

**U.C. San Diego Foundation**  
**Financial Statements**  
**June 30, 2019 and 2018**

**U.C. San Diego Foundation**  
**June 30, 2019 and 2018**

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## **Report of Independent Auditors**

To the Board of Trustees of the  
U.C. San Diego Foundation:

We have audited the accompanying financial statements of the U.C. San Diego Foundation ("Foundation"), a component unit of the University of California, which comprise the statements of net position as of June 30, 2019 and 2018, 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 respective financial position of the U.C. San Diego Foundation as of June 30, 2019 and 2018, and the respective changes in net position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.



***Other Matter***

The accompanying management's discussion and analysis on pages 3 through 6 is 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*

October 3, 2019

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

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

### **June 30, 2019 and 2018**

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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, 2019, with comparative information for the fiscal years ended June 30, 2018 and 2017. 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 2019, the Foundation's net position, which represents the excess of total assets over liabilities, increased by \$40.8 million. This is compared to an increase in net position during fiscal years 2018 and 2017 of \$158.3 million and \$123.9 million, respectively.

The increase or decrease in net position annually is the result of three primary factors: 1) changes from year to year in the contributions made to current use and endowed gift funds, 2) the amount of grants to campus, and 3) the financial investment returns of the Foundation's most significant investment portfolio and permanent asset base, the endowment pool.

In fiscal year 2019, recognized expendable contribution revenue was lower than in fiscal 2018 and 2017 primarily related to smaller sized gifts. Contributions to endowed funds were similar but slightly lower in fiscal 2019 versus 2018 and 2017. Investment returns fluctuated during the three periods presented and were lower in fiscal 2019 than in fiscal 2018 and 2017. The endowment pool had a net total return of 7.1% as of June 30, 2019, compared to 7.6% as of June 30, 2018, and 13.9% as of June 30, 2017. Grants to campus in fiscal 2019 increased over that of fiscal 2018 and 2017, which were fairly level.

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, liabilities and deferred inflows of resources) 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, liabilities, and deferred inflows of resources. 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 to the Foundation, and grants to UC San Diego, are reported as operating revenue and expense, respectively, and investment results are reported as nonoperating income or expense.

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**Condensed Schedules of Net Position**

| <i>(in thousands of dollars)</i>     | <b>2019</b>  | <b>FY 2019-18<br/>Change in<br/>Dollars</b> | <b>2018</b> | <b>FY 2018-17<br/>Change in<br/>Dollars</b> | <b>2017</b> |
|--------------------------------------|--------------|---|-------------|---|-------------|
| <b>Assets</b>                        |              |   |             |   |             |
| Current assets                       | \$ 147,368   | \$ (7,328)                                  | \$ 154,696  | \$ (50,315)                                 | \$ 205,011  |
| Noncurrent assets                    | 968,994      | 56,428                                      | 912,566     | 142,928                                     | 769,638     |
| Total assets                         | 1,116,362    | 49,100                                      | 1,067,262   | 92,613                                      | 974,649     |
| <b>Liabilities</b>                   |              |   |             |   |             |
| Current liabilities                  | 7,598        | (270)                                       | 7,868       | (62,952)                                    | 70,820      |
| Noncurrent liabilities               | 7,563        | (218)                                       | 7,781       | (1,714)                                     | 9,495       |
| Total liabilities                    | 15,161       | (488)                                       | 15,649      | (64,666)                                    | 80,315      |
| <b>Deferred inflows of resources</b> | 63,377       | 8,789                                       | 54,588      | (1,036)                                     | 55,624      |
| Total net position                   | \$ 1,037,824 | \$ 40,799                                   | \$ 997,025  | \$ 158,315                                  | \$ 838,710  |

The condensed schedules of net position reflects the assets, liabilities, and net position for fiscal years 2019, 2018, and 2017.

**Assets**

Current assets, comprised of cash, short-term investments, and the portion of pledges due within one year, decreased by \$7.3 million during fiscal year 2019. 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. In fiscal year 2018, the Foundation recognized contribution revenue on the prepayment received in fiscal year 2017, and created a \$50.0 million fund functioning as endowment that resulted in a shift from short-term investments to long term investments.

Noncurrent assets consist of long-term investments (primarily related to the endowment), the portions of pledges receivable due beyond one year, and beneficial interest in irrevocable split interest agreements. Noncurrent assets increased by \$56.4 million during fiscal year 2019, compared with an increase of \$142.9 million during fiscal year 2018. The increase in fiscal year 2019 noncurrent assets is mainly attributable to the net effect of positive investment returns, new beneficial interest in split-interest agreements, and several significant gifts to endowment.

**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 the recognition of contribution revenue for the prepaid gift noted above explains the significant decrease during fiscal year 2018.

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.

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**Management's Discussion and Analysis (Unaudited)**  
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**Deferred inflows of resources**

Deferred inflows of resources represent an acquisition of net position that applies to a future period. The Foundation classifies changes in irrevocable split-interest agreements as deferred inflows of resources. Changes in deferred inflows of resources are attributable to changes in fair value, change in liabilities due to trust and life income beneficiaries, new split-interest agreements and maturities during the year.

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

| <i>(in thousands of dollars)</i>      | <b>2019</b>  | <b>FY 2019-18<br/>Change in<br/>Dollars</b> | <b>2018</b> | <b>FY 2018-17<br/>Change in<br/>Dollars</b> | <b>2017</b> |
|---------------------------------------|--------------|---|-------------|---|-------------|
| <b>Operating revenue</b>              | \$ 57,320    | \$ (110,018)                                | \$ 167,338  | \$ 60,731                                   | \$ 106,607  |
| Less: Operating expenses              | 107,952      | 8,163                                       | 99,789      | 121   | 99,668      |
| Operating (loss) gain                 | (50,632)     | (118,181)                                   | 67,549      | 60,610                                      | 6,939       |
| Nonoperating revenue, net             | 58,847       | 3,248                                       | 55,599      | (28,245)                                    | 83,844      |
| Contributions to permanent endowments | 32,584       | (2,583)                                     | 35,167      | 2,071                                       | 33,096      |
| Change in net position                | 40,799       | (117,516)                                   | 158,315     | 34,436                                      | 123,879     |
| <b>Net position</b>                   |              |   |             |   |             |
| Beginning of year                     | 997,025      | 158,315                                     | 838,710     | 123,879                                     | 714,831     |
| End of year                           | \$ 1,037,824 | \$ 40,799                                   | \$ 997,025  | \$ 158,315                                  | \$ 838,710  |

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 2019, 2018, and 2017.

Operating revenue for the Foundation consists only of recognizable expendable charitable gifts and pledges, and can fluctuate significantly depending on the new pledge commitments and their terms, as well as outright contributions received during any fiscal year. Operating revenue decreased in fiscal year 2019 by \$110.0 million from that of fiscal 2018, and increased by \$60.7 million in fiscal year 2018 from that of fiscal 2017. 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 increased by \$8.2 million in fiscal year 2019, while they were level in fiscal years 2018 and 2017. 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, grants to campus exceeded recognized contribution revenue in fiscal year 2019, resulting in an operating loss. During fiscal years 2018 and 2017, recognized contribution revenue exceeded grants to campus, resulting in operating gains.

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 all fiscal years presented all investment asset class components contributed positively to returns and provided net nonoperating income. In fiscal year 2019, the asset class components of private equity, real estate, fixed income, absolute return and cash produced higher returns than in fiscal 2018, while domestic equity, international equity, and emerging markets contributed lower returns over the same classes in fiscal year 2018. During fiscal year 2017, the higher performers were in the asset class components of domestic equity, international equity, emerging markets, and private equity.

The Foundation places a high priority on increasing the gifts to, and the return on, the endowment. The

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**Management's Discussion and Analysis (Unaudited)**  
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timing of these gifts is unpredictable and may vary significantly from year to year. Endowed gifts received during fiscal year 2019 were slightly lower than in fiscal years 2018 and 2017.

**Factors Impacting Future Periods**

Factors that can significantly impact future periods include the state of the overall economy, tax law changes and the financial markets, which 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*, 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, 2019 and 2018**

*(in thousands of dollars)*

|  | <b>2019</b>         | <b>2018</b>         |
|--|---------------------|---------------------|
| <b>Assets</b>  |                     |                     |
| Current assets   |                     |                     |
| Cash and cash equivalents                                    | \$ 1,045            | \$ 1,039            |
| Short-term investments                                       | 123,994             | 131,755             |
| Pledges receivable, net                                      | 16,462              | 21,837              |
| Receivable for investment sold                               | 5,750               | -                   |
| Other assets   | 117                 | 65                  |
| Total current assets   | <u>147,368</u>      | <u>154,696</u>      |
| Noncurrent assets  |                     |                     |
| Long-term investments  | 840,291             | 794,528             |
| Pledges receivable, net                                      | 68,641              | 66,942              |
| Beneficial interest in non-trustee split interest agreements | 60,036              | 51,070              |
| Other assets   | 26                  | 26                  |
| Total noncurrent assets                                      | <u>968,994</u>      | <u>912,566</u>      |
| Total assets   | <u>\$ 1,116,362</u> | <u>\$ 1,067,262</u> |
| <b>Liabilities</b>   |                     |                     |
| Current liabilities  |                     |                     |
| Accounts payable   | \$ 711              | \$ 597              |
| Agency funds   | 5,937               | 6,238               |
| Unearned revenue   | -                   | 25                  |
| Liabilities to life beneficiaries, current portion           | 950                 | 1,008               |
| Total current liabilities                                    | <u>7,598</u>        | <u>7,868</u>        |
| Noncurrent liabilities                                       |                     |                     |
| Liabilities to life beneficiaries, net of current portion    | 7,563               | 7,781               |
| Total noncurrent liabilities                                 | <u>7,563</u>        | <u>7,781</u>        |
| Total liabilities  | <u>\$ 15,161</u>    | <u>\$ 15,649</u>    |
| <b>Deferred Inflows of Resources</b>                         |                     |                     |
| Deferred inflows from split-interest agreements              | <u>\$ 63,377</u>    | <u>\$ 54,588</u>    |
| Total deferred inflows of resources                          | <u>\$ 63,377</u>    | <u>\$ 54,588</u>    |
| <b>Net position</b>  |                     |                     |
| Restricted   |                     |                     |
| Nonexpendable  |                     |                     |
| Endowment corpus   | \$ 487,530          | \$ 454,343          |
| Expendable   |                     |                     |
| Endowment income and net appreciation                        | 211,009             | 194,712             |
| Funds functioning as endowments                              | 100,851             | 96,635              |
| Restricted gift funds  | 212,982             | 227,445             |
| Unrestricted   | <u>25,452</u>       | <u>23,890</u>       |
| Total net position   | <u>\$ 1,037,824</u> | <u>\$ 997,025</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, 2019 and 2018**

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*(in thousands of dollars)*

|   | <b>2019</b>         | <b>2018</b>       |
|---|---------------------|-------------------|
| <b>Operating revenue</b>                          |                     |                   |
| Contributions, net                                | \$ 57,320           | \$ 167,338        |
| Total operating revenue                           | <u>57,320</u>       | <u>167,338</u>    |
| <b>Operating expenses</b>                         |                     |                   |
| Grants to campus for programs                     | 107,944             | 99,775            |
| Administrative and other operating expenses       | <u>8</u>            | <u>14</u>         |
| Total operating expenses                          | <u>107,952</u>      | <u>99,789</u>     |
| Operating (loss) income                           | <u>(50,632)</u>     | <u>67,549</u>     |
| <b>Nonoperating revenue (expenses)</b>            |                     |                   |
| Investment income, net                            | 10,095              | 8,791             |
| Realized/unrealized gains on investments, net     | 48,754              | 46,819            |
| Other nonoperating expense, net                   | <u>(2)</u>          | <u>(11)</u>       |
| Total nonoperating revenue, net                   | <u>58,847</u>       | <u>55,599</u>     |
| Gain before contributions to permanent endowments | 8,215               | 123,148           |
| Contributions to permanent endowments             | <u>32,584</u>       | <u>35,167</u>     |
| Change in net position                            | 40,799              | 158,315           |
| <b>Net position</b>                               |                     |                   |
| Beginning of year                                 | <u>997,025</u>      | <u>838,710</u>    |
| End of year                                       | <u>\$ 1,037,824</u> | <u>\$ 997,025</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, 2019 and 2018**

(in thousands of dollars)

|   | 2019        | 2018        |
|---|-------------|-------------|
| <b>Cash flows from operating activities</b>   |             |             |
| Receipts from contributions   | \$ 55,103   | \$ 65,273   |
| Payments to campus  | (107,824)   | (99,679)    |
| Receipts of prepaid contributions   |             | -           |
| Beneficiary payments  | (980)       | (1,024)     |
| Other payments, net   | (515)       | (185)       |
| Net cash used in operating activities   | (54,216)    | (35,615)    |
| <b>Cash flows from noncapital financing activity</b>  |             |             |
| Receipts from contributions to permanent endowments   | 27,934      | 26,744      |
| Net cash provided by noncapital financing activity  | 27,934      | 26,744      |
| <b>Cash flows from investing activities</b>   |             |             |
| Proceeds from sale and maturities of investments  | 252,593     | 161,866     |
| Purchases of investments  | (236,530)   | (162,194)   |
| Investment income, net of investment expense  | 10,225      | 8,985       |
| Net cash provided by investing activities   | 26,288      | 8,657       |
| Net increase (decrease) in cash and cash equivalents  | 6           | (214)       |
| <b>Cash and cash equivalents</b>  |             |             |
| Beginning of year   | 1,039       | 1,253       |
| End of year   | \$ 1,045    | \$ 1,039    |
| <b>Reconciliation of operating (loss) income to net cash used in operating activities</b>   |             |             |
| Operating (loss) income   | \$ (50,632) | \$ 67,549   |
| Adjustments to reconcile operating (loss) income to net cash (used in) operating activities |             |             |
| Noncash gifts   | (2,227)     | (6,678)     |
| Allowance on pledges receivable   | 262         | 573         |
| Changes in operating assets and liabilities   |             |             |
| Other assets  | 55          | 81          |
| Pledges receivable, net   | (252)       | (33,238)    |
| Unearned revenue  | -           | (62,725)    |
| Accounts payable and agency funds   | (781)       | (457)       |
| Liabilities to life beneficiaries   | (641)       | (720)       |
| Net cash (used in) operating activities   | \$ (54,216) | \$ (35,615) |
| <b>Supplemental noncash activities</b>  |             |             |
| Contributions of securities for expendable funds  | \$ 2,202    | \$ 2,935    |
| Residual income from matured life income gifts  | -           | 3,743       |
| Beneficial interest in irrevocable split interest agreements                                | 9,657       | 176         |
| Other noncash contributions for expendable funds  | -           | -           |
| Total noncash gifts for expendable funds  | \$ 11,859   | \$ 6,854    |
| Contributions of securities for permanent endowments  | \$ 4,012    | \$ 7,072    |
| Residual income from matured life income gifts  | 638         | 1,351       |
| Beneficial interest in irrevocable split interest agreements                                | (692)       | 1,318       |
| Total noncash gifts for permanent endowments  | \$ 3,958    | \$ 9,741    |

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

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

## **Notes to Financial Statements**

### **June 30, 2019 and 2018**

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#### **1. Organization**

The U.C. San Diego Foundation (UCSDF or the Foundation) is a not-for-profit organization formed in 1972, dedicated to providing to the University of California San Diego (UC San Diego or the campus) the financial benefits generated from its fund-raising efforts and investment earnings. The Foundation is subject to the policies and procedures of the Regents of the University of California (the Regents). The Regents established administrative guidelines for the Foundation with regard to the Foundation's ability to conduct operations through its Policy on Campus Foundations. The Regents' policy limits the ability of the Foundation to make certain expenditures and provides a general framework for its operations.

The Foundation is governed by a 42-member Board of Trustees, the membership of which includes the Chancellor of UC San Diego, the Vice Chancellor of Advancement, when filled, and a faculty representative from 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. Upon dissolution, liquidation, or winding-up of the Foundation, the assets remaining after payment, or provision for payment of all debts and liabilities of the Foundation, shall be distributed to the Regents for the benefit of UC San Diego, provided the Regents have maintained tax-exempt status under the Internal Revenue Code and relevant California laws. Accordingly, the Foundation is considered a governmental not-for-profit organization, subject to reporting under the Governmental Accounting Standards Board (the GASB).

The Foundation is a component unit of the University of California (UC or the University). Accordingly, its financial statements are included in the financial statements of the University of California as a discretely presented component unit, combined with the other University of California campus foundations.

#### **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 accompanying financial statements have been prepared using U.S. generally accepted accounting principles, including all effective applicable statements of the GASB. The statements are prepared using the economic resources measurement focus and the accrual basis of accounting. All interorganization balances and transactions have been eliminated.

##### **Pending Accounting Pronouncements**

In January 2017, the GASB issued Statement No. 84, Fiduciary Activities, effective for the University's fiscal year beginning July 1, 2019. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or an equivalent arrangement that meets specific criteria. Under Statement No. 84, the Foundation expects that funds held for others would be reported separately as fiduciary activities and will result in a reduction of related assets and liabilities on the statements of net position.

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

## **Notes to Financial Statements**

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

The Foundation considers all highly liquid investments with original maturities of three months or less to be cash equivalents. Included in the Foundation's cash equivalents are amounts in the UC Short Term Investment Pool (STIP), reflected as an agency fund in UC San Diego's accounting records.

#### **Pledges Receivable**

Pledges receivable represent written unconditional promises to give by donors. Pledges receivable, other than endowment pledges, are recognized as contribution revenue in the period pledged as long as they are verifiable, measurable, probable of collection, and they meet all the eligibility requirements specified by GASB Statement No. 33, *Accounting and Reporting for Nonexchange Transactions*. Endowment pledges are recognized as contributions to permanent endowment at the time payment is received. Pledge payments, expected to be collected during the next fiscal year, are recorded at estimated net realizable value. Pledges recognized during the years ended June 30, 2019 and 2018, which are expected to be collected after one year have been discounted at 2.40% and 1.60%, respectively. In addition, an allowance for uncollectible pledges of 0.80% is recorded based on management's assessment of the collectability of outstanding pledges. Should there be concern about the collectability of a specific pledge, management will record a specific 100% allowance on that pledge until such time as payment is received or the pledge is written off.

#### **Investments**

The Foundation has pooled investments, including alternative investments in limited partnerships, managed by multiple investment managers in accordance with the Foundation's investment policy as adopted by the Board of Trustees. The value of the investments is based on the underlying assets, which include equity securities, fixed-income securities, and certain other asset classes.

The Foundation reports its investments at fair value. Because certain investments are not readily marketable, the estimated value may differ from the value that would have been used had a ready market for the investments existed and such differences could be material. Fair values are based on the valuation policies established by the respective fund managers. Traditional and marketable securities reflect fair values based on market quotes obtained from independent sources.

Realized/unrealized gains, net represents the difference between the fair value of investments at the beginning of the year and the end of the year, taking into consideration investment purchases, sales, and redemptions.

Trust and Charitable Gift Annuity (CGA) assets are invested in a diversified portfolio of institutional quality, no load mutual funds, and are recorded at quoted fair market values at fiscal year-end. Additionally, for the CGA pool, the State of California Department of Insurance and the Foundation's CGA 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.

Real estate is recorded at appraised fair value at the time of donation, annually appraised, and adjusted to fair value.

#### **Beneficial Interest in Non-Trustee Split Interest Agreements**

The Foundation periodically receives notification that it has a financial interest in Irrevocable Split-Interest Agreements where the assets are invested and administered by outside trustees. The

# U.C. San Diego Foundation

## Notes to Financial Statements

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Foundation records the value of this interest as the net of the fair value of the underlying investments, offset by the present value of the estimated future beneficiary payments over the expected life of the life beneficiaries, in accordance with GASB Statement No. 81, *Irrevocable Split-Interest Agreements*.

#### **Receivable for Investment Sold**

Receivable for Investment Sold represents a timing difference between settlement of an investment sale and receipt of the proceeds.

#### **Other Assets**

Other assets represent other receivables, art, and stock gift proceeds in transit.

#### **Agency Affiliations**

The Foundation held and invested funds under an agency relationship with the UC San Diego Alumni Association, and the Sanford Consortium for Regenerative Medicine. Both are entities 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 \$8,900 and \$10,300 at June 30, 2019 and 2018, respectively.

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 Medicine's balance totaled approximately \$5.9 million and \$6.2 million at June 30, 2019 and 2018, respectively.

#### **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 payment on a pledge that does not meet the revenue recognition terms of GASB Statement No. 33, *Accounting and Reporting for Nonexchange Transactions*. Revenue is recognized when the recognition terms are met.

#### **Liabilities to Life Beneficiaries**

The liabilities for payments to life beneficiaries includes payments due on gift annuities, annuity trusts, and unitrust gifts made to the Foundation in which a designated beneficiary retains an interest in the gift as specified in the agreement and in which the Foundation is the trustee. For these funds, a liability for beneficiary payment is established representing the present value of estimated future beneficiary payments over the expected life of the life beneficiaries. The liability is calculated using recent life expectancy tables and certain other estimates in computing a present

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## Notes to Financial Statements

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value of the liability. All income and expenses associated with life income funds are reflected as part of the change in Deferred Inflows of Resources from Split-Interest Agreements. 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.

#### **Deferred Inflow of Resources from Split-Interest Agreements**

Deferred inflows of resources represent an acquisition of net position that applies to a future period. The Foundation classifies changes in irrevocable split-interest agreements as deferred inflows of resources. These amounts will be recognized as revenue upon the termination of the split-interest agreement.

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

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

#### **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 fair value of the corpus is below its historical cost, the decrease is recorded in this category on the statements of net position.

##### ***Restricted Expendable***

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

*Funds functioning as endowments* are 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 system wide gift allocation policy.

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

##### ***Unrestricted***

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

When restricted and unrestricted funds are available for the same purpose, the Foundation encourages the use of restricted funds first.

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

Operating revenues and expenses are distinguished from nonoperating items and generally result from providing services in connection with ongoing operations and stewarding of current funds. The principal operating revenues are derived from gifts and other fund-raising activities. Operating

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expenses include grants to the campus and administrative expenses. Grants include expendable gifts and endowment payout distributions, in support of activities consistent with the donor's wishes, and endowment cost recovery remitted to UC San Diego. See note 10 for information on the administrative costs of the Foundation and endowment cost recovery fees.

Nonoperating revenues and expenses include investment income, realized/unrealized gains, net, which consists of the net realized gain on the sale of investments and the change in unrealized appreciation in the fair value of investments.

Gifts for permanent endowment purposes are classified as contributions to permanent endowments and are recognized only when received, 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 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.

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 2019 and 2018 was 4.75% of the 60-month average unitized 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. 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.



# U.C. San Diego Foundation

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#### 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.

#### 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.

### 3. Cash and Cash Equivalents

Cash and cash equivalents consists of balances in the UC San Diego campus depository accounts under an agency relationship as previously described, a major banking institution, and various brokerage accounts.

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 custodial credit risk due to the timing of when dividends and gifts are deposited, which are transferred as soon as possible.

The Foundation's policy is to limit all cash accounts to be 1) held in a bank account in an institution insured by the Federal Deposit Insurance Company (FDIC), 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.

Cash and cash equivalents consist of the following as of June 30, 2019 and 2018:

*(in thousands of dollars)*

|   | 2019            | 2018            |
|---|-----------------|-----------------|
| <b>Cash and cash equivalents</b>                    |                 |                 |
| FDIC insured commercial banks                       | \$ 8            | \$ 1            |
| Money market funds                                  | 849             | 762             |
| University of California short-term investment pool | 188             | 276             |
| Total cash and cash equivalents                     | <u>\$ 1,045</u> | <u>\$ 1,039</u> |

### 4. 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.

**U.C. San Diego Foundation**  
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Investments consist of the following as of June 30, 2019 and 2018:

*(in thousands of dollars)*

|   | <b>2019</b>       | <b>2018</b>       |
|---|-------------------|-------------------|
| <b>Short-term investments</b>                       |                   |                   |
| University of California short-term investment pool | \$ 97,650         | \$ 104,831        |
| <b>Commingled</b>                                   |                   |                   |
| Balanced Funds                                      | 25,946            | 26,298            |
| <b>Fixed Income</b>                                 |                   |                   |
| U.S. Treasury notes                                 | -                 | 502               |
| U.S. agencies – asset-backed securities             | 398               | 124               |
| Total short-term investments                        | <u>\$ 123,994</u> | <u>\$ 131,755</u> |
| <b>Long-term Investments</b>                        |                   |                   |
| Equity securities – domestic                        | \$ 487            | \$ 471            |
| <b>Fixed-income investments</b>                     |                   |                   |
| U.S. Treasury notes                                 | 1,771             | 1,464             |
| U.S. Treasury strips                                | 241               | 212               |
| U.S. agencies – asset-backed securities             | 752               | 930               |
| Supranational/foreign                               | 369               | 630               |
| <b>Commingled funds</b>                             |                   |                   |
| Balanced funds                                      | 502,355           | 396,655           |
| Commodities   | 449               | 538               |
| Absolute return                                     | 16,535            | 78,413            |
| Private equity                                      | 7                 | 5,414             |
| U.S. equity funds                                   | 142,920           | 107,041           |
| Non-U.S. equity funds                               | 85,248            | 98,925            |
| Real estate funds                                   | 48,652            | 57,034            |
| U.S. bond funds                                     | 39,134            | 45,715            |
| Non-U.S. bond funds                                 | 67                | 65                |
| <b>Other</b>  |                   |                   |
| Other   | 1,304             | 1,021             |
| Total long-term investments                         | <u>840,291</u>    | <u>794,528</u>    |
| Total investments                                   | <u>\$ 964,285</u> | <u>\$ 926,283</u> |

The Foundation holds equity, fixed-income, and alternative investments. The largest portion of these investments relates to the Foundation's endowment. The Investment/Finance Committee, with Board oversight and approval, manages the investments. 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). The OCIO manages 64.9% of total Foundation investments, or \$626.0 million. The Foundation's largest investment in the UC pooled funds is the General Endowment Pool (GEP), which is a diversified portfolio of public equity, fixed income, alternative investments and cash, and is reflected above under long-term investments as comingled balanced funds.

# U.C. San Diego Foundation

## Notes to Financial Statements

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Short-term investments consists of the portion of bonds held that will mature within the next twelve months, along with the investment of surplus cash balances in two funds managed by the OCIO.

#### 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 on investments, net are as follows:

| <i>(in thousands of dollars)</i>                 | <b>2019</b>      | <b>2018</b>      |
|--|------------------|------------------|
| Change in unrealized appreciation on investments | \$ 10,111        | \$ 34,186        |
| Realized gains on investments, net               | 38,643           | 12,633           |
| Realized/unrealized gains on investments, net    | <u>\$ 48,754</u> | <u>\$ 46,819</u> |

The Foundation's net income yield on the current use investment pool for the year ended June 30, 2019 was 3.4%, as compared to 2.4% as of June 30, 2018. The net total return on the Foundation's endowment pool for the year ended June 30, 2019 was 7.1%, as compared to 7.6% for June 30, 2018.

#### Investment Risk Factors

There are many factors that can affect the value of investments. In addition to market risk, credit risk, custodial credit risk, concentration of credit risk, and foreign currency risk may affect both equity and fixed-income securities. Equity securities are affected by such factors as economic conditions, individual company earnings performance, and market liquidity, while fixed-income securities are particularly sensitive to credit risk, inflation, and changes in interest rates.

#### Credit Risk

Fixed-income securities are subject to credit risk, which is the chance 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 the security price to decline. The circumstances may arise due to a variety of factors, such as financial weakness or bankruptcy. Certain fixed-income securities, including obligations of the U.S. government, or those explicitly guaranteed by the U.S. government, are considered to have little credit risk.

A bond's credit quality is an assessment of the issuer's ability to pay interest on the bond, and ultimately, to pay the principal. Credit quality is evaluated by one of the independent bond-rating agencies, such as Moody's Investors Service or Standard and Poor's. The lower the rating, the greater the chance, in the rating agency's opinion, that the bond issuer will default, or fail to meet its payment obligations. Generally, the lower a bond's credit rating, the higher the yield to compensate for the additional risk. Credit agencies' opinions and, therefore, ratings can change as market conditions change.

The Foundation recognizes that a limited amount of credit risk, properly managed and monitored, is prudent and provides an incremental risk adjusted return of its benchmark.

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The credit risk profile for fixed-income securities at June 30, 2019 and 2018 is as follows:

| <i>(in thousands of dollars)</i>                    | <b>2019</b>       | <b>2018</b>       | <b>Credit Rating</b> |
|---|-------------------|-------------------|----------------------|
| <b>Fixed-income investments</b>                     |                   |                   |                      |
| U.S. government guaranteed                          | \$ 2,012          | \$ 2,178          | AAA                  |
| U.S. agencies – asset-backed securities             | 1,150             | 1,054             | AA+                  |
| Supranational/foreign                               | 369               | 630               | BBB+                 |
|   | <u>3,531</u>      | <u>3,862</u>      |                      |
| <b>Commingled funds</b>                             |                   |                   |                      |
| U.S. bond funds                                     | 39,134            | 45,715            | Not Rated            |
| Non-U.S. bond funds                                 | 67                | 65                | Not Rated            |
| University of California short-term investment pool | 97,650            | 104,831           | Not Rated            |
|   | <u>136,851</u>    | <u>150,611</u>    |                      |
| Total fixed-income investments                      | <u>\$ 140,382</u> | <u>\$ 154,473</u> |                      |

**Custodial and Counterparty Credit Risk**

Custodial credit risk is the risk that in the event of the failure of the custodian, the Foundation's investments may not be returned. Substantially, all of the Foundation's investments are registered in the custodian's nominee name for the benefit of the Foundation. The majority of trust assets are held in the street name of the custodian for the benefit of the Foundation. Other types of investments represent ownership interests not subject to custodial credit risk.

In the course of investing the portfolio, the Foundation may be exposed to counterparty risk. These are risks that either party may fail to meet their obligations in a contractual arrangement. Counterparty risks are considered at the time of investment, and are not believed to materially impact the financial position of the Foundation.

**Concentration of Credit Risk**

Concentration of credit risk is the risk of loss associated with a lack of diversification, such as having substantial investments in a few individual issuers, thereby exposing the organization to greater risks resulting from adverse economic, political, regulatory, geographic, or credit developments. Per Foundation policy, no individual equity or fixed-income security shall comprise more than 5% of the total individual equities and fixed-income securities held and no more than 5% of the equity or fixed-income securities of a single issuer. The Foundation is diversified in its asset allocation.

**Interest Rate Risk**

Interest rate risk is the risk that the value of fixed-income investments will decline with rising interest rates. The market prices of fixed-income securities with a longer time to maturity, measured by effective duration, tend to be more sensitive to changes in interest rates, and therefore more volatile than those with shorter durations.

In a low interest rate environment, the fixed-income portfolio is subject to reinvestment risk as well. As securities mature, reinvestment may yield a lower return.

The Foundation's operating practice is to ladder the maturities of the direct fixed-income investments, or invest in funds which ladder the maturities of their underlying holdings, with staggered maturity dates from one to ten years and use the effective-duration method to identify and manage interest rate risk.

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The effective duration (in years) of the Foundation's fixed-income securities at June 30, 2019 and 2018 is as follows:

| <i>(in thousands of dollars)</i>        | <b>Fair Value</b> |             | <b>Effective Duration in Years</b> |             |
|---|-------------------|-------------|------------------------------------|-------------|
|   | <b>2019</b>       | <b>2018</b> | <b>2019</b>                        | <b>2018</b> |
| Fixed income investments                |                   |             |                                    |             |
| U.S. government guaranteed              | \$ 2,012          | \$ 2,178    | 5.19 years                         | 4.47 years  |
| Total U.S. government guaranteed        | 2,012             | 2,178       |                                    |             |
| <b>Other U.S. dollar denominated</b>    |                   |             |                                    |             |
| U.S. agencies – asset-backed securities | 1,150             | 1,054       | 1.59 years                         | 2.26 years  |
| Supranational/foreign                   | 369               | 630         | 2.55 years                         | 2.45 years  |
| Total other U.S. dollar denominated     | 1,519             | 1,684       |                                    |             |
| <b>Commingled funds</b>                 |                   |             |                                    |             |
| U.S. bond funds                         | 39,134            | 45,715      | 5.08 years                         | 5.76 years  |
| Non-U.S. bond funds                     | 67                | 65          | 7.54 years                         | 6.01 years  |
| Money market funds                      | 97,650            | 104,831     | 1.18 years                         | 2.01 years  |
| Total commingled funds                  | 136,851           | 150,611     |                                    |             |
| Total fixed income                      | \$ 140,382        | \$ 154,473  |                                    |             |

**Foreign Currency Risk**

The Foundation's asset allocation includes non-U.S. equities and non-U.S. fixed-income securities, which are denominated in a variety of currencies. The Foundation considers currency in its investment decision-making, and its underlying investment managers may hedge some or all of their exposures. In some circumstances, the Foundation may hedge currency exposure outside of the funds it has invested in, and would enter into currency exchange contracts (forward exchange or future) for such hedging purposes. UC San Diego Foundation did not have any such contracts in place at June 30, 2019 and 2018. The Foundation's investment policies prohibit direct foreign currency speculation.

At June 30, 2019 and 2018, the U.S. dollar balances of Foundation investments that carry foreign currency risk are as follows:

| <i>(in thousands of dollars)</i>        | <b>2019</b> | <b>2018</b> |
|---|-------------|-------------|
| Commingled funds                        |             |             |
| Various currency denominations          |             |             |
| Non-U.S. equity funds                   | \$ 85,248   | \$ 98,925   |
| Non-U.S. bond funds                     | 67          | 65          |
| Total exposure to foreign currency risk | \$ 85,315   | \$ 98,990   |

**Alternative Investment Risks**

Alternative investments are defined as marketable alternatives (hedge funds, including absolute return and long/short equity strategies), limited partnerships, private equity, venture capital, and private real estate funds. Alternative investments include ownership interests in a wide variety of vehicles including partnerships and corporations that may be domiciled in the United States or offshore. Generally, there is little or no regulation of these investment vehicles by the Securities and Exchange Commission or the applicable state agencies. The underlying investments may be leveraged to enhance the total investment return and may include financial assets such as marketable securities, nonmarketable securities, derivatives, and other synthetic and structured

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## Notes to Financial Statements

### June 30, 2019 and 2018

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instruments as well as tangible and intangible assets. Generally, these alternative investments do not have a ready market, and ownership interests in these investment vehicles may not be traded without the approval of the general partner or fund management. These investments are subject to the risk generally associated with equities and fixed-income instruments, with additional risks due to leverage and the lack of a ready market for acquisition or disposition of ownership interests. Alternative investments are included in the comingled funds managed by the OCIO as previously discussed. The carrying value of the separately held alternative investments was \$28.5 million and \$96.4 million as of June 30, 2019 and 2018, respectively, which is reflected in investments in the accompanying Statements of Net Position.

#### **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 in the accounting standards 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 reported at fair value are organized into a hierarchy based on the levels of inputs observable in the marketplace that are used to measure fair value. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, liquidity statistics, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial asset.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

- |         |   |
|---------|---|
| Level 1 | Prices based on unadjusted quoted prices in active markets that are accessible for identical assets or liabilities are classified as Level 1. Level 1 investments include equity securities, exchange traded commingled funds, and other publicly traded securities.  |
| Level 2 | Quoted prices in the 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 are classified as Level 2. Level 2 investments include certain fixed- or variable-income securities, commingled funds, certain derivatives and other assets that are not valued using market information.                                     |
| Level 3 | Investments and other assets classified as Level 3 have significant unobservable inputs, as they trade infrequently or not at all. The inputs into the determination of fair value of these investments and other assets are based upon the best information in the circumstance and may require significant management judgement. Level 3 financial instruments include private equity securities, real estate, and beneficial interests in irrevocable split-interest agreements. |

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

Investments whose fair value is measured at NAV, which is considered a practical expedient for fair value, are excluded from the fair value hierarchy. Investments in non-governmental entities that do not have a readily determinable fair value may be valued at NAV. Investments measured at NAV include hedge funds, private equity investments and commingled funds. The NAV is reported by

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the external investment managers, including general partners, in accordance with their policies as described in their respective financial statements and offering memoranda. The most recent NAV is adjusted for capital calls, distributions and significant known valuation changes, if any, of its related portfolio through June 30, 2019 and 2018.

#### **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 following tables summarize the investments and other assets reported at fair value within the fair value hierarchy as of June 30, 2019 and June 30, 2018, respectively.

| June 30, 2019  |  |  |                                     |                             |                |               |
|--|--|--|-------------------------------------|-----------------------------|----------------|---------------|
|  | Quoted Prices<br>in Active<br>Markets<br>(Level 1) | Other<br>Observable<br>Inputs<br>(Level 2) | Unobservable<br>Inputs<br>(Level 3) | Net Asset<br>Value<br>(NAV) | Not<br>Leveled | Total<br>2019 |
| <i>(in thousands of dollars)</i>                                 |  |  |                                     |                             |                |               |
| Equity securities  | \$ 487   |  |                                     |                             |                | \$ 487        |
| Fixed or variable income securities                              |  |  |                                     |                             |                |               |
| U.S. government guaranteed                                       |  | 2,012                                      |                                     |                             |                | 2,012         |
| Other U.S. dollar denominated                                    | 652  | 867  |                                     |                             |                | 1,519         |
| Commingled funds   | 232,463  |  | 1,165                               | 726,500                     |                | 960,128       |
| Other investments  |  |  |                                     |                             | 139            | 139           |
| Beneficial interests in irrevocable<br>split-interest agreements |  |  | 60,036                              |                             |                | 60,036        |
|  | \$ 233,602   | \$ 2,879                                   | \$ 61,201                           | \$ 726,500                  | \$ 139         | \$ 1,024,321  |
| June 30, 2018  |  |  |                                     |                             |                |               |
|  | Quoted Prices<br>in Active<br>Markets<br>(Level 1) | Other<br>Observable<br>Inputs<br>(Level 2) | Unobservable<br>Inputs<br>(Level 3) | Net Asset<br>Value<br>(NAV) | Not<br>Leveled | Total<br>2018 |
| <i>(in thousands of dollars)</i>                                 |  |  |                                     |                             |                |               |
| Equity securities  | \$ 471   |  |                                     |                             |                | \$ 471        |
| Fixed or variable income securities                              |  |  |                                     |                             |                |               |
| U.S. government guaranteed                                       |  | 2,178                                      |                                     |                             |                | 2,178         |
| Other U.S. dollar denominated                                    | 666  | 1,018                                      |                                     |                             |                | 1,684         |
| Commingled funds   | 211,092  |  | 895                                 | 709,836                     |                | 921,823       |
| Other investments  |  |  |                                     |                             | 127            | 127           |
| Beneficial interests in irrevocable<br>split-interest agreements |  |  | 51,070                              |                             |                | 51,070        |
|  | \$ 212,229   | \$ 3,196                                   | \$ 51,965                           | \$ 709,836                  | \$ 127         | \$ 977,353    |

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#### Investments Measured at NAV

The Foundation's investments measured at NAV, along with investment commitments as of June 30, 2019 are as follows:

| <i>(in thousands of dollars)</i> | <b>Net Asset Value</b> | <b>Unfunded Commitment</b> | <b>Redemption Terms and Restrictions</b>        |
|----------------------------------|------------------------|----------------------------|---|
| Investment type                  |                        |                            |   |
| Commingled funds                 |                        |                            |   |
| Balanced funds                   | \$ 528,301             | \$ -                       | 30 day notice                                   |
| Money market funds               | 97,650                 |                            | Daily liquidity                                 |
| Non-U.S. equity funds            | 73,166                 |                            | 30 day notice                                   |
| Absolute return and hedge funds  | 16,535                 |                            | 30 day notice                                   |
| Real estate                      | 10,841                 | 2,000                      | LP, not able to sell per subscription agreement |
| Private equities                 | 7                      |                            | 30 day notice                                   |
|                                  | <u>\$ 726,500</u>      | <u>\$ 2,000</u>            |   |

#### 5. Endowment Payout

Endowment payout, when transferred to UC San Diego at the request of the benefitting 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, 2019 and 2018 and the sources of payout are as follows:

| <i>(in thousands of dollars)</i>           | <b>2019</b>      | <b>2018</b>      |
|--|------------------|------------------|
| <b>Calculated payout</b>                   |                  |                  |
| Endowment payout allocation                | \$ 29,144        | \$ 26,523        |
| Endowment administration cost recovery     | 3,795            | 3,427            |
|  | <u>\$ 32,939</u> | <u>\$ 29,950</u> |
| <b>Sources of payout</b>                   |                  |                  |
| Net cash earnings                          | \$ 6,806         | \$ 5,967         |
| Net use of accumulated gains and/or corpus | 26,133           | 23,983           |
|  | <u>\$ 32,939</u> | <u>\$ 29,950</u> |

#### 6. Commitments

As of June 30, 2019, the Foundation's only commitments are investment related commitments as disclosed in footnote 4, above.



**U.C. San Diego Foundation**  
**Notes to Financial Statements**  
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**7. Pledges Receivable, net**

At June 30, 2019 and 2018, pledges receivable balances for expendable funds were restricted for the following UC San Diego purposes:

| <i>(in thousands of dollars)</i>                 | <b>2019</b>      | <b>2018</b>      |
|--|------------------|------------------|
| Departmental support                             | \$ 63,873        | \$ 62,076        |
| Research   | 18,322           | 19,865           |
| Capital projects                                 | 14,748           | 18,171           |
| Student support                                  | 1,093            | 837              |
| Other  | 538              | 780              |
| Total gross pledges                              | 98,574           | 101,729          |
| Less:  |                  |                  |
| Unamortized discount to present value            | (12,682)         | (12,078)         |
| Allowance for uncollectible pledges              | (789)            | (872)            |
| Total pledges receivable, net                    | 85,103           | 88,779           |
| Less: Current portion of pledges receivable, net | (16,462)         | (21,837)         |
| <b>Noncurrent portion of pledges receivable</b>  | <b>\$ 68,641</b> | <b>\$ 66,942</b> |

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

*(in thousands of dollars)*

|                                  |                  |
|----------------------------------|------------------|
| <b>Payments through June 30,</b> |                  |
| 2020                             | \$ 16,595        |
| 2021                             | 10,233           |
| 2022                             | 7,518            |
| 2023                             | 6,435            |
| 2024                             | 4,985            |
| Thereafter                       | 52,808           |
|                                  | <b>\$ 98,574</b> |

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 2019 and 2018 were discounted at 2.40% and 1.60%, respectively. Pledges receivable from 30 donors and 25 donors accounted for approximately 92.1% and 95.1% of the gross pledges receivable balance at June 30, 2019 and 2018, respectively.

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**8. Liabilities to Life Beneficiaries**

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

|  | Balance at<br>June 30, 2018 | New<br>Obligations | Adjustments to<br>Existing<br>Liabilities | Reclassification<br>to Current | Beneficiary<br>Payments | Balance at<br>June 30, 2019 |
|--|-----------------------------|--------------------|---|--------------------------------|-------------------------|-----------------------------|
| Liabilities to<br>life beneficiaries, current    | \$ 1,008                    | \$ -               | \$ -                                      | \$ 960                         | \$ (1,018)              | \$ 950                      |
| Liabilities to life<br>beneficiaries, noncurrent | 7,781                       | 255                | 487                                       | (960)                          |                         | 7,563                       |
|  | <u>\$ 8,789</u>             | <u>\$ 255</u>      | <u>\$ 487</u>                             | <u>\$ -</u>                    | <u>\$ (1,018)</u>       | <u>\$ 8,513</u>             |

**9. 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, 2019 and 2018, the Foundation made grants to UC San Diego in compliance with donor restrictions for the purposes noted below. There were 168 areas of UC San Diego that were the beneficiaries of these grants in fiscal year 2019.

| <i>(in thousands of dollars)</i>                             | 2019              | 2018             |
|--|-------------------|------------------|
| Research and related faculty support                         | \$ 43,389         | \$ 43,778        |
| General departmental support                                 | 41,489            | 34,883           |
| Student aid (undergraduate and graduate)                     | 10,783            | 11,141           |
| Capital projects   | 5,734             | 3,958            |
| Cost recovery fees on investment pools to support the campus | 4,010             | 3,639            |
| Interest earnings granted to support the campus              | 2,539             | 2,376            |
|  | <u>\$ 107,944</u> | <u>\$ 99,775</u> |

**10. Related-Party Transactions**

The Foundation supports UC San Diego and has the following organizational relationship with the campus:

**Administrative Costs**

The Foundation operates with a Board of Trustees, and designated officers; however, the Foundation does not have any employees. All functions and activities of the Foundation are conducted by employees of the University and all budgetary resources are provided by the campus. The Foundation operates within the Policy and Guidelines provided by The Regents. The University employees serving Foundation functions are covered by The Regents pension plan and postretirement healthcare plan. All of the Foundation's office space is provided by the campus.

**Endowment Cost Recovery Fees and Interest on Short-Term Investments**

In accordance with relevant UC San Diego policies, endowment cost recovery fees and interest on short-term investments are transferred by the Foundation to the campus to assist with covering the both the Foundation's administrative costs as described above, as well as assisting the campus with the costs of fundraising and administration. The payment of these amounts is included in grants to campus for programs in the accompanying financial statements and totaled \$6.5 million and \$6.0 million for the years ended June 30, 2019 and 2018, respectively.

# U.C. San Diego Foundation

## Notes to Financial Statements

### June 30, 2019 and 2018

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Contributions and outstanding pledges received from trustees, trustees emeriti and chair emeriti of the board, and corporations or organizations affiliated with those individuals, or senior management are as follows:

*(in thousands of dollars)*

|  | 2019      |     | 2018      |     |
|--|-----------|-----|-----------|-----|
|  | \$        | %   | \$        | %   |
| Contributions for current use and new pledges, net of discount | \$ 10,928 | 19% | \$ 10,186 | 6%  |
| Contributions to permanent endowments                          | 7,090     | 22% | 3,530     | 10% |
| Pledges receivable, net of allowance and discount              | 9,891     | 12% | 11,832    | 13% |

#### 11. Subsequent Events

The Foundation has evaluated subsequent events from the net position date through October 3, 2019, the date which the financial statements were available to be issued, and determined there are no items to disclose.