

**U.C. San Diego Foundation**  
**Financial Statements**  
**June 30, 2017 and 2016**

# U.C. San Diego Foundation

## Index

June 30, 2017 and 2016

---

	<b>Page(s)</b>
<b>Report of Independent Auditors</b> .....	1–2
<b>Management’s Discussion and Analysis (Unaudited)</b> .....	3–6
<b>Financial Statements</b>	
Statements of Net Position.....	7
Statements of Revenue, Expenses, and Changes in Net Position.....	8
Statements of Cash Flows .....	9
Notes to Financial Statements .....	10–25



## **Report of Independent Auditors**

To 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, which comprise the statements of net position as of June 30, 2017 and 2016, and the related statements of revenues, expenses, and changes in net position and of cash flows for the years then ended.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on the 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 our 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, we consider 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 Foundation as of June 30, 2017 and 2016, respectively, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



***Other Matters***

*Required Supplementary Information*

The accompanying management's discussion and analysis on pages 3-6 are required by accounting principles generally accepted in the United States of America 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 audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*PricewaterhouseCoopers LLP*

September 29, 2017

# **U.C. San Diego Foundation**

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

### **June 30, 2017 and 2016**

---

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 that are made to UC San Diego through The Regents of the University of California (The Regents) are not included in these statements.

The following discussion and analysis of the Foundation's financial activities presents an overview of the fiscal year ended June 30, 2017, with comparative information for the fiscal years ended June 30, 2016 and 2015. 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 2017, the Foundation's net position, which represents the excess of total assets over liabilities, increased by \$123.7 million. This is compared to a decrease in net position during fiscal year 2016 of \$12.0 million and an increase during fiscal year 2015 of \$18.4 million.

The increase or decrease in net position annually is primarily the result of the financial investment returns of the Foundation's primary investment portfolio and permanent asset base, the endowment pool, as well as changes from year to year in the contributions made to current use and endowed gift funds. The endowment pool, had a net total return of 13.9% as of June 30, 2017, compared to -2.2% as of June 30, 2016, and 4.4% as of June 30, 2015.

In fiscal year 2017, the higher investment return coupled with increased contributions to both current use and endowed gift funds provided for the growth in the net position. While investment returns are a function of the financial markets and asset allocation, the increase in contributions are attributable to efforts underway by the campus towards achieving the \$2 billion *Campaign for UC San Diego*.

The Foundation expects fluctuations in contribution revenue for both current use and endowment funds, and investment results from year to year. The Foundation manages the endowment portfolio with a long-term philosophy of capital appreciation. 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 or campaign.

#### **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. 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 include all assets and liabilities. The statements of revenue, expenses, and changes in net position report the revenue earned and the expenses incurred during the year as either operating or nonoperating. Incoming gifts and grants made to the Foundation 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 (Unaudited)**  
**June 30, 2017 and 2016**

---

**Condensed Schedules of Net Position**

<i>(in thousands of dollars)</i>	<b>2017</b>	<b>FY 2017-16 Change in Dollars</b>	<b>2016</b>	<b>FY 2016-15 Change in Dollars</b>	<b>2015</b>
<b>Assets</b>					
Current assets	\$ 205,011	\$ 87,802	\$ 117,209	\$ 18,545	\$ 98,664
Noncurrent assets	720,061	97,810	622,251	(24,499)	646,750
Total assets	<u>925,072</u>	<u>185,612</u>	<u>739,460</u>	<u>(5,954)</u>	<u>745,414</u>
<b>Liabilities</b>					
Current liabilities	70,820	62,043	8,777	6,507	2,270
Noncurrent liabilities	9,495	(109)	9,604	(484)	10,088
Total liabilities	<u>80,315</u>	<u>61,934</u>	<u>18,381</u>	<u>6,023</u>	<u>12,358</u>
Total net position	<u>\$ 844,757</u>	<u>\$ 123,678</u>	<u>\$ 721,079</u>	<u>\$ (11,977)</u>	<u>\$ 733,056</u>

The condensed schedules of net position reflects the assets, liabilities, and net position for fiscal years 2017, 2016, and 2015.

**Assets**

Current assets, comprised of cash, short-term investments and the portion of pledges due within one year, increased by \$87.8 million during fiscal year 2017. Current assets tend to be fairly level from year to year. However, in fiscal year 2017, the Foundation experienced higher current use fund giving, and received prepayment on a conditional pledge with a \$62.8 million balance as of June 30, 2017 held in short term investments.

Noncurrent assets consist of long-term investments (primarily related to the endowment), and the portions of pledges receivable due beyond one year. Noncurrent assets increased by \$97.8 million during fiscal year 2017, compared with a decrease of \$24.5 million during fiscal year 2016. The increase in fiscal year 2017 noncurrent assets is mainly attributable to the net effect of positive investment returns and several significant gifts to endowment, while the decrease experienced in the prior fiscal year was primarily the result of negative investment returns.

**Liabilities**

Current liabilities are comprised of amounts payable to the campus for grants as of year-end, funds held in trust for others and the current portion of liabilities to trust and life income beneficiaries. Current liabilities also tend to be fairly level from year to year, however due to the prepaid gift noted above the remaining unrecognized balance is reflected as unearned revenue in current liabilities. In fiscal year 2016 the Foundation entered into an agency relationship with the Sanford Consortium for Regenerative Medicine to invest on its behalf \$6.0 million, causing the increase in current liabilities as of June 30, 2016 over the prior year.

Noncurrent liabilities are primarily comprised of the calculated long-term liability due to trust and life income beneficiaries. The decrease in the liability over the two years is reflective of both maturities during the year and the increasing age overall of the life income beneficiaries.

**U.C. San Diego Foundation**  
**Management's Discussion and Analysis (Unaudited)**  
**June 30, 2017 and 2016**

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

<i>(in thousands of dollars)</i>	<b>2017</b>	<b>FY 2017-16 Change in Dollars</b>	<b>2016</b>	<b>FY 2016-15 Change in Dollars</b>	<b>2015</b>
Operating revenue	\$ 106,607	\$ 31,143	\$ 75,464	\$ 17,366	\$ 58,098
Less: Operating expenses	<u>99,668</u>	<u>4,372</u>	<u>95,296</u>	<u>(322)</u>	<u>95,618</u>
Operating gain (loss)	6,939	26,771	(19,832)	17,688	(37,520)
Nonoperating revenue (expenses), net	83,643	97,260	(13,617)	(35,601)	21,984
Contributions to permanent endowments	<u>33,096</u>	<u>11,624</u>	<u>21,472</u>	<u>(12,470)</u>	<u>33,942</u>
Change in net position	123,678	135,655	(11,977)	(30,383)	18,406
<b>Net position</b>					
Beginning of year	<u>721,079</u>	<u>(11,977)</u>	<u>733,056</u>	<u>18,406</u>	<u>714,650</u>
End of year	<u>\$ 844,757</u>	<u>\$ 123,678</u>	<u>\$ 721,079</u>	<u>\$ (11,977)</u>	<u>\$ 733,056</u>

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 2017, 2016, and 2015.

Operating revenue for the Foundation consists only of recognizable expendable charitable gifts and pledges, and can fluctuate significantly depending on the contributions received during any fiscal year. Operating revenue increased in fiscal year 2017 by \$31.1 million, and \$17.4 million in fiscal year 2016 due to several large gifts for research and departmental support.

Operating expenses consist primarily of grants made to UC San Diego of expendable contributions and accumulated endowment payout. The transfers are made as the various campus beneficiaries request the funds. Transfers were higher in fiscal year 2017 due to increased giving and the related uses of Foundation funds by campus units. Transfers were level in fiscal years 2016 and 2015. The timing of grants to the campus typically lags the timing of the recognition of the incoming contribution revenue and provision of endowment payout. In addition, endowment payout is not recognized as operating revenue, but is included in operating expenses as a portion of grants to campus for programs. Due to differences in the recognition and timing of operating revenue, versus the timing and nature of operating expenses, contribution revenue exceeded grants to campus in fiscal year 2017, resulting in an operating gain. During both fiscal years 2016 and 2015 grants made to the campus exceeded recognized contribution revenue resulting in operating losses.

Net nonoperating income 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 2017, the asset class components of domestic equity, international equity, emerging markets and private equity contributed positive returns over the same classes in fiscal year 2016. During fiscal year 2016, most asset class components of the endowment portfolio, except fixed income, real estate and private equity, had negative returns, with the international equity component being the largest contributor to the overall negative return. During fiscal year 2015, most asset class components of the endowment portfolio, except international equity and other alternatives, had positive returns. The results overall provided net nonoperating income in fiscal year 2017, net nonoperating loss in fiscal year 2016 and net nonoperating income in fiscal year 2015.

The Foundation places a high priority on increasing the gifts to and the return on the endowment. The timing of these gifts is unpredictable and may vary significantly from year to year. Endowed gifts received during fiscal year 2017 were higher than in fiscal year 2016 but fairly level with fiscal year 2015.

**U.C. San Diego Foundation  
Management's Discussion and Analysis (Unaudited)  
June 30, 2017 and 2016**

---

**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 important resource to UC San Diego. In the future, due to the *Campaign for UC San Diego* noted previously, the Foundation anticipates growth in the endowment from new gifts and investment returns, and a higher rate of incoming expendable gifts. The transfer of funds (contributions and endowment payout) to benefit UC San Diego is also anticipated to increase.

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, 2017 and 2016**

*(in thousands of dollars)*

	<b>2017</b>	<b>2016</b>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 1,253	\$ 991
Short-term investments	183,883	93,329
Pledges receivable, net	19,789	22,848
Other assets	86	41
Total current assets	<u>205,011</u>	<u>117,209</u>
Noncurrent assets		
Long-term investments	680,356	589,293
Pledges receivable, net	39,679	32,932
Other assets	26	26
Total noncurrent assets	<u>720,061</u>	<u>622,251</u>
Total assets	<u>\$ 925,072</u>	<u>\$ 739,460</u>
<b>Liabilities</b>		
Current liabilities		
Accounts payable	\$ 510	\$ 1,228
Agency funds	6,149	6,146
Unearned revenue	62,750	-
Liabilities to life beneficiaries, current portion	1,411	1,403
Total current liabilities	<u>70,820</u>	<u>8,777</u>
Noncurrent liabilities		
Liabilities to life beneficiaries, net of current portion	<u>9,495</u>	<u>9,604</u>
Total noncurrent liabilities	<u>9,495</u>	<u>9,604</u>
Total liabilities	<u>\$ 80,315</u>	<u>\$ 18,381</u>
<b>Net position</b>		
Restricted		
Nonexpendable		
Endowment corpus	\$ 417,895	\$ 379,817
Trusts and other life income funds	2,638	2,811
Expendable		
Endowment income and net appreciation	178,013	132,670
Trusts and other life income funds	3,409	3,437
Funds functioning as endowments	32,362	31,173
Restricted gift funds	188,288	153,894
Unrestricted	<u>22,152</u>	<u>17,277</u>
Total net position	<u>\$ 844,757</u>	<u>\$ 721,079</u>

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

**U.C. San Diego Foundation**  
**Statements of Revenue, Expenses, and Changes in Net Position**  
**Years Ended June 30, 2017 and 2016**

---

<i>(in thousands of dollars)</i>	<b>2017</b>	<b>2016</b>
<b>Operating revenue</b>		
Contributions, net	\$ 106,607	\$ 75,464
Total operating revenue	<u>106,607</u>	<u>75,464</u>
<b>Operating expenses</b>		
Grants to campus for programs	99,643	95,248
Administrative and other operating expenses	25	48
Total operating expenses	<u>99,668</u>	<u>95,296</u>
Operating gain (loss)	<u>6,939</u>	<u>(19,832)</u>
<b>Nonoperating revenue (expenses)</b>		
Investment income, net	7,857	6,969
Realized/unrealized gains (losses) on investments, net	75,982	(19,830)
Change in calculated value of liabilities to life beneficiaries	(201)	(757)
Other nonoperating income, net	5	1
Total nonoperating revenue (expenses), net	<u>83,643</u>	<u>(13,617)</u>
Gain (loss) before contributions to permanent endowments	90,582	(33,449)
Contributions to permanent endowments	<u>33,096</u>	<u>21,472</u>
Change in net position	123,678	(11,977)
<b>Net position</b>		
Beginning of year	<u>721,079</u>	<u>733,056</u>
End of year	<u>\$ 844,757</u>	<u>\$ 721,079</u>

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

**U.C. San Diego Foundation**  
**Statements of Cash Flows**  
**Years Ended June 30, 2017 and 2016**

<i>(in thousands of dollars)</i>	<b>2017</b>	<b>2016</b>
<b>Cash flows from operating activities</b>		
Receipts from contributions	\$ 96,684	\$ 79,157
Payments to campus	(100,178)	(94,814)
Other receipts, net	61,220	5,148
Net cash provided by (used in) operating activities	<u>57,726</u>	<u>(10,509)</u>
<b>Cash flows from noncapital financing activity</b>		
Receipts from contributions to permanent endowments	<u>30,877</u>	<u>16,921</u>
Net cash provided by noncapital financing activity	<u>30,877</u>	<u>16,921</u>
<b>Cash flows from investing activities</b>		
Proceeds from sale and maturities of investments	131,715	99,644
Purchases of investments	(228,100)	(113,255)
Investment income, net of investment expense	<u>8,044</u>	<u>6,891</u>
Net cash (used in) investing activities	<u>(88,341)</u>	<u>(6,720)</u>
Net increase (decrease) in cash and cash equivalents	262	(308)
<b>Cash and cash equivalents</b>		
Beginning of year	<u>991</u>	<u>1,299</u>
End of year	<u>\$ 1,253</u>	<u>\$ 991</u>
<b>Reconciliation of operating gain (loss) to net cash provided by (used in) operating activities</b>		
Operating gain (loss)	\$ 6,939	\$ (19,832)
Adjustments to reconcile operating gain (loss) to net cash provided by (used in) operating activities		
Noncash gifts	(3,621)	(1,206)
Allowance on pledges receivable	3,872	1,540
Changes in operating assets and liabilities		
Other Assets	84	136
Pledges receivable, net	(10,175)	3,455
Notes receivable, net	-	367
Unearned revenue	62,750	-
Accounts payable and agency funds	(1,281)	6,045
Liabilities to life beneficiaries	(842)	(1,014)
Net cash provided by (used in) operating activities	<u>\$ 57,726</u>	<u>\$ (10,509)</u>
<b>Supplemental noncash activities</b>		
Contributions of securities for expendable funds	\$ 2,787	\$ 1,139
Residual income from matured life income gifts	319	14
Other noncash contributions for expendable funds	<u>515</u>	<u>52</u>
Total noncash gifts for expendable funds	<u>\$ 3,621</u>	<u>\$ 1,205</u>
Contributions of securities for permanent endowments	\$ 1,826	\$ 4,544
Residual income from matured life income gifts	375	-
Other noncash gifts for permanent endowments	<u>-</u>	<u>6</u>
Total noncash gifts for permanent endowments	<u>\$ 2,201</u>	<u>\$ 4,550</u>

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

# U.C. San Diego Foundation

## Notes to Financial Statements

### June 30, 2017 and 2016

---

#### 1. Organization

The U.C. San Diego Foundation (the Foundation) was formed in 1972 as a California non-profit corporation and is governed by a 42-member board of trustees, the membership of which includes the Chancellor, the Vice Chancellor of Advancement, when filled, and a faculty representative from UC San Diego. One of the primary purposes 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 (The Regents) for the benefit of the UC San Diego campus as provided in the Foundation's Articles of Incorporation, provided The Regents 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. 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 UC San Diego 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 policy, the Foundation remitted the short-term interest earnings on its expendable gift and accumulated endowment payout balances to UC San Diego. These resources help support the administrative costs of UC San Diego. Per 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 interest earnings and endowment cost recovery fees are reflected as grants to campus on the statements of revenue, expenses, and changes in net position. Similar policies for the 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.

#### 2. Summary of Significant Accounting Policies

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

#### **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 as

# U.C. San Diego Foundation

## Notes to Financial Statements

### June 30, 2017 and 2016

---

incurred, regardless of the timing of related cash flows. The effects of interfund activities have been eliminated from the Foundation's financial statements.

#### **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.

#### **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.

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

Cash and cash equivalents are comprised of cash and other short-term highly liquid investments that are readily convertible into known amounts of cash. The Foundation considers all highly liquid investments with maturities of three months or less at the time of purchase to be cash equivalents.

#### **Investments**

Investments are reported at fair value. The basis for determining the fair value of publicly traded investments is the readily determinable sales price or current exchange rate of the investments based on quoted market price. 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 serves as a practical expedient for fair value. Separately held and non-public investments are valued using net asset value as reported by the respective fund managers. The most recent net asset value is adjusted for capital calls, distributions and significant known valuation changes, if any, of its related portfolio through June 30, 2017. Directly held real estate, if any, is valued by annual appraisal less estimated selling costs. These separately held and non-public 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.

#### **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 include 1) The Foundation is stated as the recipient of the pledge; 2) the pledge is available for use and able to be sold, disbursed, consumed, or 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.

# U.C. San Diego Foundation

## Notes to Financial Statements

### June 30, 2017 and 2016

---

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 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 collectability 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.

#### **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.

#### **Unearned Revenue**

Unearned revenue is comprised of a prepayment on a conditional pledge.

#### **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 liabilities to life beneficiaries. 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.

#### **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.

# U.C. San Diego Foundation

## Notes to Financial Statements

### June 30, 2017 and 2016

---

*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 will allow 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 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.

#### **Classification of Revenue and Expenses**

Operating revenue includes expendable contributions from donors. Operating expenses primarily include gift and endowment payout distributions, and endowment cost recovery remitted to UC San Diego. Gift and endowment payout distributions are also 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 net unrealized appreciation or loss 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.

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

# U.C. San Diego Foundation

## Notes to Financial Statements

### June 30, 2017 and 2016

---

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 both fiscal years 2017 and 2016 was 4.75% of the 60-month average unitized market value, with 0.55% of that used to recover noninvestment-related endowment administration costs. Endowment cost recovery fees are remitted to UC San Diego and recorded along with the endowment payout on the accompanying financial statements as grants to campus.

#### **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 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 liabilities to life income beneficiaries. 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 transferred to the appropriate Foundation fund for the purpose designated by the donor and recorded as contribution revenue.

#### **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, an entity affiliated with UC San Diego. 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 \$20,000 and \$93,000 at June 30, 2017 and 2016, respectively.



# U.C. San Diego Foundation

## Notes to Financial Statements

### June 30, 2017 and 2016

---

#### **Agency Affiliation with Sanford Consortium for Regenerative Medicine**

The Foundation held and invested funds under an agency relationship with the Sanford Consortium for Regenerative Medicine, an entity affiliated with UC San Diego. The Sanford Consortium for Regenerative Medicine is a legally separate 501(c) (3) organized to bring together scientists from five world-class research institutions to conduct multi-disciplinary, basic research that is envisioned to translate discoveries into clinical cures. UC San Diego is one of the collaborating organizations. 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 Sanford Consortium for Regenerative Medicines' balance totaled approximately \$6.1 million at both June 30, 2017 and 2016.

#### **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.

#### **Reclassifications**

Certain reclassifications have been made to the fiscal year 2016 financial information to conform to the fiscal year 2017 financial statement presentation.

#### **New Accounting Pronouncements**

In March 2016, the GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*, effective for the Foundation's fiscal year beginning July 1, 2017. This statement addresses when irrevocable split-interest agreements constitute an asset for accounting and financial reporting purposes when the resources are administered by a third party. The Foundation is evaluating the effect that Statement No. 81 will have on its financial statements.

### **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.

Cash, cash equivalents, short-term investments, and investments consist of the following as of June 30, 2017 and 2016:

**U.C. San Diego Foundation**  
**Notes to Financial Statements**  
**June 30, 2017 and 2016**

<i>(in thousands of dollars)</i>	<b>2017</b>	<b>2016</b>
<b>Cash and cash equivalents</b>		
Commercial banks and money market funds	\$ 805	\$ 844
University of California short-term investment pool	448	147
Total cash and cash equivalents	<u>1,253</u>	<u>991</u>
<b>Investments</b>		
Equity securities – domestic	349	236
<b>Fixed-income investments</b>		
U.S. Treasury notes	2,128	2,457
U.S. Treasury strips	215	235
U.S. agencies – asset-backed securities	1,028	892
Supranational/foreign	657	649
<b>Commingled funds</b>		
Balanced funds	405,262	365,031
Commodities	644	682
Absolute return	39,198	9,291
Private equity	3,812	4,413
U.S. equity funds	70,819	74,858
Non-U.S. equity funds	103,678	73,089
Real estate	36,609	36,469
U.S. bond funds	41,898	40,767
Non-U.S. bond funds	260	159
Money market funds	156,831	72,813
<b>Other</b>		
Other	851	581
Total investments	<u>864,239</u>	<u>682,622</u>
Total cash, cash equivalents, and investments	<u>\$ 865,492</u>	<u>\$ 683,613</u>
<b>As classified on the statements of net position</b>		
Current – cash and cash equivalents	\$ 1,253	\$ 991
Current – short-term investments	183,883	93,329
Noncurrent – investments	680,356	589,293
Total cash, cash equivalents, and investments	<u>\$ 865,492</u>	<u>\$ 683,613</u>

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.

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 oversight and 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 (OCIO). Additional information on the UC investment pools can be obtained from the 2017 Annual Financial Report of the University of California.

**U.C. San Diego Foundation**  
**Notes to Financial Statements**  
**June 30, 2017 and 2016**

---

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.

**Investment Performance**

The calculation of realized gains and losses are independent of the calculation of the change in unrealized appreciation on investments. Additionally, realized gains and losses on investments that had been held in more than one fiscal year and sold in the current year, were included as a change in the fair value of investments reported in the prior year and the current year. The components of the realized/unrealized gains (losses) on investments, net are as follows:

<i>(in thousands of dollars)</i>	<b>2017</b>	<b>2016</b>
Change in unrealized appreciation on investments	\$ 61,562	\$ (19,284)
Realized gains (losses) on investments, net	<u>14,420</u>	<u>(546)</u>
Realized/unrealized gains (losses) on investments, net	<u>\$ 75,982</u>	<u>\$ (19,830)</u>

The Foundation's net income yield on the current use investment pool (STIP and TRIP) for the year ended June 30, 2017 was 2.9%, as compared to 1.9% as of June 30, 2016. The net total return on the Foundation's endowment pool for the year ended June 30, 2017 was 13.9%, as compared to -2.2% for June 30, 2016.

**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.

**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.

**U.C. San Diego Foundation**  
**Notes to Financial Statements**  
**June 30, 2017 and 2016**

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, 2017 and 2016 is as follows:

<i>(in thousands of dollars)</i>	<b>2017</b>	<b>2016</b>	<b>Credit Rating</b>
<b>Fixed-income investments</b>			
U.S. government guaranteed	\$ 2,343	\$ 2,692	AAA
U.S. agencies – asset-backed securities	1,028	892	AAA
Supranational/foreign	657	649	A-/BBB+
	<u>4,028</u>	<u>4,233</u>	
<b>Commingled funds</b>			
U.S. bond funds	41,898	40,767	Not Rated
Non-U.S. bond funds	260	159	Not Rated
Money market funds – STIP	156,831	72,813	Not Rated
	<u>198,989</u>	<u>113,739</u>	
Total fixed-income investments	<u>\$ 203,017</u>	<u>\$ 117,972</u>	

**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 OCIO 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 with the securities registered solely in the name of the Foundation. Where 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 only exists in 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 OCIO. 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, with the intention of having no uninsured balances. A certain portion of the balance may occasionally be exposed to

# U.C. San Diego Foundation

## Notes to Financial Statements

### June 30, 2017 and 2016

---

custodial credit risk due to unforeseen dividends and gifts deposited at from time to time, but are transferred as soon as possible. Accounts may also be maintained in 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 whereby 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.

There is no custodial credit risk for fixed-income investments at June 30, 2017 and 2016.

#### **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 OCIO 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.

#### **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, 2017 and 2016 is as follows:

**U.C. San Diego Foundation**  
**Notes to Financial Statements**  
**June 30, 2017 and 2016**

<i>(in thousands of dollars)</i>	<b>Fair Value</b>		<b>Effective Duration in Years</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
<b>Fixed income investments</b>				
U.S. government guaranteed	\$ 2,343	\$ 2,692	4.52 years	5.06 years
Total U.S. government guaranteed	<u>2,343</u>	<u>2,692</u>		
<b>Other U.S. dollar denominated</b>				
U.S. agencies – asset-backed securities	1,028	892	3.29 years	1.90 years
Supranational/foreign	<u>657</u>	<u>649</u>	3.31 years	1.64 years
Total other U.S. dollar denominated	<u>1,685</u>	<u>1,541</u>		
<b>Commingled funds</b>				
U.S. bond funds	41,898	40,767	5.38 years	4.75 years
Non-U.S. bond funds	260	159	6.69 years	6.69 years
Money market funds	<u>156,831</u>	<u>72,813</u>	1.49 years	1.27 years
Total commingled funds	<u>198,989</u>	<u>113,739</u>		
Total fixed income	<u>\$ 203,017</u>	<u>\$ 117,972</u>		

**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 have no exposure to foreign currency risk as of June 30, 2017 and 2016. Under the Foundation's investment policy, there is no provision to purchase individual foreign-denominated securities.

At June 30, 2017 and 2016, the U.S. dollar balances of investments that carry foreign currency risk type are as follows:

<i>(in thousands of dollars)</i>	<b>2017</b>	<b>2016</b>
<b>Commingled funds</b>		
Various currency denominations		
Non-U.S. equity funds	\$ 103,678	\$ 73,089
Non-U.S. bond funds	<u>260</u>	<u>159</u>
Total exposure to foreign currency risk	<u>\$ 103,938</u>	<u>\$ 73,248</u>

**Fair Value Measurements**

The Foundation categorizes its fair value measurements within the fair value hierarchy established by GASB Statement No. 72 (GASB 72), *Fair Value Measurement and Application*. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Assets and liabilities are organized into a hierarchy based on the levels of inputs observable in the marketplace that are significant to the fair value measurement, as follows:

# U.C. San Diego Foundation

## Notes to Financial Statements

### June 30, 2017 and 2016

---

- Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access. Level 1 investments include publicly traded securities, exchange traded funds, and certain mutual funds.
- Level 2 Inputs to the valuation methodology are quoted prices in markets that are not considered to be active, dealer quotations, or alternative pricing sources for similar assets or liabilities for which all significant inputs are observable either directly or indirectly. Level 2 investments include certain fixed or variable income securities and institutional funds not listed in active markets.
- Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement and may require significant management judgement. Level 3 investments include private equity and real estate, if any.

#### ***Net Asset Value (NAV)***

Investments whose fair value is not readily available, such as private commingled funds, are measured at NAV, which is considered a practical expedient for fair value, and are excluded from the fair value hierarchy.

#### ***Not leveled***

Investments that are not leveled are measured at other than fair value (for example, amortized cost) including investments such as life insurance contracts and cash equivalents or money market investments.

The Foundation's Level 1 investments primarily consist of exchange traded funds, mutual funds, and publicly traded equity securities. Level 2 investments primarily consist of US government and agency obligations. Level 3 investments primarily consist of investments in private equity. A large portion of the Foundation's portfolio is invested in commingled funds measured at NAV and managed by the OCIO. The Foundation's management believes its valuation methods are appropriate and consistent with other market participants. The use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following tables summarize the investment and other assets reported at fair value within the fair value hierarchy as of June 30, 2017 and June 30, 2016, respectively.

**U.C. San Diego Foundation**  
**Notes to Financial Statements**  
**June 30, 2017 and 2016**

		June 30, 2017					
		Total	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Net Asset Value (NAV)	Not Leveled
<i>(in thousands of dollars)</i>		<b>2017</b>					
Equity Securities	\$	349	\$ 349	\$ -	\$ -	\$ -	\$ -
Fixed or variable income securities							
U.S. government guaranteed	2,343	-	2,343	-	-	-	-
Other U.S. dollar denominated	1,685	654	1,031	-	-	-	-
Commingled funds	859,756	160,293	-	745	698,718	-	-
Other investments	106	-	-	-	-	106	-
	<b>\$</b>	<b>864,239</b>	<b>\$ 161,296</b>	<b>\$ 3,374</b>	<b>\$ 745</b>	<b>\$ 698,718</b>	<b>\$ 106</b>
		June 30, 2016					
		Total	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Net Asset Value (NAV)	Not Leveled
<i>(in thousands of dollars)</i>		<b>2016</b>					
Equity Securities	\$	236	\$ 236	\$ -	\$ -	\$ -	\$ -
Fixed or variable income securities							
U.S. government guaranteed	2,692	-	2,692	-	-	-	-
Other U.S. dollar denominated	1,541	565	976	-	-	-	-
Commingled funds	678,067	158,502	-	495	519,070	-	-
Other investments	86	-	-	-	-	86	-
	<b>\$</b>	<b>682,622</b>	<b>\$ 159,303</b>	<b>\$ 3,668</b>	<b>\$ 495</b>	<b>\$ 519,070</b>	<b>\$ 86</b>

**Investments Measured at NAV**

The Foundation's investments measured at NAV, along with investment commitments as of June 30, 2017 are as follows:

<i>(in thousands of dollars)</i>	Net Asset Value	Unfunded Commitment	Redemption Terms and Restrictions
<b>Investment type</b>			
Commingled funds			
Balanced Funds	\$ 405,262	\$ -	30 day notice
Money market funds	156,831	-	Daily liquidity
Non-U.S. equity funds	85,938	-	30 day notice
Absolute return and hedge funds	39,198	-	30 day notice
Real estate	7,676	8,635	LP, not able to sell per subscription agreement
Private equities	3,813	458	30 day notice
	<b>\$ 698,718</b>	<b>\$ 9,093</b>	

**4. Endowment Payout**

Endowment payout, when transferred to UC San Diego at the request of the benefiting department, is recorded as a component of grants to campus in the statements 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, 2017 and 2016 and the sources of payout are as follows:



**U.C. San Diego Foundation**  
**Notes to Financial Statements**  
**June 30, 2017 and 2016**

<i>(in thousands of dollars)</i>	<b>2017</b>	<b>2016</b>
<b>Calculated payout</b>		
Endowment payout allocation	\$ 22,867	\$ 20,380
Endowment administration cost recovery	2,929	2,628
	<u>\$ 25,796</u>	<u>\$ 23,008</u>
<b>Sources of payout</b>		
Net cash earnings	\$ 5,463	\$ 5,233
Net use of accumulated gains and/or corpus	20,333	17,775
	<u>\$ 25,796</u>	<u>\$ 23,008</u>

**5. Commitments**

As of June 30, 2017, the Foundation's only commitments are investment related commitments as disclosed in footnote 3, above.

**6. Pledges Receivable, net**

At June 30, 2017 and 2016, pledges receivable balances for expendable funds were restricted for the following UC San Diego purposes:

<i>(in thousands of dollars)</i>	<b>2017</b>	<b>2016</b>
Departmental support	\$ 24,477	\$ 6,518
Research	22,826	20,248
Capital projects	20,643	38,565
Student support	422	403
Other	877	207
Total gross pledges	<u>69,245</u>	<u>65,941</u>
Less:		
Allowance for uncollectible pledges	(554)	(476)
Discount to present value	(9,223)	(9,685)
Total pledges receivable, net	<u>\$ 59,468</u>	<u>\$ 55,780</u>

These gross pledges are expected to be collected in future years as follows:

<i>(in thousands of dollars)</i>	
<b>Payments through June 30</b>	
2018	\$ 19,949
2019	11,523
2020	12,480
2021	4,270
2022	1,513
Thereafter	<u>19,510</u>
	<u>\$ 69,245</u>

As in previous years, an allowance for uncollectible pledges has been established based on

**U.C. San Diego Foundation**  
**Notes to Financial Statements**  
**June 30, 2017 and 2016**

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 2017 and 2016 were discounted at 1.20% in both years. Pledges receivable from 20 donors and 17 donors accounted for approximately 92.0% and 92.4% of the gross pledges receivable balance at June 30, 2017 and 2016, respectively.

**7. Liabilities to Life Beneficiaries**

Changes in liabilities to life beneficiaries during the current fiscal year are summarized as follows:

<i>(in thousands of dollars)</i>	Balance at June 30, 2016	New Obligations	Adjustments to Existing Liabilities	Reclassification to Current	Beneficiary Payments	Balance at June 30, 2017
Liabilities to life beneficiaries, current	\$ 1,403	\$ -	\$ -	\$ 1,452	\$ (1,444)	\$ 1,411
Liabilities to life beneficiaries, noncurrent	9,604	162	1,181	(1,452)		9,495
	<u>\$ 11,007</u>	<u>\$ 162</u>	<u>\$ 1,181</u>	<u>\$ -</u>	<u>\$ (1,444)</u>	<u>\$ 10,906</u>

**8. Grants to Campus for Programs**

One of the primary purposes of the Foundation is to receive donations for the support of UC San Diego. During the years ended June 30, 2017 and 2016, the Foundation made grants to UC San Diego in compliance with donor restrictions for the purposes noted below. There were 146 areas of UC San Diego that were the beneficiaries of these grants in fiscal year 2017.

<i>(in thousands of dollars)</i>	2017	2016
Capital projects	\$ 29,731	\$ 25,704
General departmental support	28,827	23,050
Research and related faculty support	27,530	33,351
Student aid (undergraduate and graduate)	9,074	9,235
Cost recovery fees on investment pools to support the campus	3,123	2,806
Interest earnings granted to support the campus	1,358	1,102
	<u>\$ 99,643</u>	<u>\$ 95,248</u>

**9. Related-Party Transactions**

During the years ended June 30, 2017 and 2016, approximately \$8.6 million and \$2.3 million in contributions for current use and new pledges, net of discount, or approximately 8.0% and 3.0% 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, 2017 and 2016, approximately \$3.7 million and \$433,000 in contributions to permanent endowments, or approximately 11.0% and 2.0% of total contributions to

**U.C. San Diego Foundation**  
**Notes to Financial Statements**  
**June 30, 2017 and 2016**

---

permanent endowments, respectively, were received from trustees of the board, corporations, and organizations affiliated with trustees of the board, and senior management.

Approximately \$7.7 million and \$10.4 million in pledges receivable, net of allowance and discount, or approximately 13.0% and 18.7% of total pledge receivables, as of June 30, 2017 and 2016, respectively, are from trustees of the board, corporations, and organizations affiliated with trustees of the board, and senior management.

**10. Subsequent Events**

The Foundation entered into an agreement in July 2017 that amended a conditional pledge from October 2013. During fiscal year 2017 the pledge was prepaid in accordance with the provisions of the gift agreement, and is reflected as unearned revenue as of June 30, 2017. The impact of the July 2017 amendment is a reduction of unearned revenue and recognition of \$62.8 million in revenue in fiscal year 2018. Per the terms of the amendment, \$50.0 million will create a fund functioning as endowment and \$12.8 million will remain in a segregated account and will include any related earnings. All terms of the agreement, as amended, will continue to be adhered to regardless of the timing of revenue recognition.