



U.C. SAN DIEGO FOUNDATION

Financial Statements

June 30, 2015 and 2014

(With Independent Auditors' Report Thereon)

U.C. SAN DIEGO FOUNDATION

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KPMG LLP
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Independent Auditors' Report

The Board of Trustees
U.C. San Diego Foundation:

We have audited the accompanying financial statements of U.C. San Diego Foundation (the Foundation), a component unit of the University of California, as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the 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 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 audits. We conducted our audits 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 auditor considers internal control relevant to the Foundation's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the U.C. San Diego Foundation as of June 30, 2015 and 2014, and the changes in its net position and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.



Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which 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 audits 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.

KPMG LLP

Irvine, California
October 2, 2015

U.C. SAN DIEGO FOUNDATION

Management's Discussion and Analysis

June 30, 2015 and 2014

(Unaudited)

The U.C. San Diego Foundation (the Foundation) encourages, accepts, and manages charitable gifts for the benefit of the University of California, San Diego (UC San Diego) campus. The Foundation is governed by a board of trustees comprised of the campus' closest alumni, friends, and community members. Gifts are also made to UC San Diego through The Regents of the University of California and are not included in these statements.

The following discussion and analysis presents an overview of the Foundation's financial performance for fiscal years ended June 30, 2015 and 2014. This discussion and analysis has been prepared by management and should be read in conjunction with the accompanying audited basic financial statements and notes.

Financial Highlights

During fiscal year 2015, the Foundation's net position, which represents the excess of total assets over liabilities, increased by \$18.4 million. This is compared to increases in net position during fiscal year 2014 of \$77.8 million and during fiscal year 2013 of \$58.1 million.

The increases in net position in fiscal years 2015, 2014, and 2013 resulted primarily from positive financial markets and the resulting investment-related returns, as well as contributions to permanent endowments. The Foundation's primary investment portfolio and permanent asset base, the endowment pool, had a net total return of 4.4% as of June 30, 2015, compared to 18.1% for fiscal year 2014, and 12.0% for fiscal year 2013.

The Foundation expects fluctuations in contribution revenue for both current and endowment funds, and investment results from year to year. The Foundation manages the endowment portfolio with a long-term philosophy of capital appreciation. Very significant contributions, including bequests, are periodically received from donors as a result of relationships cultivated over many years. The timing of these contributions is not entirely predictable, and often will correlate with a campus initiative.

Presentation and Using this Report

This annual report consists of a series of financial statements prepared in accordance with pronouncements issued by the Governmental Accounting Standards Board using the accrual basis of accounting. These statements focus the reader of the financial reports on the organization's overall financial condition, and changes in net position and cash flows, taken as a whole.

The keys to understanding the changes in the financial outcomes for the Foundation are the statements of net position; statements of revenue, expenses, and changes in net position; and the statements of cash flows. These statements present financial information in a form similar to that used by private sector companies. The Foundation's net position (the difference between assets and liabilities) is one indicator of the Foundation's financial health, when considered in combination with other nonfinancial information.

The statements of net position includes all assets and liabilities. The statements of revenue, expenses, and changes in net position reports the revenue earned and the expenses incurred during the year as either operating or nonoperating. Incoming gifts and grants made to the campus are reported as operating revenue and expense, respectively, and investment results are reported as nonoperating income or expense.

U.C. SAN DIEGO FOUNDATION
Management's Discussion and Analysis
June 30, 2015 and 2014
(Unaudited)

Condensed Schedules of Net Position

	June 30					
	2015		2014		2013	
	(In thousands of dollars)					
Assets:						
Current assets	\$ 98,664	13%	\$ 97,283	13%	\$ 123,610	19%
Noncurrent assets	646,750	87	633,596	87	530,663	81
Total assets	<u>745,414</u>	<u>100%</u>	<u>730,879</u>	<u>100%</u>	<u>654,273</u>	<u>100%</u>
Liabilities:						
Current liabilities	2,270	18%	3,334	21%	3,101	18%
Noncurrent liabilities	10,088	82	12,895	79	14,328	82
Total liabilities	<u>12,358</u>	<u>100%</u>	<u>16,229</u>	<u>100%</u>	<u>17,429</u>	<u>100%</u>
Total net position	<u>\$ 733,056</u>		<u>\$ 714,650</u>		<u>\$ 636,844</u>	

The condensed schedules of net position reflects the assets, liabilities, and net position for fiscal years 2015, 2014, and 2013. As of June 30, 2015, the Foundation's total assets increased by \$14.5 million or 2.0% versus June 30, 2014. Total assets increased by \$76.6 million or 11.7% as of June 30, 2014 versus June 30, 2013.

Current assets increased by \$1.4 million during fiscal year 2015 and represented 13% of total assets, versus 13% in 2014 and 19% in 2013. Current assets consist of cash, short-term investments, and the portion of pledges and notes receivable due within one year. Current assets will fluctuate depending on the timing gifts received versus the timing of both investment activity and transfers of funds to the campus for the purposes the donors intend.

Noncurrent assets consist of long-term investments (primarily endowment), and the portions of both notes receivable and pledges receivable due beyond one year. Noncurrent assets increased by \$13.2 million during fiscal year 2015 and represented 87% of total assets, versus 87% in 2014 and 81% in 2013. Growth in the endowment value by virtue of new gifts and investment returns over the course of these years is the primary reason for the increasing percentage of the noncurrent assets versus total assets.

As of June 30, 2015, the Foundation's total liabilities decreased by approximately 23.8% or \$3.9 million from June 30, 2014, as compared to a decrease of 6.9%, or \$1.2 million as of June 30, 2014 versus June 30, 2013. Current liabilities are comprised of amounts payable to the campus for grants and transfers as of year-end, and the current portion of liabilities to trust and life income beneficiaries. Current liabilities tend to be fairly level from year to year. Noncurrent liabilities are comprised of the long-term portion of the liability due to life income beneficiaries and fiscal years 2014 and 2013 include gift fees payable beyond one year. During fiscal year 2015, a significant charitable remainder trust matured and the related liability was eliminated, resulting in the reduction in the noncurrent liability. Additionally, the gift fee has been suspended effective July 1, 2015, and all related accrued gift fees amounting to \$614,000 were reversed as of June 30, 2015.

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(Unaudited)

Condensed Schedules of Revenue, Expenses, and Changes in Net Position

	Year ended June 30		
	2015	2014	2013
	(In thousands of dollars)		
Operating revenue	\$ 58,098	61,126	47,728
Operating expenses	(95,618)	(79,388)	(68,367)
Operating loss	(37,520)	(18,262)	(20,639)
Nonoperating income	21,984	85,132	48,250
Net (loss) revenue before contributions to permanent endowments	(15,536)	66,870	27,611
Contributions to permanent endowments	33,942	10,936	30,471
Change in net position	18,406	77,806	58,082
Net position:			
Beginning of year	714,650	636,844	578,762
End of year	\$ 733,056	714,650	636,844

The condensed schedules of revenue, expenses, and changes in net position reflect operating and nonoperating revenue, and expense, and contributions to permanent endowments, for fiscal years 2015, 2014, and 2013.

Operating revenue for the Foundation consists only of expendable charitable contributions recognized, and totaled \$58.1 million for fiscal year 2015. This was a decrease from fiscal year 2014 of \$3.0 million after an increase from fiscal year 2013 of \$13.4 million. During fiscal years 2015 and 2014, many significant pledges and outright gifts were recorded and recognized; during fiscal year 2014 a large charitable remainder trust matured, and in both years there was an increase in giving due to the Jacobs Medical Center Challenge Match.

Operating expense consists primarily of grants made to UC San Diego of expendable contributions and accumulated endowment payout for the many purposes intended by the donors. The transfers are made as the various campus beneficiaries request the funds. Nearly every area of the campus is a beneficiary of a Foundation fund; therefore, these grants support many purposes as described in note 7. The timing of grants to the campus typically lags the timing of the incoming contribution revenue and endowment payout. The lag can be a short-time period or several years. A longer lag will occur if expendable gifts or endowment payout is purposefully accumulating to allow the benefitting campus area to cover a cost that will require the use of several years of gifts or payout. In addition, endowment payout is not recognized as operating revenue, but operating expense includes the transfer of payout to the campus. Due to these factors, and similar to fiscal years 2014 and 2013, in fiscal year 2015, grants made to the campus exceeded recognized contribution revenue, resulting in an operating loss.

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Management's Discussion and Analysis

June 30, 2015 and 2014

(Unaudited)

Net nonoperating revenue relates primarily to the Foundation's endowment investment portfolio returns. The Foundation uses a balanced and diversified approach to its endowment asset mix within a stated policy. In any one year, certain components of the portfolio may perform better than others. During fiscal year 2015, the asset class components provided mixed results, with the domestic equity component producing positive but lower returns than in fiscal years 2014 and 2013 and in particular, the international equity and other alternatives components contributing negative returns. During fiscal year 2014, all asset class components of the endowment portfolio had positive returns, with the equity components being the largest contributors to return, while in fiscal year 2013, all asset class components except treasury inflation-protected securities (TIPS) had positive returns. The results overall provided net nonoperating revenue in all fiscal years presented.

The Foundation places a high priority on increasing the gifts to and the return on the endowment. The size of the endowment and the resulting annual payout correlates directly with being able to provide permanent resources for the benefit of UC San Diego. Endowment gifts received in fiscal year 2015 were \$33.9 million, compared to \$10.9 million and \$30.5 million in fiscal years 2014 and 2013, respectively. As mentioned previously, the timing of these gifts is somewhat unpredictable and will vary from year to year.

Factors Impacting Future Periods

Factors that can significantly impact future periods include the state of the overall economy and the financial markets. Both factors impact charitable giving and the value of investments. The board of trustees of the Foundation monitors the status of the economy, its impact on overall giving, pledges receivable, and the investment pools.

Charitable support is an increasingly important resource to UC San Diego. In the future, the Foundation anticipates both growth in the endowment as the permanent base of assets, and a higher rate of both incoming expendable and planned gifts and the use of expendable funds (contributions and endowment payout) to benefit UC San Diego.

Management is not aware of any other factors within management's control that would have a significant impact on future periods.

U.C. SAN DIEGO FOUNDATION

Statements of Net Position

June 30, 2015 and 2014

(In thousands of dollars)

Assets	2015	2014
Current assets:		
Cash and cash equivalents	\$ 1,299	1,612
Short-term investments	77,748	71,674
Pledges receivable, net	19,573	23,887
Notes receivable	6	—
Other assets	38	110
Total current assets	<u>98,664</u>	<u>97,283</u>
Noncurrent assets:		
Long-term investments	603,070	584,985
Pledges receivable, net	43,293	48,039
Notes receivable, net	361	282
Other assets	26	290
Total noncurrent assets	<u>646,750</u>	<u>633,596</u>
Total assets	<u>\$ 745,414</u>	<u>730,879</u>
Liabilities		
Current liabilities:		
Accounts payable	\$ 663	1,361
Agency funds	134	177
Liabilities to life beneficiaries, current portion	1,473	1,796
Total current liabilities	<u>2,270</u>	<u>3,334</u>
Noncurrent liabilities:		
Liabilities to life beneficiaries, net of current portion	10,088	12,332
Other noncurrent liabilities	—	563
Total noncurrent liabilities	<u>10,088</u>	<u>12,895</u>
Total liabilities	<u>\$ 12,358</u>	<u>16,229</u>
Net position		
Restricted:		
Nonexpendable:		
Endowments corpus	\$ 359,231	326,261
Trusts and other life income funds	534	6,374
Expendable:		
Endowment income and net appreciation	167,945	166,024
Trusts and other life income funds	6,472	4,312
Funds functioning as endowments	32,376	31,941
Restricted gift funds	153,325	166,575
Unrestricted	13,173	13,163
Total net position	<u>\$ 733,056</u>	<u>714,650</u>

See accompanying notes to financial statements.

U.C. SAN DIEGO FOUNDATION

Statements of Revenue, Expenses, and Changes in Net Position

Years ended June 30, 2015 and 2014

(In thousands of dollars)

	<u>2015</u>	<u>2014</u>
Operating revenue:		
Contributions, net	\$ 58,098	61,126
Total operating revenue	<u>58,098</u>	<u>61,126</u>
Operating expenses:		
Grants to campus for programs	95,592	79,324
Administrative and other operating expenses	26	64
Total operating expenses	<u>95,618</u>	<u>79,388</u>
Operating loss	<u>(37,520)</u>	<u>(18,262)</u>
Nonoperating revenue (expenses):		
Investment income, net	7,266	6,434
Realized/unrealized gains on investments, net	18,403	79,835
Change in calculated value of liabilities to life beneficiaries	(3,680)	(1,138)
Other nonoperating income (expenses), net	(5)	1
Total nonoperating revenue, net	<u>21,984</u>	<u>85,132</u>
(Loss) income before contributions to permanent endowments	<u>(15,536)</u>	66,870
Contributions to permanent endowments	<u>33,942</u>	<u>10,936</u>
Increase in net position	18,406	77,806
Net position:		
Beginning of year	<u>714,650</u>	<u>636,844</u>
End of year	\$ <u><u>733,056</u></u>	<u><u>714,650</u></u>

See accompanying notes to financial statements.

U.C. SAN DIEGO FOUNDATION

Statements of Cash Flows

Years ended June 30, 2015 and 2014

(In thousands of dollars)

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Receipts from contributions	\$ 63,938	53,982
Payments to campus	(96,366)	(78,794)
Other payments, net	<u>(2,016)</u>	<u>(1,566)</u>
Net cash used in operating activities	<u>(34,444)</u>	<u>(26,378)</u>
Cash flows from noncapital financing activity:		
Private gifts for permanent endowments	<u>24,541</u>	<u>8,207</u>
Net cash provided by noncapital financing activity	<u>24,541</u>	<u>8,207</u>
Cash flows from investing activities:		
Proceeds from sale and maturities of investments	211,598	100,154
Purchases of investments	(209,395)	(87,738)
Investment income, net of investment expense	<u>7,387</u>	<u>6,367</u>
Net cash provided by investing activities	<u>9,590</u>	<u>18,783</u>
Net (decrease) increase in cash and cash equivalents	(313)	612
Cash and cash equivalents:		
Beginning of year	<u>1,612</u>	<u>1,000</u>
End of year	\$ <u><u>1,299</u></u>	\$ <u><u>1,612</u></u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (37,520)	(18,262)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Noncash gifts	(3,130)	(9,576)
Allowance on pledges	228	(173)
Changes in operating assets and liabilities:		
Pledges receivable, net	8,833	2,418
Notes receivable, net	(90)	187
Accounts payable	(1,597)	460
Liabilities to life beneficiaries	<u>(1,168)</u>	<u>(1,432)</u>
Net cash used in operating activities	\$ <u><u>(34,444)</u></u>	\$ <u><u>(26,378)</u></u>
Supplemental noncash activities:		
Contributions of securities for expendable funds	\$ 3,119	3,310
Residual income from matured life income gifts	—	6,248
Other noncash contributions for expendable funds	<u>11</u>	<u>18</u>
Total noncash gifts for expendable funds	\$ <u><u>3,130</u></u>	\$ <u><u>9,576</u></u>
Contributions of securities for permanent endowments	\$ 3,923	3,002
Residual income from matured life income gifts	5,742	—
Other noncash gifts for permanent endowments	<u>(264)</u>	<u>(273)</u>
Total noncash gifts for permanent endowments	\$ <u><u>9,401</u></u>	\$ <u><u>2,729</u></u>

See accompanying notes to financial statements.

U.C. SAN DIEGO FOUNDATION

Notes to Financial Statements

June 30, 2015 and 2014

(1) Organization

The U.C. San Diego Foundation (the Foundation) was formed in 1972 as a California nonprofit corporation and is governed by a 40-member board of trustees, the membership of which includes the Chancellor, the Vice Chancellor of Advancement, and a faculty representative from UC San Diego. The primary purpose of the Foundation is to encourage and manage charitable donations to provide financial support for the University of California, San Diego (UC San Diego). As a public charity, the Foundation accepts donations to enhance the campus' teaching, research, and public service programs, as well as to support capital projects and other related campus improvements. Should dissolution, liquidation, or winding-up of the Foundation ever occur, the assets remaining after all debts have been satisfied shall be distributed, transferred, conveyed, delivered, and paid over to The Regents of the University of California for the benefit of the San Diego campus as provided in the Foundation's Articles of Incorporation, provided The Regents of the University of California have maintained tax-exempt status under the Internal Revenue Code and relevant California laws.

Oversight by the University of California

The Foundation is subject to the policies and procedures of The Regents of the University of California (The Regents). All contributions to the Foundation ultimately benefit UC San Diego. Accordingly, the Foundation is considered a governmental not-for-profit organization subject to reporting under the Governmental Accounting Standards Board (GASB), and as a result is reported as a component unit of the campus and The Regents. The Regents established the *Policy and Administrative Guidelines for Campus Foundations*, which requires that the Foundation transfer contributed expendable funds and endowment payout to UC San Diego for ultimate expenditure in compliance with donor restrictions on gifts. Contributions that are made directly to The Regents for the benefit of UC San Diego are not recorded by the Foundation and are not reflected in the accompanying financial statements; they are reflected in the financial statements of the University of California (the University).

UC San Diego provides the facilities, personnel, and operating budget for the Foundation. All pension and postretirement benefit expenses and liabilities related to personnel are recorded on the financial statements of UC San Diego.

Per UC San Diego campus policies during the fiscal year ended June 30, 2015, the Foundation remitted a gift fee of 6% on each gift, as well as the short-term interest earnings on its expendable gift and accumulated endowment payout balances to the campus. These resources help support the administrative costs of the campus, and in particular, those related to Advancement. Effective July 1, 2015, the campus has suspended the gift fee and the Foundation reversed accrued gift fees as of June 30, 2015 in the amount of \$614,000. In addition, per a Foundation policy, as permitted by law, a noninvestment endowment cost recovery fee is assessed annually on the endowment (and taken from payout) to offset campus costs of administering the endowment. The gift fee, interest earnings, and endowment cost recovery fees are reflected as grants to campus on the statements of revenue, expenses, and changes in net position. The same or similar policies for the gift fee, short-term interest earnings assessment, and endowment cost recovery fees are in place at all University of California campus foundations and for The Regents' gift and endowment funds.

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Notes to Financial Statements

June 30, 2015 and 2014

(2) Summary of Significant Accounting Policies

A summary of the significant accounting policies applied in preparation of the accompanying financial statements is presented below:

(a) *Basis of Accounting*

The financial statements are prepared using the economic resource measurement focus and the accrual basis of accounting in accordance with the U.S. generally accepted accounting principles as promulgated by the GASB. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. The effects of interfund activities have been eliminated from the Foundation's financial statements.

(b) *Classification of Current and Noncurrent Assets and Liabilities*

The Foundation considers assets to be current if, as part of its normal business operations, they are held as, or can be converted to cash and be available for operating needs or payment of current liabilities within 12 months of the date of the statements of net position. Similarly, liabilities are considered to be current if they can be expected, as part of the normal Foundation business operations, to be due and paid within 12 months of the date of the statements of net position. All other assets and liabilities are considered to be noncurrent.

(c) *Investments*

Investments are reported at fair value. The basis for determining the fair value of investments is the readily determinable sales price or current exchange rate of the investments based on prices or quotations for actively traded markets. In the case of commingled funds, the fair value is determined as the number of units held in the fund multiplied by the price per unit share as quoted (net asset value), which is a practical and expedient way to determining fair value. Alternative investments, which include private equity, absolute return, emerging markets, and real estate, are valued using net asset value as reported by the respective fund managers. Directly held real estate is valued by appraisal. These investments may not be readily marketable and their estimated value is subject to uncertainty. Therefore, the estimated value may differ from the value that would have been used had a ready market for such investments existed.

(d) *Pledges Receivable*

Pledges receivable are written unconditional promises to make future gifts. The Foundation recognizes a receivable and contribution revenue at the time the pledge is made by the donor if the pledge is verifiable, measurable, probable of collection, and meets all applicable eligibility requirements. These eligibility requirements require 1) The Foundation to be stated as the recipient of the pledge; 2) the pledge to be available for use and can be sold, disbursed, consumed, or be invested for a term or perpetuity; 3) any contingencies on the pledge have been met; and 4) if a reimbursement of expenses, allowable costs have been incurred.

Pledge payments scheduled for collection within one year are recorded as current assets and are not discounted. Pledge payments scheduled to be collected beyond one year are discounted to recognize the present value of the expected future cash flows. In subsequent years, this discount is accreted and

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recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any. In addition, an allowance for uncollectible pledges is recorded based on management's assessment of the collectibility of outstanding pledges.

Conditional pledges, which depend on the occurrence of uncertain or specified future events, such as matching gifts from other donors, are recognized when the conditions are met.

Pledges for endowments are not recorded as revenue or a pledge receivable at the time the pledge is made, as the funds are not available to be invested in perpetuity as specified by the donor. Revenue is recognized on payments on pledges for endowments when the cash is received and is recorded in contributions to permanent endowments.

(e) ***Donated Property***

Donations of securities, real estate, and other nonmonetary items are recorded at their fair value on the date of the gift. For gifts of marketable securities, fair value is calculated using an average of the high and low value of the security on the date of receipt in the Foundation's custody account. For gifts of real estate, nonmarketable securities, and other nonmonetary items, fair value is determined using an independent appraisal.

(f) ***Liabilities to Life Beneficiaries***

The liabilities for payments to life beneficiaries are calculated and recorded in the financial statements using recent life expectancy tables and certain other estimates in computing a present value of the liability. All income and expenses associated with life income funds are reflected as part of the change in the calculated value of trust and other life income liabilities. Upon the death of the life beneficiaries or at the end of the trust term, the Charitable Remainder Trust (trust) or Charitable Gift Annuity (CGA) contract is terminated, the remaining assets are transferred to the appropriate Foundation fund and revenue is recognized.

(g) ***Net Position***

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

Restricted Nonexpendable

Endowment corpus is comprised of the corpus of true-donor-restricted endowments. Also included are additions to corpus as required or allowed for by donor's agreements. To the extent that the market value of the corpus is below its historical cost, the decrease is recorded in this category on the statements of net position.

Trusts and other life income funds is comprised of planned gift funds restricted by the donor to establish endowments for particular programs or specific purposes of the University upon death of the donor.

Restricted Expendable

Endowment income and net appreciation is comprised of net accumulated appreciation on endowments and net accumulated endowment spending allocations.

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Trust and other life income funds is comprised of planned gift funds restricted by the donor to be expended for particular programs or specific purposes of the University upon the death of the donor.

Funds functioning as endowments is comprised of a combination of funds restricted by the donor for endowment where the donor has allowed the corpus to be spent down over time to fund their intended purpose and funds given by donors that the University has designated for endowment in accordance with the University of California systemwide gift allocation policy.

Restricted gifts is comprised of funds received that the donor has restricted to be expended to benefit a particular purpose or function of the University.

Unrestricted net position is comprised of funds not subject to donor-imposed restrictions.

When restricted and unrestricted funds are available for the same purpose, the Foundation generally spends restricted funds first.

(h) ***Classification of Revenue and Expenses***

Operating revenue includes expendable contributions from donors. Operating expenses primarily include gift and endowment payout distributions, gift administration fees, and endowment cost recovery remitted to the campus. Gift and endowment payout distributions are remitted to UC San Diego in support of activities consistent with the donor's wishes. See note 1 for discussion on gift administration and endowment cost recovery fees.

Nonoperating activities include net income from, and changes in, the fair value of the Foundation's investments. The change in unrealized appreciation on investments represents the difference between the fair value of investments at the beginning and the end of the fiscal year, taking into consideration investment purchases, sales, and redemptions. The calculation of realized gains and losses on the sale of investments is independent of the calculation of the change in unrealized appreciation on investments. Realized gains and losses include transactions arising from the sale of contributed assets and liquidation of investment accounts during the year.

Gifts for permanent endowment purposes are classified as contributions to permanent endowments and are recognized only when received and not in the period pledged.

(i) ***Endowments and Endowment Payout Policy***

The Foundation's endowment funds are managed in a unitized investment pool in accordance with the Foundation's board-approved *Endowment Investment and Spending Policies*. Transactions within each individual endowment in the pool are based on the unit market value at the end of the month during which the transactions take place. Investment decisions are based on a long-term investment strategy intended to preserve investment capital and its purchasing power, meet payout requirements, and maximize the endowment portfolio's long-term total return.

The Foundation Board adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA), effective January 1, 2009, which provides statutory guidance for management, investment, and expenditures of endowment funds. UPMIFA does not distinguish between original corpus,

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income, and capital appreciation and permits all endowment funds to receive payout as deemed prudent by the Board and within UPMIFA.

The Foundation Board establishes the endowment payout rate annually, giving prudent consideration to asset allocation, expected returns, future capital market assumptions, inflation, other market conditions, and the budgetary needs of the endowment fund holders. The rate used to calculate spending for fiscal years 2015 and 2014 was 4.75% of the 60-month average unitized market value, with 0.40% of that used to recover noninvestment-related endowment administration costs. Endowment cost recovery fees are remitted to the University and recorded along with the endowment payout on the accompanying financial statements as grants to campus.

(j) *Charitable Remainder Trusts and Charitable Gift Annuities*

The Foundation is the designated trustee for several charitable remainder trusts (the trusts). For these trusts, the fair value of the trust assets and a liability for the future payments to the beneficiary are recorded on the Foundation's financial statements in the year the trusts were given to the Foundation. The trusts are established by donors to provide income, generally for life, to the designated beneficiaries. Each year, beneficiaries receive payments based on a percentage of the trust assets or income as specified in the trust agreement. Each trust is a separate legal entity from the Foundation, and liability for trust payments to the life beneficiaries is limited to the assets of each trust.

The Foundation is licensed by the State of California Department of Insurance as a Grants and Annuities Society, and as such, may issue charitable gift annuity contracts (CGAs). CGAs are planned giving vehicles through which donors gift assets in exchange for fixed annuity payments over the lifetime of the annuitant(s). Assets contributed are separately invested and are used to fund the payments to the annuitants. The liability for payments to life income beneficiaries under CGA contracts is not limited to the CGA pool of assets, but is a liability of the Foundation itself.

The associated liability for these payments is calculated and recorded in the financial statements using recent life expectancy tables and certain other estimates to compute a present value of the future payments. All revenue and expenses associated with life income funds are reflected as part of the change in the calculated value of trust and other life income liabilities. Upon the death of the life beneficiaries or at the end of the trust term, the trust or charitable gift annuity contract is terminated; the remaining assets are recorded as contribution revenue and transferred to the appropriate Foundation fund for the purpose designated by the donor.

(k) *Agency Affiliation with UC San Diego Alumni Association*

The Foundation held and invested funds under an agency relationship with the UC San Diego Alumni Association. The UC San Diego Alumni Association is a legally separate 501(c)(3) support group organized to support various UC San Diego activities primarily for UC San Diego alumni. The Foundation, as the financial fiduciary for these funds, reflects this balance on the financial statements as a current liability. The corresponding assets are included in investments. The Alumni Association's expendable funds totaled approximately \$134,000 and \$177,000 at June 30, 2015 and 2014, respectively.

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(l) *Income Taxes*

The 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 and is generally not subject to federal or state income taxes. However, the Foundation is subject to income taxes on any net income that is derived from a trade or business, regularly carried on, and not in furtherance of the purpose for which it is granted exemption. No income tax provision has been recorded as the net income, if any, from any unrelated trade or business, in the opinion of management, is not material to the basic financial statements taken as a whole.

(m) *Use of Estimates*

The preparation of financial statements in accordance with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclose contingent assets and liabilities at the date of the financial statements, and report amounts of support, revenue, disbursements, and expenses during the reporting period. Actual results could differ from those estimates.

(n) *Reclassifications*

Certain reclassifications have been made to the 2014 financial information to conform to the 2015 financial statement presentation.

(3) *Cash, Cash Equivalents, Short-Term Investments, and Investments*

In accordance with GASB Statement No. 40 (GASB 40), *Deposit and Investment Risk Disclosures*, the Foundation's investments are reported by investment type at fair value in the table below. GASB 40 also requires the disclosure of various types of investment risks based on the type of investment, as well as stated policies adopted by the Foundation to manage those risks.

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Cash, cash equivalents, short-term investments, and investments consist of the following as of June 30, 2015 and 2014:

	2015	2014
	(In thousands of dollars)	
Cash and cash equivalents:		
Commercial banks and money market funds	\$ 1,070	1,113
University of California short-term investment pool	229	499
Total cash and cash equivalents	1,299	1,612
Investments:		
Equity securities – domestic	219	170
Fixed-income investments:		
U.S. Treasury notes	2,412	1,944
U.S. Treasury strips	188	172
U.S. agencies – asset-backed securities	1,378	1,419
Supranational/foreign	664	686
Commingled funds:		
Balanced funds	389,668	423,116
Commodities	757	1,275
Absolute return	10,834	21,986
Private equity	5,550	8,040
U.S. equity funds	72,615	38,714
Non-U.S. equity funds	79,819	46,806
Real estate	21,147	14,314
U.S. bond funds	36,507	24,689
Non-U.S. bond funds	158	466
Money market funds	57,301	71,317
Other:		
Real estate	1,200	1,140
Other	401	405
Total investments	680,818	656,659
Total cash, cash equivalents, and investments	\$ 682,117	658,271
As classified on the statements of net position:		
Current – cash and cash equivalents	\$ 1,299	1,612
Current – short-term investments	77,748	71,674
Noncurrent – investments	603,070	584,985
Total cash, cash equivalents, and investments	\$ 682,117	658,271

The Foundation utilizes the UC San Diego campus depository accounts under an agency relationship for its cash banking activity. The Foundation also deposits and maintains cash in various commercial banks and brokerage accounts to meet operating needs. Excess funds are transferred as often as necessary to a primary investment account depending on classification of the funds as expendable or nonexpendable.

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The Foundation holds equity, fixed income, and alternative investments. The largest portion of these investments relates to the Foundation's endowment. The investments are managed by the Investment/Finance Committee with Board approval. The Foundation has several investments in external funds and uses several University of California managed commingled funds (UC pooled funds), offered to the campus foundations by the Office of the Chief Investment Officer of the Regents.

Specifically, the Foundation utilizes the following UC pooled funds:

- The General Endowment Pool (GEP), which is a balanced portfolio containing equity, fixed-income, and alternative investments. This fund is used as a core investment vehicle for the Foundation's endowment. The Foundation's investment in this pool is classified as commingled balanced funds.
- The UC Absolute Return Pool, two Private Equity Vintage Year Portfolios, and a Vintage Year Real Estate Portfolio.
- The Short-Term Investment Pool (STIP) and Total Return Investment Pool (TRIP) serve as the Foundation's core investment vehicles for expendable funds. STIP is used from time to time as a fixed-income asset in the endowment pool as well. STIP is classified as a money market fund. TRIP is classified as a commingled balanced fund.

(a) *Investment Performance*

The components of the realized/unrealized gains on investments, net are as follows:

	<u>2015</u>	<u>2014</u>
	(In thousands of dollars)	
Change in unrealized appreciation on investments	\$ (32,108)	72,387
Realized gain on investments, net	<u>50,511</u>	<u>7,448</u>
Realized/unrealized gains on investments, net	<u>\$ 18,403</u>	<u>79,835</u>

The Foundation's net income yield on the current use investment pool (STIP and TRIP) for the year ended June 30, 2015 was 2.0%, as compared to 2.1% as of June 30, 2014. The net total return on the Foundation's endowment pool for the year ended June 30, 2015 was 4.4%, as compared to 18.1% for June 30, 2014.

(b) *Investment Risk Factors*

There are many factors that can affect the value of investments. Some, such as custodial risk, concentration of credit risk, and foreign currency risk may affect both equity and fixed-income investments. Equity securities respond to such factors as economic conditions, individual company earnings performance, and market liquidity, while fixed-income investments are particularly sensitive to credit risks and changes in interest rates. The Foundation has established investment policies to provide the basis for the management of a prudent investment program appropriate to the particular fund type.

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(c) Credit Risk

Fixed-income investments are subject to credit risk, which is the risk that a bond issuer will fail to pay interest or principal in a timely manner, or that negative perceptions of the issuer's ability to make these payments will cause prices to decline. Certain fixed-income investments, including obligations of the U.S. government, or those explicitly guaranteed by the U.S. government, are considered to have little or no credit risk. The Foundation maintains policies to manage credit risk, which include requiring minimum credit ratings issued by nationally recognized rating organizations.

The State of California Department of Insurance and the Foundation's charitable gift annuity investment policy require that a minimum of 50% of the required reserve be invested in U.S. Treasury and U.S. government agency fixed-income investments of any maturity.

The credit risk profile for fixed-income investments at June 30, 2015 and 2014 is as follows:

	2015	2014	Credit rating
	(In thousands of dollars)		
Fixed-income investments			
U.S. government guaranteed	\$ 2,600	2,116	AAA
U.S. agencies	1,378	1,419	AAA
Supranational/foreign	664	686	A-/BBB+
	4,642	4,221	
Commingled funds:			
U.S. bond funds	36,507	24,689	Not Rated
Non-U.S. bond funds	158	466	Not Rated
Money market funds – STIP	57,301	71,317	Not Rated
	93,966	96,472	
Total fixed-income investments	\$ 98,608	100,693	

(d) Custodial Credit Risk – Deposits and Investments

Custodial credit risk is the risk that in the event of the failure of the custodian, the Foundation's investments may not be recovered.

The Foundation Board has chosen to use the various pooled investment vehicles managed by the Office of the Chief Investment Officer of the Regents as core investments for the endowment and expendable funds. These pools are considered to be investments in external pools and are not exposed to custodial credit risk because their existence is not evidenced by investments that exist in physical or book entry form. Similarly, the investment accounts held at State Street Global Advisors are also externally managed pools, and the assets are held in custody or trust and would not be available to State Street's creditors because they are excluded from the assets of the custodian.

It is the policy of the Foundation that all other direct investments made by the Foundation be held in custodial accounts, and the securities are registered solely in the name of the Foundation. Where

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applicable, investments are transacted with nationally reputable brokerage firms, offering protection by the Securities Investor Protection Corporation (SIPC). For the Foundation's Charitable Gift Annuity Portfolio, as required under the California Insurance Code Section 11520-11524, assets constituting the reserve investments are segregated from the other assets of the Foundation in a custodial trust account. Additionally, all of the investments in the CGA portfolio are issued, registered, or held in the name of the Foundation by its custodian bank as an agent for the Foundation. Other types of investments represent an ownership interest that does not exist in physical or book entry form. As a result, custodial risk is considered remote.

The Foundation minimizes nontrust cash balances by sweeping available balances into investment accounts on a regular basis. Cash balances from contributions are held in the Foundation's campus depository account, which is invested in The Regents' STIP fund, and managed by the Office of the Chief Investment Officer of the Regents. Remaining cash is maintained in accounts that are established as segregated trusts, protected against any creditors of the bank, and in money market mutual funds and there are no uninsured balances. Accounts may also be maintained at FDIC insured banking institutions up to the insured level. There is no custodial credit risk or foreign currency risk associated with balances maintained at the banks' trust departments and investment in the STIP. The Foundation's policy is to limit all cash accounts to be 1) held in a FDIC insured bank account with the Foundation as the legal account holder, and maintain balances under the \$250,000 FDIC insurance level, 2) in a separate custodial trust account and where the Foundation's assets are not available to the creditors of the bank, 3) in an agency cash sweep account with the University, or 4) at a credit card processor. A certain portion of the balance may occasionally be exposed to custodial credit risk due to unforeseen dividends and gifts deposited at fiscal year-end, but are transferred as soon as possible.

There is no custodial credit risk for fixed-income investments at June 30, 2015 and 2014.

(e) ***Concentration of Credit Risk***

Concentration of credit risk is the risk of loss associated with a lack of diversification of having too much invested in a few individual issuers, thereby exposing the organization to greater risks resulting from adverse economic, political, regulatory, geographic, or credit developments. Securities issued or explicitly guaranteed by the U.S. government, mutual funds, external investment pools, and other pooled investments are excluded from this review. Investments in the various investment pools managed by the Office of the Chief Investment Officer of the Regents are external investment pools and are not subject to concentration of credit risk. There is no concentration of any single individual issuer of equity or non-U.S. government fixed-income investments that comprise more than 5% of total investments. For its other specific investments, the Foundation minimizes concentration of credit risk by requiring no one single issuer, excluding pooled funds, represents more than 5% of the total assets of the Foundation. This, along with the diversification of the investment portfolio minimizes the impact of potential losses from any one type of security or issuer.

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(f) Interest Rate Risk

Interest rate risk is the risk that the value of fixed-income investments will decline because of rising interest rates. The prices of fixed-income investments with a longer time to maturity tend to be more sensitive to changes in interest rates and, therefore, more volatile than those with shorter maturities. In accordance with its CGA reserve account investment policy, the Foundation monitors the weighted average maturity of its investment portfolio and analysis of cash flow demand. The operating practice is to ladder the maturities of the fixed-income investments with staggered maturity dates from one to ten years and use the effective-duration method to identify and manage interest rate risk. The Foundation minimizes interest rate risk by investing operating funds primarily in money market mutual funds, or similar investment pools and limiting the balances maintained in those accounts in accordance with the Foundation's cash requirements.

The interest rate risk profile for fixed-income investments at June 30, 2015 and 2014 is as follows:

	Fair value		Effective duration in years	
	2015	2014	2015	2014
	(In thousands of dollars)			
Fixed income investments:				
U.S. government guaranteed	\$ 2,600	2,116	5.69 years	5.56 years
Total				
U.S. government guaranteed	2,600	2,116		
Other U.S. dollar denominated:				
U.S. agencies – asset-backed securities	1,378	1,419	1.49 years	1.98 years
Supranational/foreign	664	686	2.43 years	3.23 years
Total other				
U.S. dollar denominated	2,042	2,105		
Commingled funds:				
U.S. bond funds	36,507	24,689	4.91 years	5.60 years
Non-U.S. bond funds	158	466	6.11 years	4.50 years
Money market funds	57,301	71,317	1.67 years	2.21 years
Total commingled funds	93,966	96,472		
Total fixed income	\$ 98,608	100,693		

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(g) Foreign Currency Risk

Foreign currency risk is the possibility that changes in exchange rates between the U.S. dollar and foreign currencies could adversely affect a deposit or investment's fair value. The Foundation's endowment and planned gifts asset allocation policies include an allocation to non-U.S. equities. This exposure is obtained through investment in The Regents' GEP and investment in several non-U.S. equity mutual and ETF funds that hold foreign currency denominated investments. The Regents' commingled funds, excluding GEP, have no exposure to foreign currency risk as of June 30, 2015 and 2014. Under the Foundation's investment policy, there is no provision to purchase individual foreign-denominated securities.

At June 30, 2015 and 2014, the U.S. dollar balances of investments that carry foreign currency risk type are as follows:

	<u>2015</u>	<u>2014</u>
	(In thousands of dollars)	
Commingled funds:		
Various currency denominations:		
Balanced funds	\$ 100,719	92,125
Non-U.S. equity funds	70,897	45,832
Real estate	360	685
Bond funds	<u>6</u>	<u>258</u>
Total exposure to foreign currency risk	\$ <u>171,982</u>	<u>138,900</u>

(4) Endowment Payout

Endowment payout, when transferred to the campus at the request of the benefitting department, is recorded as a component of grants to campus in the statement of revenue, expenses, and changes in net position. The calculated endowment payout by the Foundation policy, for both donor-designated and funds functioning as endowment, for the years ended June 30, 2015 and 2014 and the sources of payout are as follows:

	<u>2015</u>	<u>2014</u>
	(In thousands of dollars)	
Calculated payout:		
Endowment payout allocation	\$ 18,507	17,570
Endowment administration cost recovery	<u>1,696</u>	<u>1,610</u>
	\$ <u>20,203</u>	<u>19,180</u>
Sources of payout:		
Net cash earnings	\$ 5,748	4,815
Net use of accumulated gains and/or corpus	<u>14,455</u>	<u>14,365</u>
	\$ <u>20,203</u>	<u>19,180</u>

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(5) Commitments

As of June 30, 2015, the Foundation's investment commitments are as follows:

	Unfunded commitment
	(In thousands of dollars)
Regents' Vintage Equity Fund (2003 year)	\$ 57
Regents' Vintage Equity Fund (2007 year)	544
Regents' Real Estate Fund (2007 year)	298
Contrarian Distressed Real Estate Fund II	750
	<u>\$ 1,649</u>

(6) Pledges Receivable

At June 30, 2015 and 2014, pledges receivable balances for expendable funds were restricted for the following UC San Diego purposes:

	2015	2014
	(In thousands of dollars)	(In thousands of dollars)
Capital projects	\$ 52,633	60,711
Research	15,707	16,450
Departmental support	5,299	5,515
Student support	481	512
Other	202	150
	<u>74,322</u>	<u>83,338</u>
Total gross pledges		
Less:		
Allowance for uncollectible pledges	(633)	(406)
Discount to present value	(10,823)	(11,006)
	<u>(11,456)</u>	<u>(11,412)</u>
Total pledges receivable, net	\$ <u>62,866</u>	\$ <u>71,926</u>

These gross pledges are expected to be collected in future years as follows (in thousands of dollars):

Payments through June 30:	
2016	\$ 19,838
2017	14,777
2018	4,664
2019	3,303
2020	7,270
Thereafter	24,470
	<u>\$ 74,322</u>

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As in previous years, an allowance for uncollectible pledges has been established based on specifically identified pledges, combined with a general allowance rate. Pledge payments extending beyond one year are discounted to recognize the present value of the future cash flows.

Pledges receivable have discount rates ranging from 1.20% to 5.00%. The discount rates will be applied for the life of the pledges. Pledges recorded during fiscal years 2015 and 2014 were discounted at 1.20% and at 1.45%, respectively. Pledges receivable from 13 donors and 10 donors accounted for approximately 90.7% and 91.0% of the gross pledges receivable balance at June 30, 2015 and 2014, respectively.

(7) Grants to Campus for Programs

The primary purpose of the Foundation is to receive donations for the support of UC San Diego. During the years ended June 30, 2015 and 2014, the Foundation made transfers to the campus in compliance with donor restrictions for the purposes noted below. There were 154 areas of the campus that were the beneficiaries of these transfers in 2015.

	2015	2014
	(In thousands of dollars)	
Capital projects	\$ 32,450	16,015
General departmental support	25,888	26,925
Research and related faculty support	22,147	21,586
Student aid (undergraduate and graduate)	8,163	7,789
Gift fees to support the campus	3,982	3,985
Cost recovery fees on investment pools to support the campus	1,819	1,723
Interest earnings granted to support the campus	1,143	1,301
	\$ 95,592	79,324

(8) Related-Party Transactions

During the years ended June 30, 2015 and 2014, approximately \$9.7 million and \$4.8 million in outright gifts and new pledges, net of discount, or approximately 16.7% and 7.8% of total gifts and new pledges, respectively, were received from trustees of the board, corporations, and organizations affiliated with trustees of the board, and senior management.

During the years ended June 30, 2015 and 2014, approximately \$1.5 million and \$338,000 in contributions to permanent endowments, or approximately 4.4% and 3.1% of total permanent endowments, respectively, were received from trustees of the board, corporations, and organizations affiliated with trustees of the board, and senior management.

Approximately \$14.2 million and \$7.7 million in pledges receivable, net of allowance and discount, or approximately 22.5% and 10.7% of total pledge receivables, as of June 30, 2015 and 2014, respectively, are from trustees of the board, corporations, and organizations affiliated with trustees of the board, and senior management.