediate Term Fund	463,218	-	463,218	-
Money Market Funds	46,307	-	46,307	-
Certificates of Deposit - Marketable	906,521	-	906,521	-
Corporate Bonds	30,716,646	30,716,646	-	-
Mutual Funds				
Bond Index Fund	1,688,445	1,688,445	-	-
Fixed Annuity Fund	79,051	79,051	-	-
Deferred Gift	823,246	823,246	-	-
TCF Endowment Pool	15,249,552	-	-	15,249,552
Real Property	1,031,821	-	-	1,031,821
Amounts Held by Others	106,678	-	-	106,678
	<u>\$ 51,495,258</u>	<u>\$ 33,691,161</u>	<u>\$ 1,416,046</u>	<u>\$ 16,388,051</u>

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Notes to the Financial Statements

June 30, 2016 and 2015

NOTE 3 – INVESTMENTS – Continued

<u>2015 Investments</u>	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Federally Agency Issues - Interest Bearing	\$ 1,713,754	\$ 1,713,754	\$ -	\$ -
Intermediate Term Fund	455,001	-	455,001	-
Money Market Funds	1,793,065	-	1,793,065	-
Certificates of Deposit				
Marketable	1,487,572	-	1,487,572	-
Nonmarketable	262,226	-	262,226	-
Corporate Bonds	32,592,630	32,592,630	-	-
Mutual Funds				
Bond Index Fund	1,591,051	1,591,051	-	-
Balanced Index Fund	290,481	290,481	-	-
Fixed Annuity Fund	101,748	101,748	-	-
Deferred Gift	868,427	868,427	-	-
TCF Endowment Pool	14,360,743	-	-	14,360,743
Real Property	1,031,821	-	-	1,031,821
Amounts Held by Others	114,450	-	-	114,450
	<u>\$ 56,662,969</u>	<u>\$ 37,158,091</u>	<u>\$ 3,997,864</u>	<u>\$ 15,507,014</u>

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

- **Level 1 Measurements**

Federal agency issues, corporate bonds and mutual funds – based on quoted prices available in an active market.

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

- **Level 2 Measurements**

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

Certificates of deposit – stated at cost, which approximates fair value.

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Notes to the Financial Statements

June 30, 2016 and 2015

NOTE 3 – INVESTMENTS – Continued

- 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.

Assets 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.

Investment Policy

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

The Campanile Foundation Endowment Pool

The TCF Endowment Pool has significant investments in various mutual funds and third-party investment pools. The primary investment categories as of June 30, 2016 and 2015, respectively, were stocks (57% and 56%), fixed income (24% and 24%), and alternative investments, real estate and cash equivalents (19% and 20%); therefore, it is subject to concentrations of credit risk. Investment decisions are made by the Finance and Investment Committee of the TCF Board of Directors in consultation with an external investment consultant/advisor. Additionally, the investments are monitored by the external consultant/advisor.

SDSU Research Foundation recognized unrealized losses of \$653,939 and \$359,426 for the years ended June 30, 2016 and 2015, respectively, from its investment in the TCF Endowment Pool.

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

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Notes to the Financial Statements

June 30, 2016 and 2015

NOTE 3 – INVESTMENTS – Continued

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

Endowment distributions are performed in accordance with SDSU Research Foundation’s investment policy statement. For the fiscal years ended June 30, 2016 and 2015, 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. The longer maturities in the portfolios are investments for deferred gifts, where assets need to correlate with the life expectancies of beneficiaries.

Maturities of investments as of June 30, 2016 are as follows:

	Market Value Total	Less than One Year	Two - Five Years
Federally Sponsored Enterprises Pooled	\$ 133,850	\$ -	\$ 133,850
Federally Sponsored Enterprises - zero coupon Certificates of Deposit Pooled	249,923	249,923	-
Commingled Short-term Investment Fund	906,521	906,521	-
Corporate Bonds Pooled	463,218	-	463,218
	30,716,646	17,658,045	13,058,601
	<u>\$ 32,470,158</u>	<u>\$ 18,814,489</u>	<u>\$ 13,655,669</u>

Maturities of investments as of June 30, 2015 are as follows:

	Market Value Total	Less than One Year	Two - Five Years
Federally Sponsored Enterprises Pooled	\$ 1,713,754	\$ 1,082,239	\$ 631,515
Certificates of Deposit Pooled	1,749,798	1,502,902	246,896
Commingled Short-term Investment Fund	455,001	-	455,001
Corporate Bonds Pooled	32,592,630	11,254,139	21,338,491
	<u>\$ 36,511,183</u>	<u>\$ 13,839,280</u>	<u>\$ 22,671,903</u>

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Notes to the Financial Statements

June 30, 2016 and 2015

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

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

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the investment in a single issuer. Securities issued by federally sponsored enterprises are purchased to reduce the possibility of a loss due to a concentration of credit. SDSU Research Foundation's investment policy contains no limitations as to how much can be invested with any one issuer. SDSU Research Foundation had approximately \$3 million, or 9% of fixed income investments, and \$3.3 million, or 9% of fixed income investments, invested in Citigroup bonds as of June 30, 2016 and June 30, 2015, respectively.

Custodial Credit Risk

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

Custodial credit risk for investments is the risk that if the counterparty to an investment transaction were to fail, SDSU Research Foundation would not be able to recover its investment. With respect to investments, custodial credit risk generally 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, 2016 and 2015

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2016 and 2015 consisted of the following:

	2016		
	<u>Current</u>	<u>Noncurrent</u>	<u>Total</u>
Accounts receivable - sponsored programs	\$ 20,773,575	\$ —	\$ 20,773,575
Other receivables	5,070,706	624,767	5,695,473
Allowance for doubtful accounts	(207,110)	—	(207,110)
	<u>\$ 25,637,171</u>	<u>\$ 624,767</u>	<u>\$ 26,261,938</u>
	2015		
	<u>Current</u>	<u>Noncurrent</u>	<u>Total</u>
Accounts receivable - sponsored programs	\$ 19,198,283	\$ —	\$ 19,198,283
Other receivables	4,719,042	910,557	5,629,599
Allowance for doubtful accounts	(44,583)	—	(44,583)
	<u>\$ 23,872,742</u>	<u>\$ 910,557</u>	<u>\$ 24,783,299</u>

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

NOTE 5 - NOTES RECEIVABLE – AZTEC SHOPS, LTD.

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

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

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

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Notes to the Financial Statements

June 30, 2016 and 2015

NOTE 6 – CAPITAL ASSETS

Capital assets activity for the years ended June 30, 2016 and 2015 consisted of the following:

	Balance June 30, 2015	Additions	Reductions	Balance June 30, 2016
Nondepreciable capital assets:				
Land and land improvements	\$ 14,931,234	\$ —	\$ —	\$ 14,931,234
Construction-in-progress	662,823	—	(662,823)	—
Total nondepreciable capital assets	<u>15,594,057</u>	<u>—</u>	<u>(662,823)</u>	<u>14,931,234</u>
Depreciable capital assets:				
Buildings and improvements	61,489,257	5,408,222	(100,856)	66,796,623
Furniture, fixtures and equipment	23,660,418	2,350,624	(263,949)	25,747,093
Total depreciable capital assets	<u>85,149,675</u>	<u>7,758,846</u>	<u>(364,805)</u>	<u>92,543,716</u>
Less accumulated depreciation:				
Buildings and improvements	33,085,324	2,352,524	(100,852)	35,336,996
Furniture, fixtures and equipment	18,571,594	1,886,598	(246,087)	20,212,105
Total accumulated depreciation	<u>51,656,918</u>	<u>4,239,122</u>	<u>(346,939)</u>	<u>55,549,101</u>
Depreciable capital assets, net	<u>33,492,757</u>	<u>3,519,724</u>	<u>(17,866)</u>	<u>36,994,615</u>
Total capital assets, net	<u>\$ 49,086,814</u>	<u>\$ 3,519,724</u>	<u>\$ (680,689)</u>	<u>\$ 51,925,849</u>
	Balance June 30, 2014	Additions	Reductions	Balance June 30, 2015
Nondepreciable capital assets:				
Land and land improvements	\$ 17,444,481	\$ —	\$ (2,513,247)	\$ 14,931,234
Construction-in-progress	324,846	662,823	(324,846)	662,823
Total nondepreciable capital assets	<u>17,769,327</u>	<u>662,823</u>	<u>(2,838,093)</u>	<u>15,594,057</u>
Depreciable capital assets:				
Buildings and improvements	65,400,340	927,781	(4,838,864)	61,489,257
Furniture, fixtures and equipment	25,297,762	615,650	(2,252,994)	23,660,418
Total depreciable capital assets	<u>90,698,102</u>	<u>1,543,431</u>	<u>(7,091,858)</u>	<u>85,149,675</u>
Less accumulated depreciation:				
Buildings and improvements	32,524,650	2,281,386	(1,720,712)	33,085,324
Furniture, fixtures and equipment	18,595,864	1,971,305	(1,995,575)	18,571,594
Total accumulated depreciation	<u>51,120,514</u>	<u>4,252,691</u>	<u>(3,716,287)</u>	<u>51,656,918</u>
Depreciable capital assets, net	<u>39,577,588</u>	<u>(2,709,260)</u>	<u>(3,375,571)</u>	<u>33,492,757</u>
Total capital assets, net	<u>\$ 57,346,915</u>	<u>\$ (2,046,437)</u>	<u>\$ (6,213,664)</u>	<u>\$ 49,086,814</u>

Depreciation expense totaled \$4,239,122 and \$4,252,691 for the years ended June 30, 2016 and 2015, respectively.

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Notes to the Financial Statements

June 30, 2016 and 2015

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, 2017, SDSU Research Foundation shall provide administrative services that include cash management processes, gift account administration, and accounting and financial reporting assistance. SDSU Research Foundation charges an administrative fee for all non-student aid funds at the time that TCF expends the funds. Amounts received under this agreement, which was a combination of fees charged on TCF non-student aid funds as well as additional amounts paid by TCF, for the years ended June 30, 2016 and 2015 totaled \$900,000 per year and is included in other operating revenues in the accompanying statements of revenues, expenses and changes in net position.

Other

Included in accounts payable and accrued expenses were payables to the affiliated organizations in the approximate amounts of \$507,000 and \$1,048,000 at June 30, 2016 and 2015, respectively. Included in accounts receivable were receivables from the affiliated organizations in the approximate amounts of \$435,000 and \$1,674,000 at June 30, 2016 and 2015, 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, 2016 and 2015

NOTE 8 – LONG-TERM DEBT OBLIGATIONS

Long-term debt activity for the years ended June 30, 2016 and 2015 was as follows:

	<u>Balance</u>		<u>Additions</u>		<u>Reductions</u>		<u>Balance</u>		<u>Current</u>
	<u>June 30, 2015</u>						<u>June 30, 2016</u>		<u>Portion</u>
CSU SRB 2010A -									
1999 Refunding (a)	\$ 3,615,000	\$	—	\$	(385,000)	\$	3,230,000	\$	395,000
CSU SRB 2012 -									
2002 Refunding (b)	26,170,000		—		(480,000)		25,690,000		490,000
Unamortized bond premium									
CSU SRB 2010A (a)	304,677		—		(38,084)		266,593		38,085
CSU SRB 2012 (b)	1,216,950		—		(56,822)		1,160,128		56,823
	<u>\$ 31,306,627</u>	\$	<u>—</u>	\$	<u>(959,906)</u>	\$	<u>30,346,721</u>	\$	<u>979,908</u>
	<u>Balance</u>		<u>Additions</u>		<u>Reductions</u>		<u>Balance</u>		<u>Current</u>
	<u>June 30, 2014</u>						<u>June 30, 2015</u>		<u>Portion</u>
CSU SRB 2010A -									
1999 Refunding (a)	\$ 3,980,000	\$	—	\$	(365,000)	\$	3,615,000	\$	385,000
CSU SRB 2012 -									
2002 Refunding (b)	26,640,000		—		(470,000)		26,170,000		480,000
Note payable	2,768,584		—		(2,768,584)		—		—
Unamortized bond premium									
CSU SRB 2010A (a)	342,764		—		(38,087)		304,677		38,085
CSU SRB 2012 (b)	1,273,773		—		(56,823)		1,216,950		56,823
	<u>\$ 35,005,121</u>	\$	<u>—</u>	\$	<u>(3,698,494)</u>	\$	<u>31,306,627</u>	\$	<u>959,908</u>

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

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

The SRB 2010A bonds sold at amounts greater than par. The resulting bond premium of \$938,009 is being amortized over the life of the bonds using the straight-line method, which approximates the effective interest method. A portion of the unamortized bond premium amounting to \$363,828 was transferred to Aztec Shops, Ltd. with the related debt. The amount amortized was \$38,085 for each of the years ended June 30, 2016 and 2015.

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Notes to the Financial Statements

June 30, 2016 and 2015

NOTE 8 – LONG-TERM DEBT OBLIGATIONS – Continued

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

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, 2016 and 2015.

A loss of \$686,737 was incurred on the refunding of the SRB 2012A bonds. The loss was deferred and is included on the statement of net position under the caption *Deferred Outflows of Resources*. The loss is being recognized over the life of the bonds using the straight-line method, which approximates the effective interest method. The loss recognized was \$28,418 for each of the years ended June 30, 2016 and 2015.

SDSU Research Foundation has a revolving loan agreement with a bank. The loan is secured by two parcels of real property. The loan agreement is available for short-term cash needs, with a maximum amount available of \$12 million. The agreement calls for certain restrictive and financial covenants to be maintained. The agreement requires monthly interest-only payments at a variable interest rate of 1% above the current LIBOR rate. The loan agreement expires on September 30, 2016. There were no amounts outstanding on the loan as of June 30, 2016 and 2015.

Total interest incurred on all borrowings was approximately \$1,172,000 and \$1,380,000 for the years ended June 30, 2016 and 2015, respectively.

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2017	\$ 885,000	\$ 1,211,071	\$ 2,096,071
2018	925,000	1,176,433	2,101,433
2019	960,000	1,140,252	2,100,252
2020	1,005,000	1,102,128	2,107,128
2021	1,045,000	1,062,349	2,107,349
2022-2026	5,845,000	4,615,398	10,460,398
2027-2031	7,265,000	3,192,924	10,457,924
2032-2036	8,950,000	1,490,250	10,440,250
2037	2,040,000	46,096	2,086,096
	<u>\$ 28,920,000</u>	<u>\$ 15,036,901</u>	<u>\$ 43,956,901</u>

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Notes to the Financial Statements

June 30, 2016 and 2015

NOTE 9 – LEASING ARRANGEMENTS

Operating Lease Revenues

Land, buildings and improvements, with a current net book value of approximately \$36 million, are leased to University-related and commercial organizations. In April 2016, SDSU Research Foundation entered into a ground lease with HSRE-Capstone SD, LLC for 1.5 acres of real property located at 5030 College Avenue, San Diego, California to develop, construct and operate a student housing facility of approximately 351 beds.

The following is a schedule of the minimum future rentals to be received on these operating leases, by year, as of June 30, 2016:

Year ending June 30:	Affiliated	Unrelated	Total
	Organizations	Parties	
2017	\$ 359,000	\$ 3,198,000	\$ 3,557,000
2018	360,000	1,749,000	2,109,000
2019	68,000	1,302,000	1,370,000
2020	40,000	922,000	962,000
2021	-	742,000	742,000
Thereafter	-	676,000	676,000
	<u>\$ 827,000</u>	<u>\$ 8,589,000</u>	<u>\$ 9,416,000</u>

Operating Lease Obligations

SDSU Research Foundation leases certain land, buildings, and equipment under operating leases. The total rental expense incurred was \$6.2 million and \$6.3 million for the years ended June 30, 2016 and 2015, respectively.

SDSU Research Foundation executed a 30-year ground and facility lease with the Board of Trustees of the California State University for SDSU BioScience Center in March 2004. Lease payments began in May 2006. SDSU Research Foundation incurred rental expense under this agreement of \$472,800 and \$435,300 for the years ended June 30, 2016 and 2015, respectively.

On behalf of the College of Extended Studies, SDSU Research Foundation executed a 10-year lease with Aztec Shops, Ltd. for a portion of the College Square building in October 2015. Lease payments began in March 2016. SDSU Research Foundation incurred rental expense under this agreement of \$96,000 for the year ended June 30, 2016.

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.

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Notes to the Financial Statements

June 30, 2016 and 2015

NOTE 9 – LEASING ARRANGEMENTS - Continued

The minimum rental commitments at June 30, 2016 for operating leases are due as follows:

Year ending June 30:	Affiliated Organizations	Unrelated Parties	Total
2017	\$ 1,179,000	\$ 1,083,000	\$ 2,262,000
2018	916,000	705,000	1,621,000
2019	895,000	183,000	1,078,000
2020	900,000	13,000	913,000
2021	911,000	-	911,000
2022-2026	4,292,000	-	4,292,000
2027-2031	2,326,000	-	2,326,000
2032-2037	2,322,000	-	2,322,000
	<u>\$ 13,741,000</u>	<u>\$ 1,984,000</u>	<u>\$ 15,725,000</u>

NOTE 10 – RISK MANAGEMENT

SDSU Research Foundation is subject to risks of loss such as general liabilities, torts and employee health expenses. SDSU Research Foundation participates in the California State University risk management pool, 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% confidence level based on the actuary's estimated liability.

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Notes to the Financial Statements

June 30, 2016 and 2015

NOTE 10 – RISK MANAGEMENT - Continued

Liabilities under these programs were included in other liabilities on the statements of net position for the years ended June 30, 2016 and 2015 as follows:

	<u>Balance</u> <u>June 30, 2015</u>	<u>Incurred Claims</u> <u>(Including IBNR*)</u>	<u>Claims</u> <u>Paid</u>	<u>Balance</u> <u>June 30, 2016</u>
Workers' compensation	\$ 1,318,320	\$ 1,247,563	\$ (628,902)	\$ 1,936,981
Unemployment insurance	<u>1,070,240</u>	<u>642,431</u>	<u>(471,551)</u>	<u>1,241,120</u>
	<u>\$ 2,388,560</u>	<u>\$ 1,889,994</u>	<u>\$ (1,100,453)</u>	<u>\$ 3,178,101</u>
	<u>Balance</u> <u>June 30, 2014</u>	<u>Incurred Claims</u> <u>(Including IBNR)</u>	<u>Claims</u> <u>Paid</u>	<u>Balance</u> <u>June 30, 2015</u>
Workers' compensation	\$ 1,137,871	\$ 862,376	\$ (681,927)	\$ 1,318,320
Unemployment insurance	<u>764,531</u>	<u>697,375</u>	<u>(391,666)</u>	<u>1,070,240</u>
	<u>\$ 1,902,402</u>	<u>\$ 1,559,751</u>	<u>\$ (1,073,593)</u>	<u>\$ 2,388,560</u>

*IBNR– Incurred But Not Reported

NOTE 11 – POSTRETIREMENT BENEFIT PLAN

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

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

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Notes to the Financial Statements

June 30, 2016 and 2015

NOTE 11 – POSTRETIREMENT BENEFIT PLAN - Continued

For Group 1 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 2 and 3 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 salaried employees of SDSU Research Foundation are eligible. Regular salaried employees are members of either (a) central staff under the programmatic direction of SDSU Research Foundation's Executive Director, (b) KPBS, (c) Extended Studies, (d) University Advancement or (e) the University's Department of Intercollegiate Athletics. A regular salaried employee is appointed to an approved class code, works a regular schedule of 30 hours or more per week, and is not a temporary or leased employee. The number of regular salaried employee participants at June 30, 2016 and 2015 were 349 and 358, respectively. No contributions to fund the future liability of the plan are required from employees.

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

SDSU Research Foundation has voluntarily opted for a funding policy under which it contributes 100% of the actuarially determined annual required contribution (ARC); therefore, there was no net Other Postretirement Benefits (OPEB) obligation at June 30, 2016, nor 2015. The fair value of assets held by the VEBA trust remained constant at \$9.6 million as of June 30, 2016 and 2015. The actuarially determined contribution amounts for the years ended June 30, 2017, 2016 and 2015 were \$247,957, \$137,689 and \$299,921, respectively.

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Notes to the Financial Statements

June 30, 2016 and 2015

NOTE 11 – POSTRETIREMENT BENEFIT PLAN - Continued

The following table sets forth the plan's funded status as of December 31, 2015, 2014 and 2013:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Accumulated postretirement benefit obligation:			
Retirees	\$ 3,303,451	\$ 3,326,912	\$ 3,954,490
Fully eligible active employees	2,315,223	1,866,874	2,106,577
Other active employees	<u>2,621,887</u>	<u>2,330,461</u>	<u>2,536,535</u>
Actuarial accrued liability (AAL)	8,240,561	7,524,247	8,597,602
Less plan assets at fair value	<u>9,418,321</u>	<u>9,424,660</u>	<u>8,587,125</u>
(Surplus)/Unfunded actuarial accrued liability (UAAL)	<u>\$ (1,177,760)</u>	<u>\$ (1,900,413)</u>	<u>\$ 10,477</u>
Funded ratio	114.3%	125.3%	99.9%
Covered payroll	\$ 20,579,029	\$ 19,959,322	\$ 18,579,753
(Surplus)/Unfunded UAAL as a percentage of covered payroll	(5.7%)	(9.5%)	0.1%

The following table shows the components of SDSU Research Foundation's annual OPEB costs for the years ended December 31, 2015, 2014 and 2013:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
OPEB costs for the year:			
Service cost	\$ 275,751	\$ 299,160	\$ 296,644
30-year amortization of Unfunded Accrued Liability (UAL)	<u>(138,062)</u>	<u>761</u>	<u>101,230</u>
Annual Required Contribution	137,689	299,921	397,874
Interest on net OPEB obligation	—	—	—
Amortization of net OPEB obligation	<u>—</u>	<u>—</u>	<u>—</u>
Annual OPEB cost	<u>\$ 137,689</u>	<u>\$ 299,921</u>	<u>\$ 397,874</u>

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

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Notes to the Financial Statements

June 30, 2016 and 2015

NOTE 11 – POSTRETIREMENT BENEFIT PLAN - Continued

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

Actuarial Methods and Assumptions

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

Other Retirement Benefits

SDSU Research Foundation contracts with TIAA-CREF to provide retirement and disability benefits to its employees. Benefit liabilities are funded through individually owned non-participating annuity contracts. The obligation for payment of the benefits has been transferred to TIAA-CREF. Total contributions to fund benefits and pay administrative costs included in operating expenses for the years ended June 30, 2016 and 2015 were approximately \$4,999,700 and \$4,859,000, respectively.

NOTE 12 - CONTINGENCIES

As a result of inquiries from outside agencies, SDSU Research Foundation has included a liability of \$329,500 and \$575,319 in accrued expenses for the years ended June 30, 2016 and 2015, respectively.

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

NOTE 13 – SIGNIFICANT ACTIVITIES

SDSU-Georgia project is a multi-year capacity building effort to improve STEM education in the country of Georgia. The contract from the Millennium Challenge Account is funded by the U.S. and Georgia governments. SDSU Research Foundation provides the infrastructure and business services needed to support this complex program. Additionally, during the fiscal year ended June 30, 2016, SDSU Research Foundation expended \$39,000 of funds from the Georgia Regional Development Fund to support recruitment and preparation of Georgian students for enrollment in an SDSU STEM degree program.

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Schedule of Post-Employment Health Care Benefits Funding Progress

December 31, 2015

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

*preliminary estimate

The fair value of plan assets at December 31, 2015 was \$9,418,321.

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Combining Schedule of Net Position

June 30, 2016

Schedule 1

	<u>General</u>	<u>Designated</u>	<u>Property Management</u>	<u>Plant</u>
Current assets:				
Cash and cash equivalents	\$ 4,623,525	\$ —	\$ 700	\$ —
Short-term investments	18,860,797	464,101	—	—
Receivables:				
Sponsored programs	—	—	—	—
Other receivables	187,588	47,647	175,727	—
Receivables from other funds	—	—	1,632,946	—
Prepaid expenses and other	269,242	59,269	14,416	—
Total current assets	<u>23,941,152</u>	<u>571,017</u>	<u>1,823,789</u>	<u>—</u>
Investments and other assets:				
Long-term investments	13,192,452	7,272,345	—	—
Restricted assets - land	—	—	—	1,853,532
Accounts receivable	11,426	—	—	—
Notes Receivable - Aztec Shops, Ltd.	—	7,113,454	—	—
Other assets	—	866,065	—	—
Total investments and other assets	<u>13,203,878</u>	<u>15,251,864</u>	<u>—</u>	<u>1,853,532</u>
Capital assets:				
Land and land improvements	—	—	—	14,931,234
Buildings and improvements	—	—	—	66,796,623
Furniture, fixtures and equipment	—	—	—	25,747,093
Total capital assets	<u>—</u>	<u>—</u>	<u>—</u>	<u>107,474,950</u>
Less accumulated depreciation and amortization	—	—	—	55,549,101
Total capital assets, net	<u>—</u>	<u>—</u>	<u>—</u>	<u>51,925,849</u>
Total assets	<u>37,145,030</u>	<u>15,822,881</u>	<u>1,823,789</u>	<u>53,779,381</u>
Deferred outflows of resources:				
Deferred loss on bond refunding	—	—	—	577,802
Total assets and deferred outflows of resources	<u>\$ 37,145,030</u>	<u>\$ 15,822,881</u>	<u>\$ 1,823,789</u>	<u>\$ 54,357,183</u>

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Combining Schedule of Net Position - Continued

June 30, 2016

Schedule 1, continued

Sponsored Programs	Community and Campus Programs	Endowment	Eliminating Entries	Total
\$ —	\$ 4,413	\$ —	\$ —	\$ 4,628,638
—	—	—	(385,053)	18,939,845
20,773,575	—	—	—	20,773,575
—	4,442,006	10,628	—	4,863,596
—	42,207,614	—	(43,840,560)	—
—	196,265	—	—	539,192
<u>20,773,575</u>	<u>46,850,298</u>	<u>10,628</u>	<u>(44,225,613)</u>	<u>49,744,846</u>
—	1,000	19,361,961	(7,272,345)	32,555,413
—	—	—	—	1,853,532
—	613,341	—	—	624,767
—	—	1,258,537	—	8,371,991
—	19,616	—	—	885,681
—	<u>633,957</u>	<u>20,620,498</u>	<u>(7,272,345)</u>	<u>44,291,384</u>
—	—	—	—	14,931,234
—	—	—	—	66,796,623
—	—	—	—	25,747,093
—	—	—	—	107,474,950
—	—	—	—	55,549,101
—	—	—	—	51,925,849
<u>20,773,575</u>	<u>47,484,255</u>	<u>20,631,126</u>	<u>(51,497,958)</u>	<u>145,962,079</u>
—	—	—	—	577,802
<u>\$ 20,773,575</u>	<u>\$ 47,484,255</u>	<u>\$ 20,631,126</u>	<u>\$ (51,497,958)</u>	<u>\$ 146,539,881</u>

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Combining Schedule of Net Position - Continued

June 30, 2016

Schedule 1

	<u>General</u>	<u>Designated</u>	<u>Property Management</u>	<u>Plant</u>
Current liabilities:				
Accounts payable and accrued expenses	\$ 5,075,009	\$ 2,203,902	\$ 1,061,449	\$ —
Due to The Campanile Foundation	6,691,075	—	—	—
Payable to other activities	21,668,359	4,054,979	—	1,927,009
Long-term debt obligations, current portion	—	—	—	1,364,961
Sponsored programs receipts over expenditures	—	—	—	—
Total current liabilities	33,434,443	6,258,881	1,061,449	3,291,970
Noncurrent liabilities:				
Long-term debt obligations, net of current portion	—	—	—	35,212,437
Bond premium	—	—	—	1,426,721
Other liabilities	—	3,178,102	—	—
Total noncurrent liabilities	—	3,178,102	—	36,639,158
Total liabilities	33,434,443	9,436,983	1,061,449	39,931,128
Net position:				
Net investment in capital assets	—	—	—	22,156,928
Restricted/nonexpendable	—	—	—	1,853,532
Restricted/expendable	—	779,196	—	—
Unrestricted	3,710,587	5,606,702	762,340	(9,584,405)
Total net position	3,710,587	6,385,898	762,340	14,426,055
Total liabilities and net position	\$ 37,145,030	\$ 15,822,881	\$ 1,823,789	\$ 54,357,183

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Combining Schedule of Net Position - Continued

June 30, 2016

Schedule 1, continued

<u>Sponsored Programs</u>	<u>Community and Campus Programs</u>	<u>Endowment</u>	<u>Eliminating Entries</u>	<u>Total</u>
\$ 1,888,914	\$ 3,620,151	\$ —	\$ —	\$ 13,849,425
—	—	—	—	6,691,075
14,529,149	—	1,661,064	(43,840,560)	—
—	—	—	(385,053)	979,908
<u>4,355,512</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>4,355,512</u>
<u>20,773,575</u>	<u>3,620,151</u>	<u>1,661,064</u>	<u>(44,225,613)</u>	<u>25,875,920</u>
—	—	—	(7,272,345)	27,940,092
—	—	—	—	1,426,721
—	—	558,828	—	3,736,930
—	—	558,828	(7,272,345)	33,103,743
<u>20,773,575</u>	<u>3,620,151</u>	<u>2,219,892</u>	<u>(51,497,958)</u>	<u>58,979,663</u>
—	—	—	—	22,156,928
—	—	1,441,673	—	3,295,205
2,016,953	371,028	8,808,179	—	11,975,356
<u>(2,016,953)</u>	<u>43,493,076</u>	<u>8,161,382</u>	<u>—</u>	<u>50,132,729</u>
—	43,864,104	18,411,234	—	87,560,218
<u>\$ 20,773,575</u>	<u>\$ 47,484,255</u>	<u>\$ 20,631,126</u>	<u>\$ (51,497,958)</u>	<u>\$ 146,539,881</u>

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Combining Schedule of Revenues, Expenses and Changes in Net Position

June 30, 2016

Schedule 2

	<u>General</u>	<u>Designated</u>	<u>Property Management</u>	<u>Plant</u>
Revenues:				
Program income	\$ —	\$ —	\$ —	\$ —
Facilities and administrative cost recovery	22,436,398	—	—	—
Contributions	—	—	—	—
Investment income	1,731,198	(2,972)	(1,151)	—
Net decrease in fair value of investments	(428,687)	(2,000)	—	—
Rental income	—	60,000	5,790,454	—
Other income	282,693	823,534	—	(17,863)
Total revenues	24,021,602	878,562	5,789,303	(17,863)
Expenses:				
Program expenses	14,691,089	5,608,730	5,823,851	—
Depreciation	—	—	—	4,239,122
Interest	—	—	1,589,443	—
Total expenses	14,691,089	5,608,730	7,413,294	4,239,122
Other activity:				
Equipment acquisitions, sponsored programs	—	—	—	(1,686,130)
	14,691,089	5,608,730	7,413,294	2,552,992
Excess (Deficiency) of revenues over expenses	9,330,513	(4,730,168)	(1,623,991)	(2,570,855)
Transfers and allocations:				
General fund allocations	(4,447,333)	4,447,333	—	—
Interfund transfers (out) in	(4,129,834)	312,161	1,628,766	6,560,284
Capitalized asset transfers	(31,352)	(77,188)	—	619,815
	(8,608,519)	4,682,306	1,628,766	7,180,099
Income (Loss) before transfer of assets	721,994	(47,862)	4,775	4,609,244
Net effect from transfer of assets to The Campanile Foundation				
Net position at beginning of year	2,988,593	6,433,760	757,565	9,816,811
Net position at end of year	\$ <u>3,710,587</u>	\$ <u>6,385,898</u>	\$ <u>762,340</u>	\$ <u>14,426,055</u>

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

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

June 30, 2016

Schedule 2, continued

<u>Sponsored Programs</u>	<u>Community and Campus Programs</u>	<u>Endowment</u>	<u>Eliminating Entries</u>	<u>Total</u>
\$ 115,912,239	\$ 36,285,928	\$ —	\$ —	\$ 152,198,167
—	—	—	(21,536,398)	900,000
—	19,557,179	190,262	—	19,747,441
—	446,420	(196,487)	(417,666)	1,559,342
—	(2,804)	(654,279)	—	(1,087,770)
—	—	—	—	5,850,454
—	—	—	—	1,088,364
<u>115,912,239</u>	<u>56,286,723</u>	<u>(660,504)</u>	<u>(21,954,064)</u>	<u>180,255,998</u>
113,912,239	54,957,163	—	(21,536,398)	173,456,674
—	—	—	—	4,239,122
—	—	—	(417,666)	1,171,777
<u>113,912,239</u>	<u>54,957,163</u>	<u>—</u>	<u>(21,954,064)</u>	<u>178,867,573</u>
—	—	—	—	(1,686,130)
<u>113,912,239</u>	<u>54,957,163</u>	<u>—</u>	<u>(21,954,064)</u>	<u>177,181,443</u>
<u>2,000,000</u>	<u>1,329,560</u>	<u>(660,504)</u>	<u>—</u>	<u>3,074,555</u>
—	—	—	—	—
(2,000,000)	(3,950,165)	1,578,788	—	—
—	(511,275)	—	—	—
<u>(2,000,000)</u>	<u>(4,461,440)</u>	<u>1,578,788</u>	<u>—</u>	<u>—</u>
—	(3,131,880)	918,284	—	3,074,555
—	(1,000,000)	(292,119)	—	(1,292,119)
—	47,995,984	17,785,069	—	85,777,782
<u>\$ —</u>	<u>\$ 43,864,104</u>	<u>\$ 18,411,234</u>	<u>\$ —</u>	<u>\$ 87,560,218</u>