



**THE RESEARCH FOUNDATION FOR
THE STATE UNIVERSITY OF NEW YORK**

Financial Statements

June 30, 2019 and 2018

(With Independent Auditors' Report Thereon)

**THE RESEARCH FOUNDATION FOR
THE STATE UNIVERSITY OF NEW YORK**

June 30, 2019 and 2018

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KPMG LLP
515 Broadway
Albany, NY 12207-2974

Independent Auditors' Report

The Board of Directors
The Research Foundation for The State University of New York:

We have audited the accompanying financial statements of The Research Foundation for The State University of New York, which comprise the balance sheet as of June 30, 2019, the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 auditors' 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 auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Research Foundation for The State University of New York as of June 30, 2019, and the changes in its net assets and its cash flows for the year then ended, in accordance with U.S. generally accepted accounting principles.



Emphasis of Matter

As discussed in note 2(o) to the financial statements, in 2019, The Research Foundation for The State University of New York adopted Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited The Research Foundation for The State University of New York's 2018 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated October 23, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived before the adjustments to adopt ASU 2016-14. As part of our audit of the 2019 financial statements, we also audited the adjustments described in Note 2(o) that were applied to adopt ASU 2016-14 retrospectively in the 2018 financial statements. In our opinion, such adjustments are appropriate and have been properly applied.

KPMG LLP

October 7, 2019

**THE RESEARCH FOUNDATION FOR
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Balance Sheets
June 30, 2019 and June 30, 2018

Assets	2019	2018
Current Assets:		
Cash and cash equivalents	\$ 5,548,735	432,536
Accounts receivable, net	230,357,565	209,871,576
Advances to others	14,208,454	10,937,904
Investments	380,428,084	340,255,543
Due from broker for securities sold	4,000,000	14,400,029
Other current assets	912,200	1,737,941
Total current assets	635,455,038	577,635,529
Noncurrent Assets:		
Investments	33,556,671	26,799,124
Fixed assets, net	496,053,812	343,657,395
Intangible assets, net	16,076,728	28,614,864
Other noncurrent assets	7,592,355	7,191,234
Total noncurrent assets	553,279,566	406,262,617
Total assets	\$ 1,188,734,604	983,898,146
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 109,150,920	83,971,739
Accrued compensation	17,342,617	15,415,924
Accrued leave	29,574,780	29,757,428
Deferred revenue	268,657,394	281,153,813
Deposits held for others	26,498,267	27,343,861
Current portion of capital lease obligations	17,052,981	15,711,800
Current portion of long-term debt	1,005,714	1,000,714
Line of credit	17,800,000	31,780,000
Total current liabilities	487,082,673	486,135,279
Noncurrent Liabilities:		
Post-retirement benefit obligation	137,322,551	98,510,093
Other deferred revenue	264,776,926	88,676,935
Capital lease obligations, net of current portion	218,179,132	235,232,113
Long-term debt, net of current portion	7,362,143	8,367,857
Other liabilities	8,184,254	7,645,333
Total noncurrent liabilities	635,825,006	438,432,331
Total liabilities	1,122,907,679	924,567,610
Net assets:		
Without donor restrictions	53,423,193	51,351,383
With donor restrictions	12,403,732	7,979,153
Total net assets	65,826,925	59,330,536
Total liabilities and net assets	\$ 1,188,734,604	983,898,146

See accompanying notes to financial statements.

**THE RESEARCH FOUNDATION FOR
THE STATE UNIVERSITY OF NEW YORK**

Statement of Activities

Year ended June 30, 2019 (with summarized comparative information for the year ended June 30, 2018)

	Without Donor Restrictions	With Donor Restrictions	2019 Total	2018 Total
Revenue:				
Grants for research and other sponsored activities:				
Federal	\$ 319,927,227	4,200,000	324,127,227	315,011,268
Federal flow through	106,275,794	-	106,275,794	116,144,835
New York State	127,024,167	-	127,024,167	122,753,297
Private and other	227,402,111	-	227,402,111	208,483,429
Total grants for research and other sponsored activities	780,629,299	4,200,000	784,829,299	762,392,829
Indirect cost recoveries:				
Federal	95,270,565	-	95,270,565	90,980,184
Federal flow through	24,323,921	-	24,323,921	25,515,430
New York State	9,068,532	-	9,068,532	10,298,100
Private and other	17,517,137	-	17,517,137	13,144,789
Total indirect cost recoveries	146,180,155	-	146,180,155	139,938,503
Other research-related income:				
Inventions and licenses income	8,353,202	-	8,353,202	7,854,836
Third party service center	10,430,654	-	10,430,654	10,510,748
Agency fees	7,029,653	-	7,029,653	8,054,785
Fixed price awards	7,493,907	-	7,493,907	6,055,515
Institutional support funding	38,591,172	-	38,591,172	61,939,953
Other	831,296	-	831,296	1,179,501
Total other research-related income	72,729,884	-	72,729,884	95,595,338
Investment income, net	20,634,550	424,579	21,059,129	15,660,556
Net assets released from restrictions	200,000	(200,000)	-	-
Total revenue	1,020,373,888	4,424,579	1,024,798,467	1,013,587,226
Expenses:				
Sponsored programs and other activities	779,552,065	-	779,552,065	770,564,300
Indirect administrative and support expenses	140,780,682	-	140,780,682	155,972,593
Other research-related expenses	42,071,482	-	42,071,482	22,764,399
Total expenses	962,404,229	-	962,404,229	949,301,292
Change in net assets from revenue and expenses	57,969,659	4,424,579	62,394,238	64,285,934
Changes in net assets related to postretirement	(55,897,849)	-	(55,897,849)	20,611,668
Change in net assets	2,071,810	4,424,579	6,496,389	84,897,602
Net assets (deficit) at beginning of year	51,351,383	7,979,153	59,330,536	(25,567,066)
Net assets at end of year	\$ 53,423,193	12,403,732	65,826,925	59,330,536

See accompanying notes to financial statements.

**THE RESEARCH FOUNDATION FOR
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Statements of Cash Flows

Years ended June 30, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Federal grants and contracts	\$ 533,546,769	547,097,929
State and local grants and contracts	310,177,858	266,207,661
Private gifts and grants	223,237,674	232,937,012
Other receipts	249,686,610	274,970,561
Salaries and wages payments	(408,923,617)	(408,027,926)
Employee benefits payments	(142,880,392)	(142,795,293)
Payments to suppliers and vendors	(433,821,474)	(460,924,950)
Operating interest and dividends	4,973,362	3,676,861
Distribution from BSA partnership	2,426,210	2,370,000
Interest payments on capital debt and notes	(20,653,811)	(21,758,536)
Other payments	(89,348,614)	(83,170,185)
Net cash provided by operating activities	228,420,575	210,583,134
Cash flows from investing activities:		
Proceeds from sales of investments	349,889,559	247,542,913
Purchases of investments	(373,172,214)	(392,246,455)
Proceeds from sales of fixed assets	313,500	3,070,365
Cash paid for purchases of fixed and intangible assets	(169,642,706)	(62,365,048)
Net cash used in investing activities	(192,611,861)	(203,998,225)
Cash flows from financing activities:		
Principal payments on long-term debt and capital lease obligations	(16,712,514)	(14,877,529)
Proceeds from new long-term debt borrowings	-	5,500,000
Proceeds from line of credit	71,873,593	106,596,994
Payments on line of credit	(85,853,594)	(103,522,438)
Net cash used in financing activities	(30,692,515)	(6,302,973)
Net increase in cash and cash equivalents	5,116,199	281,936
Cash and cash equivalents, beginning of year	432,536	150,600
Cash and cash equivalents, end of year	\$ 5,548,735	432,536

See accompanying notes to financial statements.

**THE RESEARCH FOUNDATION FOR
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Notes to Financial Statements

June 30, 2019 and 2018

(1) Organization

The Research Foundation for The State University of New York (RF) is the largest comprehensive university-connected research foundation in the country. It serves The State University of New York (SUNY) by providing an infrastructure of talent, services, and technology that empower SUNY to research, innovate, and transfer discoveries that transform the world's knowledge economy.

The RF works with the academic and business leadership of SUNY to support research and discovery through administration of sponsored projects and technology transfer and management of intellectual property for public benefit and economic growth. It enables faculty to write and submit grant proposals; establish contracts and manage funding awarded to run campus-based research projects; and protect and commercialize intellectual property created within those projects.

The RF comprises a central office and operating units at 30 state-operated campuses across New York State and is governed by an independent board of directors. The RF was chartered in 1951 by the New York State Board of Regents as a nonprofit education corporation.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The accompanying financial statements of the RF are presented consistent with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 958, *Not-for-Profit Entities*.

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Accordingly, such information should be read in conjunction with the RF's financial statements for the year ended June 30, 2018, from which the summarized information was derived.

(b) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make significant estimates and assumptions that affect the reported amounts of liabilities and net assets and disclosures of contingencies as of the dates of the financial statements and the reported amounts of change in net assets during the reporting periods. The most significant areas which are affected by the use of estimates include allowances for doubtful receivables, valuation of certain investments measured at net asset value, commitments and contingencies, useful lives and valuation of long-lived assets, and certain actuarial assumptions that affect the postretirement benefit obligation. Actual results could differ from those estimates and the differences between estimates and actual results could be significant.

(c) Net Asset Classes

The accompanying financial statements present information regarding the RF's balance sheet and activities according to two classes of net assets: without donor restrictions and with donor restrictions.

Without donor restrictions: net assets are not subject to donor stipulations restricting their use but may be designated for specific purposes by the RF or may be limited by contractual agreements with outside parties.

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With donor restrictions: net assets are subject to donor stipulations that expire with the passage of time, can be fulfilled by actions pursuant to the stipulations, or which may be perpetual.

The RF has two \$10 million endowment grants from the National Institute on Minority Health and Health Disparities (NIMHD), which are to be paid to the RF over the first five-year periods of each grant. The endowments are invested on behalf of the RF by the University at Albany Foundation (UAF) and the Health Science Center at Brooklyn Foundation, Inc. (HSCBF) under long-term service agreements. As of June 30, 2019 and 2018, the fair value of the funds was \$12.4 million and \$8.0 million, respectively. Under these grants, the endowment returns are to be used to facilitate minority health and health disparities research.

Aside from the NIHMD endowment balances, the RFs net assets have no other donor-imposed restrictions.

(d) Revenue Recognition

Grants awarded for research and other sponsored activities represent funding derived from grants, cost reimbursement contracts, and cooperative agreements that provide for the recovery of direct and indirect costs, and are subject to sponsor audit. Revenue from grants and contracts awarded for research and other sponsored activities is recognized as the activities required under the grants or contracts are performed, with performance generally measured based on direct costs incurred. Amounts received in excess of revenue recognized are recorded as deferred revenue. Recoveries of indirect costs provided from grants and contracts are recorded as revenue in the year in which the costs are eligible for reimbursement.

Investment income or loss includes dividends and interest, realized and unrealized gains and losses, and earnings from the RF's share in the Brookhaven Science Associates partnership (see note 3c). Purchases and sales of securities are recorded on a trade-date basis. Dividend income is recorded on the ex-dividend date. Interest income is recorded on the accrual basis of accounting. The average original purchase price of securities is used to determine the basis for computing realized and unrealized gains or losses.

Inventions and licenses income consists of royalties received from licenses and is recognized on the accrual basis. The income is distributed based on SUNY's Patents and Inventions Policy which governs the apportionment of income to inventors and campuses. Campus expenditures of their shares of the income (which fall under the provisions of the Bayh-Dole Act), and inventors' shares are reflected in the RF's inventions and licenses expenses.

Other research-related income is recognized on the accrual basis and primarily consists of third-party service center revenue, nonsponsored income from activities such as proceeds from the sale of equipment, and fees earned for administering human resources, payroll, purchasing and payables services to university-related organizations, such as foundations or clinical practice plans.

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(e) Cash Equivalents

Cash equivalents include short-term, highly liquid investments with an original maturity of three months or less at the time of purchase, exclusive of amounts classified as investments. Cash equivalents are stated at fair value and are considered a Level 1 financial asset as defined in note 5.

(f) Accounts Receivable

Accounts receivable includes:

- (1) Deficit balances from sponsored program activity that result when spending occurs in advance of when funds are received;
- (2) Deficit balances from service centers that are established and maintained to provide a specific service to sponsored programs and other users, recognized as rates are periodically adjusted to reflect actual expenses of those centers; and
- (3) Amounts billed and due from external sources of funding for other research-related income.

Accounts receivable is reported net of an allowance for doubtful accounts. The RF's allowance for doubtful accounts as of June 30, 2019 and 2018 was \$28.1 million and \$29.3 million, respectively.

Accounts receivable, net of the allowance for doubtful accounts, is summarized as follows as of June 30;

	2019	2018
Accounts receivable:		
Federal	\$ 46,609,039	51,973,386
Federal flow through	65,480,405	50,866,614
New York State	89,445,556	72,726,150
Private and other	28,822,565	34,305,426
	\$ 230,357,565	209,871,576

(g) Investments

Investments are reported at fair value, which is generally the price that would be received from selling an asset in an orderly transaction between market participants at the measurement date. Certain investments in limited liability partnerships and corporations are measured at net asset value or its equivalent as a practical expedient to estimating fair value.

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(h) Fixed and Intangible Assets

Fixed and intangible assets are stated at cost, net of accumulated depreciation and amortization, and are depreciated on a straight-line basis over the estimated useful lives of the assets. Using historical and industry experience, estimated useful lives, with the exception of land, range from five to 50 years. The RF monitors its long-lived assets for impairment. If an indication of impairment is identified, the RF would perform the required analysis and, if applicable, it would record impairment charges.

Upon sale or retirement of capitalized assets, both the cost and the related accumulated depreciation and amortization are removed from the accounts and a gain or loss is recorded. Depreciation and amortization expense for the years ended June 30, 2019 and 2018 was \$56.8 million and \$60.5 million, respectively.

The title to equipment purchased using sponsored funds is generally retained by the grantor institution until such time final disposition is determined. Accordingly, purchases of equipment charged to the respective grant or contract are not capitalized, except for equipment or infrastructure purchased under a sponsored program for the purpose of economic development and for which title is retained by the RF.

(i) Deferred Revenue

Deferred revenue includes:

- (1) Surplus balances from sponsored program activity that result when funds are received in advance of spending, recognized into revenue under the terms of the sponsored program;
- (2) Purchases of capitalized equipment or intangible assets under sponsored programs related to economic development, recognized into revenue over the life of the asset;
- (3) Surplus balances from service centers that are established and maintained to provide a specific service to sponsored programs and other users, recognized as rates are periodically adjusted to reflect actual expenses of those centers.

Amounts estimated to be realized over a period greater than one year are reflected in noncurrent deferred revenue on the balance sheets and primarily stem from capitalized equipment and intangible assets purchased under sponsored programs related to economic development.

(j) Accrued Leave

RF employees are granted vacation and sick leave in varying amounts. In the event of termination or retirement, an employee is reimbursed for accumulated vacation up to a maximum of 30 days. Employees are not reimbursed for accumulated sick leave at termination; however, upon retirement up to 200 days of accumulated sick leave is considered in the computation of retirement benefits. Included in the leave accrual is an accrual for the net obligation under the sick leave benefit amounting to \$2.8 million and \$2.6 million as of June 30, 2019 and 2018, respectively.

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(k) Postretirement Benefit Obligation

The RF has a defined medical benefit postretirement plan covering substantially all of its nonstudent eligible employees upon their retirement. The RF's postretirement obligations are based on calculations that incorporate various actuarial and other assumptions, including discount rates, mortality, assumed rates of return on plan assets, compensation increases, turnover rates, and healthcare cost trend rates. The RF reviews its assumptions on an annual basis and makes modifications to the assumptions based on current rates and trends when it is appropriate to do so. The effect of modifications to those assumptions is recorded in other changes to net assets and amortized to net periodic cost over future periods using the 10% corridor method. The net periodic costs are recognized as employees render the services necessary to earn the postretirement benefits.

The RF maintains a Voluntary Employee Benefit Association (VEBA) trust for the postretirement benefit plan. The assets held in the VEBA trust reduce the accumulated postretirement benefit obligation, as reported on the accompanying balance sheets.

(l) Fair Value of Financial Instruments

The carrying amounts of accounts receivable, other current assets, accounts payable and accrued expenses, and deposits held for others approximate fair value due to the short duration of these financial instruments. See notes 5 and 6 for additional information regarding fair value considerations with respect to investments, deferred compensation assets and interest rate swap on outstanding bonds.

(m) Tax Status

The RF is a not-for-profit corporation and has been determined by the Internal Revenue Service to be an organization described in Internal Revenue Code (IRC) Section 501(c)(3) and, therefore, is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code.

The RF recognizes the effects of income tax positions only if those positions are more likely than not to be sustained.

Management has determined there are no uncertain tax positions as of June 30, 2019 and 2018. The RF is subject to routine audits by taxing jurisdictions, and believes that it is no longer subject to income tax examinations for years prior to the year ended June 30, 2016.

(n) Other Information

Advances to others and deposits held for others represent amounts related to agency activity at the campus and affiliated organization locations.

Various SUNY employees perform work on RF sponsored grants. SUNY pays these employees directly, and is reimbursed by the RF monthly. The related amounts due to SUNY are included in accrued compensation and consist of both a known and estimated component. The total liability to SUNY at June 30, 2019 and 2018 is approximately \$7.3 million and \$6.0 million, respectively.

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Notes to Financial Statements

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(o) Recent Accounting Pronouncements

During the year ended June 30, 2019, the RF adopted ASU No. 2016-14 – *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This guidance is intended to improve the net asset classification requirements and the information presented in the financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. The main provisions of this guidance applicable to the RF include disclosure of liquidity and availability, presentation of net assets as with and without donor restriction, and disclosure of expenses by both their natural and functional classification. The presentation of net assets, as explained in note 2(c), provides a breakout between net assets with and without donor restrictions. Net assets were previously presented as available for operations and reserved for future post retirement benefits. Endowment funds have been reclassified to net assets with donor restrictions; see note 2(c) for additional information.

(p) Reclassifications

Certain 2018 amounts have been reclassified to conform to the 2019 presentation.

(3) Liquidity and Availability

As of June 30, 2019, financial assets and liquidity resources available within one year for general expenditure, such as operating expenses, and scheduled principal payments on debt, were as follows:

Cash and cash equivalents	\$ 5,548,735
Accounts receivable, net	230,357,565
Investments	380,428,084
Due from broker for securities sold	4,000,000
Total financial assets available within one year	<u>\$ 620,334,384</u>

The RF's annual cash flows are dependent on spending, billing and collections on thousands of individual sponsored awards across 30 campus locations. Cash-basis direct sponsored program spending, including capital equipment purchases, aggregated \$911.0 million during the year ended June 30, 2019.

To help manage liquidity, the RF's investment policy ensures the RF has access to funds, as needed, during the year through allocations to readily redeemable cash equivalent funds, mutual funds, and exchange traded funds (see note 5). Additionally, the RF maintains lines of credit of \$65.0 million (see note 11) that is drawn upon as needed during the year to manage cash flow.

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(4) Affiliated Organizations

The RF has established partnerships to accelerate the growth of sponsored program and applied research opportunities at SUNY. Unless otherwise noted, these organizations are not controlled by or significantly influenced by the RF and do not impact the RF's financial statements. The affiliated organizations are as follows:

(a) *BioBAT, Inc.*

BioBAT, Inc. is a private, not-for-profit corporation formed by the RF (acting on behalf of SUNY Downstate Medical Center) and the New York City Economic Development Corporation (on behalf of the City of New York) to develop the Brooklyn Army Terminal into a site for biotechnology and biopharmaceutical manufacturing, and research.

(b) *Broad Hollow Bioscience Park, Inc.*

Broad Hollow Bioscience Park, Inc. is a not-for-profit corporation formed by the RF (acting on behalf of Farmingdale State College) and Cold Spring Harbor Laboratory to operate an incubator facility on the Farmingdale State campus. Its purpose is to assist in the economic development of the region by attracting public and private funds to further biotechnology development through the commercialization of new technologies and the creation of new companies and jobs.

(c) *Brookhaven Science Associates, LLC*

Brookhaven Science Associates, LLC (BSA) is a limited liability company formed by the RF (acting on behalf of Stony Brook University) and Battelle Memorial Institute (Battelle). In 1998, the U.S. Department of Energy selected BSA to operate Brookhaven National Laboratory. BSA net earnings are allocated 50% each to Battelle and the RF.

The accompanying financial statements of the RF include its share of the net earnings of BSA based on the operating results for its years ended September 30, 2018 and 2017. The RF records distributions received as a reduction of the investment balance.

(d) *Buffalo 2020 Development Corporation*

Buffalo 2020 Development Corporation was formed by the RF (acting on behalf of University at Buffalo) and FNUB, Inc., a subsidiary of the University at Buffalo Foundation, to enable the purchase, development, and construction of research-based facilities and infrastructure on University at Buffalo property on the downtown Buffalo, New York campus. These facilities will support the research, academic and economic development mission of the SUNY campus at Buffalo.

(e) *CUBRC, Inc.*

CUBRC, Inc. is a private, not-for-profit corporation formed by the RF (acting on behalf of the University at Buffalo) and other foundations. CUBRC, Inc.'s mission is to leverage the capabilities of scientists from academia and industry to provide economic opportunities in Western New York. CUBRC, Inc. competes for research programs that would not otherwise be available to the University at Buffalo.

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(f) Downstate Technology Center, Inc.

Downstate Technology Center, Inc. is a private, not-for-profit corporation formed by the RF (acting on behalf of SUNY Downstate Medical Center) and the Health Science Center at Brooklyn Foundation, Inc. to provide for the construction of an advanced biotechnology incubator adjacent to the SUNY Downstate Medical Center. The facility seeks to advance medical research, provide incubator space and assist in the economic development of the Borough of Brooklyn.

(g) Empire Discovery Institute

Empire Discovery Institute (EDI) is a private, not-for-profit corporation, formed by the RF (acting on behalf of the University at Buffalo), along with the University of Rochester, and Roswell Park Comprehensive Cancer Center. EDI was established to provide infrastructure, funding and cross-institutional support for science research and education as well as scientific business ventures.

(h) Fort Schuyler Management Corporation

Fort Schuyler Management Corporation (FSMC) is a private, not-for-profit corporation, formed by the RF and the SUNY Polytechnic Institute Foundation. FSMC's objectives are to facilitate research and economic development activities of SUNY by purchasing, constructing, developing and managing research focused facilities on behalf of SUNY Poly at locations in Utica, Buffalo and various locations in New York State.

(i) Fuller Road Management Corporation

Fuller Road Management Corporation (FRMC) is a private, not-for-profit corporation formed by the RF and the SUNY Polytechnic Institute Foundation. FRMC provides for the construction of research facilities at SUNY Poly to promote research and development of early and late stage companies, and the creation of jobs, and the development of the region's economy.

(j) Long Island High Technology Incubator

Long Island High Technology Incubator (LIHTI) is a private, not-for-profit corporation formed by the RF (acting on behalf of Stony Brook University) and the Stony Brook Foundation, Inc. LIHTI's mission is the development of new high-technology companies.

(k) New York Genome Center

New York Genome Center (NYGC) is a private, not-for-profit corporation formed by the RF (acting on behalf of Stony Brook University) and other New York-based universities and academic medical centers. The RF participates in NYGC as an Institutional Founding Member. The mission of NYGC is to transform medical research and clinical care in and around New York City through the creation of what will become one of the largest genomics and bioinformatics facilities in North America.

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(I) U.S. Photovoltaic Manufacturing Consortium, Inc.

The Photovoltaic Manufacturing Consortium (PVMC) is a private, not-for-profit corporation, formed by the RF (acting on behalf of SUNY Poly) and Sematech, Inc. to facilitate an industry-led consortium for cooperative research and development among industry, university, and government partners to accelerate the development, commercialization, and manufacturing of next-generation solar photovoltaic systems.

(5) Fair Value Measurements

Except for investments reported at net asset value (NAV) or its equivalent as a practical expedient to estimate fair value, fair value is measured using three levels as described below:

Level 1: Inputs are unadjusted quoted market prices in active markets for identical assets or liabilities that are assessable at the measurement date.

Level 2: Inputs are other than quoted prices in active markets that are observable either directly or indirectly and fair value is determined through the use of models or other valuation methodologies.

Level 3: Inputs used in valuation are unobservable.

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

Mutual funds and exchange traded funds are reported at current quoted fair values as of the balance sheet date.

Investments in limited liability partnerships and corporations represent investments measured at NAV or its equivalent and consist of a diversified portfolio of hedge funds of funds, real estate, domestic and foreign equity funds, fixed income securities and private equity funds in various investment vehicles. These investments, which are not exchange traded, do not have readily determinable fair values. These investments are typically redeemable at NAV under the terms of the investment agreements. Estimates of fair value that are made using NAV per share or its equivalent as a practical expedient are not categorized in the fair value hierarchy.

Investments in pooled endowment portfolios are reported at the NAV of the RF's interest in the portfolios as a practical expedient to estimate fair value. The pooled endowments use diversified investment approaches incorporating multiple asset classes, strategies and managers, including alternative investment funds involving hedged and private equity strategies.

The preceding methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the RF believes its valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a materially different fair value measurement at the reporting dates.

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The following tables summarize, as of June 30, 2019 and 2018, the RF's investments as well as the liquidity redemption and notification provisions:

	2019				Redemption frequency	Days notice
	Total	Level 1	Level 2	Level 3		
Investments:						
Cash equivalents	\$ 116,517,230	116,517,230	—	—	Daily	1
Mutual and exchange traded funds:						
U.S. government fixed income	43,813,804	43,813,804	—	—	Daily	1
U.S. equities	32,138,137	32,138,137	—	—	Daily	1
Foreign equities	17,547,889	17,547,889	—	—	Daily	1-15
Real estate	19,086,560	19,086,560	—	—	Daily	1
U.S. equities	116,168	116,168	—	—	Daily	4
Investments measured at NAV or its equivalent:						
Absolute multistrategy return	39,567,828	—	—	—	Monthly/Quarterly	45 to 95
Credit securities	8,206,403	—	—	—	Monthly/Quarterly	30 to 45
Global equities	45,701,825	—	—	—	Mthly/Qtrly/Annly	30 to 90
Hedged equities	57,732,240	—	—	—	Quarterly	90
Private equity	17,839,924	—	—	—	See (a) below	N/A
Pooled endow ments	12,403,732	—	—	—	See (b) below	N/A
Total investments at fair value	410,671,740	229,219,788	—	—		
Investment in BSA partnership	3,313,015	—	—	—	N/A	N/A
Total investments	<u>\$ 413,984,755</u>	<u>229,219,788</u>	<u>—</u>	<u>—</u>		

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	2018				Redemption frequency	Days notice
	Total	Level 1	Level 2	Level 3		
Investments:						
Cash equivalents	\$ 130,179,440	130,179,440	—	—	Daily	1
Mutual and exchange traded funds:						
U.S. government fixed income	43,838,504	43,838,504	—	—	Daily	1
U.S. equities	22,660,997	22,660,997	—	—	Daily	1
Absolute multistrategy return	1,105,483	1,105,483	—	—	Daily	1
Foreign equities	17,858,201	17,858,201	—	—	Daily	1-15
Real estate	12,922,289	12,922,289	—	—	Daily	1
U.S. equities	213,848	213,848	—	—	Daily	4
Investments measured at NAV or its equivalent:						
Absolute multistrategy return	27,184,338	—	—	—	Monthly/Quarterly	45 to 95
Credit securities	14,760,829	—	—	—	Monthly/Quarterly	30 to 45
Global equities	29,117,560	—	—	—	Mthly/Qtrly/Annly	30 to 90
Hedged equities	40,414,054	—	—	—	Quarterly	90
Private equity	15,559,184	—	—	—	See (a) below	N/A
Pooled endow ments	7,979,153	—	—	—	See (b) below	N/A
Total investments at fair value	363,793,880	228,778,762	—	—		
Investment in BSA partnership	3,260,787	—	—	—	N/A	N/A
Total investments	\$ 367,054,667	228,778,762	—	—		

(a) Private equity fund investments include noncontrolling shares or interests in funds where the controlling general partner serves as the investment's manager. Such investments are generally not eligible for redemption from the fund or general partner, but can potentially be sold to third-party buyers in private transactions. It is the intent of the RF to hold these investments until the fund has fully distributed all proceeds to the investors.

(b) Under the service agreements with UAF and HSCBF, investment accounts were established at UAF and HSCBF with the funds received by the RF under the NIMHD grants, as described in note 2(c). These investment accounts are treated as term endowments with the corpus not to be expended for at least 20 years and with an annual distribution of fund income for programmatic spending by the RF. The terms of the UAF and HSCBF agreements are through March 31, 2046 and December 31, 2042, respectively, with further extension possible at the discretion of the parties.

There has been no transfer activity among levels for investments during fiscal years 2019 and 2018. The RF has unfunded commitments to private equity investments as of June 30, 2019 of approximately \$22.9 million.

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(6) Other Assets and Other Liabilities

Other assets and liabilities consist of the following at June 30:

	2019	2018
Other assets:		
Current:		
Royalties receivable	\$ 710,000	1,660,000
Miscellaneous	202,200	77,941
Total other current assets	912,200	1,737,941
Noncurrent:		
Deferred compensation assets	7,592,355	7,191,234
Total other noncurrent assets	7,592,355	7,191,234
Total other assets	\$ 8,504,555	8,929,175
Other liabilities – noncurrent:		
Deferred compensation obligation	\$ 7,592,355	7,191,234
Interest rate swap agreement	591,899	454,099
Total other liabilities	\$ 8,184,254	7,645,333

The RF maintains a deferred compensation plan established in accordance with Section 457(b) of the IRC. Plan assets are a part of the general assets of the RF, which are subject to claims of creditors of the RF. For the years ended June 30, 2019 and 2018, respectively, the assets consist of mutual funds of approximately \$3.5 million and \$3.3 million, which involve Level 1 inputs under the fair value hierarchy, variable annuities of approximately \$3.0 million and \$2.7 million, which are recorded at NAV, and fully benefit-responsive annuity contracts of approximately \$1.1 million and \$1.2 million, which are recorded at contract value.

As indicated in note 11(b), the RF currently has an interest rate swap on its outstanding bonds. The value of the swap is adjusted, through net assets without donor restrictions, to fair value involving Level 2 inputs under the fair value hierarchy.

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(7) Fixed Assets

<u>Fixed asset classification</u>	<u>Fixed assets June 30, 2018</u>	<u>Additions</u>	<u>Dispositions/ retirements</u>	<u>Placed in service</u>	<u>Fixed assets June 30, 2019</u>
Building	\$ 6,500,000	—	—	—	6,500,000
Building – capital lease	317,704,048	—	—	—	317,704,048
Research and office equipment	180,393,192	50,260,439	(3,306,807)	43,710,948	271,057,772
Information systems	25,462,324	—	—	—	25,462,324
Construction in progress	45,674,482	147,721,867	(327,185)	(43,710,948)	149,358,216
Total fixed assets	<u>575,734,046</u>	<u>197,982,306</u>	<u>(3,633,992)</u>	<u>—</u>	<u>770,082,360</u>
Less accumulated depreciation:					
Building	2,080,000	130,000	—	—	2,210,000
Building – capital lease	109,210,766	19,856,503	—	—	129,067,269
Research and office equipment	95,332,176	25,100,167	(3,143,388)	—	117,288,955
Information systems	25,453,709	8,615	—	—	25,462,324
Total accumulated depreciation	<u>232,076,651</u>	<u>45,095,285</u>	<u>(3,143,388)</u>	<u>—</u>	<u>274,028,548</u>
Fixed assets, net	<u>\$ 343,657,395</u>	<u>152,887,021</u>	<u>(490,604)</u>	<u>—</u>	<u>496,053,812</u>

There is no depreciation expense associated with construction in progress assets as they have not yet been placed in service. Upon being placed in service, the assets, primarily consisting of research equipment, are classified in the appropriate categories above and depreciated over their useful lives.

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(8) Intangible Assets

<u>Intangible asset classification</u>	<u>Intangible assets June 30, 2018</u>	<u>Additions</u>	<u>Dispositions/ retirements</u>	<u>Intangible assets June 30, 2019</u>
Technology licenses	\$ 89,200,000	—	—	89,200,000
Capitalized software	18,029,825	—	—	18,029,825
Total intangible assets	<u>107,229,825</u>	<u>—</u>	<u>—</u>	<u>107,229,825</u>
Less accumulated amortization:				
Technology licenses	72,063,000	9,637,000	—	81,700,000
Capitalized software	6,551,961	2,901,136	—	9,453,097
Total accumulated amortization	<u>78,614,961</u>	<u>12,538,136</u>	<u>—</u>	<u>91,153,097</u>
Intangible assets, net	<u>\$ 28,614,864</u>	<u>(12,538,136)</u>	<u>—</u>	<u>16,076,728</u>

The approximate annual amortization of the intangible assets over the next five years is as follows:

Fiscal year ending:	
2020	\$ 7,547,000
2021	4,422,000
2022	1,966,000
2023	1,429,000
2024	713,000

(9) Postretirement Benefit Obligation

(a) Plan Information

The RF sponsors a defined benefit postretirement plan that covers substantially all nonstudent employees. The plan provides postretirement medical benefits and is contributory for employees hired after 1985. Retirees who were hired after 1985 are subject to cost sharing requirements with respect to medical coverage. With respect to dental coverage, retirees must pay the full premium cost of the coverage selected.

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(b) Plan Funded Status and Related Assumptions

Annual contributions to fund the plan are made by the RF pursuant to a funding policy established by the RF's board of directors. For payment of benefits under the plan, the RF established a VEBA trust with Bank of New York Mellon as the trustee. The VEBA trust held assets of \$248.3 million and \$234.9 million as of June 30, 2019 and 2018, respectively. Current obligations are assumed to be paid out of the trust assets, with the remaining unfunded obligation reflected as a noncurrent liability of the RF. There were approximately 6,800 participants in the plan as of July 1, 2018 and 2017.

The following table sets forth the plan's funded status reconciled with the amount shown in the accompanying financial statements at June 30:

	2019	2018
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 333,388,589	351,049,609
Service cost	9,346,090	10,373,062
Interest cost	13,580,235	12,330,180
Plan participants' contributions	1,308,704	1,460,622
Actuarial loss (gain)	39,221,733	(32,416,371)
Benefits paid	(11,268,640)	(9,408,513)
	385,576,711	333,388,589
Change in plan assets:		
Fair value of plan assets at beginning of year	234,878,496	217,425,462
Return on plan assets	17,354,429	19,908,336
Employer contributions	5,981,171	5,492,589
Plan participants' contributions	1,308,704	1,460,622
Benefits paid	(11,268,640)	(9,408,513)
	248,254,160	234,878,496
Funded status and amount recognized in balance sheet	\$ (137,322,551)	(98,510,093)
Reserve for future postretirement benefit costs:		
Prior service credit	\$ 172,956,304	205,191,027
Net actuarial loss	(183,539,351)	(159,876,225)
Total	\$ (10,583,047)	45,314,802
Weighted average assumptions used to determine benefit obligation:		
Discount rate at end of year	3.35%	4.05%

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	2019	2018
Components of net periodic benefit cost:		
Service cost	\$ 9,346,090	10,373,062
Interest cost	13,580,235	12,330,180
Expected return on plan assets	(15,976,528)	(14,809,703)
Amortization of:		
Prior service credit	(32,234,723)	(34,475,691)
Actuarial loss	14,180,706	17,572,355
Net periodic benefit gain	\$ (11,104,220)	(9,009,797)
Weighted average assumptions used to determine net periodic benefit cost:		
Discount rate for the year	4.05%	3.71%
Expected long-term rate of return	7.00	7.00
	2019	2018
Other changes in plan assets and benefit obligations recognized in net assets without donor restriction:		
Net actuarial (loss) gain	\$ (37,843,832)	37,515,004
Amortization of:		
Prior service credit	(32,234,723)	(34,475,691)
Actuarial loss	14,180,706	17,572,355
Total recognized as (decrease) increase in net assets without donor restriction	\$ (55,897,849)	20,611,668

Expected amounts to be amortized from net assets into net periodic benefit cost for fiscal year ending 2020 include prior service credit of \$32.1 million and actuarial loss of \$15.3 million.

Estimated net benefit payments over future years are as follows:

Fiscal year ending:	
2020	\$ 14,611,000
2021	15,611,000
2022	16,842,000
2023	18,024,000
2024	18,931,000
2025–2029	104,687,000

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For measurement purposes, the initial trend rates vary by coverage. The health maintenance organization rate is 6.50%, the preferred provider organization (PPO) rate is 6.50%, the PPO prescription rate is 9.00%, and administrative fees are 5.00%. Trend rates grade down to an ultimate rate between 4.60% and 5.30% in 2026 and later.

Assumed healthcare cost trend rates have a significant effect on the amounts reported for the healthcare plans. A one-percentage point change in assumed healthcare cost trend rates would have the following effects:

	One-percentage point	
	increase	decrease
Effect on total service and interest cost components	\$ 4,273,624	(3,380,819)
Effect on postretirement benefit obligation	64,331,495	(51,887,694)

(c) Fair Value of Plan Assets

The following tables summarize as of June 30, 2019 and 2018, the RF's defined benefit postretirement plan's investments held in the VEBA trust, including the redemption and notification provisions. The hierarchy and inputs to valuation techniques used to measure fair value of the plan's investments are outlined above in note 5.

	2019				Redemption frequency	Days' notice
	Total	Level 1	Level 2	Level 3		
Investments:						
Cash equivalents	\$ 1,501,149	1,501,149	—	—	Daily	1
Mutual and exchange traded funds:						
U.S. government fixed income	25,445,567	25,445,567	—	—	Daily	1
U.S. equities	18,980,303	18,980,303	—	—	Daily	1
Foreign equities	10,776,011	10,776,011	—	—	Daily	1-15
Real estate	13,677,953	13,677,953	—	—	Daily	1
Hedged equities	1,077,253	1,077,253	—	—	Daily	1
Investments measured at NAV or its equivalent:						
Absolute multistrategy return	24,965,984	—	—	—	Monthly/Quarterly	45 to 95
Global equities	59,708,267	—	—	—	Mthly/Qtrly/Annly	30 to 90
Hedged equities	52,304,174	—	—	—	Quarterly	90
Private equity	39,817,499	—	—	—	See note 6(a)	N/A
	\$ 248,254,160	71,458,236	—	—		

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		2018					
		Total	Level 1	Level 2	Level 3	Redemption frequency	Days' notice
Investments:							
Cash equivalents	\$	7,498,949	7,498,949	—	—	Daily	1
Mutual and exchange traded funds:							
U.S. government fixed income		22,220,962	22,220,962	—	—	Daily	1
U.S. equities		14,883,626	14,883,626	—	—	Daily	1
Absolute multistrategy return		3,620,821	3,620,821	—	—	Daily	1
Foreign equities		16,184,310	16,184,310	—	—	Daily	1-15
Real estate		10,949,769	10,949,769	—	—	Daily	1
Hedged equities		2,890,496	2,890,496	—	—	Daily	1
Investments measured at NAV or its equivalent:							
Absolute multistrategy return		20,403,378	—	—	—	Monthly/Quarterly	45 to 95
Global equities		47,751,381	—	—	—	Mthly/Qtrly/Annly	30 to 90
Hedged equities		54,381,937	—	—	—	Quarterly	90
Private equity		34,092,867	—	—	—	See note 6(a)	N/A
	\$	<u>234,878,496</u>	<u>78,248,933</u>	<u>—</u>	<u>—</u>		

There has been no transfer activity among levels for investments during fiscal years 2019 and 2018. The RF has unfunded commitments to the plan's private equity investments at June 30, 2019 of approximately \$34.0 million.

(d) Investment Policies and Strategies

The plan's primary investment goal is to meet the ongoing obligations while minimizing contributions and controlling risks. This would result in funding short-term liabilities with lower volatility short-term assets, intermediate-term liabilities with moderate-volatility assets and longer-term liabilities with long-term assets.

By use of this structure, and by the diversification of assets, the total portfolio risk exposure and risk adjusted returns meet the plan's long-term total return goal.

The RF's investment managers, under agreement to manage the plan assets kept in the VEBA trust, exercise full investment discretion within the investment policy approved by the RF board of directors, and guidelines as described in the respective investment agreements. Assets must be managed with the care, skill, prudence, and diligence that a prudent investment professional in similar circumstances would exercise, in compliance with applicable laws and regulations.

(e) Basis Used to Determine the Overall Expected Long-Term Rate of Return on Assets Assumption

The RF works with a consultant to develop long-term rate of return assumptions used to model and determine the overall asset allocation. The return assumptions used in the asset allocation analysis are based on a building block approach in which risk premium is calculated for each asset class and adjusted for current market conditions including, but not limited to, current market valuations, yield, inflation, and various economic indicators.

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The plan's asset allocation, utilizing various investment vehicles, as of June 30, 2019, as shown in the table below, is expected to meet the plan's expected return:

<u>Asset class</u>	<u>Long-term target</u>	<u>Short-term target</u>	<u>Ranges</u>	<u>Actual</u>
Cash	1.0%	1.0%	0%–10%	0.6%
Fixed income:				
Government bonds	8.0%	5.0%	0%–30%	4.6%
Credit	4.0%	4.0%	0%–20%	4.0%
Private debt	9.0%	2.5%	0%–20%	4.8%
Equities:				
Global equities	35.0%	38.0%	20%–50%	38.0%
Hedged equities	15.0%	19.0%	0%–25%	19.4%
Private equity	10.0%	7.0%	0%–25%	8.9%
Absolute return	5.0%	7.5%	0%–20%	6.0%
Real assets:				
Inflation-protected	3.0%	6.0%	0%–10%	5.6%
Commodities	—%	—%	0%–10%	—%
Global real estate	10.0%	10.0%	5%–20%	8.1%

(10) Retirement Plan

The RF maintains a noncontributory Section 401(a) retirement plan for substantially all nonstudent employees. Contributions are based on a percentage of earnings and range from 7% to 15%, depending on date of hire. In addition, the RF provides an additional pension contribution if an employee retires and meets the age and service requirements for retiree health insurance. This additional contribution is calculated by multiplying the value of the employee's accrued sick leave, up to a maximum of 200 days, by the employee's contribution rate at the time of retirement. Employees become eligible to participate after completing one year of service (a one-year waiting period from their date of hire). At that time, contributions begin and they gain ownership of all future contributions made to their retirement accounts while employed by the RF.

Contributions are allocated to individual employee accounts. Vested participants have the option of having contributions to their accounts deposited in either, a guaranteed income account, an assortment of mutual funds, stocks, bonds, real estate, and money market investments, or a selection of nonproprietary funds that are offered by the Teachers Insurance and Annuity Association (TIAA). The payroll for RF employees covered by TIAA for the years ended June 30, 2019 and 2018 was approximately \$359.4 million and \$363.5 million, respectively. The RF retirement plan contributions were approximately \$30.4 million and \$31.3 million for the years ended June 30, 2019 and 2018, respectively. These contributions are equal to 100% of the required contributions for the year.

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(11) Long-Term Obligations

	Balance	
	June 30, 2019	June 30, 2018
Long-term obligations:		
Capital lease obligation; see note (a) below	\$ 235,232,113	250,943,913
Bonds payable to Albany Industrial Development Agency (AIDA); see note (b) below	3,850,000	4,065,000
Note payable to Citizens Bank; see note (c) below	4,517,857	5,303,571
Total long-term obligations	\$ 243,599,970	260,312,484

- (a) The RF is party to a capital lease for the NanoFabXtension (NFX) facility with FRMC. The lease commenced on January 1, 2013 and expires on December 31, 2028. During the lease term, the RF's payments under the capital lease will be an annual amount equal to the greater of (a) \$36 million or (b) all scheduled payments of principal and interest and related payments due under a credit agreement that FRMC has with a financial institution for financing of the NFX facility.
- (b) The RF has an interest rate swap agreement, on the variable-rate AIDA bonds payable, with the Bank of New York to pay a fixed rate of interest of 3.615%. The bonds payable mature in 2032.
- (c) The RF has a fixed rate term loan with Citizens Bank with an interest rate of 3.68%, which commenced on February 2, 2018 and expires on February 1, 2025 and is fully collateralized by certain of the RF's marketable securities.

Future scheduled payments as of June 30, 2019 are as follows:

	Capital lease obligation		Bonds and notes payable	
	Principal	Interest	Principal	Interest
Fiscal year:				
2020	\$ 17,052,981	18,947,019	1,005,714	167,964
2021	18,508,646	17,491,354	1,015,714	137,733
2022	20,088,570	15,911,430	1,020,714	107,879
2023	21,803,357	14,196,643	1,030,714	77,985
2024	23,664,522	12,335,478	1,035,714	48,150
Thereafter	134,114,037	27,885,963	3,259,287	54,150
Total	\$ 235,232,113	106,767,887	8,367,857	593,861

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The RF was in compliance with all loan covenant provisions in effect as of the issuance date of these financial statements.

Lines of Credit

The RF maintains unsecured lines of credit, with no fixed maturity date, in the amount of \$65.0 million of which \$17.8 million and \$31.8 million were outstanding as of June 30, 2019 and 2018, respectively. During the year ended June 30, 2019, the borrowing rates ranged between 2.85 – 3.68%. The terms of the lines include the specification that each draw must be repaid within one year, and that the bank has the right to demand full repayment of these lines of credit at any time. There has been no indication by the bank of its intent to exercise this right.

(12) Commitments and Contingencies

(a) Commitments

The RF has commitments under its NFX capital lease as well as agreements with industry partners to support the mission of the SUNY Poly campus, some of which are pending sponsorship or other funding. As of the issuance date of these financial statements, the RF does not anticipate any shortfalls of funding under these commitments to be material in nature.

(b) Operating Lease Obligations

The RF contracts with FRMC and various other entities to lease space as part of its mission to support SUNY research and partnerships. Future minimum payments, as of June 30, 2019, for lease terms in excess of one year are as follows:

<u>Fiscal year</u>	<u>FRMC</u>	<u>Other</u>	<u>Total</u>
2020	\$ 9,714,458	5,059,945	14,774,403
2021	7,464,458	4,852,781	12,317,239
2022	7,014,458	2,067,444	9,081,902
2023	7,014,458	1,274,484	8,288,942
2024	7,014,458	627,674	7,642,132
Thereafter	<u>78,912,653</u>	<u>2,819,732</u>	<u>81,732,385</u>
Total	<u>\$ 117,134,943</u>	<u>16,702,060</u>	<u>133,837,003</u>

In May 2005, the RF, as tenant, and FRMC, as landlord, executed an agreement for the lease of clean room facilities, which are used for nanotechnology-related research and development at SUNY Poly. Rent payments made by the RF pursuant to the agreement for each of the years ended June 30, 2019 and 2018 were approximately \$7.0 million. The annual rental payments may escalate annually at a rate not to exceed one percent. The term of the lease is from May 20, 2005 through September 30, 2035.

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(c) Contingencies

During the ordinary course of business, the RF is exposed to risks associated with legal proceedings and claims. A liability is recognized with respect to legal proceedings and claims if incurrence of a loss is probable and the amount of loss is reasonably estimable. It is not anticipated that potential liability from any matters as yet unresolved as of the issuance date will have a material effect on the RF's financial condition and/or cash flows.

(13) Functional Expenses

The statement of activities presents expenses by program classification. The RF also summarizes its expenses by functional and natural classifications. The RF's primary program service is research. Depreciation expense is assigned based on the functional classification of the contract or agreement for which an individual asset was acquired. Post retirement and other benefit expenses are allocated based on the functional classifications of salaries.

Expenses, categorized based on functional and natural classifications for the year ended June 30, 2019, with comparative totals based on natural classification for the year ended June 30, 2018, are as follows (in thousands):

	Research	Institutional Support	Public Service	Instruction	Academic Support	Other	Total	2018
Salaries	\$ 176,363	57,537	53,779	38,838	11,208	1,643	339,368	332,430
Other employee benefits	59,932	22,722	21,621	14,429	4,326	564	123,594	118,293
Post retirement benefit expense	(8,879)	(2,897)	(2,707)	(1,955)	(564)	(83)	(17,085)	(14,502)
Subcontracts	73,507	10	12,582	7,896	326	-	94,321	95,595
Office expense	51,343	12,063	8,049	5,476	3,162	1,599	81,692	83,070
Fees for services	25,557	15,404	19,273	4,845	4,232	2,243	71,554	69,067
Depreciation and amortization	51,732	4,385	-	421	-	254	56,792	60,501
Occupancy	1,971	14,317	6,049	656	266	5,693	28,952	33,980
Equipment	22,965	1,655	309	1,364	1,384	609	28,286	24,097
Interest	20,288	2,675	-	15	-	-	22,978	23,694
Travel	10,307	2,468	5,280	2,934	1,013	99	22,101	21,332
Fellowship stipends	3,038	650	1,261	11,706	566	1,872	19,093	19,252
Tuition and fees	6,810	202	181	10,640	297	171	18,301	22,953
Information technology	2,604	6,656	422	423	508	485	11,098	11,699
Other expenses	14,652	24,396	4,654	3,643	3,835	10,179	61,359	47,839
Total expenses	<u>\$ 512,190</u>	<u>162,243</u>	<u>130,753</u>	<u>101,331</u>	<u>30,559</u>	<u>25,328</u>	<u>962,404</u>	<u>949,301</u>

(14) Subsequent Events

The RF considers events or transactions that occur after the balance sheet date, but before the financial statements are issued, to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure. These financial statements covering the year ended June 30, 2019 were available to be issued on October 7, 2019 and subsequent events have been evaluated through that date.